Premium Financing Operations

Premium financing is a widely accepted practice that is recognized by almost every major insurance company in the United States as a method of payment of insurance premiums. Our premium financing program is used primarily as a means to provide life insurance to appropriate individuals, but is also used for partnership buyouts, estate tax liabilities and other insurance needs. We offer our premium financing program through our wholly-owned subsidiary Applied Equities, Inc., or AEI. AEI is a financial and insurance marketing firm that contracts with agents, and/or wholesalers who, in turn, contract with agents, who are authorized to represent our premium financing program to qualified investors. AEI is licensed as an insurance agent by the California Department of Insurance.

Premium Financing Program

An individual seeking to finance their life insurance policy premiums will apply to DLG for a loan to pay the life insurance premiums on the new or existing policy from an insurance company. The loan from DLG to the individual to pay the insurance premiums is evidenced by a promissory note and bears interest at a rate of 1/2 point less than the prime rate, as reported by *The Wall Street Journal's* bank survey, and is fixed at that rate for the term of the loan.

Once the individual's financial adviser or insurance agent determines how long the insurance policy has to be paid before it becomes self-sustaining, the individual refinances a portion of the individual's equity in property currently owned by the individual. The individual then invests that amount in an investment contract sold by DLG. Please see the section entitled "Description of Investment Contracts" for a brief discussion of the investment contracts sold by DLG. The investment contract is used as collateral for the loan to pay the insurance premiums by the individual through the security agreement discussed below.

Upon securing the required collateral, the loan amount is dispersed to the individual, which in turn pays the premium on the life insurance policy. As future premium payments to the insurance company are required, DLG continues to disperse funds according to the premium schedule. In addition, DLG makes the mortgage payments for the individual on the property that was used to invest in the investment contract.

At the end of the term, the balance of the investment contract and the life insurance policy is used to retire the premium loan, the insurance becomes self-sustaining and the remaining amount can be used, at the option of the individual, to retire the mortgage on the property or leave it in and let the investment grow while the mortgage payments continue from the investment contract.

No Trust or Investment Company Activities

We have not qualified as a real estate investment trust under the Internal Revenue Code, and therefore we are not subject to the restrictions on its activities that are imposed on real estate investment trusts. We intend to conduct our business so that we are not an "investment company" within the meaning of the Investment Company Act of 1940. We conduct our business in such a manner so that we are not deemed to be a "dealer" in mortgage loans for federal income tax purposes.

Competition

To date, we have not faced strong competition in connection with our investment activities, real estate lending activities or our life insurance premium financing activities. However, we may face competition in the future from the various commercial banks, insurance companies, mortgage brokers, pension funds or other institutional lenders competing to make the type of loans in which we invest.

Government Regulation

We operate as a real estate broker and are subject to extensive regulation by federal, state and local laws and governmental authorities. We conduct our real estate business under a license issued by the California Department of Real Estate. We conduct our premium financing activities through our wholly-owned subsidiary, AEI, under a license issued by the California Department of Insurance to AEI. Under applicable California law, the Mortgage Lending Division has broad discretionary authority over our activities, including the authority to conduct periodic regulatory audits of all aspects of our business.

We are also subject to the Equal Credit Opportunity Act of 1974, which prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status, and the Fair Credit Reporting Act of 1970, which requires lenders to supply applicants with the name and address of the reporting agency if the applicant is denied credit.

We could face potential disciplinary or other civil action that could have a material adverse effect upon our business if we do not properly comply with these regulations.

Employees

As of July 1, 2008, we had 19 full-time employees, which does not include employees of our various operating subsidiaries or divisions. All of our employees are employed on at-will basis and none are covered by a collective bargaining agreement.

Legal Proceedings

On May 6, 2008, we received a written inquiry from the Michigan Office of Financial and Insurance Regulation seeking information from us pertaining to the offer and sale of our investment products within the State of Michigan. We provided our responses to the Michigan Office of Financial and Insurance Regulation's inquiry on June 3 and June 6, 2008. On November 21, 2008, the Michigan Office of Financial and Insurance Regulation issued an issued an order finding that DLG had offered and sold unregistered securities in State of Michigan in violation of the Michigan Uniform Securities Act and ordering DLG to cease and desist from further violations of the Michigan Uniform Securities Act. In addition, the order required DLG to offer rescission to all Michigan citizens owning the investment contracts and to pay a $10,000 civil fine.

On June 12, 2008, we received a written inquiry from the ASD seeking information from us concerning the offer and sale of our investment products within the State of Arkansas. We replied to this inquiry on June 16, 2008.

In addition, we received a written inquiry dated July 2, 2008 from the WSD seeking information from us regarding the offer and sale of our investment products within the State of Wisconsin. We provided our response to the WSD's inquiry on July 28, 2008. By letter dated August 20, 2008, we made a rescission offer for the investment contracts that were sold to residents of the State of Wisconsin. On October 15, 2008, the WSD notified us that they had concluded the matter and closed their file.

On May 11, 2007, we received a written inquiry from the California Department of Corporations seeking information from us regarding the offer and sale of our investment products within the State of California. We provided our response to the inquiry on June 7, 2007. We received a follow up inquiry on February 20, 2008. We provided our response to the follow up on April 25, 2008.

We intend to cooperate fully with any additional inquiries from the respective regulators.

Facilities

We lease approximately 10,000 square feet of space in our headquarters in Sherman Oaks, California under a lease that expires in 2011. We also lease approximately 1,400 square feet of space in Monrovia, California under a lease that expires in March 2009.

MANAGEMENT

Executive Officers and Directors

Our executive officers, directors and key employees biographical information extends to 20 years, and their ages and positions as of July 1, 2008 are as follows:

Name	Age	Position
Bruce Friedman	58	Chief Executive Officer and Director
Karen O'Callaghan	61	Chief Financial Officer and Director
Shirley Howard	63	Secretary
Michael Kaplan	60	Director

Bruce Friedman founded DLG and has served as our Chief Executive Officer and a member of our board of directors since May 2004. Prior to founding DLG, Mr. Friedman transitioned into real estate investment, creating investment pools and mortgages. Mr. Friedman has a Bachelor of Arts degree in Political Science from U.C.L.A.

Karen O'Callaghan has served as our Chief Financial Officer and a member of our board of directors since May 2004. Ms. O'Callaghan has been in the real estate business for over ten years and is a licensed real estate broker. Her career in real estate has focused on the commercial real estate mortgage area. Ms. O'Callaghan has a Bachelor of Arts degree and a paralegal certificate from the University of San Diego.

Shirley Howard has served as Secretary of DLG since May 2004. Ms. Howard has worked with Mr. Friedman since 1994 in varying capacities ranging from loan processor to general office manager and bookkeeper. Prior to joining Mr. Friedman, Ms. Howard was an administrative assistant to the president of Larry Jay Investments, where she held a supervisory position.

Michael Kaplan has served as a member of our board of directors since May 2004. Mr. Kaplan is a certified public accountant and has more than 30 years of experience in the areas of forensic accounting, business valuation and litigation consulting. He is a cofounder of Voir Dire Partners, LLC, an association of independent forensic valuation consultants, and Kaplan Abraham Burket & Company, a litigation and valuation consultant. Mr. Kaplan has served on the faculty of the Marshall School of Business and Leventhal School of Accounting at the University of Southern California. Mr. Kaplan has a Bachelor of Science degree in Business Administration from the University of Southern California and a Masters in Business Administration degree from the University of Southern California.

Key Employees

Karen G. Burhoe joined DLG in March 2008, after several years as the president of a successful financial planning firm, specializing in business and estate planning. Ms. Burhoe is responsible for the management, direction, and training of agents and is also a key executive in the advancement, promotion, and expansion of our Premium Financing Program. Ms. Burhoe holds a Bachelor of Science in Management degree from Pepperdine University Graziadio School of Business and Management and attended Pepperdine's M.B.A. program.

Stephanie Izen joined DLG in May 2007. Ms. Izen is responsible for overseeing a broad range of legal, contractual, and business affairs. As an attorney, she brings to the Company over fourteen years of experience as a business litigator—practicing such diverse areas as products liability, insurance defense, as well as family law. Ms. Izen holds a J.D. degree from Loyola Law School, Los Angeles, and a Bachelor of Arts degree in Psychology/Pharmacology from U.C.L.A.

Kevin Keller has been responsible for our investment and asset management, business development and overseeing proprietary software development since he joined us in May 2004. Mr. Keller's background is in real estate, finance and advertising and he was previously the managing director of an independent real estate and property management company near Washington, DC. Mr. Keller has a Bachelor of Science degree in both Advertising and Business Administration from Elon University's Love School of Business.

Board Composition

We currently have three members on our board of directors. There are no family relationships between or among any directors or officers.

Committees of the Board of Directors

Our board of directors has not established any committees because it is a privately-held corporation. The full board of directors handles all matters.

Director Compensation

We do not currently compensate our directors for their service as members of our board of directors. We do reimburse our directors for reasonable expenses in connection with attendance at board and committee meetings.

Executive Compensation

The following table sets forth information regarding the compensation that we paid to our Chief Executive Officer, Chief Financial Officer and our other most highly compensated executive officer during the year ended December 31, 2007.

Summary Compensation Table

		Annual Compensation		Long Term Compensation Awards	
Name and Principal Position	Year	Salary($)	Bonus($)	Securities Underlying Options	Total($)
Bruce Friedman	2007	2,400,000	—	—	2,400,000
Chief Executive Officer and Director	2006	7,500,000	—	—	7,500,000
Karen O'Callaghan	2007	350,000	—	—	350,000
Chief Financial Officer and Director	2006	450,000	—	—	450,000
Shirley Howard	2007	115,000	—	—	115,000
Secretary	2006	96,000	—	—	96,000

Equity Compensation Plans

We do not currently have any equity compensation plans. In the future, we may adopt an equity compensation plan that applies to our directors, executive officers or other employees.

Employment Agreements

We do not currently have any employment agreements with any of our officers. In the future, we may enter into employment agreements with our executive officers or other employees that we may hire.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Transactions Related to Immediate Family Members

Mr. Friedman's brother is employed by one of our operating subsidiaries as a general manager. In 2007, he was paid an aggregate salary and bonus of $180,000.

PRINCIPAL STOCKHOLDERS

All of our issued and outstanding common stock is owned by our Chief Executive Officer, Bruce Friedman. Mr. Friedman has sole voting and investment power with respect to all shares of common stock that he beneficially owns, subject to applicable community property laws.

DESCRIPTION OF INVESTMENT CONTRACTS

General

The investment contracts subject to this offering are not secured, with several interest payment options and are more fully described below. The investment contracts are not certificates of deposit or other obligations of or guaranteed by a depository institution. The payment of principal and interest on the investment contracts is not insured by the Federal Deposit Insurance Corporation or any other governmental agency. A decision to invest in the investment contracts is a separate and distinct decision from whether to participate in the premium financing program.

Term

Each investment contract has a term of one year or five years. The term of each investment contract is chosen by the purchaser.

Interest Rate

Each investment contract has a fixed annual interest rate of 12%, compounded monthly.

Interest Payment

Each investment contract provides the purchaser the option of having the interest payment (i) paid at maturity or (ii) paid monthly, quarterly, semi-annually or annually. The interest payment option of each investment contract is chosen by the purchaser.

If no interest payment option is chosen by the purchaser, interest will be paid at maturity.

Surrender Charge

The surrender charge for each investment contract is as follows:

Term of investment contract	Percent of surrender value
One year	25%
Five year	Year 1 — 25% Year 2 — 20% Year 3 — 15% Year 4 — 10% Year 5 — 5%

PLAN OF OFFERING

We are offering the securities from time to time. We currently expect to offer and sell the securities only to "accredited investors" as defined under rule 501(a) of Regulation D under the Securities Act of 1933, as amended.

If you invest, your purchase of the securities will be evidenced by certain agreements discussed elsewhere in this Memorandum. We have the discretion to reject any prospective investor or to limit the amount of securities that an investor may purchase.

If you invest, we will require you to represent in writing, among other things, that:

- you have reviewed this Memorandum together with your professional advisors, if any;
- you have had an opportunity to ask our representatives questions regarding this offering and receive answers from them;
- you are an "accredited investor" (as defined under Rule 501(a) of Regulation D under the Securities Act of 1933, as amended);
- by reason of your business or financial experience, or that of your financial advisor, you are capable of evaluating the merits and risks of an investment in the securities and of protecting your own interest in connection with the transaction;
- you have adequate means to provide for your financial needs with no expectation of a return on your investment, including a complete loss of your investment;
- you understand that the securities have not been registered under the Securities Act of 1933, as amended; and
- you are acquiring the securities for your own account, for investment only and not with a view toward their resale or distribution within the meaning of the Securities Act of 1933, as amended.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

Each investor is urged to consult his own tax adviser with respect to the federal, state and local tax consequences arising from an investment in the securities. Nothing in this Memorandum should be construed as legal or tax advice to an investor. No rulings will be requested from the Internal Revenue Service with respect to any of the tax matters relating to the securities. No opinions of counsel have been requested or received.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Kirkland & Ellis LLP, New York, New York.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

For further information about us, please send a written request to Diversified Lending Group, Inc., to the attention of Karen G. Burhoe, 15260 Ventura Boulevard, Suite 1240, Sherman Oaks, California 91403. Statements contained in this Memorandum regarding the contents of any contract or any other document that is referred to in this Memorandum are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

DIVERSIFIED LENDING GROUP, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash	$ 105,832,256	$ 121,031,813
Marketable securities	34,828,196	25,840,504
Accounts receivable	10,476,022	13,598,521
Prepaid expenses	1,759,876	1,847,695
Current portion of other assets	806,453	1,425,252
Current portion of mortgages and loans	16,588,974	9,584,575
	$ 170,291,777	$ 173,328,360
Deferred charges	367,145	592,951
Other assets	6,770,951	14,668,682
Jackson National Life Flex Annuity	33,564,399	31,954,876
Mortgages and loans	66,480,524	45,387,928
Investment properties	325,217,960	252,943,333
Intangible assets	5,145,468	5,278,550
Goodwill	47,625,112	47,525,112
Total assets	$ 655,463,336	$ 571,679,792
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loans	$ —	$ 250,000
Accounts Payable and accrued	9,776,142	11,901,312
Income taxes payable	53,854,785	31,131,511
Investor deposits	87,994,100	100,730,758
Current portion of long-term debt	—	762,204
Current portion of obligation under capital leases	230,532	16,800
Total current liabilities	$ 151,855,559	$ 144,792,585
Investor deposits	193,310,760	177,681,901
Long-term debt	—	683,783
Obligation under capital leases	691,596	23,251
Future income taxes	14,002,244	10,476,694
Total liabilities	$ 359,860,159	$ 333,658,214
Shareholders' Equity		
Common Stock	31,568,965	31,568,965
Other paid in capital	98,651,563	98,651,563
Contributed surplus	—	—
Retained earnings	165,382,649	107,801,050
Total shareholders' equity	$ 295,603,177	$ 238,021,578
Total liabilities and shareholders' equity	$ 655,463,336	$ 571,679,792

See accompanying notes to unaudited consolidated financial statements.

DIVERSIFIED LENDING GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	December 31, 2007		December 31, 2006	
Revenue				
Rental, commissions and other income	$	262,247,653	$	191,285,270
Net interest and investment income		6,734,673		5,820,514
Total revenue	$	268,982,326	$	197,105,784
Expenses				
Operating expenses		(79,489,256)		(51,887,751)
Amortization of start up and reorganization costs		(171,983)		(274,403)
Operating income		189,321,087		144,943,630
Income (loss) from equity investments		275,485		245,856
Gain (loss) on sale of assets		85,485		118,884
Interest and financing costs on long-term debt		—		(199,523)
Amortization of intangible assets		(60,261)		(51,307)
Amortization of capital assets		(585,468)		(542,698)
Income before income taxes	$	189,036,328	$	144,514,842
Income taxes		(47,966,053)		(27,590,460)
Net income for the year	$	141,070,275	$	116,924,382
Retained earnings, beginning of year		107,801,050		106,086,478
Pool distribution		(51,586,091)		(30,625,210)
Accrued pool distribution		(31,902,585)		(34,584,600)
Dividends paid		—		(50,000,000)
Retained earnings, end of year	$	165,382,649	$	107,801,050

See accompanying notes to unaudited consolidated financial statements.

DIVERSIFIED LENDING GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2007	December 31, 2006
Cash provided by (used in) operating activities		
Net income for the year	$ 141,070,275	$ 116,924,382
Non-cash items		
Amortization of goodwill and intangible assets	291,040	352,748
Amortization of capital assets	585,468	685,456
Future income taxes	14,002,244	10,476,694
Amortization of deferred charges	(344,823)	508,480
Other non-cash expenses	(103,460)	(185,478)
Share of investee's loss (income)	—	(245,856)
Gain on disposal of marketable securities	—	—
Loss (gain) on disposal of assets	(85,485)	(118,884)
	$ 155,415,259	$ 128,397,542
Accounts receivable	2,245,444	2,245,444
Prepaid expenses	(1,759,876)	-589,217
Accounts payable and accrued	(2,125,170)	(2,684,383)
Income taxes	(53,854,785)	(31,131,511)
Deferred start up and reorganization costs	—	—
Net cash provided by operating activities	$ 99,920,872	$ 96,237,875
Cash provided by (used in) investing activities		
Notes receivable and deposits	(4,076,747)	(4,076,747)
Net assets acquired in business acquisitions	(2,481,194)	(1,830,471)
Capital asset purchases	(52,487,531)	(52,487,531)
Intangible asset purchases	—	—
Proceeds on sale of capital assets	—	—
Marketable securities	(34,828,196)	(25,840,504)
Mortgages and loans	(21,092,596)	(2,768,229)
Net cash used in investing activities	$ (114,966,264)	$ (87,003,482)
Cash provided by (used in) financing activities		
Repayments of long-term debt	(683,783)	(762,204)
Loan advances	—	—
Distribution of investor capital/yield	(51,586,091)	(30,625,210)
Repayment of capital lease	230,532	16,800
Deferred finance charges		—
Net repayment of investment margin loan	—	—
Investment deposits	51,885,177	58,824,299
Net cash used in financing activities	$ (154,165)	$ 27,453,685
Increase in cash for the year	(15,199,557)	36,688,078
Cash and cash equivalents, beginning of year	121,031,813	134,343,735
Dividends paid	—	(50,000,000)
Cash and cash equivalents, end of year	$ 105,832,256	$ 121,031,813
Cash and cash equivalents are compromised as follows:		
Cash	$ 105,832,256	$ 121,031,813
Demand loans	—	(250,000)
	$ 105,832,256	$ 120,781,813

See accompanying notes to unaudited consolidated financial statements.

DIVERSIFIED LENDING GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

1. OPERATIONS

Diversified Lending Group, Inc. (the "Company") was incorporated in May 2004 and is primarily engaged in the acquisition, rehabilitation and operation of income producing "scratch and dent" real property, which refers to property that is damaged or distressed. We also engage in various transactions involving real estate lending, life insurance premium financing and other financial services.

2. ACCOUNTING POLICIES

Basis of Consolidation

These unaudited consolidated financial statements include the accounts of the Company and its subsidiary companies, which are wholly owned. All intercompany accounts have been eliminated for purposes of this consolidation.

Accounting Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to the allowance for credit losses, assessment of impairment of goodwill, the useful life of intangible assets, allocation of purchase price to goodwill and intangible assets, and future income taxes. Therefore actual results could differ because of these and other estimates.

Cash and cash equivalents

Cash and cash equivalents include cash, short-term deposits and investments that mature within three months at the time of acquisition, and demand loans.

Investments

Marketable securities are purchased with the intention of holding them until maturity. Equity securities are recorded at cost and debt securities at amortized cost. Declines in market value below cost are recognized when such declines are considered other than temporary.

Entities which are not controlled and over which the corporation has the ability to exercise significant influence, referred to as affiliated companies, are accounted for using the equity method. Investments in other entities are accounted for using the cost method.

Deferred Charges

Deferred charges include costs related to the start up of new businesses, development of new products and certain of the costs of obtaining debt financing. Amounts are being amortized on a straight-line basis commencing in the year of deferral, except for start up costs which commence when the pre-operating period is over. Financing costs are amortized over the term of the respective debt. Other deferred charges are amortized over periods from three to five years.

Mortgages and loans

Current performing loans are stated at cost net of an allowance for credit losses. Loans that are considered impaired are recorded at the net present value of expected future cash flows.

Loans are considered impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of both principal and interest. Loans will be returned to performing status when there is reasonable assurance of collection and all delinquent principal and interest payments are brought current.

Specific allowance

A specific allowance for loss is provided when loans are considered to be impaired, which occurs when they are either more than 90 days in arrears, or there is no longer reasonable assurance of timely collection of outstanding principal and interest.

General allowance

The Company has provided a general allowance for loan losses, which management estimates are contained within the portfolio on the balance sheet date. The general allowance is established against the loan portfolio in respect of the Company's core business lines where assessment of existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an item-by-item basis. This allowance is re-assessed monthly and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile; analysis of evolving trends and management's current assessment of factors that may have affected the condition of the portfolio.

Capital Assets

Capital assets are recorded at cost and are being amortized over their estimated useful lives on a diminishing balance basis, except for leasehold improvements which are amortized on a straight line basis, commencing in the year of acquisition up to and excluding the year of disposal. In the year of acquisition, one-half of the annual amount of amortization in recorded.

Goodwill

Goodwill represents the excess of consideration paid over the fair market value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment on an annual basis by comparing the fair market value of each reporting unit to its book value. When the carrying value of a reporting unit exceeds its fair market value, goodwill is written down to its fair market value.

Intangible Assets

Costs related to the Letters of Patent of Incorporation are recorded as intangible assets. These costs are not amortized as they are considered to have an indefinite life. The asset is reviewed annually for impairment by comparing the carrying amount to its fair value. Intangible assets in respect of purchased customer contracts and related customer relationships are being amortized on a straight line basis over a 30 year period. These intangible assets are considered to have a finite life, and as such, are subject to an impairment test when events and circumstances indicate the carrying amounts may not be recoverable.

Income Taxes

Income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes. The tax rates substantially enacted when these temporary differences are anticipated to reverse are used to calculate future income taxes.

Revenue Recognition

All rental income is recognized upon receipt, insurance commission revenue is recognized when the insurance policy sold is in effect and the amount of the commission earned is determinate. Subsequent commission adjustments, such as policy endorsements or cancellations, are recognized upon notification from the insurance company.

Contingent profits represent amounts received from insurance companies based on volumes and loss ratios of customer insurance policies written with the respective company and are recognized in the year earned. The Company records interest income earned on performing loans as interest income in the financial statements. Recognition of interest income ceases when a loan is classified as impaired.

Interest rate swaps

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the nominal principal amount on which the payments are based. The Company designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. The Company does not enter into derivative financial instruments for speculative or trading purposes.

Comparative figures

Certain of the comparative figures presented have been reclassified to conform with the current year's presentation.

3. BUSINESS ACQUISITIONS

All business acquisitions are accounted for using the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Company's financial statements from the effective date of purchase.

During the year ended December 31, 2007, the Company acquired 50% of the outstanding shares and certain assets of Hallmark Medical of San Bernardino .

Net assets acquired in business acquisitions

		2007		**2006**
Current assets	$	271,960	$	94,585
Capital assets		1,850,704		54,446
Intangible assets		22,410		227,337
Goodwill		100,000		2,505,753
Accounts payable and accrued		—		7,302
Income taxes payable		164,820		81,996
Future taxes payable		71,300		201,852
		2,481,194		3,173,271
Cash acquired		62,810		154,858
	$	2,544,004	$	3,328,129
Consideration:				
Cash	$	2,544,004	$	3,328,129
	$	2,544,004	$	3,328,129

Of the total amount assigned to goodwill and intangibles $22,410 (2006 - $352,748) will be deducted for tax purposes.

4. MARKETABLE SECURITIES

Securities are composed of Federal Treasuries and Bankers' Notes. Securities are purchased for liquidity and longer-term investment, with the intention of holding to maturity. Securities maturing beyond one year are included as other assets.

2007	Within 1 year	Over 1 year	Total book value	Estimated market value
Fixed income securities				
U.S. Treasuries	$ 22,920,036	—	$ 22,920,036	$ 22,920,036
California Tax Free Municipals	—	—	—	—
Bankers' Notes	700,255	—	700,255	700,255
Preferred shares	—	6,151,874	6,151,874	6,151,874
Term deposits	11,207,905	—	11,207,905	11,207,905
Total	$ 34,828,196	$ 6,151,874	$ 40,980,070	$ 40,980,070

2006	Within 1 year	Over 1 year	Total book value	Estimated market value
Fixed income securities				
U.S. Treasuries	$ 16,844,751	—	$ 16,844,751	$ 16,844,751
California Tax Free Municipals	—	—	-	
Bankers' Notes	1,425,899	—	1,425,899	1,425,899
Preferred Shares	—	3,058,458	3,058,458	3,058,458
Term Deposits	7,569,854	—	7,659,854	7,659,854
Total	$ 25,840,504	$ 3,058,458	$ 28,988,962	$ 28,988,962

5. ACCOUNTS RECEIVABLE

The Company has recorded contingent commissions receivable of $36,567 (2006-$471,354) with respect to policies written. These amounts may not be received for up to five years from the year in which the policy is written. Actual amounts received may vary based on actual claims made and administrative expenses incurred.

6. PREPAID EXPENSE

Prepaid expenses include $1,759,876 (2006-$179,588) with respect to costs associated with the acquisition of Hallmark Medical. Management believes these costs will be fully recovered. Any gain or loss on settlement will be reported in the year received.

7. DEFERRED CHARGES

2007	Cost	Accumulated Amortization	Net Book Value
Start up and reorganization costs	$ 1,874,625	$ 1,857,458	$ 17,167
Financing costs	2,067,543	1,717,565	349,978
	$ 3,942,168	$ 3,575,023	$ 367,145

2006	Cost	Accumulated Amortization	Net Book Value
Start up and reorganization costs	$ 1,874,625	$ 1,685,475	$ 189,150
Financing costs	1,948,526	1,544,725	403,801
	$ 3,823,151	$ 3,230,200	$ 592,951

8. OTHER ASSETS

	2007	2006
Marketable securities (Note 4)	$ 6,151,874	$ 3,058,458
Note receivable with respect to proceeds from sale of a subsidiary. Repayments began in December, 2004 with interest at 4% per annum. Due December, 2008.	680,550	1,525,469
Demand promissory note due from an officer of a subsidiary covering relocation expenses. The balance remaining will be forgiven based on the terms of the officer's employment contract over a maximum period of three years. This note is non-interest bearing and secured by a charge over property owned by the officer.	—	84,111
Deposits and costs for future business acquisitions that closed subsequent to year end.	744,980	11,425,896
	7,577,404	16,093,934
	(806,453)	(1,425,252)
	$ 6,770,951	$ 14,668,682

9. MORTGAGES AND LOANS

	Residential mortgages - insured	Residential mortgages - uninsured	Farm & Commercial mortgages	Premium financing	Other loans	Total
Residential	$ 7,586,749	$ 12,847,565	$ —	$ —	$ —	$ 20,434,314
Personal	—	—	—	22,500,978	1,275,645	23,776,623
Business			23,401,893	12,656,231	3,254,765	39,312,889
	7,586,749	12,847,565	23,401,893	35,157,209	4,530,410	83,523,826
Allowance for credit losses						(454,328)
						83,069,498
Portion maturing in the next year						(16,588,974)
	$ 7,586,749	$ 12,847,565	$ 23,401,893	$ 35,157,209	$ 4,530,410	$ 66,480,524

Management conducts on-going credit assessments and as at December 31, 2007 has not identified any specific impaired loans.

10. INVESTMENT PROPERTIES

	Cost	2007 Accumulated Amortization	Net book value
Land	$ 38,295,699	$ —	$ 38,295,699
Office Buildings	41,979,864	747,531	41,232,333
Casino/Gaming	24,984,917	832,830	24,152,087
Industrial	30,675,952	2,226,914	28,449,038
Multi Family	183,994,374	10,462,702	173,531,672
Retail	18,848,988	1,397,201	17,451,787
Other	2,159,307	53,963	2,105,344
	$ 340,939,101	$ 15,721,141	$ 325,217,960
		2006	
Land	$ 30,095,699	$ —	$ 30,095,699
Office Buildings	35,258,965	627,853	34,631,112
Casino/Gaming	24,984,917	603,330	24,381,587
Industrial	24,663,252	1,204,380	23,458,872
Multi Family	131,383,332	4,329,556	127,053,776
Retail	12,548,966	768,901	11,780,065
Other	1,588,987	46,765	1,542,222
	$ 260,524,118	$ 7,580,785	$ 252,943,333

11. INTANGIBLE ASSETS

	Cost	2007 Accumulated Amortization	Net Book Value	Additions
Customer contracts and relationships	$ 5,021,749	$ 363,138	$ 4,658,611	$ (72,821)
ESP				
Letters of Patent of Incorporation	486,857	—	486,857	—
	$ 5,508,606	$ 363,138	$ 5,145,468	$ (72,821)
		2006		
Customer contracts and relationships	$ 5,094,570	$ 302,877	$ 4,791,693	$ 65,000
ESP				
Letters of Patent of Incorporation	486,857	—	486,857	—
	$ 5,581,427	$ 302,877	$ 5,278,550	$ 65,000

12. GOODWILL

Balance, December 31, 2005	$ 45,019,359
Goodwill acquired during 2006	2,505,753
Balance, December 31, 2006	47,525,112
Goodwill acquired during 2007	100,000
Balance, December 31, 2007	$ 47,625,112

13. DEMAND LOANS

	2007	2006
Operating lending facility provided by Wells Fargo Bank, authorized to a maximum of $15,000,000, bearing interest at bank prime plus 0.5% per annum. The effective interest rate on this loan was 8.25% at December 31, 2006.	—	$250,000
	—	$250,000

14. INVESTOR DEPOSITS

Investor customer deposits are comprised of investor contracts, with fixed maturities not exceeding 5 years from date of deposit.

Terms to maturity:	1-yr & under	1-2 years	2-3 years	3-4 years	4-5 years	Totals
Business	$ 17,955,615	$ 4,935,670	$ 5,687,509	$ 8,188,723	$ 15,841,905	$ 52,609,422
Individual	70,038,485	24,049,525	42,037,650	51,360,098	41,209,680	228,695,438
	$ 87,994,100	$ 28,985,195	$ 47,725,159	$ 59,548,821	$ 57,051,585	$281,304,860

15. LONG-TERM DEBT

	2007	2006
Bank loans repayable at $63,517 per month plus interest at the rates detailed below.		
Interest at the bank prime rate plus .5% per annum. The effective rate of interest at December 31, 2007 was 4.75%	—	$ 1,445,987
	—	—
	—	1,445,987
Portion due within next fiscal year	—	(762,204)
		$ 683,783

Estimated principal repayments of long-term debt, assuming renewal on the same or similar terms, in each of the next five years are as follows	
2008	—
2009	—
2010	—
2011	—
2012	—

16. OBLIGATION UNDER CAPITAL LEASES

Under the terms of the equipment and office leases expiring between 2008 and 2012, the Company is committed to total minimum annual lease payments, including interest from 5.5% to 12.2% as follows:

	2007	2006
2008	$ 230,532	$ 16,800
2009	$ 230,532	$ 16,800
2010	$ 230,532	$ 7,000
2011	$ 230,532	$ 5,200
2012	—	—
Total Minimum lease payments	$ 922,128	$ 45,800
Principal portion due within next fiscal year	$ 230,532	$ 16,800

17. SHARE CAPITAL

Authorized shares
Ten Thousand (10,000) of common, without nominal or par value

	Number	Amount
Issued common shares Balance December 31, 2006	3,157	$ 31,568,965
Common shares issued for:		
Cash	3,157	31,568,965
Issued common shares Balance, December 31, 2007	3,157	31,568,965
Common shares issued for:		
Cash	3,157	31,568,965
Total shares capital, December 31, 2007	3,157	$ 31,568,965

18. OTHER PAID-IN CAPITAL

Other paid in capital represents the transfer of equitable owners capital.

	2,007	2006
Balance beginning of year	$ 98,651,563	$ 98,651,563
Equity portion of asset transfer	—	—
Accretion of principal component	—	—
Conversion of debt instruments	—	—
	$ 98,651,563	$ 98,651,563

The company declared and paid a dividend of $50,000,000 during the December 31, 2006 year. This dividend is reflected in the Schedule of Retained Earnings. The Sole Shareholder elected not to have this dividend paid as a return of capital.

19. INCOME TAXES

	2007	2006
Current income taxes	$ 53,854,785	$ 31,131,511
	$ 53,854,785	$ 31,131,511

		2007 Amount		2006 Amount
Expected income tax expense	39%	$ 53,447,888	39%	$ 31,010,460
Non-deductible expenses	1.5%	2,055,688	1.5%	1,282,500
Income tax rate and other adjustments	1.0%	1,370,458	1.0%	855,000
Non-taxable income	(6.5)%	(8,907,981)	(6.5)%	(5,557,500)
Actual income tax expense	35%	$ 47,966,053	35%	$ 27,590,460

The major components of future income tax (asset) liability using the combined federal and state tax rates of 39% (2006 - 39%) are as follows:

	2007	2006
Capital assets and other	$ 813,420	$ 813,420
Goodwill and intangibles	30,463,701	30,463,701
Deferred charges and share issue costs	(1,112,000)	(1,112,000)
Non-capital loss carry forwards	—	—
Allowance for credit losses	(88,574)	(88,574)
	$ 30,076,547	$ 30,076,547

DIVERSIFIED LENDING GROUP, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash	$121,031,813	$135,283,738
Marketable securities (Note 4)	25,840,504	12,467,785
Accounts receivable (Note 5)	13,598,521	15,843,965
Prepaid expenses (Note 6)	1,847,695	1,258,478
Current portion of other assets (Note 8)	1,425,252	949,300
Current portion of mortgages and loans (Note 9)	9,584,575	6,876,011
Total current assets	$173,328,360	$172,679,277
Deferred charges (Note 7)	592,951	953,614
Other assets (Note 8)	83,006,888	71,040,237
Mortgages and loans (Note 9)	45,387,928	40,197,408
Investment properties (Note 10)	216,560,003	166,301,653
Intangible assets (Note 11)	5,278,550	5,051,213
Goodwill (Note 12)	47,525,112	45,019,359
Total assets	$571,679,792	$501,242,761
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loans (Note 13)	$250,000	$940,003
Accounts payable and accrued	11,901,312	14,585,695
Income taxes payable	31,131,511	16,674,632
Investor deposits (Note 14)	100,730,758	94,446,300
Current portion of long-term debt (Note 15)	762,204	2,012,600
Current portion of obligation under capital leases	16,800	37,893
Total current liabilities	$144,792,585	$128,697,123
Investor deposits (Note 14)	177,681,90.1	125,142,060
Long-term debt (Note 15)	683,783	1,445,987
Obligation under capital leases	23,251	56,848
Future income taxes (Note 19)	10,476,694	9,529,169
Total liabilities	$333,658,214	$264,871,187
Shareholders' Equity:		
Common stock (Note 17)	31,568,965	31,568,965
Other paid in capital (Note 18)	98,651,563	98,651,563
Contributed surplus	0	64,568
Retained earnings	107,801,050	106,086,478
Total shareholders' equity	$238,021,578	$236,371,574
Total liabilities and shareholders' equity	$571,679,792	$501,242,761

See accompanying notes to unaudited consolidated financial statements.

DIVERSIFIED LENDING GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	December 31,	
	2006	**2005**
Revenue		
Rental, commissions and other income	$191,285,270	$158,087,288
Net interest and investment income	5,820,514	3,698,954
Total revenue	$197,105,784	$161,786,242
Expenses		
Operating expenses	(51,887,751)	(38,486,062)
Amortization of start up and reorganization costs	(274,403)	(331,736)
Operating income	144,943,630	122,968,444
Income (loss) from equity investments	245,856	104,528
Gain (loss) on sale of assets	118,884	346,720
Interest and financing costs on long-term debt	(199,523)	(1,106,720)
Amortization of intangible assets	(51,307)	(44,184)
Amortization of capital assets	(542,698)	(703,111)
Income before income taxes	$144,514,842	$121,565,677
Income taxes (Note 19)	(27,590,460)	(23,188,200)
Net income	$116,924,382	$98,377,477
Retained earnings, beginning of year	106,086,478	70,769,561
Pool distribution	(30,625,210)	(36,710,000)
Accrued pool distribution	(34,584,600)	(26,350,560)
Dividends paid	(50,000,000)	—
Retained earnings, end of year	$107,801,050	$106,086,478

See accompanying notes to unaudited consolidated financial statements.

DIVERSIFIED LENDING GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2006	December 31, 2005
Cash provided by (used in) operating activities		
Net income	$116,924,382	$98,377,477
Non-cash items:		
Amortization of goodwill and intangible assets	352,748	476,840
Amortization of capital assets	685,456	1,074,386
Future income taxes	10,476,694	1,782,452
Amortization of deferred charges	508,480	477,533
Other non-cash expenses	(185,478)	(54,865)
Share of investor's loss (income)	(245,856)	(104,528)
Gain on disposal of marketable securities	—	(305,797)
Loss (gain) on disposal of assets	(118,884)	(346,720)
	128,397,542	101,376,778
Accounts receivable	2,245,444	1,733,831
Prepaid expenses	(589,217)	229,340
Accounts payable and accrued	(2,684,383)	(3,868,394)
Income taxes	(31,131,511)	(19,543,568)
Deferred start up and reorganization costs	—	—
Net cash provided by operating activities	$96,237,875	$79,927,987
Cash provided by (used in) investing activities		
Notes receivable and deposits	(4,076,747)	(121,670)
Net assets acquired in business acquisitions	(1,830,471)	(5,079,910)
Capital asset purchases	(52,487,531)	(57,238,235)
Intangible asset purchases	—	(12,831)
Proceeds on sale of capital assets	—	—
Marketable securities	(25,840,504)	(12,467,785)
Mortgages and loans	(2,768,229)	9,496,867
Net cash used in investing activities	(87,003,482)	(65,423,564)
Cash provided by (used in) financing activities		
Repayments of long-term debt	(762,204)	(19,724,003)
Loan advances	—	200,000
Distribution of investor capital/yield	(30,625,210)	(36,710,000)
Repayment of capital lease	16,800	78,493
Deferred finance charges	—	—
Net repayment of investment margin loan	—	1,307,216
Investment deposits	58,824,299	20,804,517
Net cash used in financing activities	27,453,685	(34,043,777)
Increase in cash for the year	36,688,078	(19,539,354)
Cash and cash equivalents, beginning of year	134,343,735	153,883,089
Dividends paid	(50,000,000)	—
Cash and cash equivalents, end of year	$121 031.813	$134,343,735
Cash and cash equivalents are compromised as follows:		
Cash	$121,031,813	$135,283,738
Demand loans	(250,000)	(940,003)
	$120,781,813	$134,343,735

See accompanying notes to unaudited consolidated financial statements.

Loans are considered impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of both principal and interest. Loans will be returned to performing status when there is reasonable assurance of collection and all delinquent principal and interest payments are brought current.

Specific allowance

A specific allowance for loss is provided when loans are considered to be impaired, which occurs when they are either more than 90 days in arrears, or there is no longer reasonable assurance of timely collection of outstanding principal and interest.

General allowance

The Company has provided a general allowance for loan losses, which management estimates are contained within the portfolio on the balance sheet date. The general allowance is established against the loan portfolio in respect of the Companies' core business lines where assessment of existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an item-by-item basis. This allowance is re-assessed monthly and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile; analysis of evolving trends and management's current assessment of factors that may have affected the condition of the portfolio.

Capital Assets

Capital assets are recorded at cost and are being amortized over their estimated useful lives on a diminishing balance basis, except for leasehold improvements which are amortized on a straight line basis, commencing in the year of acquisition up to and excluding the year of disposal. In the year of acquisition, one-half of the annual amount of amortization in recorded.

Goodwill

Goodwill represents the excess of consideration paid over the fair market value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment on an annual basis by comparing the fair market value of each reporting unit to its book value. When the carrying value of a reporting unit exceeds its fair market value, goodwill is written down to its fair market value.

Intangible Assets

Costs related to the Letters of Patent of Incorporation are recorded as intangible assets. These costs are not amortized as they are considered to have an indefinite life. The asset is reviewed annually for impairment by comparing the carrying amount to its fair value. Intangible assets in respect of purchased customer contracts and related customer relationships are being amortized on a straight line basis over a 30 year period. These intangible assets are considered to have a finite life, and as such, are subject to an impairment test when events and circumstances indicate the carrying amounts may not be recoverable.

Income Taxes

Income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes. The tax rates substantially enacted when these temporary differences are anticipated to reverse are used to calculate future income taxes.

Revenue Recognition

All rental income is recognized upon receipt, insurance commission revenue is recognized when the insurance policy sold is in effect and the amount of the commission earned is determinate. Subsequent commission adjustments, such as policy endorsements or cancellations, are recognized upon notification from the insurance company.

Contingent profits represent amounts received from insurance companies based on volumes and loss ratios of customer insurance policies written with the respective company and are recognized in the year earned. The Company records interest income earned on performing loans as interest income in the financial statements. Recognition of interest income ceases when a loan is classified as impaired.

Interest rate swaps

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the nominal principal amount on which the payments are based. The Company designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. The Company does not enter into derivative financial instruments for speculative or trading purposes.

Comparative figures

Certain of the comparative figures presented have been reclassified to conform with the current year's presentation.

3. BUSINESS ACQUISITIONS

All business acquisitions are accounted for using the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Company's financial statements from the effective date of purchase.

During the year ended December 31, 2006, the Company acquired all of the outstanding shares and certain assets of Sunwest Bottlers of Phoenix.

Net assets acquired in business acquisitions

	2006	2005
Current assets	$ 94,585	$ 42,969
Capital assets	54,446	20,447
Intangible assets	227,337	1,117,630
Goodwill	2,505,753	7,390,918
Accounts payable and accrued	7302	2,016
Income taxes payable	81996	164,310
Future taxes payable	201,852	342,600
	3,173,271	9,080,890
Cash acquired	$ 154,858	$ 63,199
	$ 3,328,129	$ 9,144,089
Consideration:		
Cash	$ 3,328,129	$ 9,144,089
	$ 3,328,129	$ 9,144,089

Of the total amount assigned to goodwill and intangibles $352,748 (2005 - $476,840) will be deducted for tax purposes.

4. MARKETABLE SECURITIES

Securities are composed of Federal Treasuries and California Tax Free Municipals. Securities are purchased for liquidity and longer-term investment, with the intention of holding to maturity. Securities maturing beyond one year are included as other assets (Note 8).

	2006			
	Within 1 year	Over 1 year	Total book value	Estimated market value
Fixed income securities				
U.S. Treasuries	$ 16,844,751	—	$ 16,844,751	$ 16,844,751
California Tax Free Municipals	—	—	-	
Bankers' Notes	1,425,899	—	1,425,899	1,425,899
Preferred Shares	—	3,058,458	3,058,458	3,058,458
Term Deposits	7,569,854	—	7,659,854	7,659,854
Total	$ 25,840,504	$ 3,058,458	$ 28,988,962	$ 28,988,962

	2005			
	Within 1 year	Over 1 year	Total book value	Estimated market value
Fixed income securities				
U.S. Treasuries	$ 8,163,244	—	$ 8,163,244	$ 8,163,244
California Tax Free Municipals	—	—	—	—
Bankers' Notes	1,963,870	—	1,963,870	1,963,870
Preferred Shares	—	2,943,870	2,943,870	3,249,667
Term Deposits	2,340,671	—	2,340,671	2,340,671
Total	$ 12,467,785	$ 2,943,870	$ 15,411,655	$ 15,717,452

5. ACCOUNTS RECEIVABLE

The Company has recorded contingent commissions receivable of $471,354 (2005-$174,888) with respect to policies written through Lloyds of London. These amounts may not be received for up to five years from the year in which the policy is written. Actual amounts received may vary based on actual claims made and administrative expenses incurred.

6. PREPAID EXPENSE

Prepaid expenses include $179,588 (2005-$229,340) in respect of legal and other costs associated with a claim filed against Montreal Trust. The recovery of these costs is dependent upon the future settlement of this action. Management believes these costs will be fully recovered on settlement. Any gain or loss on settlement will be reported in the year received.

7. DEFERRED CHARGES

	Cost	Accumulated Amortization	Net Book Value
		2006	
Start up and reorganization costs	$ 1,874,625	$ 1,685,475	$ 189,150
Financing costs	1,948,526	1,544,725	403,801
	$ 3,823,151	$ 3,230,200	$ 592,951

	Cost	Accumulated Amortization	Net Book Value
		2005	
Start up and reorganization costs	$ 1,801,311	$ 1,411,072	$ 390,239
Financing costs	1,874,023	1,310,648	563,375
	$ 3,675,334	$ 2,721,720	$ 953,614

8. OTHER ASSETS

	2006	2005
Marketable securities (Note 4)	$ 3,058,458	$ 2,943,870
Jackson National Life - Flex Annuity	31,954,876	27,501,740
Fifty One percent (51%) interest in Desert Land Development	11,525,845	8,334,421
Fifty percent (50%) interest in Woodward Joint Venture Multi Family Property	24,857,485	24,191,020
Note receivable with respect to proceeds from sale of a subsidiary. Repayments began in December, 2004 with interest at 4% per annum. Due December, 2008.	1,525,469	1,639,903
Demand promissory note due from an officer of a subsidiary covering relocation expenses. The balance remaining will be forgiven based on the terms of the officer's employment contract over a maximum period of three years. This note is non-interest bearing and secured by a charge over property owned by the officer.	84,111	143,867
Deposits and costs for future business acquisitions that closed subsequent to year end.	11,425,896	7,234,716
	84,432,140	71,989,537
	(1,425,252)	(949,300)
	$ 83,006,888	$ 71,040,237

9. MORTGAGES AND LOANS

	Residential mortgages - insured	Residential mortgages - uninsured	Farm & Commercial mortgages	Premium financing	Other loans	Total
Residential	$ 9,548,765	$ 10,584,120	$ —	$ —	$ —	$ 20,132,885
Personal	—	—	—	16,228,745	1,022,566	17,251,311
Business			7,865,854	9,521,358	289,669	17,676,881
	9,548,765	10,584,120	7,865,854	25,750,103	1,312,235	55,061,077
Allowance for credit losses						(88,574)
						54,972,503
Portion maturing in the next year						(9,584,575)
	$ 9,548,765	$ 10,584,120	$ 7,865,854	$ 25,750,103	$ 1,312,235	$ 45,387,928

Management conducts on-going credit assessments and as at December 31, 2006 has not identified any specific impaired loans.

10. INVESTMENT PROPERTIES

	Cost	2006 Accumulated Amortization	Net book value
Land	$ 18,569,854	—	$ 18,569,854
Office Buildings	35,258,965	627,853	34,631,112
Casino/Gaming	24,984,917	603,330	24,381,587
Industrial	24,663,252	1,204,380	23,458,872
Multi Family	106,525,847	4,329,556	102,196,291
Retail	12,548,966	768,901	11,780,065
Other	1,588,987	46,765	1,542,222
	$ 224,140,788	$ 7,580,785	$ 216,560,003
		2005	
Land	$ 16,740,012	—	$ 16,740,012
Office Buildings	32,704,671	582,372	32,122,299
Casino/Gaming	24,984,917	583,332	24,401,585
Industrial	18,745,854	839,411	17,906,443
Multi Family	67,310,430	2,678,871	64,631,559
Retail	9,841,320	616,494	9,224,826
Other	1,304,960	30,031	1,274,929
	$ 171,632,164	$ 5,330,511	$ 166,301,653

11. INTANGIBLE ASSETS

	Cost	2006 Accumulated Amortization	Net Book Value	Additions
Customer contracts and relationships	$ 5,094,570	$ 302,877	$ 4,791,693	$ 65,500
ESP				
Letters of Patent of Incorporation	486,857	—	486,857	—
	$ 5,581,427	$ 302,877	$ 5,278,550	$ 65,500
		2005		
Customer contracts and relationships	$ 4,819,570	$ 251,570	$ 4,568,000	$ 121,000
ESP				
Letters of Patent of Incorporation	483,213	—	483,213	—
	$ 5,302,783	$ 251,570	$ 5,051,213	$ 121,000

12. GOODWILL

Balance, December 31, 2004	$ 38,807,502
Goodwill acquired during 2005	6,211,857
Balance, December 31, 2005	45,019,359
Goodwill acquired during 2006	2,505,753
Balance, December 31, 2006	$ 47,525,112

13. DEMAND LOANS

	2006	2005
Operating lending facility provided by Wells Fargo Bank, authorized to a maximum of $15,000,000, bearing interest at bank prime plus 0.5% per annum. The effective interest rate on this loan was 8.25% at December 31, 2006.	$250,000	$940,003
	$250,000	$940,003

14. INVESTOR DEPOSITS

Investor customer deposits are comprised of guaranteed investment pools, with fixed maturities not exceeding 5 years from date of deposit.

Terms to maturity:	1-yr & under	1-2 years	2-3 years	3-4 years	4-5 years	Totals
Business	$ 15,854,796	$ 3,458,111	$ 3,865,487	$ 3,587,474	$ 10,858,223	$ 37,624,091
Individual s	84,875,962	18,549,691	76,322,584	26,854,784	34,185,547	240,788,568
	$100,730,758	$22,007,802	$80,188,071	$30,442,258	$45,043,770	$278,412,659

15. LONG-TERM DEBT

	2006	2005
Bank loans repayable at $63,517 per month plus interest at the rates detailed below. Interest at the bank prime rate plus .5% per annum. The effective rate of interest at December 31, 2006 was 8.25%.	$ 1,445,987	$ 3,458,587
	—	—
	1,445,987	3,458,587
Portion due within next fiscal year	(762,204)	(2,012,600)
	$ 683,783	$ 1,445,987

Estimated principal repayments of long-term debt, assuming renewal on the same or similar terms, in each of the next five years are as follows	
2007	683,783
2008	—
2009	—
2010	—
2011	—

16. OBLIGATION UNDER CAPITAL LEASES

Under the terms of the equipment leases expiring between 2007 and 2011, the Company is committed to total minimum annual lease payments, including interest from 5.5% to 12.2% as follows:

	2006	2005
2007	$ 16,800	$ 37,893
2008	$ 16,800	$ 16,800
2009	$ 7,000	$ 16,800
2010	$ 5,200	$ 7,000
2011	—	$ 5,200
Total Minimum lease payments	$ 45,800	$ 83,693
Principal portion due within next fiscal year	$ 16,800	$ 37,893

17. SHARE CAPITAL

Authorized shares
Ten thousand (10,000) of common, without nominal or par value

	Number	Amount
Issued common shares Balance December 31, 2005	3,157	$ 31,568,965
Common shares issued for:		
Cash	3,157	31,568,965
Issued common shares Balance, December 31, 2006	3,157	31,568,965
Common shares issued for:		
Cash	3,157	31,568,965
Total shares capital, December 31, 2006	3,157	$ 31,568,965

18. OTHER PAID-IN CAPITAL

Other paid-in capital represents the transfer of equitable owners capital.

	2,006	2005
Balance beginning of year	$ 98,651,563	$ 69,532,962
Equity portion of asset transfer	—	29,118,601
Accretion of principal component	—	—
Conversion of debt instruments	—	—
	$ 98,651,563	$ 98,651,563

The company declared and paid a dividend of $50,000,000 during the December 31, 2006 year. This dividend is reflected in the Schedule of Retained Earnings. The sole shareholder elected not to have this dividend paid as a return of capital.

19. INCOME TAXES

	2006	2005
Current income taxes	$ 31,131,511	$ 19,543,568
	$ 31,131,511	$ 19,543,568

The Company's actual income tax expense differs from the expected income tax expense as follows:

		2006 Amount		2005 Amount
Expected income tax expense	39%	$ 31,010,460	39%	$ 25,838,280
Non-deductible expenses	1.5%	1,282,500	2.0%	1,325,040
Income tax rate and other adjustments	1.0%	855,000	1.0%	331,260
Non-taxable income	(6.5)%	(5,557,500)	(7.0)%	(4,306,380)
Actual income tax expense	35%	$ 27,590,460	35%	$ 23,188,200

The major components of future income tax (asset) liability using the combined federal and state tax rates of 39% (2005 - 39%) are as follows:

	2006	2005
Capital assets and other	$ 813,420	$ 1,007,600
Goodwill and intangibles	30,463,701	28,857,509
Deferred charges and share issue costs	(1,112,000)	(1,860,000)
Non-capital loss carry forwards	—	(3,450,000)
Allowance for credit losses	(88,574)	(121,342)
	$ 30,076,547	$ 24,433,767

DLG

Diversified Lending Group, Inc.

Private Placement of Investment Contracts

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

December 15, 2008

SUPPLEMENT NO. 1 TO THE
CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

Diversified Lending Group, Inc.

Private Placement of Investment Contracts

December 15, 2008

THIS SUPPLEMENT NO. 1 TO THE CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM HAS BEEN FURNISHED ON A CONFIDENTIAL BASIS SOLELY FOR THE INFORMATION OF THE PERSON TO WHOM IT HAS BEEN DELIVERED ON BEHALF OF DIVERSIFIED LENDING GROUP, INC. ANY DISTRIBUTION OR REPRODUCTION OF ALL OR ANY PART OF THIS SUPPLEMENT NO. 1 TO THE CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM OR DIVULGING ITS CONTENTS OTHER THAN AS SPECIFICALLY SET FORTH HEREIN IS UNAUTHORIZED.

THERE IS NO MARKET FOR THE SECURITIES AND NONE IS EXPECTED TO DEVELOP.

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This Supplement No. 1 (the "**Supplement**") to the Confidential Private Placement Memorandum (the "**Memorandum**") is being furnished solely for the purpose of enabling prospective investors to determine whether they wish to proceed with further investigation of the securities offered by Diversified Lending Group, Inc., a California corporation ("**DLG**"). This Supplement and the related Memorandum is being furnished for the purpose of providing information with regard to DLG and the securities which, according to the particular nature of DLG and the securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of DLG and the securities.

DLG anticipates providing prospective investors with the opportunity to ask questions, receive answers, obtain additional information and complete their own due diligence review concerning DLG prior to entering into any agreement to purchase securities. By accepting delivery of this Supplement and the related Memorandum, you agree to undertake and rely upon your own independent investigation and analysis and consult with your own attorneys, accountants and other professional advisors regarding DLG and the merits and risks of the securities, including all related legal, investment, tax and other matters. Prospective investors are not to construe the contents of this Supplement as investment, legal, business or tax advice of any kind.

Prospective investors should read this Supplement and the related Memorandum carefully before deciding whether to purchase securities from DLG. Capitalized terms not otherwise defined herein have the meanings ascribed to them in their respective subscription packet (as amended and supplemented to date and from time to time), a copy of which has been provided to each prospective investor receiving this Supplement.

In making an investment decision, each investor must rely on its own examination of the securities and DLG and the terms of the offering, including the merits and risks involved. The securities being offered by this Supplement and the related Memorandum have been neither approved nor recommended by the U.S. Securities and Exchange Commission (the "**SEC**") or any other federal or state securities commission or regulatory authority, and neither the SEC nor any such other commission or authority has confirmed or passed upon the accuracy or adequacy of this Supplement or the related Memorandum. Any representation to the contrary is a criminal offense.

The contents of this Supplement should not be considered to be legal, investment, tax or other advice, and each prospective investor should consult with its own counsel and advisors as to all legal, tax, regulatory, financial and related matters concerning a purchase of the securities and as to its suitability for such investor. Further, prospective investors should inform themselves of the legal requirements and tax consequences within the countries of their citizenship, residence and domicile with respect to the acquisition, holding or disposition of the securities, and any foreign exchange restrictions that may be relevant thereto.

The securities are being offered only to persons who qualify as "accredited investors" within the meaning given to such term in Regulation D under the Securities Act of 1933, as amended (the "**Securities Act**"). This Supplement and the related Memorandum does not constitute an offer to sell or a solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Each investor and prospective investor is required to keep confidential the information contained in this Supplement and the related Memorandum and, if the investor or prospective investor decides not to pursue a purchase of the securities, must return this Supplement and the related Memorandum, and all other materials provided by DLG or any of its representatives, to DLG.

Notwithstanding anything contained herein to the contrary, each investor and prospective investor (and each employee, representative, or other agent of each such investor and prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and any facts that may be relevant to the tax structure of the transactions contemplated by this Supplement and the related Memorandum and the agreements referred to therein; provided, however, that no investor or prospective investor (and no employee, representative or other agent thereof) will disclose any other information that is not relevant to understanding the tax treatment and tax structure of such transactions (including the identity of any party and any information that could lead another to determine the identity of any party) or any other information to the extent that such disclosure could reasonably result in a violation of any federal or state securities law.

The securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom and except as permitted under the transfer restrictions set forth in the respective governing document. DLG will not be registered as an investment company under the Investment Company Act of 1940, as amended. Investors should be aware that they will be required to bear the financial risks of this investment for an indefinite period of time.

There will not be any public market for the securities and no such market is expected to develop in the future.

An investment in the securities is speculative and involves significant risks. Each prospective investor should understand such risks and have the financial ability and willingness to accept them for an extended period of time and the ability to sustain the loss of such investor's entire investment. No assurance can be given that DLG's investment objective will be achieved and investment results may vary substantially on a monthly, quarterly or annual basis. An investor's investment in the securities should only comprise a portion of the investor's portfolio and should serve as part of an overall investment strategy.

The distribution of this Supplement and the related Memorandum and the offer and sale of the securities in certain jurisdictions may be restricted by law. No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose. The securities may not be offered or sold, directly or indirectly, and this Supplement and the related Memorandum may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction.

No person has been authorized to give any information or make any representations other than as contained in this Supplement and the related Memorandum and any representation or information not contained therein must not be relied upon as having been authorized by DLG or any of its directors, officers, employees, partners or affiliates. The delivery of this Supplement does not imply that the information herein is correct as of any time subsequent to the date on the cover hereof.

Each prospective investor is invited to meet with DLG's representatives concerning the terms and conditions of the offering of the securities and to obtain any additional information, to the extent the representatives possess such information or can acquire it without unreasonable effort or expense, necessary to verify the information contained herein. Prospective investors interested in obtaining additional information may contact DLG at (818) 905-3337.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

RECENT DEVELOPMENTS

This Supplement is intended to update certain specific information described in the Memorandum to reflect events and changes with respect to such information since the date of the Memorandum. This Supplement does not update any information except as specifically described herein. To the extent, and only to the extent, that the information contained herein conflicts with information contained in the Memorandum, the information contained herein will supersede such prior information. Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the Memorandum.

Management

Bruce Friedman founded DLG and has served as our Chief Executive Officer and a member of our board of directors since May 2004. Prior to founding DLG, Mr. Friedman transitioned into real estate investment, creating investment pools and mortgages. Mr. Friedman has a Bachelor of Arts degree in Political Science from U.C.L.A. In or around 1981, Mr. Friedman was convicted by the State of California for grand theft of personal property and was incarcerated for approximately two years. In or around April 1993, due to some business transactions involving a family member, Mr. Friedman was forced to file for personal bankruptcy protection under Chapter 7 of the United States Bankruptcy Code. Mr. Friedman obtained a discharge by order entered in August 1993. In 2000, the U.S. Attorney's Office for the Southern District of New York filed against Mr. Friedman a criminal complaint made by a U.S. Postal Inspector alleging a violation of 18 U.S.C. § 1343 (Wire Fraud) in connection with a payment Mr. Friedman received for providing finance-related services. The complaint was dismissed without any trial or plea.

State Inquiries

On May 6, 2008, we received a written inquiry from the Michigan Office of Financial and Insurance Regulation seeking information from us pertaining to the offer and sale of our investment products within the State of Michigan. We provided our responses to the Michigan Office of Financial and Insurance Regulation's inquiry on June 3 and June 6, 2008. On November 21, 2008, the Michigan Office of Financial and Insurance Regulation issued an order finding that DLG had offered and sold unregistered securities in the State of Michigan in violation of Section 301 of the Michigan Uniform Securities Act and ordering DLG to cease and desist from violating Section 301 of the Michigan Uniform Securities Act. In addition, the order required DLG to offer rescission to all Michigan citizens owning the investment contracts, to pay a $10,000 civil fine and to refrain from any other securities offerings in the State of Michigan absent compliance with the registration requirements of the Michigan Uniform Securities Act.

On June 12, 2008, we received a written inquiry from the Arkansas Securities Department, or ASD, seeking information from us concerning the offer and sale of our investment products within the State of Arkansas. We replied to this inquiry on June 16, 2008.

In addition, we received a written inquiry dated July 2, 2008 from the Wisconsin Department of Financial Institutions, Division of Securities, or WSD seeking information from us regarding the offer and sale of our investment products within the State of Wisconsin. We provided our response to the inquiry on July 28, 2008. By letter dated August 20, 2008, we made a rescission offer for the investment contracts that were sold to residents of the State of Wisconsin. On that same date, DLG executed an Assurance of Discontinuance, agreeing not to sell unregistered and nonexempt securities within the State of Wisconsin and to refrain from any further conduct that would violate the Wisconsin Uniform Securities Law. On October 15, 2008, the WSD notified us that they had concluded the matter and closed their file.

We intend to cooperate fully with any additional inquiries from the respective regulators.

Independent Auditor

In mid-2008, we engaged Deloitte & Touche LLP as our independent auditor to audit our financial statements for fiscal year 2008. Deloitte & Touche LLP has recently informed us that they will not conduct an audit of DLG. We cannot provide any assurance that we will be able to obtain audited financial statements for 2007, 2008 or any future period.

DLG

Diversified Lending Group, Inc.

Private Placement of Investment Contracts

SUPPLEMENT NO. 1 TO THE
CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

December 15, 2008

DECLARATION OF DAVID W. CALLAGHAN

I, David W. Callaghan, declare as follows:

1. I am a principal with LECG, LLC, financial advisor and forensic accountant employed by the duly appointed Permanent Receiver (the "Receiver") for Diversified Lending Group, Inc. ("DLG"), Applied Equities, Inc. ("AEI"), and related affiliates (collectively "Diversified"), pursuant to the Order Granting Motion of Receiver for Instructions Re: (1) Notice Procedures, (2) Procedures for the Use, Sale or Other Disposition of Assets; (3) Employment of Legal Counsel, Accountants, Appraisers, Auctioneers and Brokers; and (4) Payment of Priority Wage Claims, signed and entered on May 4, 2009, in Securities and Exchange Commission v. Diversified Lending Group, Inc., et al., Case No. 2:09-cv-1533-R-JTL (the "SEC Action"), pending in the United States District Court, Western District of California. I have been assigned by LECG to this engagement.

2. Except for those facts alleged on information and belief, I have personal knowledge of the facts in this declaration and, if called as a witness, I could competently testify to these facts.

3. In order to identify Diversified's sources and uses of cash, we have undertaken a massive forensic accounting project. We have compiled and analyzed bank records and other documentation related to more than one hundred separate bank accounts in an attempt to reconstruct books and records for Diversified. Our work creating a consolidated transaction database to identify and categorize each of Diversified's cash receipts and disbursements is ongoing. To date, we have identified and analyzed more than 30,000 cash transactions. We continue receiving, identifying, and considering relevant information. Our findings to date are preliminary and subject to change based on further analysis and additional information that is identified or becomes available.

4. This extensive analysis and creation of a complete database is necessary because Diversified did not maintain typical, complete, or accurate financial records. Diversified did not maintain a general ledger or utilize an effective accounting system. Diversified did not prepare financial statements, such as an income statement, balance sheet, or statement of cash flow on a monthly, quarterly, or annual basis. Management and employees stated that basic financial statements were not prepared or maintained for Diversified's individual operating units or on a consolidated basis for the related entities. We have not located or identified company prepared financial statements or supporting documents that appear to be accurate, consistent, or reliable. It became immediately clear during our investigation at the company's offices that even basic documentation supporting Diversified's interests in assets was either poor or did not exist.

5. Due to the state of Diversified's records and accounting information, it was not possible to easily obtain accurate information. Simple questions, such as; "How much money had investors deposited with Diversified?" or "What are Diversified's assets?" could not be answered with confidence.

6. In order to obtain independently prepared, accurate, and reliable transaction information, we have used Diversified's bank account records and transaction documentation as the foundation and basis for our analysis. We have worked with numerous financial institutions and the Securities and Exchange Commission staff to gather necessary documentation. During this process, we identified approximately one hundred separate bank accounts belonging to Diversified and related parties that were not disclosed during our meetings and discussions with company management and employees.

7. To date, the results of our ongoing analysis of Diversified's sources and used of cash are summarized in the following table:.

Receivership of Diversified Lending Group, Inc.
Summary of Cash Receipts and Disbursements
2005 through 2009

Cash Receipts	($ millions)
Investor deposits	$222.6
Income	4.8
Recovery of principal invested by Diversified	11.6
Additional documentation / analysis	16.5
Total	$255.5
Cash Disbursements	
Investments - equity and loans	$116.2
To or for benefit of investors	52.0
Business expenses	29.7
To or for benefit of insiders	21.5
Additional documentation / analysis	36.0
Total	$255.4

8. We were also responsible for a variety of business termination issues. We communicated with vendors to terminate services and close accounts. We spoke with investors that came to Diversified's offices. We responded to the inquiries of former employees. We traveled to other locations to collect records and evaluate assets. We participated in moving Diversified's offices to an alternate location. We secured and cataloged Diversified's electronic data and paper records and files.

9. In order to preserve potentially important electronic data, such as electronic mail communications and other data files, we completed a number of tasks. We secured the company computer hardware. This included desktop machines, laptop computers, files servers, and additional hardware located at offsite locations. As appropriate, we prepared forensic images of these machines. We compiled data extracted from company machines and provided by the Securities and Exchange Commission staff and other sources to facilitate broad analysis of Diversified' activities. We also collected, organized, and indexed a large volume of

paper records and files that were maintained at the Diversified's offices and offsite storage.

10. We have addressed a variety of Federal and State income and payroll tax issues. We prepared extensions and amendments for income tax returns. We have been working with the IRS to identify and complete unfiled returns and respond to audits of Diversified's previously filed returns. We interviewed Diversified's prior tax preparer and analyzed the company's prior tax work and filings. We prepared required payroll tax returns and have been working to address and correct significant payroll tax errors related to periods pre-dating the appointment of Mr. Gill as Receiver.

11. At the inception of the Receivership, the Diversified employee responsible for payroll and payroll taxes advised me that accurate payroll tax returns had been filed for prior periods. She also stated that all payroll taxes had been paid to the appropriate taxing authorities on a timely basis. In fact, Diversified had not made a Federal payroll tax deposit related to 2008. This payroll tax payment was overdue at the inception of the Receivership. It was paid by the Receiver after the amount due was determined.

12. Additionally, numerous assessments have been received from Federal and State authorities related to unpaid payroll taxes for periods predating the Receivership. These assessments generally relate to previously filed Federal and State employment tax returns that were inaccurate, incomplete, or incorrect. To date, assessments for additional payroll taxes of more than $100,000 related to the years 2006 through 2008 have been received. The assessments appear to result from errors such as incorrectly classifying employees as contractors, failing to report income, and failing to pay employer taxes on employee compensation. The assessments have included significant penalties and accrued interest. I expect that Diversified may receive additional payroll tax assessments in the future.

13. In addition to these payroll tax issues, the IRS notified Diversified that the agency intends to audit previously filed corporate income tax returns. We have worked with the agency to respond to their information requests and explain the overall state of the financial records. Based on our analysis to date, which includes discussions with the outside accountant who prepared Diversified's tax returns, it appears that the previously filed returns did not accurately represent Diversified's operating results. Amended income tax returns have been and will be prepared and filed as is appropriate and necessary supporting information is compiled.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed at Los Angeles, California, on August 14, 2009.

DAVID W. CALLAGHAN

PROOF OF SERVICE

I, Cindy Cripe, declare:

I am employed by the law firm of DANNING, GILL, DIAMOND & KOLLITZ, LLP, in the County of Los Angeles, State of California. I am employed in the office of a member of the bar of this court at whose direction the service was made. I am over the age of 18 years and am not a party to the within action. My business address is 2029 Century Park East, Third Floor, Los Angeles, California 90067-2904.

On August 14, 2009, I served the following document(s): **RECEIVER'S SECOND REPORT; DECLARATIONS OF DAVID A. GILL AND DAVID W. CALLAGHAN** on the interested parties addressed as follows:

[SEE ATTACHED SERVICE LIST.]

(By Mail) I placed the document for collection and deposit in the mail. I am familiar with this firm's practice for the collection and processing of correspondence for mailing. Under that practice, the document would be placed in a sealed envelope and deposited with the U.S. Postal Service on that same day with postage thereon fully prepaid at 2029 Century Park East, Third Floor, Los Angeles, California 90067-2904, in the ordinary course of business. The documents served were placed in sealed envelopes and placed for collection and mailing following ordinary business practices.

I declare under penalty of perjury under the laws of the State of California and of the United States of America that the foregoing is true and correct.

Executed on August 14, 2009, at Los Angeles, California.

Cindy Cripe	Cindy Cripe
(Type or print name)	(Signature)

SERVICE LIST

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