

IN THE CIRCUIT COURT OF THE 15TH  
JUDICIAL CIRCUIT IN AND FOR  
PALM BEACH COUNTY, FLORIDA

OFFICE OF THE ATTORNEY GENERAL,  
DEPARTMENT OF LEGAL AFFAIRS,  
STATE OF FLORIDA,

CASE NO. CL 00-00067 AB

Plaintiff,

vs.

PROFESSIONAL RESOURCES SYSTEMS  
INTERNATIONAL, INC., a/k/a PRSI, INC.;  
WILLIAM CAUDELL a/k/a BILL CAUDELL  
and BILLY CAUDELL; LESTER "GIL"  
GILLESPIE; SALVATORE ARGENTO;  
JOSEPH ROTUNNO, BEN TOBIN  
a/k/a BEN TABINI, and CITX CORPORATION,  
and BERNARD ROEMMELE,

Defendants.

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**REPORT OF THE RECEIVER FOR THE PERIOD  
OCTOBER 1, 2001 THROUGH DECEMBER 31, 2001**

**I. INTRODUCTION**

This is the seventh report filed by the Receiver and covers the period October 1, 2001 through December 31, 2001 (the "Reporting Period"). The previous reports should be read in conjunction with this report to gain a full understanding of the history of this receivership<sup>1</sup>. The previous reports provide, among other things, a background of this case, discussion regarding significant earlier events, and a summary of Professional Resources Systems International, Inc.'s ("PRSI's") receipts and disbursements during earlier reporting periods.

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<sup>1</sup> The previous reports cover the periods of: January 5, 2000 through April 30, 2000; May 1 through July 31, 2000; August 1 through December 31, 2000; January 1 through March 31, 2001; April 1 through June 30, 2001; and July 1, 2001 through September 30, 2001, and they are on file with the clerk of the court and are also available on the Receiver's web site, at [www.prsiinc.com](http://www.prsiinc.com).

**II. ACTIVITY SINCE OCTOBER 1, 2001**

A. Recovery of Money During the Reporting Period

During the Reporting Period, the Receiver was successful in recovering funds for the receivership estate as follows:

1. Payment of Claim from Wachovia Bank	\$ 45,000.00
Total . . . . .	<b>\$ <u>45,000.00</u></b>

The Receiver's bank balance as of December 31, 2001 was \$2,891,814.06, including all estate funds. Attached hereto as Exhibit "A" is the Statement of Cash Inflows and Outflows for the Reporting Period.

B. Receiver's Continuing Investigation

In the search for money and other assets of the receivership estate, the Receiver continues his ongoing investigation of PRSI's business relationships with various individuals and business entities located throughout North America. Additionally, the Receiver has directed his consultants and attorneys to continue their investigations and analysis of the books and records of third parties in anticipation of possible litigation against these parties.

C. Receiver's Communications With PRSI Members and Others

The Receiver continues to maintain a web site [www.prsiinc.com](http://www.prsiinc.com). The Receiver posts on the web site various information such as court orders, notices and press releases which the Receiver believes to be most informative to PRSI's customers and other interested persons. To date, there have been approximately 80,243 hits on this web site. In addition, the Receiver is committed to responding to each

PRSI member's questions on a one-to-one basis. Accordingly, the Receiver's staff has reviewed each e-mail received at [prsi@lbfmiami.com](mailto:prsi@lbfmiami.com) and responded to all inquiries.

D. Receiver's Compliance with Terms of Receivership

During the Reporting Period, the Receiver was involved in the filing of his Motion For Order Ratifying Payment of Receiver's Forensic Accountants' Fees and Expenses, Motion for Order Ratifying Payment of Receiver's Attorneys' Fees and Expenses, Applications for the Compensation of the Receiver's Pennsylvania Counsel, and Motion for Order Ratifying Payment of Certain Outside Professionals' Fees from October 1, 2001 through December 31, 2001<sup>2</sup>. Furthermore, pursuant to paragraph 10, of the January 13 Order, on November 5, 2001, the Receiver filed his report covering the period July 1, 2001 through September 30, 2001. In addition, and contemporaneously herewith, the Receiver has filed a Notice of Waiver of Payment of Receiver's Fees and Expenses for Period of October 1, 2001 through December 31, 2001.

Pursuant to paragraph 9(j) of the January 13 Order, which provides that the Receiver shall establish a procedure for creditors of PRSI to file claims, and shall examine the validity and priority of all claims against PRSI which claims shall be finally determined by the Court, the Receiver continues to explore claims procedures options and will move the Court for instructions at the appropriate time.

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<sup>2</sup>Pursuant to paragraph 12 of this Court's January 13, 2000 Order Granting Motion of Receiver to Set Terms of Receivership (the "January 13 Order") and this Court's subsequent February 7, 2001 Order Granting in Part and Denying in Part Receiver's Motion for Further Instruction Regarding Certain Fee Issues.

### III. LEGAL ISSUES

#### A. The Receiver's Case Against CitX:

During the previous reporting period, CitX filed a voluntary petition for Chapter 11 bankruptcy in the Eastern District of Pennsylvania *In re CitX Corporation*, Case No. 01-19604, and shortly thereafter, and in an apparent effort to avoid a contempt hearing, Bernard Roemmele ("Roemmele") filed a voluntary petition for Chapter 13 bankruptcy in the Bankruptcy Court in and for the Eastern District of Pennsylvania (the "Bankruptcy Court"), *In re Bernard A. Roemmele*, Case No. 01-30226. These bankruptcy filings had the effect of staying the Receiver's efforts to collect on the remaining sums due under his judgment against CitX and Roemmele in the amount of his judgment against CitX and Roemmele in the amount of \$650,000.00 and staying the related proceedings in aid of execution in the Court of Common Pleas, Bucks County, Pennsylvania (the "Bucks County Court").

During the Reporting Period, the Receiver has continued to advance his cause and protect the Receivership estate's interest in these cases.

1. *Roemmele Bankruptcy Proceedings:* During the previous reporting period, Roemmele filed a voluntary petition for relief pursuant to Chapter 13 of the of the Bankruptcy Code in the Bankruptcy Court, *In re Bernard A. Roemmele*, Case No. 01-30226. On August 14, 2001, Roemmele's petition was dismissed by the Bankruptcy Court as a result of his failure to file his Chapter 13 schedules and related documents. The Receiver immediately recommenced his efforts in aid of execution against Roemmele, individually and filed before the Bucks County Court an Emergency Petition for Contempt, Sanctions and to Compel the Production of Documents and Deposition in Aid of Execution of Roemmele and for other Supplementary Relief in aid of execution. On August 17, 2001,

the Bucks County Court issued a Rule to Show Cause for Roemmele to produce the requested documents and to show cause why he should not be held in contempt and sanctioned and why the Supplementary Relief should not be granted. The Bucks County Court further set a hearing for August 24, 2001. On August 23, 2001, however, Roemmele filed a Chapter 7 voluntary petition in the Bankruptcy Court, *In re Bernard A. Roemmele*, Case No. 01-32044 and failed to appear for the August 24, 2001 hearing.

During the Reporting Period, Roemmele attended and testified on behalf of CitX at the CitX Section 341 Meeting of Creditors. During this meeting, Roemmele again refused to answer questions concerning assets and accounts belonging to both CitX and himself.

The Receiver's continuing investigation revealed that in the months leading up to the filing of his second bankruptcy petition and thereafter, Roemmele engaged in a pattern of activity that has diverted internet traffic and business away from websites originally controlled by CitX to computers operating within his control. The Receiver also discovered that, among other things, Roemmele failed to disclose his ownership of certain domain names and intellectual property of CitX in his bankruptcy schedules. Furthermore, it appears that Roemmele continues to operate several websites that are spin-offs of CitX.

On or about December 26, 2001, the Receiver, through counsel, initiated an adversary proceeding in the Bankruptcy Court by filing a Complaint to Determine Objections to Roemmele's Discharge pursuant to 11 U.S.C. § 727 of the Bankruptcy Code based upon: (a) Roemmele's participation and involvement in the PRSI Ponzi scheme; (b) Roemmele's fraud as fiduciary to the creditors of CitX; (c) Roemmele's fraudulent transfers of CitX's assets, including the funds CitX

collected from PRSI; (d) Roemmele's concealment of cash, securities accounts, and other assets; and (e) Roemmele's false statements pertaining to his assets and his refusal to testify regarding assets and accounts belonging to both CitX and himself. Roemmele until January 25, 2002, within which to respond to the Receiver's Complaint.

Additionally, during the Reporting Period, the Receiver, through counsel, filed a proof of claim in Roemmele's bankruptcy. The Receiver's claim totals \$812,987.34.

The Receiver continues to monitor and respond to the developments and deadlines in the Roemmele Chapter 7 proceedings.

2. *CitX Bankruptcy Proceedings*: During the previous reporting period, in response to a motion filed on behalf of the Receiver, the Bankruptcy Court entered an Order converting CitX's Chapter 11 (reorganization) case to a case under Chapter 7 (liquidation) of the Bankruptcy Code. That same day, the Office of the United States Trustee appointed a Chapter 7 Interim Trustee (the "CitX Trustee"). The Receiver's counsel met with the CitX Trustee and advised him of the history of the case and the actions taken by CitX and Roemmele. The CitX Trustee also met briefly with representatives from CitX. The Trustee investigated CitX's business and conducted a site visit of the company's Quakertown, Pennsylvania facility. When the CitX Trustee arrived at the CitX offices, he found the business in shambles, and former CitX management and employees removing computer equipment and destroying data, books and records. Ultimately, the CitX Trustee decided to close CitX's business. The Receiver assisted the CitX Trustee in obtaining the necessary experts to properly shut down the CitX equipment and has continued to assist with the orderly liquidation of the assets.

During the Reporting Period, the Receiver, through counsel, attended CitX's Section 341 Meeting of Creditors. The Receiver has also cooperated with the CitX Trustee's investigations into the business dealings of CitX, whose primary source of income and only major client was PRSI.

On November 16, 2001, the CitX Trustee filed a motion for an order authorizing him to sell certain of CitX's assets and computer equipment to Feldman Associates, CitX's former landlord (the "Buyer"). The Receiver, through counsel, filed his response objecting to the sale if the sale were to include certain intangible assets and proprietary information of CitX, including, without limitation, software, proprietary processes, SOHO e-mail configurations, trademarks, patents, copyrights, license agreements, customer lists and strategic alliance or venture agreements (the "Proprietary Data").

In an effort to resolve the Receiver's objection to the proposed sale, the CitX Trustee agreed to engage a computer engineer to recover and remove all Proprietary Data from any computer equipment or other proposed sale assets before they are sold to the Buyer.

Meanwhile, on December 1, 2001, the CitX Trustee was served with a subpoena by the United States Attorney's Office for the Southern District of Florida acting with and through the Internal Revenue Service. The subpoena demanded that the CitX Trustee produce any and all items and computer equipment and also had the effect of postponing the proposed sale of CitX's assets to the Buyer for an indefinite period of time.

The Receiver, the CitX Trustee and the Buyer negotiated an agreement which would resolve the Receiver's objection to the proposed sale of CitX's assets. On December 10, 2001, the Bankruptcy Court entered an Order authorizing the CitX Trustee to sell CitX's assets to the Buyer and adopted the parties' agreement. The Order provides that the closing date on the sale of assets will be triggered when

the CitX Trustee files certification with the Bankruptcy Court attesting that the Proprietary Data retrieved by the CitX Trustee on behalf of the Receiver, and by the Office of the United States Attorney has been completed.

Additionally, during the Reporting Period, the Receiver, through counsel file a proof of claim in the CitX bankruptcy. The Receiver's claim totals \$812,987.34.

The Receiver continues to monitor and respond to the developments and deadlines in the CitX Chapter 7 proceedings.

B. The State's Case Against the Original Defendants:

1. *William Caudell*: During the previous reporting period, the Receiver, through counsel, attended a plea hearing where William Caudell plead guilty to violating Title 18, United States Code, Sections 1341, 1342 and 1343, Conspiracy to Commit Mail and Wire Fraud, and Title 18 United States Code, Sections 1343.S.C. 1856(h), Conspiracy to Launder Monetary Instruments. Caudell remains free on \$100,000.00 bond pending his sentencing hearing scheduled for January 7, 2001<sup>3</sup>. A full text of William Caudell's plea is available at the Receiver's website, [www.prsiinc.com](http://www.prsiinc.com).

2. *Larry Barrow*: During the Reporting Period, the United States Attorney filed an Information against Larry Barrow, for among other things, violating Title 18, United States Code, Section 1341 and 1343, Conspiracy to Commit Mail and Wire Fraud. Although Barrow was not named

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<sup>3</sup>On January 7, 2002, United States District Court Judge Donald Middlebrooks sentenced William Caudell to 11 years and three months in prison and further ordered him to pay \$13,570,000.00 in restitution plus \$200.00. William Caudell was ordered to begin serving his sentence on March 8, 2002.

as a defendant in this proceeding, he served as the Assistant Executive Director of PRSI, and in that capacity, directly communicated to PRSI customers regarding products allegedly provided by PRSI and solicited others to disseminate this information. On December 11, 2001, Barrow plead guilty to conspiracy to commit mail and wire fraud. Barrow remains free on \$150,000.00 bond pending his sentencing hearing scheduled for February 25, 2002. A full text of Larry Barrow's plea is available at the Receiver's website, [www.prsiinc.com](http://www.prsiinc.com).

The United States Attorney stated in open court that charges will continue to be filed against persons linked to the PRSI ponzi scheme.

3. *Salvatore Argento and Ben Tobin*: Previously, Defendants Salvatore Argento and Ben Tobin filed a lawsuit in the Seventeenth Judicial Circuit, in and for Broward County, Florida styled *Salvatore Argento and Ben Tobin vs. Office of the Attorney General, Department of Legal Affairs, State of Florida*, Case No. 00012394 CACE 03 seeking a stay of the State's case in the Palm Beach County proceedings in favor of a trial on those issues in Broward County, the county of their residence. Thereafter, the Palm Beach County Circuit Court entered an Order granting Msrs. Argento and Tobin's stay in the Palm Beach County proceedings until the Broward County lawsuit had been properly litigated. To that end, during the Reporting Period, the Florida Attorney General's office has continued to advance their cause in these proceedings.

4. *The State's Case Against the Original Defendants*: On December 8, 2000, with its entry of an Order Granting Partial Summary Judgment against PRSI, this Court entered a permanent injunction holding that PRSI violated Chapter 501, Part II, Florida Statutes by engaging in a pyramid or Ponzi scheme in violation of Section 849.091, Florida Statutes. On October 17, 2001 the Court

entered an Order Setting Non Jury Trial during the three month docket commencing April 1, 2002. Pursuant to the Court's October 17<sup>th</sup> Order, the parties have scheduled a mediation to be held on January 17, 2001.

During the Reporting period, the Receiver has continued to act as a positive force to assist the plaintiff and individual PRSI defendants to explore a consensual resolution of the litigation.

5. *Defendants' Counsel:* During the Reporting Period, attorney Mark D. Cohen, and Mark D. Cohen, P.A. withdrew as attorney for PRSI, Gil Gillespie, Salvatore Argento, Joseph Rotunno and Ben Tobin. Additionally, attorney Eliot R. Weitzman filed his notice of appearance on behalf of PRSI, Gil Gillespie, Salvatore Argento, Joseph Rotunno and Ben Tobin. The Receiver has objected to attorney's Mr. Weitzman's appearance in this matter on behalf of PRSI on the basis that only the Receiver has the capacity to prosecute or defend lawsuits on behalf of the corporation, hire and retain counsel on behalf of the corporation, or otherwise act on behalf of the corporation<sup>4</sup>. It is the Receiver's position that any counsel previously retained on behalf of PRSI by the former officers of PRSI, is without authority to appear on behalf of the corporation, unless their representation is ratified by the Receiver. The Receiver has declined to do so.

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<sup>4</sup>The Receiver has additionally objected to the continued appearance by attorney H. Dohn Williams and H. Dohn Williams, P.A. Furthermore, on or about January 10, 2002, the Receiver, through counsel, filed a Motion to Discharge Counsel For Defendant PRSI seeking to have attorneys Weitzman and Williams withdrawn from the proceedings.

C. Oklahoma Class Action:

During the previous reporting periods, the Receiver has assisted his counsel in the case of *George Dillman v. Lewis Freeman, et al.*, in the United States District Court for the Western District of Oklahoma, Case No. CV-00-1202-T. Mr. Dillman, who had purchased a Small Office/Home Office system (“SOHO”) from PRSI, brought suit for numerous alleged violations, including pyramid scheming. Previously, the Court in that case entered an Administrative Closing Order directing the Clerk of Court to administratively terminate the case without prejudice to the rights of the parties to reopen the same for good cause shown. During the Reporting Period, the Court entered an Order dismissing the case with prejudice.

**IV. ASSET RECOVERY & MAINTENANCE**

A. Wachovia Bank:

During the Reporting Period, the Receiver recovered \$45,000.00 from Wachovia Bank as payment of a claim regarding a forgery that occurred on the PRSI Wachovia Bank checking account, prior to the Receiver’s appointment. The Receiver, through counsel, has asserted an additional claim in the amount of \$35,000.00 regarding a second forgery that occurred on the PRSI Wachovia Bank checking account, prior to the Receiver’s appointment and is presently awaiting the disposition of same.

**V. LITIGATION & POSSIBLE CAUSES OF ACTION**

The Receiver, assisted by counsel, evaluates causes of actions as issues arise against numerous individuals, companies, financial institutions, attorneys, creditors and other entities. Consideration is being given to litigation against the individual defendants in this case and against third parties, who may have wrongfully profited by their dealings with PRSI. The Receiver will continue this review to

determine if there are economically viable causes of action worth pursuing that would be in the best interests of the PRSI estate.

#### **VI. COOPERATION WITH INTERESTED PARTIES**

During the Reporting Period, the Receiver responded to a request for information from the United States Probation Officer assigned to make a recommendation regarding William Caudell's sentencing. In addition, the Receiver has continued to comply with the Federal Grand Jury Subpoena by the United States Attorney for the Southern District of Florida served upon him on June 17, 2001, and the Subpoena by the Office of the Florida Attorney General served upon him on January 14, 2000, commanding the turn over of any and all documents, financial summaries and reports prepared during the course of the Receivership of PRSI, regarding PRSI, CitX, and the individual defendants in this case. Both of these subpoenas are continuing in nature. The Receiver continues to fully cooperate with all parties who have a legitimate interest in this matter, including the PRSI members, the defendants, local, state and federal law enforcement and regulatory authorities, merchants, creditors and others.

**VII. EXHIBITS**

A. Statement of Cash Inflows and Outflows

This report is certified to be true and correct.

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Lewis B. Freeman,  
Receiver

STATE OF FLORIDA                    )  
  ) ss.  
COUNTY OF MIAMI-DADE         )

SWORN TO AND SUBSCRIBED before me this \_\_\_\_\_ day of January 2002, by Lewis B. Freeman, who:

- is personally known to me;
- produced a current driver's license as identification; or
- produced \_\_\_\_\_ as identification.

\_\_\_\_\_  
Notary Public  
State of Florida

My commission expires: