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5 Permanent Receiver

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8 **UNITED STATES DISTRICT COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA**
10 **WESTERN DIVISION**

12 SECURITIES AND EXCHANGE
13 COMMISSION,

14 Plaintiff,

15 vs.

16 DIVERSIFIED LENDING GROUP,
17 INC.; APPLIED EQUITIES, INC.; AND
18 BRUCE FRIEDMAN,

19 Defendants.

20 and

21 TINA M. PLACOURAKIS,

22 Relief Defendant.

Case No. CV 09-01533-R-JTLx

RECEIVER'S:

- (1) **SECOND REQUEST FOR APPROVAL OF PROFESSIONAL FEES AND EXPENSES; AND**
- (2) **REQUEST FOR APPROVAL OF PROCEDURES FOR FUTURE FEE APPLICATIONS; DECLARATIONS OF DAVID A. GILL; KATHY BAZOIAN PHELPS; DAVID W. CALLAGHAN; JACK ZAKIM; PETER N. CARLINO; G. KIRKLAND HARDYMON; CHRISTIAN J. LIMON; AND THOMAS RENDA**

Date: May 3, 2010
Time: 10:00 a.m.
Place: Courtroom 8
312 North Spring Street
Los Angeles, CA

1 David A. Gill, the Permanent Receiver (the “Receiver”) of Diversified
2 Lending Group, Inc. (“DLG”) and Applied Equities, Inc. (“AEI”), and their
3 subsidiaries and affiliates, including but not limited to MMHIM, Inc. and DLG
4 International (collectively, hereinafter referred to as “Diversified”), hereby
5 respectfully submits his Second Request for Approval of Professional Fees and
6 Expenses pursuant to the orders of the Court, Fed. R. Civ. P. 66 and Local Rule 66-
7 6.1; and his Request for Approval of Procedures for Future Fee Applications.

8
9 **I.**

10 **INTRODUCTION**

11 This document sets forth my request to compensate myself and my
12 professionals from assets which I have generated. It also request approval of a more
13 streamlined procedure for approval and payment of fees and costs of my
14 professionals going forward.

15 I was appointed Receiver of Diversified and have engaged in an exhaustive
16 analysis of the business affairs of Diversified, which involved a large scale Ponzi
17 scheme and has required the virtual reconstruction of the business records of
18 Diversified involving literally thousands of transactions. The administration of this
19 estate has been labor-intensive and difficult and, as a result of my work and that of
20 my professionals, we have discovered many assets which were not initially disclosed
21 to us, we have liquidated the assets which could be sold, and have settled other
22 claims involving operating businesses where necessary to preserve the value of those
23 businesses and retain an upside for the receivership estate.

24 Additionally, I have recently filed six new complaints against numerous
25 defendants seeking recovery of funds for the estate, some of which could lead to
26 sizeable recoveries for the estate, although the value of which cannot be determined
27 with certainty as this time.

1 As of this date, I am holding approximately \$5,553,000 in cash in an interest
 2 bearing federally insured account¹. I and my professionals have now worked for
 3 over seven months without any compensation or reimbursement for expenses
 4 advanced. We have expended time in performance of our duties from August 1,
 5 2009 through February 28, 2010, as detailed in the Declarations of David A. Gill,
 6 Kathy Bazoian Phelps, David W. Callaghan, Jack Zakim, Peter N. Carlino, G.
 7 Kirkland Hardymon, Christian J. Limon, and Thomas Renda attached hereto, and we
 8 herein request allowance of compensation for services rendered through February 28,
 9 2010. I have or will have sufficient funds with which to defray these expenses and
 10 fund continuing administration.

11 II.

12 RELEVANT FACTS

13 A. Procedural History

14 1. On March 10, 2009, pursuant to a stipulation by Bruce Friedman and no
 15 opposition by the other parties, the Court granted the Application of the Securities
 16 and Exchange Commission and entered the Preliminary Injunction Order, thereby
 17 appointing me as the Permanent Receiver, among other things. On March 31, 2009,
 18 and on April 3, 2009, the Court entered orders augmenting the March 10, 2009 order,
 19 clarifying that I should administer certain property vested of record in particular
 20 Diverisified entities.
 21

22
 23
 24
 25 ¹ On October 14, 2008, the FDIC announced its temporary Transaction Account Guarantee
 26 Program, providing depositors with unlimited coverage for noninterest-bearing transaction
 27 accounts if their bank is a participant in the FDIC's Temporary Liquidity Guarantee Program. I
 28 moved funds from a previous depository to take advantage of this program. The program is
 scheduled to expire in June 2010, at which time I will reassess where and under what terms I
 should maintain the funds to maximize their protection.

1 **B. Receiver's Activities**

2 2. On March 26, 2010, I filed my Third Report and Account, which sets
3 forth in detail my activities since the filing of my Second Report on August 14, 2009.
4 I request that the Court take judicial notice of my Third Report, a copy of which is
5 attached to the Request for Judicial Notice filed concurrently herewith in support
6 hereof as Exhibit "A". I will not duplicate an explanation of those activities in this
7 Request for Fees.

8 3. This case has involved a diverse range of issues relating to real and
9 personal property and businesses throughout the United States and also in Mexico.
10 Many of these issues have necessitated the involvement of local counsel in the
11 jurisdiction of the affected asset in order to protect my interests and assist in
12 preserving and/or liquidating the assets. As a result, I have employed the following
13 professionals: Danning, Gill, Diamond & Kollitz LLP, as my general counsel,
14 LECG, LLC as my financial advisors and forensic accountants, Jack Zakim of
15 Nashel Kates Nussman Rapone Ellis & Farhi, LLP as New Jersey counsel, Peter
16 N.Carlino of MacNeill & Carlino, PLLC and G. Kirkland Hardymon of Rayburn,
17 Cooper & Durham, P.A. as North Carolina counsel, Thomas Renda of Miles &
18 Stockbridge P.C. as Maryland counsel, and Christian J. Limon of Bryan, Gonzalez
19 Vargas y Gonzalez Baz Tijuana, S.C. as Mexico counsel.

20 4. My professionals and I have been actively engaged in administering the
21 receivership estate, by preserving and reconstructing records, reaching out informally
22 and formally to the parties involved in the numerous business transactions
23 undertaken by Diversified, establishing procedures to manage the case, auctioning
24 personal property and listing and selling real property, among many other things.
25 Among other things, I and my professionals have obtained court permission for
26 procedures relative to administration of sales, conducted substantial discovery and
27 otherwise investigated into the assets and business affairs of Diversified.

28

1	Claimant	Time Expended in Hours	Blended Rate	Fee Claim	Costs Advanced	Balance to Be Paid
2	David A. Gill, Receiver	568.90	\$372.26	\$211,966.50	\$6,517.34	\$218,483.84
3	Danning, Gill, Diamond & Kollitz, LLP	2,544.70	\$389.51	\$1,001,108	\$37,000.67	\$1,038,108.67
4	LECG, Inc.	2,162.90	\$286.54	\$619,758.00	\$1,786.46	\$621,544.46
5	Nashel Kates Nussman Rapone Ellis & Farhi	16.40	\$475.00	\$7,790.00	\$102.59	\$7,892.59
6	McNeil & Carlino	89.08	\$300.01 ²	\$23,722.17 ³	\$0	\$23,722.17
7	Rayburn, Cooper & Durham, P.A.	649.50	\$203.38 ⁴	\$47,700.14 ⁵	\$2.05 ⁶	\$47,702.19
8	Gonzalez Vargas & Gonzalez Baz	20.64	\$160.83	\$3,319.60	\$4,434 ⁷	\$5,753.60
9	Miles &	51.60	\$402.63	\$20,775.50	\$201.45	\$20,976.95

13
14 ² The blended rate is calculated using the total fees incurred, or \$26,725 divided by the total hours spent of 89.08, rather than only on the Receiver's 36.11% share of the fees.

15
16 ³ This figure is calculated based upon payment of 36.11% of the \$4,700 fees incurred on the Coastal Venture matter, or \$1,697.17, plus payment of all fees owing on the Uwharrie Valley Partners matter of \$22,025, for a total of \$23,722.17.

17
18 ⁴ The blended rate is calculated using the total fees incurred, or \$132,096.75 divided by the total hours spent of 649.50, rather than only on the Receiver's 36.11% share of the fees.

19
20 ⁵ A \$48,185.62 payment toward fees using funds in which Diversified had a 36.11% interest was made. So \$17,399.83 of Diversified funds has already been applied to the Receiver's 36.11% share of the total fees of \$180,282.37. Therefore, the Receiver's share of the fees, \$65,099.96, has been reduced by the amount already paid, leaving a balance of up to \$47,700.14.

21
22
23 ⁶ A \$3,978.70 payment toward expenses using funds in which Diversified had a 36.11% interest was made. So \$1,436.71 of Diversified funds has already been applied to the Receiver's 36.11% share of the total expenses of \$3,984.38. Therefore, the Receiver's share of the expenses, \$1,438.76, has been reduced by the amount already paid, leaving a balance of up to \$2.05.

24
25
26 ⁷ \$4,000 of said sum has already been paid as an advance against costs pursuant to order entered on December 9, 2009, balance of \$434 remains owing at this time, but the Receiver will pay an additional \$2,000 as a future advance against costs pursuant to the terms of the December 9, 2009 order, for a total of \$2,434.

1 Stockbridge,

2
3 **Receiver's Fees and Expenses**

4 10. Attached to the Declaration of David A. Gill as Exhibit "1" is a detailed
5 itemization of all services performed by me for whom I seek compensation. My
6 costs in the amount of \$6,517.34 are set forth on Exhibit "2" attached to my
7 Declaration.

8
9 **Danning, Gill, Diamond & Kollitz, LLP**

10 11. Danning, Gill, Diamond & Kollitz, LLP ("Danning, Gill") has been
11 employed as my general counsel to assist me in the performance of my duties as
12 Receiver. Danning, Gill has taken the laboring oar in sorting through the voluminous
13 documentation of Diversified and documents obtained from third parties and in
14 communicating with the investors, lawyers, and other third parties in order to try to
15 reconstruct what happened to the investors' funds and the path that those funds took
16 as they were used by Diversified in a fraudulent scheme. Danning, Gill has worked
17 closely with my accountants in order to obtain useful data demonstrating where the
18 investor funds went so that I could pursue claims to recover those funds. The
19 process has been difficult and time-consuming given the very incomplete nature of
20 Diversified records which were, in many instances, incorrect if records could even be
21 located.

22 12. Danning, Gill has also drafted the complaints which have recently been
23 filed seeking to recover particular fraudulent transfers to insiders, third parties and
24 some net winner investors, as well as the complaint to recover the damages to
25 Diversified from third parties for their assistance in the fraudulent scheme. In
26 addition to the litigation, Danning, Gill has continued to provide legal advice
27 regarding the liquidation of the real and personal property of Diversified and has
28 assisted me in turning many of Diversified's interests into cash.

1 13. Danning, Gill has incurred fees in the amount of \$1,001,108.00 and
2 expenses of \$37,000.67 for the time period of August 1, 2009 through February 28,
3 2010, and I request authority to pay Danning, Gill said amounts. Detailed time
4 entries and cost entries are attached as Exhibits "5" and "6", respectively, to the
5 Declaration of Kathy Bazoian Phelps attached hereto.

6
7 **LECG, Inc.**

8 14. LECG, LLC ("LECG") has been employed as my financial advisors,
9 forensic auditors, and accountants, effective March 4, 2009, for the purpose of
10 assisting me in the administration of the estate, investigating allegations of fraudulent
11 activity, analyzing transactions, investigating transfers of funds and/or various
12 investments, assisting me in the identification of assets, including causes of action;
13 assisting me in the pursuit of any litigation I may pursue, including providing any
14 expert witness testimony that may be necessary, performing any necessary tax work
15 and other analysis which is required to properly administer the estate and conclude
16 the case; assisting in preparation of federal and state income tax returns for the
17 estate; communicating with taxing authorities on behalf of the estate; analyzing and
18 reconciling loans, payoffs, etc., analyzing and reconciling investor accounts, deeds of
19 trusts, assignments, etc., cash tracing and forensic accounting, claims analysis,
20 reconciliation and verification; and assisting with such other accounting services
21 requested by me.

22 15. The work involved in establishing a comprehensive data basis of all of
23 the financial transactions has been substantial. Because of LECG's services, I have
24 been able to identify where the investors' funds have gone and have been able to file
25 lawsuits seeking recovery of those funds. LECG has also been gathering and
26 analyzing data necessary to establish the insolvency of Diversified and the elements
27 of the Ponzi scheme that Diversified was running. A detailed explanation regarding
28

1 LECG's efforts in this regard is set forth in the Declaration of David Callaghan
2 attached hereto.

3 16. LECG has incurred fees in the amount of \$619,758 and expenses of
4 \$1,786.46 for the time period of August 1, 2009 through February 28, 2010, and the
5 Receiver requests authority to pay LECG said amounts. Detailed time entries and
6 cost entries and summaries are attached as Exhibits "7", "8", "9" and "10" to the
7 Declaration of David Callaghan attached hereto.

8

9 **Nashel Kates Nussman Rapone Ellis & Farhi, LLP**

10 17. I employed Jack Zakim, Esq., Nashel Kates Nussman Rapone Ellis &
11 Farhi, LLP ("NK") as special counsel in New Jersey to assist me in the performance
12 of my duties as Receiver. Said counsel have satisfactorily completed their services
13 as to sale of real property at 174 Upper Mountain Road, Montclair, New Jersey, and
14 most of the personal property located thereat, but their services are still needed in
15 connection with other personal property, a second residential real estate property
16 located in New Jersey and other transactions.

17 18. Additionally, NK assisted me in the documentation of an agreement to
18 sell my interest in a New York limited liability company, 55 Edgemere, LLC, which
19 resulted in the recovery of more than \$400,000 for the estate.

20 19. NK has incurred fees in the amount of \$7,790.00 and expenses of
21 \$102.59 for the time period of August 1, 2009 through February 28, 2010, and the
22 Receiver requests authority to pay NK said amounts. Detailed time entries and cost
23 entries are attached as Exhibit "11" to the Declaration of Jack Zakim attached hereto.

24

25 **MacNeill & Carlino, PLLC**

26 21. MacNeill & Carlino ("M&C") is employed as my special counsel in
27 North Carolina to assist in the performance of my duties. M&C was representing
28 Diversified prior to my connection with foreclosures of two parcels of real property

1 located in North Carolina and litigation related thereto. One foreclosure was in
2 connection with an obligation owed by Coastal Ventures, and the services provided
3 in connection therewith are described more fully in the category identified as L24 in
4 the Declarations of David A. Gill and Kathy Bazoian Phelps attached hereto. With
5 respect to the Coastal Ventures matter, Diversified is now a co-owner in connection
6 substantial acreage including a golf course along with Reprop Financial, which
7 loaned \$2.3 million. Diversified and Reprop are attempting to sell or lease the
8 properties and have agreed to share the legal costs in connection with this
9 transaction proportional to their investments, subject to repayment of costs advanced
10 disproportionately by Reprop. Accordingly, my share of the fees and costs in
11 connection with this matter is 36.11%.

12 22. M & C has also provided services in connection with a loan
13 transaction with Uwharrie Partners, where I foreclosed on property in North Carolina
14 consisting of an R.V. Park. Diversified was the only lender on this transaction. As I
15 am now the owner of this property I am responsible for 100% of the fees and costs
16 incurred in connection with that matter. I continue to utilize the services of M&C in
17 connection with the efforts to foreclose, oust the former owner, deal with legal issues
18 arising from the nature of the business and the like including sale or lease of the
19 property consistent with State law. . I anticipate that I will continue to need local
20 counsel in North Carolina to assist me in dealing with this property pending a sale
21 and to advise me with respect to local rules and procedures and to handle closing
22 and/or sale transactions.

23 23. Applying the 36.11% calculation to the portion of the fees and costs
24 relating to the Coastal Ventures matter, I propose to pay M & C my 36.11% of those
25 fees in the amount of \$1,697.17 for the time period of August 1, 2009 through
26 February 28, 2010. Additionally, I propose to pay fees of \$22,025 to M&C in
27 connection with the services provided on the Uwharrie Partners matter. A narrative
28 summary of all of the services provided and detailed time entries and cost entries for

1 the Uwharrie Partners matter are attached as Exhibit "12" to the Declaration of Peter
2 N. Carlino attached hereto.

3
4 **Rayburn Cooper & Durham**

5 24. The firm of Rayburn Cooper & Durham ("RCD") is employed as my
6 special counsel in North Carolina to assist in connection with the Coastal Ventures
7 obligation. RCD has provided services in connection with obtaining relief from
8 stay in the bankruptcy case filed by the obligor on the note in favor of Diversified
9 secured by a deed of trust against property in North Carolina and pursuing possible
10 guarantee claims. Diversified is a co-lender in connection with that transaction,
11 having loaned \$1.3 million along with Reprop Financial which loaned \$2.3 million.
12 Diversified and Reprop had agreed to share the legal costs in connection with this
13 transaction proportional to their investments. Accordingly, my share of the fees and
14 costs in connection with this matter is 36.11%. The obligor on the loan made the
15 process of obtaining relief from stay in its bankruptcy difficult, causing my special
16 counsel to have to object to a plan of reorganization and appear at several continued
17 hearings. Ultimately, relief from stay was granted and I was able to foreclose on the
18 property. The amounts for which I herein request approval are my 36.11% share of
19 the total fees and costs.

20 25. I therefore proposed to pay RCD fees of \$47,700.14 and costs of \$2.05
21 as my 36.11% share, and I request authority to pay RCD said amounts. Detailed
22 time entries and cost entries are attached as Exhibits "13" to the Declaration of G.
23 Kirkland Hardymon attached hereto.

24
25 **Miles & Stockbridge, P.C.**

26 26. I employed Thomas Renda, Miles & Stockbridge, P.C. ("M&S") as
27 special counsel in Maryland to assist me in the documentation of a settlement
28 agreement with Mark Friedman, a Maryland resident who had received payment of

1 \$6 million from Diversified in June 2008. I required the assistance of local Maryland
2 counsel to ensure that the settlement agreement, which included a security interest in
3 real property in Maryland to secure performance under the terms of the settlement,
4 was properly documented and perfected. I believe that the services of Maryland
5 counsel are now completed, unless and until I require further assistance in collecting
6 the settlement sum pursuant to the terms of the settlement agreement.

7 27. M&S has incurred fees in the amount of \$20,775.50 and expenses of
8 \$201.45 for the time period through February 28, 2010, and the Receiver requests
9 authority to pay M&S said amounts. Detailed time entries and cost entries are
10 attached as Exhibit "14" to the Declaration of Thomas Renda attached hereto.

11
12 **Bryan, Gonzalez Vargas & Gonzalez Baz**

13 28. I employed Christian J. Limon, Bryan, Gonzalez Vargas y Gonzalez
14 Baz Tijuana, S.C. ("Bryan Gonzalez") as special counsel in Mexico to assist me in
15 the performance of my duties as Receiver. Bryan Gonzalez has evaluated title issues
16 relating to a condominium in Cancun Mexico in which I own a 50% interest with
17 Jeffrey Appel, and has also evaluated the status of certain mortgages on real property
18 in Mexico in connection with a loan transaction between Diversified and Club
19 Acquisition Company. I will continue to require the assistance of Bryan Gonzalez to
20 document real property transactions relating to these two matters.

21 29. Bryan Gonzalez has incurred fees in the amount of \$3,319.60 and
22 expenses of \$4,434 for the time period of August 1, 2009 through February 28, 2010,
23 and the Receiver requests authority to pay Bryan Gonzalez said amounts. Bryan
24 Gonzalez was paid a retainer of \$10,000 against which the \$3,319.60 will be paid
25 and was paid \$4,000 as an advance against costs, so only \$434 is owing at this time,
26 plus an additional \$2,000 as an advance against future costs. Detailed time entries
27 and cost entries are attached as Exhibit "15" and "16" to the Declaration of Christian
28 J. Limon attached hereto.

IV.

PROCEDURE REIMBURSEMENT OF FEES AND COSTS GOING FORWARD

30. If the court permits, in order to avoid hardship to the professionals and a plethora of paper for the court to digest, I propose to my professionals a portion of their fees and costs on a monthly basis pursuant to the Ninth Circuit guidelines set forth in *United States Trustee v. Knudsen Corp. (In re Knudsen Corp.)*, 84 B.R. 668 (B.A.P. 9th Cir. 1988), subject to final review by the Court. I seek approval of an interim procedure for monthly payment of fees incurred and reimbursement of expenses on the terms set forth in Exhibit "3" attached hereto, which provide generally as follows: I will file with the Court and serve a monthly statement for each professional seeking compensation (the "Monthly Statement") on the Limited Service List (collectively the "Recipient") and provide the opportunity for the Recipients to object. Absent any objection, I will pay the professionals 85% of their requested fees and expenses, subject to final review, approval and, if necessary, recapture by the Court, with the remaining 15% to be paid upon application to the Court pursuant to the terms of the Omnibus Order entered on May 4, 2009. Even if portions of the fees are ultimately disallowed, the estate is protected by the 15% holdback and by the unpaid portions of fees earned for periods subsequent to the formal applications.

V.

THE INTERIM FEE PROCEDURE IS APPROPRIATE

31. In a case well known to bankruptcy professionals, the Bankruptcy Appellate Panel for the Ninth Circuit (the "BAP") recognized that interim payments for professionals on a monthly basis are entirely appropriate in larger cases. *See United States Trustee v. Knudsen Corp. (In re Knudsen Corp.)*, 84 B.R. 668 (B.A.P. 9th Cir. 1988) (footnote omitted). In *Knudsen*, the Panel observed that:

1 the problem, arising especially in large cases, is that when counsel must wait
2 an extended period for payment, counsel is essentially compelled to finance
3 the reorganization. This result is improper and may discourage qualified
practitioners from participating in bankruptcy cases; a result that is clearly
contrary to Congressional intent.

4 *Id.* at 672.

5 32. *Knudsen* holds that, at least in larger cases, monthly payments to
6 professionals are appropriate without prior approval of the Court so long as made
7 pursuant to a procedure that provides the opportunity for subsequent review by the
8 Court. *Knudsen*, 84 B.R. at 671-72. The procedure proposed in this Request
9 provides ample opportunity for such review.

10 33. Furthermore, in *Knudsen*, the BAP identified four factors that support the
11 establishment of procedures similar to those outlined above:

- 12 a. The case is an unusually large one in which an exceptionally large
13 amount of fees accrue each month;
- 14 b. The court is convinced that waiting an extended period for payment
15 would place an undue hardship on professionals;
- 16 c. The court is satisfied that the professionals will be able to respond to
17 any subsequent reassessment of fees paid pursuant to the procedures; and
- 18 d. The procedures are the subject of a noticed hearing prior to any payment
19 thereunder.

20 *Id.* at 672.

21 34. Each of the *Knudsen* factors is present in this case. First, Diversified is an
22 enormous Ponzi scheme involving thousands of investors and over \$255 million of
23 investor funds. I have commenced litigation which involves a number of defendants
24 and complex issues relating to their involvement with Diversified in operating its
25 Ponzi scheme. Additionally, I continue to require the assistance of my special
26 counsel and accountants in connection with my administration of the estate. I
27 believe that it is appropriate to pay the fees and expenses of my professionals on a
28 monthly basis. My professionals will otherwise be financing large scale litigation

1 and the costs of administration of this case for lengthy periods of time, which is
2 exactly the type of situation contemplated by *Knudsen*.

3 35. Second, with the exception of a small retainer paid to Bryan Gonzalez, my
4 professionals do not have retainers from which they can draw down fees on a
5 monthly basis, and they are limited to filing interim fee applications every 120 days.
6 As such, my professionals would suffer unreasonable and necessary hardship in
7 waiting for payment of potentially substantial sums during the four-month or more
8 intervals between approval of interim fee applications.

9 36. Third, my professionals will be able to address any reassessment of fees or
10 costs paid prior to interim or final allowance. My professionals are all well-
11 established firms in their community, with extensive experience and the financial
12 wherewithal to respond to any reassessment of fees or costs.


13 37. Finally, the proposed fee procedure is the subject of this noticed Motion. I
14 will not make any monthly payments pursuant to the proposed fee procedures unless
15 and until the requested procedures are approved by the Court. Accordingly, this last
16 factor has been met.

17
18 **VI.**

19 **CONCLUSION.**

20 30. Based upon the foregoing, I respectfully request (a) approval of this
21 Second Request for Fees and Costs; (b) authorization to pay to myself and my
22 professional the amounts requested by us on account of services rendered through
23 February 28, 2010; (c) approval of the procedures for notice and payment of fees and
24 costs going forward as set forth herein; and (d) for all other appropriate relief.

25
26 Dated: March 31, 2010

27 
28 David A. Gill
Receiver

DECLARATION

DECLARATION OF DAVID A. GILL

I, David A. Gill, declare as follows:

1. I am the Permanent Receiver appointed by this Court for Diversified Lending Group, Inc. (“DLG”), and Applied Equities, Inc. (“AEI”) (collectively the “Receivership Defendants”), pursuant to the Order of Preliminary Injunction and Orders: (1) Continuing Asset Freeze, (2) Appointing a Permanent Receiver, (3) Prohibiting the Destruction of Documents, (4) Granting Expedited Discovery, and (5) Requiring Accountings (the “Preliminary Injunction Order”), signed and entered by this Court on March 10, 2009, in Securities and Exchange Commission v.

Diversified Lending Group, Inc., et al., Case No. CV 09—1533-R-JTL (the “SEC Action”), pending in the United States District Court, Central District of California.

2. I have personal knowledge of the facts in this declaration and, if called as a witness, I could competently testify to these facts.

3. On March 4, 2009, the Securities and Exchange Commission (“SEC”) filed a Complaint (the “Complaint”) in the SEC Action, alleging two fraud claims for relief against Defendants DLG, AEI, and Bruce Friedman (“Friedman”), as well as Relief Defendant Tina M. Placourakis (“Placourakis”).

4. At the time it filed the Complaint, the SEC also filed an ex parte application (the “TRO Application”) for a temporary restraining order and for orders: (1) freezing assets, (2) appointing a temporary receiver, (3) prohibiting the destruction of documents, (4) granting expedited discovery, and (5) requiring accountings, and for an order to show cause re preliminary injunction and appointment of a permanent receiver.

5. On March 4, 2009, this Court granted the TRO Application and appointed me as Temporary Receiver. I received the Temporary Restraining Order appointing me as Temporary Receiver early on March 5, 2009. The latter order was superseded by the Preliminary Injunction entered March 10, 2009, which was further amended March 31, 2009 and April 3, 2009. The amendments clarified the earlier

1 orders by specifically naming certain wholly owned subsidiaries and their assets as
2 subject to administration in this receivership.

3 6. Attached hereto as Exhibit "1" are my detailed time entries reflecting
4 the time actually spent by me from August 1, 2009 through February 28, 2010 in
5 connection with my duties as Receiver in this case. A summary of the categories⁸ I
6 have created for organizational purposes only, reflecting the time spent and the fee
7 claimed, is set forth as follows:

8 Code	Nature of Services	Time Expended	Fee Claimed
9 AA	Miscellaneous Asset Issues	86.40	\$ 34,388.00
10 CA	Case Administration	114.80	\$ 33,906.00
11 CL	Claims Issues/Communication with Creditors	102.20	\$ 28,865.00
12 FA	Compliance with Court Rules re Fee/Employment Issues	10.10	\$ 4,426.50
13 L1	174 Upper Mountain Road, Montclair NJ	2.00	\$ 663.00
14 L2	127 N. Mountain Road, Montclair NJ	3.80	\$ 995.00
15 L3	Broad Beach Rd., Malibu CA	32.70	\$ 13,706.50
16 L4	Victorville property	0.00	\$ 0.00
17 L5	Action Wobble, Inc.	0.00	\$ 0.00
18 L6	All New Materials	5.40	\$ 2,565.00
19 L7	Bethany Holdings/Bethany Legand Oaks, LLC	1.00	\$ 475.00
20 L8	Brown Field Business Park	7.00	\$ 3,124.00
21 L9	Consolidated Healthcare Services, Inc.	.50	\$ 237.50
22 L10	Desert Land Ventures, III	1.10	\$ 522.50
23 L11	Las Flores Villas, LLC	.50	\$ 237.50
24 L12	Mydonose (Mango)	.60	\$ 285.00

26 _____
27 ⁸ The categories are explained at length in the Declaration of Kathy Bazoian
28 Phelps filed in connection herewith.

1	L13	MyDrsPlan	0.00	\$ 0.00
2	L14	RockDoc, LLC	4.60	\$ 2,185.00
3	L15	RWSI, Inc.	1.20	\$ 570.00
4	L16	VSB, LLC	1.40	\$ 665.00
5	L17	Wind Options	1.10	\$ 522.50
6	L18	Collateral Assignments of Annuities at Insurance Companies	26.70	\$ 12,168.50
7	L19	Wells Fargo Letters of Credit	.40	\$ 190.00
8	L20	Sunwest Bottlers, LLC	6.50	\$ 3,087.50
9	L21	Steve Nickolas	1.50	\$ 712.50
10	L22	Seyed A. Azimi	0.00	\$ 0.00
11	L23	Liliana and Miguel A. Cortez	1.20	\$ 373.00
12	L24	Coastal Ventures	8.70	\$ 4,103.50
13	L25	Zooland (Uwharrie Partners)	43.40	\$ 18,277.00
14	L26	Bermuda Dunes (Mitsch Nursery)	15.30	\$ 6,925.50
15	L27	Club Acquisition Company	7.80	\$ 3,705.00
16	L28	Hallmark Medical	0.00	\$ 0.00
17	L29	Steven Goad (82475 Wingate)	.60	\$ 112.00
18	L30	Kidfresh	6.60	\$ 3,135.00
19	L31	Elizabeth Versten (Mazzarino's)	2.40	\$ 1,140.00
20	L32	Dr. Robert Fields	2.00	\$ 866.00
21	L33	Robert Knight	.70	\$ 332.50
22	L34	Intentionally Omitted	0.00	\$ 0.00
23	L35	Intentionally Omitted	0.00	\$ 0.00
24	L36	B.R.A.T. Entertainment	0.00	\$ 0.00
25	L37	Scott Brandt	3.00	\$ 1,077.00
26	L38	RF Surgical Systems	0.00	\$ 0.00
27	L39	Life Insurance Policy	0.00	\$ 0.00
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1	L40	Sam Bell Fitness Judgment	2.10	\$ 622.50
2	L41	Caceras & Shamash Trust Account	3.20	\$ 1,520.00
3	L42	Kevin Keller Litigation	3.10	\$ 1,472.50
4	L43	Karen O'Callaghan Litigation	2.70	\$ 1,080.50
5	L44	Claims and Assets of Bruce Friedman	0.00	\$ 0.00
6	L45	Children's Museum of Los Angeles	.40	\$ 190.00
7	L46	Friedman Charitable Foundation	2.10	\$ 678.50
8	L47	Markowitz	0.00	\$ 0.00
9	L48	Kirkland & Ellis	0.00	\$ 0.00
10	L49	Foley & Lardner	.10	\$ 47.50
11	L50	3120 Sheridan Ave., Des Moines Iowa	0.00	\$ 0.00
12	L51	Charles Fabish Note	1.30	\$ 242.50
13	L52	Makin' Fun	1.50	\$ 712.50
14	L53	Mark Friedman	11.50	\$ 5,114.50
15	L54	Diane Dubois Kovats	15.90	\$ 5,905.50
16	L55	Jeff Appel	0.00	\$ 0.00
17	L56	Sue Krembs	1.10	\$ 522.50
18	L57	Claims against Sales People	1.50	\$ 712.50
19	L58	Michael Kaplan	2.70	\$ 1,282.50
20	L59	Voyager Entertainment	.90	\$ 311.50
21	L60	Litigation Matter Under Investigation	1.30	\$ 443.50
22	L61	Net Jets	0.00	\$ 0.00
23	L62	55 Edgemere, New York	4.30	\$ 1,956.50
24	L63	L'Haia property, Cancun Mexico	2.10	\$ 997.50
25	L64	Bella Vellagio	.20	\$ 95.00
26	L65	Shawna Friedman Litigation	.30	\$ 113.50
27	L66	Sitomer Litigation	.90	\$ 398.50
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1	L67	Kraig Ivie	2.30	\$ 1,092.50
2	L68	Net Winner Litigation	2.50	\$ 1,187.50
3	L69	Bruce Friedman Litigation	.90	\$ 427.50
4	L70	Claims Against Lenders Depot	.40	\$ 161.00
5	L71	Mayer & Glassman	.20	\$ 95.00
6	L72	Litigation Against PetroReal Oil Corp	0.00	0.00
7	L73	Complaint Against Family Members	.20	\$ 39.00

8 7. A detailed explanation of each of the assets described in paragraph 6 is
9 set forth in the Asset Chart attached to my Third Report, which is attached as Exhibit
10 A to the Request for Judicial Notice filed concurrently herewith. Addition detail of
11 the services provided in connection with each of these assets is set forth in the
12 Declaration of Kathy Bazoian Phelps attached hereto.

13 8. In this reporting period of August 1, 2009 through February 28, 2010, I
14 have engaged in the following activities, among others:

15 **Collection of Evidence and Investigation of Claims**

16 9. I and my professionals have made great progress in obtaining
17 documentation from financial institutions and third parties in order to continue to
18 piece together the story of what Diversified did with the over \$200 million of
19 investor funds that it solicited. The process of obtaining the documentation,
20 reviewing it, entering it into a database, and analyzing the data, has been extremely
21 time-consuming and labor intensive. The result of this investigation, however, has
22 been that I can now trace the vast majority of the investor funds and determine how
23 they were spent or misappropriated by Diversified.

24 10. I have commenced litigation to recover over \$200 million in damages
25 and to recover fraudulently transferred funds.
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1 **Communication with Creditors and Investors and Fixing Bar Date**

2 11. I have continued to communicate with creditors and investors and
3 respond to all, or virtually all, of the numerous inquiries and comments I receive. I
4 continue to keep my website (www.diversifiedreceivership.com) up to date, on
5 which I post relevant pleadings and update as to current developments of
6 significance.

7 12. I filed a motion with the Court seeking the establishment of a claims bar
8 date, which was granted, and I have provided notice of the bar date to all known
9 creditors, investors and interested parties.

10

11 **Administration of Real and Personal Property**

12 13. During the subject reporting period, I concluded the sale of the Malibu
13 property, which netted the estate the sum of \$3,032,635.01. I have also begun
14 preparations to sell the property at 127 Upper Mountain Road, Montclair, New
15 Jersey, which is expected to become vacant and ready for sale in July 2010. In the
16 meantime, I have continued to collect rents on that property when due, maintained
17 insurance, and paid property taxes thereon.

18 14. With respect to the interest in the property in New York that I
19 discovered following my appointment in connection with my investigation, I sold my
20 50% interest in the limited liability company to the co-owners and netted the estate
21 the sum of \$405,504.50.

22 15. With respect to the interest in the condominium in Cancun, Mexico that
23 I discovered following my appointment in connection with my investigation, I been
24 in discussions with the co-owner for the sale of the condominium so that I can
25 receive 50% of the net sales proceeds and have recently located a broker to list the
26 property.

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1 16. I have foreclosed on two properties in North Carolina during the subject
2 reporting period and have been listing them for sale and exploring various
3 alternatives for the preservation and liquidation of those properties.

4 17. I have sold through an auctioneer jewelry which netted the estate
5 \$127,733.

6
7 **Investigation and Administration of Other Assets**

8 18. With the assistance of my professionals, I obtained an order permitting
9 Jackson National Life Insurance Company to release funds to investors who had
10 obtained collateral assignments of annuities in amounts up to an amount that would
11 not exceed a return of the total amount of principal invested by them (“Cap
12 Amounts”). In that process, I learned that several investors held collateral
13 assignments of annuities that contained amounts substantially in excess of the Cap
14 Amounts. I have entered into settlements with four of them which has resulted in the
15 return to the estate of \$1,297,769.09, and I have also obtained the payment to the
16 estate of an additional \$85,298.67 of value from annuities that were not collaterally
17 assigned.

18 19. With the assistance of my professionals, I have entered into three
19 settlements of business investments that had been made by Diversified in companies
20 that each asserted defenses to my claims for return of funds transferred and who were
21 also asserting damages against the estate for Diversified’s alleged failure to make
22 future advances and loans. Those three settlements, with Rock Doc, LLC, Brown
23 Field Business Park, and Kidfresh, have each resulted in restructured business
24 arrangements designed to provide an opportunity for those companies to obtain new
25 financing and for me to retain an interest in the companies in the hope that they will
26 be able to remain viable businesses.

27 20. The details of other assets and investments are set forth in my Third
28 Report which has been filed with the Court.

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Litigation

21. I have continued to prosecute the litigation against Kevin Keller and Karen O’Callaghan, seeking the return of residences which were paid for with investor funds. I have also commenced similar litigation against Bruce Friedman’s family members, Kevin Mehlman, Shawna Friedman and Julie and Robert Sitomer, each of whom also received title to residences which were entirely paid for with investor funds paid to Diversified.

22. With the assistance of my professionals, I have been investigating possible litigation claims against insiders, sales people, professionals and others who actively or passively assisted Diversified in perpetuating its fraudulent scheme or who may have knowingly benefited from it. The investigation was extensive and involved the review of thousands of pages of documents and the input of thousands of transactions into a database in order to be able to identify the flow of funds and the involvement of third parties in the scheme being run by the insiders of Diversified.

Claims Bar Date

23. I recommended to the Court a procedure for filing claims, and all claimants who wish to assert a claim against the Diversified Receivership estate are now able to file claims. I believe it is appropriate to review the claims which have been filed, but do not intend by the fixing of a bar date to cause claimants conclude from such request that there will definitely be a distribution.

24. Attached hereto as Exhibit “2” is a listing of all of the costs incurred by me from August 1, 2009 through February 28, 2010 in connection with my duties as Receiver in this case.

DECLARATION

1 **DECLARATION OF KATHY BAZOIAN PHELPS PHELPS IN SUPPORT OF**
2 **REQUEST FOR COMPENSATION OF DANNING, GILL, DIAMOND &**
3 **KOLLITZ, LLP**

4 I, Kathy Bazoian Phelps, declare as follows:

5 1. I am the principal of a professional corporation which is a partner of the
6 law firm of Danning, Gill, Diamond & Kollitz, LLP, counsel for David A. Gill, the
7 Permanent Receiver appointed by this Court for Diversified Lending Group, Inc.
8 (“DLG”), and Applied Equities, Inc. (“AEI”) (collectively the “Receivership
9 Defendants”), pursuant to the Order of Preliminary Injunction and Orders: (1)
10 Continuing Asset Freeze, (2) Appointing a Permanent Receiver, (3) Prohibiting the
11 Destruction of Documents, (4) Granting Expedited Discovery, and (5) Requiring
12 Accountings (the “Preliminary Injunction Order”), signed and entered by this Court
13 on March 10, 2009, in Securities and Exchange Commission v. Diversified Lending
14 Group, Inc., et al., Case No. CV 09-1533-R-JTL (the “SEC Action”), pending in the
15 United States District Court, Central District of California. I am one of lawyers at
16 Danning, Gill principally in charge of the representation of the Receiver.

17 2. I have personal knowledge of the facts in this declaration and, if called
18 as a witness, I could competently testify to these facts.

19 3. Danning, Gill has maintained its time records in categories which
20 comply with the format required by the Guidelines of the Office of the United States
21 Trustee.

22 4. Attached hereto as Exhibit “5” is a true and correct copy of the detail
23 time entries reflecting the services provided by Danning, Gill in connection with this
24 case. A summary of the services by category is as follows:
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Code	Nature of Services	Time Expended	Fee Claimed
AA	Miscellaneous Asset Issues	537.30	\$212,864.00
CA	Case Administration	100.30	\$ 40,989.50
CL	Claims Issues/Communication with Creditors	63.10	\$ 19,151.50
FA	Compliance with Court Rules re Fee/Employment Issues	55.50	\$ 30,201.00
L1	174 Upper Mountain Road, Montclair NJ	0.00	\$ 0.00
L2	127 N. Mountain Road, Montclair NJ	.30	\$ 159.00
L3	Broad Beach Rd., Malibu CA	47.80	\$ 14,034.00
L4	Victorville property	0.00	\$ 0.00
L5	Action Wobble, Inc.	0.00	\$ 0.00
L6	All New Materials	8.70	\$ 4,668.00
L7	Bethany Holdings/Bethany Legand Oaks, LLC	5.40	\$ 1,739.00
L8	Brown Field Business Park	31.70	\$ 15,337.00
L9	Consolidated Healthcare Services, Inc.	.50	\$ 284.50
L10	Desert Land Ventures, III	1.90	\$ 1,112.50
L11	Las Flores Villas, LLC	3.70	\$ 1,945.50
L12	Mydonose (Mango)	13.60	\$ 6,094.50
L13	MyDrsPlan	0.00	\$ 0.00
L14	RockDoc, LLC	9.00	\$ 3,321.00
L15	RWSI, Inc.	2.40	\$ 1,273.50
L16	VSB, LLC	4.30	\$ 2,270.00
L17	Wind Options	10.20	\$ 4,696.00
L18	Collateral Assignments of Annuities at Insurance Companies	247.40	\$108,884.00
L19	Wells Fargo Letters of Credit	1.60	\$ 684.50
L20	Sunwest Bottlers, LLC	8.20	\$ 4,104.00

1	L21	Steve Nickolas	1.50	\$ 859.50
2	L22	Seyed A. Azimi	.20	\$ 105.00
3	L23	Liliana and Miguel A. Cortez	2.80	\$ 814.50
4	L24	Coastal Ventures	17.90	\$ 10,051.50
5	L25	Zooland (Uwharrie Partners)	13.60	\$ 6,962.00
6	L26	Bermuda Dunes (Mitsch Nursery)	19.90	\$ 7,185.00
7	L27	Club Acquisition Company	33.60	\$ 12,915.00
8	L28	Hallmark Medical	.40	\$ 232.00
9	L29	Steven Goad (82475 Wingate)	.90	\$ 472.50
10	L30	Kidfresh	22.40	\$ 7,170.00
11	L31	Elizabeth Versten (Mazzarino's)	17.20	\$ 5,318.00
12	L32	Dr. Robert Fields	9.10	\$ 3,742.50
13	L33	Robert Knight	7.40	\$ 2,888.50
14	L34	Intentionally Omitted	0.00	\$ 0.00
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16	L35	Intentionally Omitted	0.00	\$ 0.00
17	L36	B.R.A.T. Entertainment	0.00	\$ 0.00
18	L37	Scott Brandt	9.70	\$ 5,249.50
19	L38	RF Surgical Systems	0.00	\$ 0.00
20	L39	Life Insurance Policy	0.00	\$ 0.00
21	L40	Sam Bell Fitness Judgment	8.70	\$ 2,319.00
22	L41	Caceras & Shamash Trust Account	11.10	\$ 5,670.50
23	L42	Kevin Keller Litigation	73.00	\$ 26,200.00
24	L43	Karen O'Callaghan Litigation	290.10	\$ 93,998.50
25	L44	Claims Against and Assets of Bruce Friedman	9.70	\$ 3,229.50
26	L45	Children's Museum of Los Angeles	.20	\$ 105.00
27	L46	Friedman Charitable Foundation	.50	\$ 262.50
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1	L47	Markowitz	8.30	\$ 4,305.50
2	L48	Kirkland & Ellis	106.10	\$ 57,237.00
3	L49	Intentionally Omitted	9.60	\$ 5,568.00
4	L50	3120 Sheridan Ave., Des Moines Iowa	.20	\$ 39.00
5	L51	Charles Fabish Note	.80	\$ 420.00
6	L52	Makin' Fun	1.90	\$ 742.00
7	L53	Mark Friedman	27.20	\$ 12,151.50
8	L54	Diane Dubois Kovats	22.80	\$ 12,194.50
9	L55	Jeff Appel	0.00	\$ 0.00
10	L56	Sue Krembs	41.60	\$ 22,723.00
11	L57	Possible Litigation Claims Against Sales Persons	40.70	\$ 15,888.00
12	L58	Michael Kaplan	5.80	\$ 2,651.50
13	L59	Voyager Entertainment	1.60	\$ 873.00
14	L60	Kevin Mehlman Litigation	51.90	\$ 14,047.00
15	L61	Net Jets	2.50	\$ 1,445.00
16	L62	55 Edgemere, New York	21.50	\$ 7,938.50
17	L63	L'Haja property, Cancun Mexico	2.90	\$ 1,558.50
18	L64	Bella Villagio	2.50	\$ 1,334.50
19	L65	Friedman, Shawna, Claims against	49.90	\$ 14,028.00
20	L66	Sitomers, Claims against	44.10	\$ 12,759.50
21	L67	Ivie, Kraig	38.30	\$ 11,519.00
22	L68	Investor Litigation	32.40	\$ 13,808.00
23	L69	Bruce Friedman, et.al. Litigation	204.90	\$ 79,150.50
24	L70	Claims Against Lender's Depot Inc.,	11.00	\$ 3,970.50
25	L71	Mayer and Glassman	70.60	\$ 20,872.00
26	L72	Litigation against PetroReal Oil Corp,	28.20	\$ 8,368.00
27	L73	Friedman Family Complaint	14.60	\$ 5,952.50
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2 5. The categories relate to the different assets and activities involved in the
3 case and the time spent on each matter is set forth in connection with the particular
4 category as follow:

5 6. Miscellaneous Asset Issues (“AA”):

6 Danning, Gill has continued its investigation of the assets in this case and the
7 potential claims of the Receiver. Applicant has continued to communicate with
8 creditors and parties who had done business with the Diversified and has continued
9 to review the documents received, including agreements, contracts, bank statements,
10 correspondence and other documentation reflecting business dealings with
11 Diversified.

12 Danning, Gill has assisted the Receiver in valuing and selling jewelry that was
13 found at the Diversified business premises, has advised the Receiver with respect to
14 selling Dodger tickets for the 2009 season, and assisted the Receiver in negotiating
15 with Bruce Friedman regarding the sale of a Lexus vehicle and then ultimately
16 selling the vehicle to a third party.

17 Danning, Gill has reviewed voluminous documentation in order to evaluate
18 and assess the Receiver’s potential claims against third parties. Much of these
19 services ultimately led to the discovery of assets which had not otherwise been
20 disclosed, such as the discovery that funds of Diversified had been used to pay large
21 down payments for homes that were put in the name of family and friends of Bruce
22 Friedman. Danning, Gill was also able to identify claims for damages against third
23 parties and many of those claims are now the subject of litigation described more
24 fully below.

25 Danning, Gill prepared and issued numerous subpoenas seeking information
26 from financial institutions and other third party companies and individuals. Danning,
27 Gill also worked closely with the legal departments of a number of financial
28 institutions in order to obtain documentation to allow the Receiver to continue with

1 the reconstruction process of the books and records of Diversified. Again, much of
2 these services enabled the Receiver to trace the flow of funds and identify claims to
3 recover some of the investors' funds in this case.

4 Danning, Gill also met with some prospective purchasers who expressed
5 interest in purchasing all of the assets of the receivership estate and provided to them
6 documentation to assist them in conducting their due diligence. This group of
7 individuals was affiliated with Bruce Friedman and ultimately decided not to proceed
8 with their purchase offer.

9 Matters relating to investigation of assets generally which have not otherwise
10 been assigned a category number have been included in this category.

11 During the subject period, Applicant expended an aggregate of 537.30 hours
12 of time in this category, valued at \$212,864.00.

13
14 7. Case Administration ("CA"):

15 Danning, Gill advised the Receiver generally with respect to administration of
16 the estate and performed various other activities typically required of a receiver in
17 this type of case. These activities included advising the Receiver regarding the status
18 of pending legal matters, accounting issues, tax issues, and communications with
19 creditors regarding the status of the case.

20 Danning Gill reviewed numerous requests for special notice filed in this case,
21 and Applicant fielded an unusually large number of telephone calls in this case from
22 creditors and interested parties wanting copies of documents and information
23 regarding the pending case.

24 Danning Gill has assisted the Receiver in keeping his website up to date,
25 providing narrative text and advice regarding the website.

26 During the subject period, Applicant expended an aggregate of 100.30 hours
27 of time in this category, valued at \$40,989.50.

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8. Claims Issues/Communications with Creditors ("CL"):

Danning Gill has continued to field calls from numerous creditors in this case regarding the status of the case. Due to the large number of investors in the Diversified enterprise, there have been many inquiries, by telephone, mail, and e-mail. Danning, Gill has endeavored to respond to each such inquiry and to keep the investors and creditors advised of the status in the case.

Danning Gill also prepared a motion seeking to fix a claims bar date, which was granted by the Court. Danning Gill worked with the Receiver's claims agent to ensure that notice of the claims bar date was served on all known creditors, investors and interested parties.

During the subject period, Danning Gill expended an aggregate of 63.10 hours of time in this category, valued at \$19,151.50.

9. Compliance with Court Rules re Fee/Employment Issues ("FA"):

Danning, Gill assisted the Receiver with preparation of his reports to the Court and in connection with the Receiver's First Account and request to pay fees and expenses to his professionals. Danning, Gill has communicated with the other professionals regarding obtaining explanations of the services they have provided to the Receiver and preparing their exhibits for the fee application. Danning, Gill has also prepared a detailed explanation of the services provided by it to the Receiver in connection with the over 50 assets which have been identified.

During the subject period, Applicant expended an aggregate of 55.50 hours of time in this category, valued at \$30,201.00.

10. Sale of 174 Upper Mountain Rd., Montclair New Jersey ("L-1"):

No fees were incurred in this category during the subject period.

11. 127 N. Mountain Rd., Montclair New Jersey ("L-2"):

Danning, Gill assisted the Receiver in acquiring the facts related to this property. The property was titled in the name of Bruce Friedman individually and

1 Danning, Gill assisted the Receiver in obtaining title to that property. The property
2 is currently subject to a lease, expiring July 31, 2011, and the tenant has been paying
3 the rental rate of \$2,000 per month. Danning, Gill has communicated with the tenant
4 in the property and arranged for the monthly rental payments to be made to the
5 Receiver. Danning, Gill recently obtained the agreement of the tenant to vacate the
6 property in July 2010 so that the Receiver can begin to market the property for sale.

7 The Receiver has New Jersey real estate counsel who will assist with the sale
8 of the property. During the subject period, Danning Gill expended an aggregate of
9 .30 hours of time in this category, valued at \$159.00.

10 12. Malibu Property ("L-3")

11 Danning, Gill assisted the Receiver in closing the sale of the property at 31610
12 Broad Beach, Malibu California. The Property was acquired in February 2008 for
13 \$6,530,000 and then improved at a cost of about \$2,000,000.

14 Construction was not complete at this property at the time of the Receiver's
15 appointment. Danning, Gill has assisted the Receiver in dealing with issues arising
16 in connection with completion of construction at the property and in resolving
17 disputes with certain lien claimants. Danning, Gill assisted the Receiver in reaching
18 a settlement agreement with the general contractor for pre-receivership claims and
19 for additional services to be provided in order to complete construction on the
20 property.

21 The escrow for the sale of the property closed during the subject reporting
22 period, and net proceeds of \$3,032,635 paid to the Receiver.

23 During the subject period, Danning Gill expended an aggregate of 47.80 hours
24 of time in this category, valued at \$14,034.00

25 13. Victorville property ("L-4"):

26 No fees were incurred in this category during the subject period.

27 14. Action Wobble ("L-5"):

28 No fees were incurred in this category during the subject period.

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2 15. All New Materials, LLC ("L-6"):

3 Danning, Gill learned that All New Materials ("ANM") was a company
4 formed upon the purchase of a business from Ryan Hamilton and that the
5 Receivership Defendants wanted to use this business in connection with a broader
6 plan to develop children's clubs across the country. Danning, Gill learned that
7 Diversified invested approximately \$900,000 into this venture and that Ryan
8 Hamilton and another individual own approximately 30% of ANM and that the
9 Receiver now owns the other approximately 70%.

10 Danning, Gill communicated with counsel for Ryan Hamilton regarding a
11 possible sale of the Receiver's interest to Mr. Hamilton or a settlement of claims.
12 The parties entered into some detailed negotiations but have not been able to resolve
13 the claims and disputes. ANM has advised that the business has no value and that it
14 intends to dissolve the business.

15 During the subject period, Danning Gill expended an aggregate of 8.70 hours
16 of time in this category, valued at \$4,668.00.

17 16. Bethany Holdings/Bethany Legend Oaks, LLC ("L-7"):

18 Between March and September 2008, Diversified lent almost \$14 million to
19 these entities with respect to an apartment complex in Tampa, Florida, and a
20 nationwide apartment management business. It appears that the loan was made in
21 order to fund the difference between the purchase money loan and the purchase price
22 for a 416 unit apartment building to be held in the name of BHG's affiliate, Bethany
23 Legend Oaks, LLC ("BLO"). (BHG owns 87.5% of BTA) to sell to Diversified an
24 80% interest in BLO. The loan agreement with BHG provided that BHG would
25 cause Bethany Tampa Apartments I, LLC ("BTA"). BTA owns 100% of BLO,
26 which owns the apartment building. The agreement provided that the interest would
27 transfer to Diversified on or about March 28, 2009, unless Diversified elected for this
28 to happen earlier. In the event of such an election or transfer, by its own terms, the

1 loan obligation would be extinguished and Diversified would own 80% of BLO.
2 Diversified allegedly made an early election to acquire the 80% interest before the
3 Receiver was appointed. The property held by BLO is still subject to the \$21 million
4 note of GE, the holder of the first lien against the property. A receiver has been
5 appointed over the property owned by BLO. It appears that there is no equity in
6 BHG for the benefit of this estate. Diversified also loaned Bethany Holding about \$3
7 million. That loan was not documented and appears worthless.

8 During the subject period, Danning Gill expended an aggregate of 5.40 hours
9 of time in this category, valued at \$1,739.00.

10 17. Brown Field Business Park ("L-8"):

11 Danning, Gill's investigation revealed that Diversified transferred
12 approximately \$3,250,000 million for a 50% membership interest in a venture
13 intended to lease real property from the City of San Diego, with a view to an ultimate
14 development which it has advised people would be worth hundreds of millions of
15 dollars. Danning, Gill learned that the only asset owned by the venture was an
16 Exclusive Negotiating Agreement and other agreements with the City of San Diego
17 and certain of its agencies. Danning, Gill communicated with the Managing Member
18 regarding its asserted defenses and allegations that Diversified agreed to advance an
19 additional \$17,000,000, which it did not do. Danning Gill also responded to the
20 Managing Members attempts to purport to cancel the Receiver's voting rights, in
21 violation of this court's injunctions and jurisdiction.

22 Danning, Gill has engaged in discussions with the Managing Member
23 regarding resolution of the Receiver's claims, and the parties reached a settlement
24 agreement. Danning, Gill assisted in the documentation of a settlement agreement
25 regarding the Receiver's interest in Brown Field which resolves disputed claims
26 relating to the investment and retains an interest in the restructured enterprise for the
27 Receiver. Danning, Gill filed a motion to obtain approval of the agreement, which
28 was granted by the Court.