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8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 COUNTY OF SAN DIEGO

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11 PEOPLE OF THE STATE OF CALIFORNIA,
by and through the COMMISSIONER OF
12 BUSINESS OVERSIGHT,

13 Plaintiff,

14 v.

15 SILVER SADDLE COMMERCIAL
DEVELOPMENT, LP, a California limited
16 partnership; SILVER SADDLE RANCH &
CLUB, INC., a California corporation; THE
17 GALILEO COMMERCIAL PROPERTY
OWNERS ASSOCIATION, INC., a California
18 non-profit corporation; THOMAS M. MANEY,
an individual; and DOES 1 through 100,
19 inclusive,

20 Defendants.

21 And,

22 MARIAN G. DUCREUX, an individual;
CLIFFORD J. REYNOLDS, an individual;
23 WAYNE A. PEDERSEN, an individual; and
Relief Does 1 through 10, inclusive,
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25 Relief Defendants.
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Case No. 37-2019-00049151-CU-MC-CTL

**RECEIVER'S FIRST INTERIM STATUS
REPORT**

IMAGED FILE

Judge: Hon. Joel R. Wohlfeil
Dept.: C-73
Action filed: September 9, 2019
Trial Date: None Set Yet

1 TO THIS HONORABLE COURT, THE PARTIES, AND OTHER PARTIES IN
2 INTEREST AND/OR THEIR COUNSEL OF RECORD:

3 Thomas W. McNamara, as Court-appointed receiver (“Receiver”), hereby submits this
4 First Interim Report of receivership activities for the period of October 16, 2019 to March 12,
5 2020. This Report also serves as the Receiver’s notice of payment of fees and expenses for the
6 months of September 2019 to January 2020.

7 **I.**

8 **INTRODUCTION**

9 On September 6, 2019, the Department of Business Oversight of the State of California
10 (“DBO”) filed suit against Defendants. The Receiver was appointed on September 24, 2019,
11 when the Court entered a Temporary Restraining Order. On October 15, 2019 the Receiver filed
12 his Preliminary Report, which described in detail the initial implementation of the receivership,
13 summarized Defendants’ operations and finances, and documented the Receiver’s conclusion
14 that the Receivership Defendants¹ could not be operated lawfully and profitably going forward.
15 On October 30, 2019, the Court entered a Preliminary Injunction (the “PI”), which among other
16 things, confirmed the Receiver’s appointment.

17 The Defendants’ business can be briefly summarized as follows: They sold
18 fractionalized interests in a 1,022 acre parcel of vacant desert land in Kern County, called “The
19 Galileo Project”. The Filipino, Chinese and Hispanic communities, where English was a second
20 language, were targeted and aggressive sales techniques were employed to convince individuals
21 within those communities to invest. In exchange for their investment, these individuals received
22 a fractionalized interest in the Galileo Project (vacant desert land), as well as access to the Silver
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24 ¹ Receivership Defendants are defined in the TRO and PI as Defendants Silver Saddle
25 Commercial Development, LP (“SS Development”); Silver Saddle Ranch & Club, Inc. (“SS
26 Ranch”); The Galileo Commercial Property Owners Association, Inc., as well as any other entity
27 that has conducted any business related to Defendants’ offering and selling of the Galileo Project
28 investment contracts, including receipt of assets derived from any activity that is the subject of
the Complaint in this matter, and that the Receiver determines is controlled or owned by any
Defendant. On or around October 13, 2019 the Receiver determined that MCQ Corporation
 (“MCQ”) and High Plains Mesa LLC were also Receivership Defendants and he informed all
parties of such.

1 Saddle Ranch and Club Resort (the “Ranch”). Defendants grossly overstated the value of the
2 Galileo Project land, however, and the Ranch was unprofitable (generally running at a loss of
3 near \$1.5 million per year).

4 II.

5 SUMMARY OF THE RECEIVER’S ACTIVITIES

6 Since the entry of the PI, the Receiver’s primary focus has been on winding down the
7 business, vacating Defendants’ corporate office in Burbank, CA, managing and maintaining the
8 property in California City, CA, liquidating the Receivership Defendants’ assets, and
9 coordinating with the parties as needed. The Receiver’s activities are described in more detail
10 below.

11 A. Assets: the Receivership Sites

12 1. Silver Saddle Ranch & Club – 20751 Aristotle Drive, California City, CA

13 The Ranch is located in California City and is comprised of approximately 130 acres of
14 land. Located on the property is a guest ranch (sometimes called a “dude ranch”) which is
15 operated as a vacation resort.

16 As set forth in the Preliminary Report, the Ranch had already been effectively shut down
17 by the time the Receiver was appointed, though there were still a few employees working the
18 property and tending to the animals on site. Given the size of the property and its remote
19 location, and the difficulty of obtaining outside help, the Receiver elected to retain some of the
20 Ranch staff to manage and protect the property.² Since his appointment, the Receiver has:

- 21 • Suspended remaining operations at the Ranch, informed visitors that the Ranch
22 was no longer operating, and cancelled stray future RV reservations.
- 23 • Retained the former Resort Facilities Director for the Ranch to become the full-
24 time caretaker of the property. He resides on the property, acts as the Ranch’s
25 caretaker, and provides security for the property. He has also brought on another
26 former employee to assist with larger maintenance projects, as needed.

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28 ² The Receiver retained two former employees. The total labor cost to the receivership estate thus far is approximately \$47,000.

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- Temporarily retained the former Stables Director and Trail Boss for the Ranch, to take care of the animals and help with their sale or adoption. Most of the animals were not in salable condition and were given for adoption to avoid the ongoing expenses associated with their care. The Receiver was able to sell one horse for \$2,500.00, and a lot of 12 sheep and 10 goats for \$500.00. The prices obtained for the animals were lower than they might otherwise be due to the fact that many were not in good health and needed substantial veterinary care. The gross proceeds from the sale of the animals was \$3,000.00. Shortly after the animals were relocated, the Stables Director’s temporary services were terminated.
 - Monitored operating expenses for the Ranch, and minimized those expenses to the extent possible. In particular:
 - Southern California Edison, the local electric company, had thousands of dollars in outstanding invoices for the Ranch, and at the time of the Receiver’s appointment, much of the power to the Ranch had already been shut off. The Receiver determined which electricity meters were critical for the protection of the Ranch and limited payment to those invoices, paying roughly \$11,000 to restore service to those meters. Turning on the remaining meters would run between \$7,000 and \$10,000. Given the cost, the Receiver has no plans to turn on additional meters at this time.
 - The water bills for the Ranch are significant – over \$40,000 per month at the time of the Receiver’s appointment. By limiting watering of the property and addressing numerous leaks, the Receiver has been able over time to lower these costs. The most recent water bill was \$21,984.40.

24 As discussed in the Receivership Accounting (Section III), the Ranch is the

25 Receivership’s single largest ongoing expense. During the past five months, the average cost for

26 water is approximately \$30,000 per month. While we are making significant efforts to conserve

27 water and electricity, the monthly carrying costs for the Ranch are and will be a significant drain

28 on the Receivership Estate. Accordingly, the Receiver believes it is in the best interest of the

1 Receivership Estate to sell the Ranch as soon as reasonably possible due to the tremendous cost
2 to maintain the property. To prepare the property for sale, the Receiver arranged for an appraisal
3 and an environmental assessment report to be completed. The Ranch will be listed shortly. In
4 the meantime, the Receiver has been in communication with several parties who expressed an
5 interest in the Ranch but has not yet received any firm offers.

6 2. Corporate Office – 7635 N. San Fernando Road, Suite A, Burbank, CA

7 Upon the Receiver’s arrival on September 25, 2019, employees at the corporate office
8 were in the process of boxing up all paper records and preparing to move them to the Ranch.
9 The Receiver engaged several employees to preserve all hard copy and electronic materials (*i.e.*,
10 hard drives, servers, etc.) located in the Burbank office and a nearby storage unit. In accordance
11 with Defendants’ original plan, all these records were transported to the Ranch in California
12 City, where they are currently stored.

13 The employees also contacted vendors of leased equipment and return those items. After
14 reviewing the remaining inventory (described in greater detail in Exhibit A), the Receiver
15 determined that there was little to no value in the furniture or other items and abandoned them.
16 The Burbank corporate office was returned to the landlord on December 9, 2019.

17 3. Undeveloped Property in Kern County

18 SS Development, SS Ranch, MCQ, and High Plains Mesa LLC, all of which were owned
19 and operated by Defendants, own in excess 2,000 acres of non-contiguous, undeveloped land in
20 Kern County. 1,022 of those acres are the subject of the Galileo Project, Defendants’ land
21 banking project which sold undivided fractional interests to investors.³ The fractionalized
22 ownership interests in this land will likely make obtaining clear title prohibitively expensive
23 which, in turn, will likely prevent the marketing and sale of this land. The Receiver intends to
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26 ³ The remaining property varies in nature and size, with some parcels having significant acreage
27 and other consisting largely of smaller lots within specific tracts. Some of the lots may be
28 subject to tax sale. A former employee reported that Defendants’ practice was to only pay the
property tax for a handful of properties. For the remaining properties, they would not pay the
property taxes, allowing them to proceed to tax sale. A full accounting of the Receivership
property is attached as Exhibit B.

1 file a motion with the Court in the near term further explaining the situation and requesting
2 further instruction.

3 4. Insurance

4 The PI requires that where the property is underinsured, the Receiver should proceed to
5 acquire sufficient insurance unless the estate lacks the resources to obtain sufficient insurance, at
6 which point “the Receiver shall seek instructions from the Court with regard to whether
7 insurance shall be obtained and how it is to be paid for.” PI at 17. At the time of the Receiver’s
8 appointment, the Ranch had an insurance policy through Scottsdale Indemnity Company. To
9 keep the policy active, the Receiver made the final payment of \$7,515.00.

10 When Scottsdale Indemnity Company declined to renew the policy, the Receiver sought a
11 replacement policy. Due to the location of the Ranch, increased wildfire risk in California, and
12 the business closure, obtaining replacement coverage presented some challenges. Several
13 insurance companies declined to even provide a quote. Seneca Insurance Company initially
14 quoted more than \$110,000 for coverage. Ultimately, the Receiver secured an insurance policy
15 for \$79,308.07 from Seneca Insurance Company, payable on a monthly basis.⁴

16 **B. Liabilities**

17 When the Receiver was appointed, the Receivership Defendants were already subject to
18 significant liabilities. One of the largest claimed liability is by SS Purchco, LLC (“Purchco”).
19 On August 5, 2016, SS Development entered an Agreement for Purchase and Sale of Undivided
20 Interest Receivables with Purchco whereby SS Development sold investor promissory notes to
21 Purchco. According to Purchco, they purchased approximately \$3.6 million worth of investor
22 promissory notes and paid SS Development \$3.4 million. On October 15, 2019, Purchco issued
23 a Notice of Default and Reservation of Rights letter.

24 SS Ranch was also delinquent on numerous invoices due to vendors such as Southern
25 California Edison (discussed above), TPX Telephone Services, credit card machines, washing
26 machines, and others before the Receiver’s appointment. Since these debts or obligations were

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28 ⁴ For this particular insurance policy, three months of premiums are fully earned, which means we have to pay at least three months of insurance premiums.

1 incurred before the initial date of the Receiver's appointment, the Receiver is not authorized to
2 pay these debts or obligation without further Court order. PI at 9. The Receiver does not intend
3 to make such payments or seek a Court order.

4 **C. Notice to Investors/Members/Property Owners**

5 On October 11, 2019, the Receiver sent an email to the investors explaining that DBO
6 filed a complaint in the San Diego Superior Court against Silver Saddle Ranch & Club, Inc.,
7 Silver Saddle Commercial Development, LP, Galileo Commercial Property Owners Association,
8 Inc., Thomas Maney, and others. The email explained that a Temporary Restraining Order had
9 been entered and a receiver appointed and encouraged investors to visit the Receiver's website,
10 where the pleadings as well as a series of Frequently Asked Questions are available. Since then,
11 the Receiver's office has responded to numerous phone and email inquiries from investors. The
12 Receiver will continue to respond to consumers and update the website as information becomes
13 available.

14 **D. Inventory**

15 Attached as Exhibit A is an inventory of the items located at the Burbank office and the
16 Ranch in California City. Along with the furniture and other items, Receivership Defendants are
17 the record owners of real property. Exhibit B is an inventory of the parcel numbers where the
18 Receivership Defendants are the record owners.

19 **III.**

20 **RECEIVERSHIP ACCOUNTING**

21 Attached as Exhibit C is a Receipts and Disbursements Summary for the Receivership for
22 the period September 24, 2019 through March 12, 2020. During this time period, receipts were
23 \$899,608.03. Disbursements were \$257,631.60, the largest components of which were expenses
24 related to Silver Saddle Ranch (\$154,049.58 water bills; \$12,452.62 electricity;
25 \$47,553.02 onsite staff; \$14,131.01 property insurance; \$7,500 appraisal; and \$6,028
26 environmental assessment). In aggregate, the Receivership bank accounts have a current balance
27 of \$641,976.43.

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IV.

RECEIVER’S FEES AND COSTS

The Preliminary Injunction provides that the Receiver, his employees and agents, and professionals employed by the Receiver are entitled to monthly payment of interim compensation for their services at their normal hourly rates and monthly reimbursement for all expenses. The Receiver is also authorized to make such payments without further order of the Court. *See* PI at 13 (¶ 26). The PI further provides that “[i]nterim monthly fees paid shall be subject to review and approval by this court, on a quarterly basis.” *See id.* at 13 (¶ 27).

Concurrent with the filing of this Report, the Receiver intends to pay the following fees and expenses of the Receiver and his professionals for the months of September 2019 to January 2020:

	TWM Receiverships, Inc. d/b/a Regulatory Resolutions		McNamara Smith LLP	
	Fees	Expenses	Fees	Expenses
September 2019	\$39,459.00	\$907.21	\$36,486.00	\$2,443.76
October 2019	\$65,848.50	\$23,540.14	\$25,876.00	\$422.43
November 2019	\$3,777.00	\$7,399.00	\$4,209.50	\$1,246.71
December 2019	\$8,693.50	\$18.84	\$3,198.00	\$119.43
January 2020	\$12,798.50	\$563.99	\$4,562.50	\$1.60
Totals:	\$130,576.50	\$32,429.18	\$74,332.00	\$4,233.93

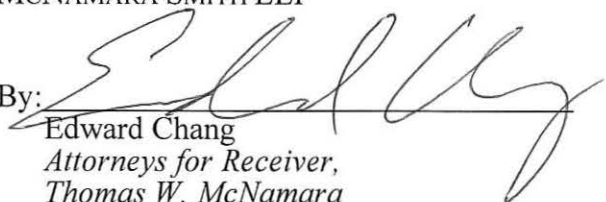
During the five-month period of September 2019 to January 2020, the total fees for the Receiver and his staff are \$130,576.50 as set forth in the invoices from TWM Receiverships, Inc. d/b/a Regulatory Resolutions attached as Exhibit D. The invoices also include expenses totaling \$32,429.18. The principal components of the expenses are water for the Ranch (\$23,540.14) and movers to relocate the business records from the Burbank office to the Ranch in California City (\$7,393.75). During the same time period, the total fees for the Receiver’s counsel, McNamara Smith LLP, are \$74,332.00 in fees and \$4,233.93 in expenses as set forth in the invoices attached as Exhibit E.

1 The Receiver previously paid \$5,706.75 to his computer forensics professional, Hadron
2 Computer Forensics, for computer forensic services provided during the implementation of the
3 TRO and \$4,509.04 for the invoices of The Opus Law Firm, which lodged copies of the TRO
4 and informed courts of the stay of action in several ongoing proceedings. Copies of the invoices
5 for Hadron Computer Forensics and The Opus Law Firm are attached as Exhibits F and G,
6 respectively.

7 As is often the case with receiverships, the initial expenses are substantial as they
8 represent the cost to establish control over the sites, inventory the property, undertake the
9 investigation necessary to prepare the preliminary report, and ensure all relevant materials are
10 preserved. As the Receivership proceeds, subsequent invoices tend to be lower, which has
11 occurred here. Absent some material development, the Receiver anticipates that receivership
12 expenses will continue to be relatively level. The Receiver will continue to look for ways to
13 decrease costs and maximize value for the investor victims.

14 Dated: March 13, 2020

MCNAMARA SMITH LLP

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16 By: 
17 Edward Chang
18 Attorneys for Receiver,
19 Thomas W. McNamara

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