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Thomas F. Lennon

11 UNITED STATES DISTRICT COURT
12 DISTRICT OF OREGON

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14 **SECURITIES AND EXCHANGE**
COMMISSION,
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16 Plaintiff,
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18 vs.
19 **CAPITAL CONSULTANTS, LLC, f/k/a**
CAPITAL CONSULTANTS, INC.,
JEFFREY L. GRAYSON and BARCLAY
GRAYSON,
20
21 Defendants.

Case No. CV 00-1290-KI
THIRD INTERIM REPORT OF RECEIVER
(RECEIVED FOR FILING)

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1 **I. INTRODUCTION**

2 The Receiver submits this Third Interim Report¹ to further
3 inform the Court and creditors. This Third Interim Report
4 summarizes certain activities, investigations, analyses,
5 opinions, and conclusions of the Receiver. The Receiver and his
6 professionals continue to review and analyze substantial volumes
7 of information and, given the complexity of the matters analyzed
8 and the new information continuing to be discovered, the contents
9 of this Third Interim Report present the current opinions and
10 conclusions of the Receiver; further information, activities and
11 analyses by the Receiver may cause him to materially modify the
12 contents.

13 At the status conference in the SEC and DOL cases on
14 December 5, 2000, the Court requested the Receiver to provide
15 information on what assets of Jeffrey Grayson and Barclay Grayson
16 would be available to satisfy receivership administrative
17 expenses and reduce CCL client losses, what other assets may be
18 available, and the status of the Private-Investment Portfolio
19 and, specifically, the status of the loan portfolio. The
20 Receiver provided information on these topics in the Second
21 Interim Report, received for filing by the Court on January 11,
22 2001. Since the Second Interim Report, the Receiver has received
23 numerous further inquiries on these same topics. This Third
24 Interim Report is to update the information contained in the
25 Second Interim Report.

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27
28 ¹ Capitalized terms not defined herein shall have the same
meaning as defined in the Amended First and Second Interim
Reports of Receiver.

1 **II. Assets of Jeffrey Grayson and Barclay Grayson.**

2 Under the Asset Freeze Order entered at the time the
3 Receiver was appointed, all of the assets of Jeffrey and Barclay
4 Grayson were frozen subject to further Court order. The Receiver
5 has received information from Jeffrey and Barclay Grayson
6 regarding their assets as of the Appointment Date. Each
7 individual held certain assets in his own name and other assets
8 through trusts or in joint ownership with other individuals or
9 entities. Although difficult to do because of the many
10 liabilities, liens and claims against the Graysons, in his Second
11 Interim Report, dated January 9, 2001, the Receiver estimated
12 that Barclay Grayson's net worth totaled less than \$500,000,
13 while Jeffery Grayson's net worth was less than \$1.5 million.

14 Both Graysons applied to the Court to modify the Freeze
15 Order so that they could pay their living and legal expenses,
16 pending the resolution of criminal and civil proceedings in which
17 they are involved. With the Court's guidance, stipulated orders
18 were entered allowing each individual to draw from his otherwise
19 frozen bank accounts certain amounts each month to cover living
20 expenses pursuant to a pre-agreed budget. In addition, the
21 respective counsel for Jeffrey and Barclay Grayson were to submit
22 their monthly invoices to the Receiver for review as to their
23 reasonableness under the circumstances.

24 A procedure was put in place whereby the Receiver would
25 either object or would recommend to the SEC and DOL that some or
26 all of the requested fees be approved for payment. If the
27 Receiver, SEC or DOL objected to any part of the requested fees,
28 and the objections could not be resolved through negotiation,

1 then the matter would be submitted to the Court for resolution.
2 That procedure has been followed to date, such that the Graysons'
3 attorneys have requested fees and costs, which have been approved
4 and/or paid as follows through February, 2001:

	<u>Requested</u>	<u>Approved</u>	<u>Paid</u> ²	<u>Unpaid</u> ³
6 <u>J. Grayson</u>	\$342,518	\$253,240	\$173,209	\$169,309 ⁴
7 <u>B. Grayson</u>	\$273,340	\$203,654	\$203,654	\$ 69,686

8
9 In addition to the above, the Receiver is informed that
10 counsel for Jeffrey Grayson is seeking an additional \$55,121
11 through April, 2001 and counsel for Barclay Grayson is, or will
12 be, seeking an additional \$50,000 through May, 2001.

13 The fees and expenses paid to counsel for the Graysons have
14 exhausted all cash and marketable securities held by the Graysons
15 as of the Appointment Date. Recently, additional cash has been
16 generated by the sales of Jeffrey Grayson's Carmel home, as well
17 as Barclay Grayson's Portland home. Other real and personal
18 property remains unliquidated, but many of those assets are held
19 by trusts and/or are illiquid as they are interests in
20 corporations, limited liability companies and partnerships.

21 In February 2001, Barclay Grayson filed a Chapter 13
22 bankruptcy case. His schedules of assets and liabilities state
23

24 _____
25 ² To the extent the amounts shown as paid are less than the
26 amounts approved, it is based on information from the Graysons'
27 attorneys that there are currently insufficient liquid assets
28 ³ The unpaid amounts include all requested, but unpaid fees
regardless of whether they have been approved for payment.
⁴ It should be noted that approximately \$34,000 of J. Grayson's
unapproved fees are for pre-receivership services.

1 that, as of the petition date, he had assets (not including the
2 Portland home⁵ that has since been sold) with an aggregate value
3 of approximately \$121,000, and liabilities (including a \$762,453
4 secured claim against the Portland home) of \$953,279. These
5 liabilities do not include the millions of dollars in unresolved
6 claims by CCL investors, the Receiver's fraudulent transfer
7 claims, nor the Stipulated Court Orders containing Barclay
8 Grayson's obligation to pay the costs of the Receivership.

9 Thus, in the face of overwhelming claims, Barclay Grayson
10 now appears to have assets with a value of less than \$300,000,
11 from which he would seek to pay his legal expenses, including
12 approximately \$100,000 that have already been incurred, and
13 substantial additional fees for any continued litigation. In
14 light of this quickly dissipating asset base, a settlement in
15 principle has been reached between the Receiver and Barclay
16 Grayson to settle all monetary claims in exchange for payments to
17 the Receiver totaling \$500,000. The approval of this settlement
18 will require input from the SEC and DOL, U.S. Attorney,
19 Chapter 13 Trustee, the plaintiffs in the Related Litigation
20 Mediation, and will require judicial review and approval.

21 This settlement, if approved, will essentially require
22 Barclay Grayson to disgorge the value of all of his assets and
23 obtain additional contributions from his relatives, not including
24 Jeffrey Grayson. The settlement amount will not be diminished by
25 any additional legal expenses that Barclay Grayson might incur,
26

27 ⁵ Title to this property was held jointly with Nicole Grayson in
28 tenancy by the entirety, whereby Mrs. Grayson claims ownership
to 50% of the net proceeds from the sale of the property.

1 including in connection with seeking approval of the settlement,
2 participating as a witness in the upcoming mediation, or the
3 completion of the criminal proceedings against him.

4 As to Jeffrey Grayson, no settlement has been reached and
5 negotiations have been unfruitful to date. Of the approximate
6 \$1.2 million in net proceeds from his Carmel house, \$600,000 are
7 claimed by his wife Susan Grayson, and are being held in her
8 attorney's trust account pending an accounting of the monies that
9 were used to purchase, renovate, maintain and pay expenses of the
10 home, and further Court Order. The other \$600,000 is claimed by
11 Jeffrey Grayson. The Receiver asserts fraudulent transfer claims
12 against all the proceeds and asserts that the Stipulated Court
13 Orders require Jeffrey Grayson to pay the costs of the Receiver.
14 For the time being, the Court has ordered that \$300,000 of the
15 Carmel house sale proceeds claimed by Jeffrey Grayson be used to
16 immediately offset the costs of the Receiver.

17 The Receiver's efforts to assess the status of Jeffrey
18 Grayson's assets, as well as the claims the Receiver may have to
19 recover assets for the benefit of the receivership estate, have
20 been hampered by Mr. Grayson's assertion of his 5th Amendment
21 privilege against self-incrimination as it relates to the ongoing
22 criminal proceedings. Nevertheless, subject to any settlement
23 that may be reached in the upcoming mediation with Judge Leavy,
24 the Receiver will pursue fraudulent conveyance claims against
25 Jeffrey Grayson and others, (see section IV, below) and will
26 pursue recovery of assets held by third parties, in trusts, or in
27 other arrangements designed to shield assets from the Receiver.

1 **III. Private Investment Portfolio**

2 As previously reported in the Second Interim Report, the
3 Private Investment Portfolio includes private debt investments,
4 private equity investments and real estate equity interests. As
5 of the Appointment Date, the CCL-estimated cost and the CCL-
6 asserted market value of the Private Investment Portfolio totaled
7 \$482 million and \$466 million, respectively. Private debt
8 investments comprise at cost approximately 80% of the total
9 Private Investment Portfolio. Attached as Exhibit A is a table
10 summarizing the amount invested and the CCL-asserted market value
11 as of the Appointment Date.

12 **A. Private Debt Investments**

13 **1. Loan Characteristics and Outstanding Balances**

14 The private debt investments are investments in loans made
15 by CCL as lender to an individual or company as borrower. CCL
16 classified the loans it made in the following manner:
17 Collateralized-Note Program, Conventional First Mortgages,
18 Participating First Mortgages, Conventional Subordinated
19 Mortgages, Participating Subordinated Mortgages, Private Debt
20 Non-Participating and Private Debt Participating. As of
21 September 21, 2000, the CCL-identified cost and CCL-asserted
22 market value of the private debt portfolio totaled \$384 million
23 and \$393 million, respectively. Attached as Exhibit B is a table
24 summarizing the CCL-identified cost, CCL-asserted market value,
25 and the number of loans for each loan category as of the
26 Appointment Date. Attached as Exhibit C is a table detailing the
27 loan characteristics for each category. The current total
28

1 outstanding loan balance for all loans is approximately
2 \$365 million as of January 31, 2001.

3 **a) Collateralized-Note Program**

4 The Collateralized-Note Program represents approximately 83%
5 of the total private debt investments at cost. As of January 31,
6 2001, approximately \$157 million of the total outstanding loan
7 balance of \$304 million in the Collateralized-Note Program is
8 attributable to borrowings by WCC/Sterling. Approximately
9 \$80 million of the total outstanding loan balance is comprised of
10 loans to Beacon, Brooks, and Creditmart.

11 **b) Conventional First Mortgages**

12 Conventional First Mortgages are CCL loans secured by first
13 mortgages or deed of trust interests on real property. The
14 mortgages or deeds of trust are generally on commercial or
15 residential real property located in Oregon, Washington and
16 California. Of the 33 currently outstanding Conventional First
17 Mortgages, 18 represent participations by CCL in loans originated
18 and serviced by San Rafael Thrift and Loan, now known as
19 Tamalpais Bank. The outstanding loan balance as of January 31,
20 2001, is approximately \$29 million for these 33 loans.

21 **c) Participating First Mortgages**

22 Participating First Mortgages are CCL loans secured by a
23 first lien on real property. CCL is to be paid by the borrower
24 interest based on a rate at or below market, plus a residual
25 participation based on a negotiated internal rate of return. The
26 participation is generally to be paid as additional interest out
27 of the borrower's cash flow, upon a sale of the project, or at
28 the maturity of the loan. CCL has only one of these loans

1 outstanding. The outstanding loan balance as of January 31,
2 2001, is approximately \$3.3 million.

3 **d) Conventional Subordinated Mortgages**

4 Conventional Subordinated Mortgages are CCL loans secured by
5 a mortgage or deed of trust interest on real property that is
6 junior to other loans. CCL has only one of these loans
7 outstanding. The outstanding loan balance as of January 31,
8 2001, is approximately \$235,000.

9 **e) Participating Subordinated Mortgages**

10 Participating Subordinated Mortgages are CCL loans secured
11 by a lien on real property that is junior to other loans. CCL
12 has one loan in this category which is a restructured second
13 mortgage that pays monthly interest based on available cash flow,
14 with a promised 15% rate of return on the original loan amount as
15 of the maturity date. CCL holds the first mortgage on this
16 property as well. The outstanding loan balance for this loan as
17 of January 31, 2001, is approximately \$6.3 million.

18 **f) Private Debt Non-Participating**

19 Private Debt Non-Participating are CCL loans made to an
20 individual or company secured primarily by stock or inventory and
21 which bear interest at a specified rate. The outstanding loan
22 balance as of January 31, 2001, for these nine loans is
23 approximately \$5 million.

24 **g) Private Debt Participating**

25 Private Debt Participating are CCL loans to an individual or
26 company secured primarily by stock or inventory. CCL is to be
27 paid interest based on a rate at or below market, plus a residual
28 participation based on a negotiated internal rate of return. The

1 participation is generally paid as additional interest out of the
2 borrower's cash flow, or at the maturity of the loan. The
3 outstanding loan balance as of January 31, 2001, for these five
4 loans is approximately \$17.2 million.

5 **2. Analysis of Anticipated Loan Losses**

6 **a) Paid-Off Loans**

7 Since the Appointment Date, 11 loans with loan balances
8 totaling approximately \$15.7 million have paid off in full. The
9 paid off loans are comprised of the following: Collateralized-
10 Note Program, 4 loans totaling approximately \$10.8 million;
11 Conventional First Mortgages, 6 loans totaling approximately \$3.5
12 million; and Private Debt Non-Participating, 1 loan in the amount
13 of approximately \$1.4 million.

14 **b) Loans in Default**

15 As of May 1, 2001, CCL had 258 loans in default, with an
16 aggregate outstanding loan balance of approximately \$263 million.
17 Two hundred thirty of the defaulted loans were to WCC/Sterling.

18 **c) Creditworthiness of the Remaining Loan** 19 **Portfolio**

20 KPMG has been employed as forensic accountants and financial
21 consultants to the Receiver. In regard to the Private-Investment
22 Portfolio, KPMG has analyzed various aspects of the loans and
23 certain other private investments and has performed selected
24 transaction and asset tracing. For loans with outstanding
25 balances exceeding \$1 million and certain other loans, KPMG has
26 reviewed the loan files and prepared loan data summaries
27 including loan background information, borrower information,
28 collateral information and financial information. KPMG has

1 performed more detailed investigation in regard to several
2 specific loans, including the WCC/Sterling loans and the Brooks
3 and Beacon loans. KPMG performed agreed upon procedures in
4 regard to collateral for the Brooks, Beacon, Creditmart and Byer
5 Funding loans, including testing the auto loan attributes and
6 analyzing the future cash flows from the auto loan pools. The
7 results of this analysis were used by the Receiver to evaluate
8 the creditworthiness of certain related loans.

9 KPMG and the Receiver also developed procedures to assist
10 the Receiver in estimating the potential losses in the private
11 debt portfolio. The procedures involved a credit risk review of
12 the portfolio, focusing first on loans with outstanding balances
13 greater than \$1 million, and then on certain loans with
14 outstanding balances of less than \$1 million. Based on
15 information accumulated in the loan data summaries compiled by
16 KPMG and additional information obtained from the loan files,
17 certain analyses regarding the borrowers' ability to repay, the
18 adequacy of the loan collateral and/or anticipated guarantor
19 support were performed by KPMG. The Receiver then established a
20 risk rating for each loan reviewed based on his assessment of
21 these factors and other available information. The risk ratings
22 assigned correspond to the rating categories used by federally-
23 insured lending institutions for determining required loss
24 reserves for outstanding loans. For loans with a risk rating of
25 "Doubtful," a determination was made by the Receiver as to
26 whether the loan was impaired (i.e., expected to result in a
27 realized loss). For loans that were considered to be impaired,
28 KPMG assisted the Receiver in estimating the potential losses

1 based on available information regarding the realizable value of
 2 the collateral, the fair value of the collateral, or a discounted
 3 cash flow projection. Based on the impairment analysis and the
 4 risk rating profile for the loans analyzed, the Receiver
 5 developed loss estimates for the entire private debt portfolio.

6 The estimated repayment and loss for each loan category
 7 described above is as follows:

	1/31/01 Balance	Estimated Payment	Estimated Loss
Collateralized Note Program	304,067,054	68,846,336	235,220,718
Conventional First Mortgages	28,950,048	24,414,053	4,535,995
Participating First Mortgages	3,273,347	3,273,347	-
Conventional Submortgages	234,865	234,865	-
Participating Submortgages	6,285,867	2,671,493	3,614,374
Private Debt Non-participating	5,038,826	2,347,981	2,690,845
Private Debt Participating	17,167,721	5,118,252	12,049,469
TOTAL	365,017,728	106,906,327	258,111,401

22 The Receiver has estimated that, based on the information
 23 currently available to him and the analysis he performed with
 24 KPMG's assistance, the outstanding loan balance of approximately
 25 \$365 million in the private debt portfolio will generate an
 26 average repayment of approximately 29 cents on the dollar, i.e.,
 27 a total of approximately \$107 million in principal repayments
 28 over time on the \$365 million outstanding loan balance. Losses

1 on repayment are therefore estimated at approximately 71 cents on
2 the dollar, i.e., approximately \$258 million, without considering
3 the additional losses to be caused as a result of delay in
4 payment, cost of collections and uncertainty in collection.
5 Therefore, the Receiver believes that the return on dollars
6 invested will not be greater than 20 cents on the dollar on the
7 \$384 million invested, producing a loss estimate of approximately
8 \$307 million.

9
10 **B. Private Equity Investments**

11 CCL holds equity interests in various private companies.
12 Some of these equity interests were the result of direct
13 investments of CCL clients' funds in stock of the companies.
14 Others were conversions of loans into equity positions. In its
15 records, CCL showed the market value of these investments at
16 \$30,212,692, as compared to an aggregate investor cost of
17 \$31,242,808. Attached as Exhibit D is a listing of these Private
18 Equity Investments, including the investor cost, CCL-asserted
19 market value, and number of participants in each.

20 The Receiver believes that the true market value of the
21 Private Equity Investments is far less than reported by CCL,
22 perhaps less than \$5 million in the aggregate. This belief is
23 based on the following: First, the A-Fem stock is convertible
24 preferred stock, which has a lower fair market value than the
25 company's common stock, which is currently trading at only \$0.55
26 per share. Further, because it is thinly traded, the stock price
27 would undoubtedly be adversely affected if the Receiver attempted
28 to sell CCL's holdings. As for the equity positions resulting

1 from converted loans, such as the three EOH Holding LLC's, it is
2 highly unlikely that the equity positions would be worth anything
3 near the defaulted loan amounts, given that the companies were
4 unable to meet their loan obligations. The Receiver has
5 estimated that, based on information currently available to him,
6 the Private Equity Investments will generate sales proceeds that
7 will not exceed approximately 16 cents on the dollar, producing
8 loss estimates totaling approximately \$26 million.

9 **C. Real Estate Equity Interests**

10 According to CCL records, as of the Appointment Date, the
11 Real Estate Equity Interests held by CCL had a cost of
12 \$65,903,262 and a CCL-asserted market value of \$52,393,428.
13 Since the Second Interim Report, the Receiver has obtained
14 updated appraisals for all Real Estate Equity Interests. A
15 detailed breakdown of the real estate assets, including total
16 investor cost, appraised market value, outstanding third-party
17 mortgage debt, and number of investor participants is attached as
18 Exhibit E. The Receiver has estimated that, based on the
19 appraisals he has received, the Real Estate Equity Interests will
20 generate approximately 67 cents on the dollar invested, or a
21 total of approximately \$44 million. Losses are, therefore,
22 estimated at 33 cents on the dollar totaling approximately \$22.2
23 million.

24 **D. Summary of Estimated Private Investment Portfolio**
25 **Losses**

26 The Receiver has estimated that total losses in the Private
27 Investment Portfolio could be approximately \$355 million. The
28 \$355 million is comprised of estimated losses of \$307 million for

1 private debt instruments, \$26 million for private equity
2 investments, and \$22.2 million for real estate equity
3 investments. A loss of \$355 million on the \$452 million invested
4 equals a loss of approximately 79 cents on the dollar.

6 **IV. AVOIDANCE ACTION ASSETS**

7 Under Oregon law and federal bankruptcy law, both relevant
8 to federal equity receiverships, the Receiver may pursue actions
9 to avoid and recover fraudulent and preferential transfers made
10 by CCL prior to the Receiver's appointment. Under either ORS
11 § 92.200 et seq. or 11 U.S.C. § 548, there are two distinct
12 theories of recovery: constructive fraud and actual fraud.

13 To establish constructive fraud, the Receiver must prove:

14 (1) that the transfers by CCL were made for less than a
15 reasonably equivalent value or fair consideration; and

16 (2) that the transfers left CCL with insufficient funds,
17 under one of the following three possible scenarios:

18 (a) CCL was insolvent⁶ when the transfers were made,

19 (b) CCL was engaged in a business for which the
20 property retained after the transfers was an unreasonably small
21 capital, or

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24 ⁶ The Bankruptcy Code and ORS § 95.210 each contain similar
25 definitions of "insolvency." The Code provides that a
26 nonpartnership entity is insolvent if its "financial condition
27 [is] such that the sum of such entity's debts is greater than
28 all of such entity's property, at a fair valuation." ORS
§ 95.210 additionally states that a debtor "who is generally
not paying debts of the debtor as they become due is presumed
to be insolvent."

1 (c) CCL intended or believed that it would incur debts
2 beyond its ability to pay as those debts matured.

3 Under the second theory of recovery, actual fraud, the
4 Receiver must prove only one additional element - that the
5 transfer was made with actual intent to hinder, delay, or defraud
6 the debtor's creditors.

7 In addition, ORS Section 95.240(2) provides for the
8 avoidance of certain preferential transfers to insiders. This
9 statute provides:

10 A transfer made by a debtor is fraudulent as to a
11 creditor whose claim arose before the transfer was made
12 if the transfer was made to an insider for other than a
13 present, reasonably equivalent value, the debtor was
insolvent at that time and the insider had reasonable
cause to believe that the debtor was insolvent.

14 Under these legal theories, the Receiver has potential
15 avoidance actions against a number of parties that can be very
16 roughly grouped into four categories: (1) CCL principals and
17 insiders; (2) CCL's attorneys and accountants; (3) Charitable
18 and other tax-exempt institutions; and (4) other third parties.
19 Based upon his review of CCL's accounting records for the five
20 years preceding his appointment⁷, the Receiver believes he may
21 have viable fraudulent transfer and/or preference claims against
22 persons and entities in these groups in the following aggregate
23 amounts:

24 _____
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26 ⁷ ORS 95.280 provides that a claim for fraudulent transfer must
27 be brought within four years after the transfer was made or, in
28 the case of intent to hinder, delay or defraud creditors,
within one year after the transfer was or could reasonably have
been discovered by the claimant. In the case of the Receiver,
the earliest he could possibly have discovered such transfers
was the date of his appointment, September 21, 2000.

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1.	CCL Principals and Insiders ⁸	\$ 6.2 million
2.	CCL Attorneys and Accountants	\$ 1.2 million
3.	Charitable/Tax-exempt Entities	\$1.15 million
4.	Other third parties	\$ <u>1.0 million</u>
	Total	\$9.55 million

The claims against CCL's principals and other insiders are based upon payments made to or on behalf of these persons, over and above any duly authorized salary or other compensation, for goods or services that did not provide reasonably equivalent value to CCL. Such transfers include substantial transfers made to or for the benefit of Jeffrey Grayson, such as for improvements to his Carmel house, payment of personal tax obligations, club memberships and margin calls.

The claims against CCL's attorneys and accountants are based upon the fact that these professionals were responsible for advising CCL and providing the structuring and documentation of the very transactions that caused CCL's collapse. Although these professionals did provide services to CCL for which the payments were made, these services did not constitute reasonably equivalent value to CCL if they were negligent, violated securities and ERISA laws, or otherwise caused harm to CCL and its investors.

The claims against various charities and tax-exempt entities are based on sizable contributions made by CCL, for which CCL

⁸ Claims against Barclay Grayson and his relatives and attorneys have been excluded in light of the tentative global settlement now in progress.

1 received absolutely no benefit other than, perhaps, an income tax
2 deduction. As with all of the other actionable transfers, these
3 contributions were made at a time when CCL was insolvent, as
4 defined by the statutes mentioned above, and therefore may be
5 recovered by the Receiver.

6 7 **V. CONTINUING INQUIRY AND ACTIVITY**

8 The Receiver continues with the following efforts in
9 furtherance of the continuing inquiry and activity identified in
10 the Amended First and Second Interim Reports. Italicized
11 sentences are from the Amended First and Second Interim Reports.

- 12 • *Finalize analysis of the private-loan portfolio and obtain*
13 *a valuation thereof.*

14 The Receiver has completed a credit risk assessment with
15 the assistance of KPMG, as described above. This analysis
16 was conducted in lieu of a valuation because of the
17 substantially higher expense and significantly longer time
18 frame necessary to conduct a valuation of the private loan
19 portfolio.

- 20 • *Initiate efforts to package and, subject to Court*
21 *approval, sell the private-loan portfolio.*

22 The Receiver has solicited interest from an interested
23 potential purchaser and an interested potential servicer
24 for the private-loan portfolio. Responses should be
25 forthcoming shortly. These responses will be used to
26 formulate a recommendation to the Court.

- 27 • *Audit the loan pools pledged as collateral for the private*
28 *debt investments.*

1 The Receiver chose not to conduct a formal "audit" because
2 of the cost and time associated with that type of
3 analysis. Instead, an analysis of the Brooks, Beacon,
4 Creditmart and Byer loans with respect to the auto loans
5 pledged as collateral was conducted by KPMG as described
6 above.

- 7 • ***Obtain and analyze all files and records in the possession***
8 ***of CCL's prior outside attorneys and accountants.***

9 The active files of Lane Powell have been obtained as have
10 all Lane Powell dead files in storage. In addition, the
11 Receiver has obtained all CCL legal files from its other
12 attorneys including: O'Melveny & Myers LLP, Schwabe
13 Williamson & Wyatt, and Weiss Jensen Ellis & Howard.

- 14 • ***Replace CCL as asset manager on all real estate***
15 ***properties.***

16 The Receiver has negotiated a structure to effectuate
17 transfer of real estate assets and documents have been
18 drafted. Appraisals have been completed. The Receiver is
19 awaiting comment from relevant CCL clients before seeking
20 Court approval.

- 21 • ***Subject to Court approval, market and sell CCL's office***
22 ***building and other tangible assets.***

23 The Receiver employed CB Richard Ellis to sell the office
24 building, subject to Court approval. The property has
25 been sold, subject to a Court hearing for approval
26 currently set for June 20, 2001.

- 27 • ***Analyze and, where appropriate, subject to Court approval,***
28 ***pursue causes of action against third parties who***

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contributed to client losses.

The Receiver is participating in the mediation process to resolve claims against third parties, and has hired Esler, Stephens & Buckley to be co-counsel with Allen Matkins with respect to CCL clients represented by the Receiver. The Esler firm was selected because it was already involved for similarly-situated CCL clients.

- ***Establish a secure document repository for CCL's extensive documents and files. Provide long-term access to parties involved in litigation.***

CCL documents have been produced to the Bullivant firm, who agreed to act as the global repository for such documents for the mediation.

- ***As appropriate, segregate and liquidate individual defendants' assets and determine whether to seek inclusion of the personal assets of defendants within the receivership estate.***

As described above in the discussion of the Graysons' assets and the Receiver's potential avoidance claims, the Receiver will pursue, as necessary and appropriate, motions and actions to recover for the benefit of estate creditors and the payment of administrative expenses the assets of the Graysons and potential other third parties.

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- *Recommend to the Court an equitable allocation of the assets and losses for distribution that reflects the facts about CCL representations and CCL control of investments.*

This activity is on hold pending completion of the mediation per order of the Court.

Dated: June 1, 2001

By: _____
Thomas F. Lennon, Receiver

Submitted by:

David L. Osias (CA Bar No. 91287)
Allen Matkins Leck Gamble & Mallory LLP
Attorneys for Receiver

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