

DECLARATION

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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 The latter order was superseded by the Preliminary Injunction entered March 10, 2009, which was further

1 amended March 31, 2009 and April 3, 2009. The amendments clarified the earlier
 2 orders by specifically naming certain wholly owned subsidiaries and their assets as
 3 subject to administration in this receivership.

4 6. Attached hereto as Exhibit "1" is a listing of my receipts and
 5 disbursements in the case between March 4, 2009 and July 31, 2009.

6 7. Attached hereto as Exhibit "2" are my detailed time entries reflecting
 7 the time actually spent by me from March 4, 2009 through July 31, 2009 in
 8 connection with my duties as Receiver in this case. A summary of the categories⁹ I
 9 have created for organizational purposes only, reflecting the time spent and the fee
 10 claimed, is set forth as follows:

11 Code	Nature of Services	Time Expended	Fee Claimed
12 AA	Miscellaneous Asset Issues	144.70	\$ 49,673.50
13 CA	Case Administration	187.80	\$68,693.00
14 CL	Claims Issues/Communication with Creditors	129.00	\$ 32,246.00
15 FA	Compliance with Court Rules re Fee/Employment Issues	24.20	\$ 5,985.00
16 L1	174 Upper Mountain Road, Montclair NJ	61.40	\$ 27,019.00
17 L2	127 N. Mountain Road, Montclair NJ	4.40	\$ 1,829.00
18 L3	Broad Beach Rd., Malibu CA	95.30	\$ 39,583.50
19 L4	Victorville property	2.60	\$ 1,235.00
20 L5	Action Wobble, Inc.	1.10	\$ 522.50
21 L6	All New Materials	3.00	\$ 1,425.00
22 L7	Bethany Holdings/Bethany Legand Oaks, LLC	2.20	\$ 1,045.00
23 L8	Brown Field Business Park	36.00	\$ 17,100.00
24 L9	Consolidated Healthcare Services, Inc.	2.40	\$ 1,140.00

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 27 ⁹ The categories are explained at length in the Declaration of Kathy Bazoian
 Phelps filed in connection herewith.

1	L10	Desert Land Ventures, III	2.10	\$ 997.50
2	L11	Las Flores Villas, LLC	.40	\$ 190.00
3	L12	Mydonose (Mango)	3.40	\$ 1,615.00
4	L13	MyDrnsPlan	.80	\$ 293.00
5	L14	RockDoc, LLC	11.60	\$ 5,510.00
6	L15	RWSI, Inc.	1.70	\$ 807.50
7	L16	VSB, LLC	0.00	
8	L17	Wind Options	.60	\$ 285.00
9	L18	Collateral Assignments of Annuities at Insurance Companies	24.20	\$ 11,002.00
10	L19	Wells Fargo Letters of Credit	4.00	\$ 1,117.00
11	L20	Sunwest Bottlers, LLC	38.80	\$ 18,285.00
12	L21	Steve Nickolas	2.60	\$ 1,235.00
13	L22	Seyed A. Azimi	0.00	
14	L23	Liliana and Miguel A. Cortez	.70	\$ 158.50
15	L24	Coastal Ventures	4.10	\$ 1,947.50
16	L25	Zooland (Uwharrie Partners)	.70	\$ 332.50
17	L26	Bermuda Dunes (Mitsch Nursery)	7.10	\$ 3,082.50
18	L27	Club Acquisition Company	3.20	\$ 1,259.00
19	L28	Hallmark Medical	0.00	
20	L29	Steven Goad (82475 Wingate)	.10	\$ 18.50
21	L30	Kidfresh	3.90	\$ 1,852.50
22	L31	Elizabeth Versten (Mazzarino's)	.60	\$ 285.00
23	L32	Dr. Robert Fields	0.00	
24	L33	Robert Knight	.80	\$ 380.00
25	L34	Intentionally Omitted		
26	L35	Intentionally Omitted		
27	L36	B.R.A.T. Entertainment	2.40	\$ 1,140.00
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1	L37	Scott Brandt	.30	\$ 142.50
2	L38	RF Surgical Systems	.10	\$ 47.50
3	L39	Life Insurance Policy	0.0	
4	L40	Sam Bell Fitness Judgment	1.30	\$ 501.50
5	L41	Caceras & Shamash Trust Account	.80	\$ 351.00
6	L42	Kevin Keller Litigation	3.70	\$ 1,699.50
7	L43	Karen O'Callaghan Litigation	2.40	\$ 1,111.00
8	L44	Claims and Assets of Bruce Friedman	1.60	\$ 557.00
9	L45	Children's Museum of Los Angeles	12.60	\$ 4,564.00
10	L46	Friedman Charitable Foundation	1.90	\$ 873.50
11	L47	Markowitz	.40	\$ 190.00
12	L48	Kirkland & Ellis	.80	\$ 264.00
13	L49	Intentionally Omitted		
14	L50	3120 Sheridan Ave., Des Moines Iowa	.10	\$ 47.50
15	L51	Charles Fabish Note	.90	\$ 253.50
16	L52	Makin' Fun	.10	\$ 47.50
17	L53	Mark Friedman	.60	\$ 285.00
18	L54	Diane Dubois Kovats	.20	\$ 95.00
19	L55	Jeff Appel	0.0	
20	L56	Sue Krembs	.80	\$ 380.00
21	L57	Claims against Sales People	0.0	
22	L58	Michael Kaplan	.40	\$ 132.00
23	L59	Voyager Entertainment	3.80	\$ 1,486.00
24	L60	Litigation Matter Under Investigation	.30	\$ 142.50
25	L61	Net Jets	.80	\$ 206.00
26	L62	55 Edgemere, New York	.20	\$ 95.00
27	L63	L'Haia property, Cancun Mexico	1.10	\$ 522.50
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8. A detailed explanation of each of the assets described in paragraph 7 is set forth in the Known Asset List attached to my Second Report as Exhibit "1". Addition detail of the services provided in connection with each of these assets is set forth in the Declaration of Kathy Bazoian Phelps attached hereto.

9. Since my appointment as Receiver, I have engaged in the following activities, among others:

Control of Premises, Books and Records and Bank Accounts

10. Upon taking control of Diversified's offices, my professionals and I gave notice to the two financial institutions which I was told were the only financial institutions used by Diversified; we changed the locks; we obtained computer codes and safe combinations; we secured the computers and data thereon located at the premises, and we made requests to counsel to Diversified to return the large number of financial documents they held for Diversified. We also arranged for and completed a physical inventory of property onsite, and we commenced an initial review of the onsite financial records of Diversified and copied them electronically. We commenced a detailed investigative process which initially involved lengthy interviews with employees and professionals believed to have information relevant to the receivership administration, including defendant Bruce Friedman, corporate counsel and many other people and entities locally and in other States.

11. During this initial investigation and thereafter to date, I was not provided with and could not locate adequate financial statements and supporting documentation typically maintained by an operating business. Mr. Friedman and other employees informed me that there was no balance sheet for any of the Diversified entities. Instead, the business' financial reporting system seemed to be limited to several segregated and incomplete electronic checkbooks maintained on QuickBooks. I was not provided with, and have been unable to locate, any documentation setting forth what appears to be a complete listing of all assets owned

1 by Diversified, including deeds of trust or interests in properties or business ventures,
2 and, in particular, transfers.

3 12. I and my professionals have therefore had to subpoena records from
4 various financial institutions and individuals, to review voluminous documentation
5 obtained by the SEC in connection with this matter, with which I have worked
6 cooperatively, and to search the public records in order to attempt to reconstruct the
7 records of Diversified and identify assets which were not otherwise disclosed to us.
8 As a result of our efforts, we have discovered over 100 bank and financial accounts
9 not disclosed to us initially, and we have identified several deeds of trust and
10 properties not otherwise disclosed to us. The process of locating assets and interests
11 of Diversified has been quite labor intensive and difficult.

12 13. Although I have now identified many financial accounts utilized at some
13 point by Diversified, approximately \$260,000 initially appeared to constitute free and
14 clear funds available to me. The accounts described in the SEC's complaint held
15 over \$1.2 million in the aggregate; however, Wells Fargo Bank has advised that
16 approximately \$988,000 of those funds have been allegedly pledged to Wells Fargo
17 Bank as security for lines of credit or letters of credit. I am investigating those
18 transactions. I also took possession of accounts at Merrill Lynch, some of which
19 held cash and others securities, which I liquidated through the broker. I have
20 realized approximately \$153,000 thus far from sale of said securities, net of
21 commissions to Merrill Lynch.

22 14. Some of the Bank accounts identified by me appear to contain funds of
23 the Friedman Charitable Foundation, approximating \$17,600. It is unclear whether I
24 have rights to moneys held by or for the Friedman Charitable Foundation, and,
25 although the funds are "frozen," I determined not to take possession thereof unless
26 and until my rights therein are clarified. Similarly, banks have "frozen" accounts in
27 Mr. Friedman's name aggregating \$74,000 and an account in the name of DLG
28 holding approximately \$36,000 but claimed by Karen O'Callaghan. I blocked and set

1 aside the latter described accounts pending further court orders. The court approved
2 the release to Mr. Friedman of \$4,500 per month from his account for the months of
3 May, June and July 2009, and he has not requested more. The balance in said
4 account is approximately \$60,700.

5 **Communication with Creditors and Investors and Fixing Procedures**

6 15. I filed a list of creditors based on information provided by Diversified
7 and gave the notices required of me by Local Rule 66 and F. R. Civ. P 66. I recorded
8 notices as appropriate, including with the United States District Courts and County
9 Recorder in each jurisdiction where I understood receivership property to be located.
10 I notified all investors in writing of my appointment. I created a website
11 (www.diversifiedreceivership.com) on which I post relevant pleadings and update as
12 to current developments of significance. I have received hundreds of
13 communications from investors and others and have attempted to respond to all of
14 the written or electronic inquiries, although I was not able to timely respond to some
15 which were received immediately following the inception of the receivership.

16 16. I filed a motion with the Court seeking authority to use certain
17 procedures, which was granted in the Order Granting Motion of Receiver for
18 Instructions Re: (1) Notice Procedures; (2) Procedures for the Use, Sale or Other
19 Disposition of Assets; (3) Employment of Legal Counsel, Accountants, Appraisers,
20 Auctioneers and Brokers; and (4) Payment of Priority Wage Claims, inter alia,
21 authorizing employment of Coldwell Banker and other brokers, as real estate broker,
22 and establishing procedures for sales and notices (the "Omnibus Order"). Pursuant
23 to the Omnibus Order, I obtained authority to utilize certain notice procedures and,
24 pursuant thereto, arranged to sell certain real and personal property hereinafter
25 described.

26 **Administration of Real and Personal Property**

27 17. Initially, I was made aware of three parcels of residential real property
28 in which I claimed an interest. Although each was vested in the names of Mr.

1 Friedman or other affiliated entities but was paid for by the entities, I received
2 consent from Mr. Friedman to administer those assets. He later agreed to transfer title
3 to me of two other properties discussed below. I sold real and on-site personal
4 property at 174 Upper Mountain Road, Montclair, New Jersey, for the appraised
5 value, and received, net, approximately \$1,600,000. With Court permission, I
6 completed improvements in progress and have entered into escrow to sell real
7 property in Malibu California for \$5,700,000, which property is subject to an
8 encumbrance in the principal amount of \$2,000,000 plus interest and several
9 mechanics and materialmen's liens. The secured lender on the Malibu property
10 asserted a lien claim in the amount of approximately \$2,438,000, including what I
11 considered to be excessive charges and penalties. I negotiated with the lender and
12 was able to obtain a reduction in the claim in the amount of approximately \$206,000.
13 I also negotiated reductions of certain lien claims. I anticipate that I will net
14 approximately \$3,170,000 on or after September 9, 2009, from the sale of that
15 property when and if consummated. I also became entitled to property at 127 Upper
16 Mountain Road, Montclair, New Jersey, which is presently occupied under a two-
17 year lease expiring July 31, 2011. I have collected rents on that property when due,
18 maintained insurance, and paid property taxes thereon.

19 18. I have recently learned of interests in two other properties in which
20 Bruce Friedman held an interest individually – a condominium in Cancun, Mexico
21 and a residence in New York. Upon my demand, Mr. Friedman agreed to assign
22 over his interests in those two properties to me.

23 19. I conducted an auction of all of the personal property located at the
24 business premises, including the sale of a Bentley automobile, and netted
25 approximately \$144,000 for the estate. I also took possession of jewelry located at
26 the business premises, which I ascertained belonged to Diversified, caused it to be
27 appraised, and am arranging to sell it through Christie's, a national fine art and
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1 jewelry auction house. I discovered evidence that there might also have been other
2 jewelry owned by Diversified and am investigating.

3 **Investigation and Administration of Other Assets**

4 20. With my professionals, I have attempted to locate and contact people
5 involved in the management of the many investments in which Diversified has
6 participated, in order to ascertain facts, and to determine the best means to realize
7 maximum recoveries thereon. This procedure has been complicated and arduous,
8 especially in the absence of adequate files and records, incomplete legal
9 documentation, and in the face of apparent misrepresentations in many of the
10 documents and financial statements that we have reviewed.

11 21. As a general proposition, and contrary to the representations of
12 Diversified, I have found that there were almost no investments in so-called "scratch
13 and dent" income-producing properties, as set forth in more detail in section III,
14 below. Most of the assets disclosed to me, plus others not initially disclosed to me
15 but discovered by me or my professionals, are problematic in terms of value,
16 defenses to recovery of funds invested, insolvency of the investment vehicle, lack of
17 equity in collateral and the like.

18 **Litigation**

19 22. I have been investigating possible litigation claims against insiders,
20 sales people, professionals and others who actively or passively assisted Diversified
21 in perpetuating its fraudulent scheme or who may have knowingly benefited from it.
22 I have thus far filed two lawsuits against former employees, Kevin Keller and Karen
23 O'Callaghan, each of whom received title to residences which were entirely paid for
24 with investor funds paid to Diversified. I have obtained and recorded writs of
25 attachment prohibiting any further transfer or encumbrances of those properties,
26 pending conclusion of the litigation. I am investigating and conducting discovery
27 relating to many other potential claims, upon which I am not free comment on at this
28 time.

1 **Nature and Status of Claims**

2 23. At the inception of the Receivership, I was advised that accurate payroll
3 tax returns had been filed for prior periods and that all payroll taxes had been paid to
4 the appropriate taxing authorities on a timely basis. In fact, I have learned that
5 Diversified had not made the Federal payroll tax deposit for 2008. This payroll tax
6 payment was overdue at the inception of the Receivership, and I arranged for
7 payment to be made after the amount due was determined.

8 24. Additionally, numerous assessments have since been received from
9 Federal and State authorities related to unpaid payroll taxes related to periods
10 predating the Receivership. These assessments generally relate to previously filed
11 Federal and State employment tax returns that were found by the taxing authorities to
12 be inaccurate, incomplete or incorrect. To date, assessments for additional payroll
13 taxes of more than \$100,000 related to the years 2006 through 2008 have been
14 received. The assessments appear to result from errors or omissions such as
15 incorrectly classifying employees as independent contractors, failing to report
16 income and failing to pay employer taxes on employee compensation. The
17 assessments have included significant penalties and accrued interest. I expect that
18 Diversified may receive additional payroll tax assessments in the future. I am
19 seeking abatement of penalties.

20 25. In addition to these payroll tax issues, the Internal Revenue Service has
21 notified me that the agency intends to audit previously filed corporate income tax
22 returns. We have worked with that agency to respond to its information requests and
23 to explain the overall state of the financial records. Based on our analysis to date,
24 which includes discussions with the outside accountant who prepared Diversified's
25 tax returns, it appears that the previously filed returns may not have accurately
26 represented Diversified's operating results. Amended income tax returns will be
27 prepared and filed when appropriate and necessary information is compiled.

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