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Receiver for Global Money Management, L.P. and
6 LF Global Investments, LLC

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UNITED STATES DISTRICT COURT

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FOR THE SOUTHERN DISTRICT OF CALIFORNIA

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SECURITIES AND EXCHANGE
11 COMMISSION,

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Plaintiff,

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v.

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GLOBAL MONEY MANAGEMENT, L.P.;
15 LF GLOBAL INVESTMENTS, LLC; and
MARVIN I. FRIEDMAN,

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Defendants.

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) Case No.: 04-CV-00521 BTM (WMC)

) **NOTICE OF FILING SECOND INTERIM
REPORT OF RECEIVER**

) Hon. Barry T. Moskowitz

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TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:

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Please take notice that Charles G. La Bella as Receiver for Global Money

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Management, L.P. and LF Global Investments, LLC hereby files this Second Interim Report

24

of the Receiver

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LA BELLA & McNAMARA, LLP

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Dated: March 16, 2007

s/Andrew W. Robertson

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Attorneys for Charles G. La Bella,
Court-Appointed Receiver

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1 **INTERIM REPORT OF RECEIVER**

2 **I.**

3 **Introduction**

4 On March 11, 2004, this Court entered a Temporary Restraining Order appointing me
5 Temporary Receiver of Global Money Management, LP ("GMM") and LF Global
6 Investments, LLC ("LF Global"). On April 9, 2004, this Court entered a Preliminary
7 Injunction which, among other things, appointed me Permanent Receiver over these entities.

8 I submitted a First Preliminary Report on April 29, 2004, a Second Preliminary
9 Report on June 30, 2004, and a detailed First Interim Report on January 24, 2005. We have
10 also filed regular updates on the Receiver's website at www.gmmreceiver.com and have filed
11 monthly Operating Reports in the Bankruptcy Court.

12 The First Interim Report provided a detailed summary of our findings as to what we
13 believe happened within GMM and what assets appeared available. I submit this Second
14 Interim Report to provide the court an update of our efforts to recover assets and to set forth
15 the procedural mechanics and timetable for a distribution to investors. The final task is to
16 complete a cost-effective recovery of assets and distribute this money to defrauded investors.

17 **II.**

18 **Current Assets and Prospects for Recovery**

19 When we began this receivership, the combined cash assets of GMM and LF Global
20 totaled \$15,000. Currently, the combined cash assets of GMM and LF Global under my
21 control is approximately \$17 million, all invested in institutional money market accounts
22 generating approximately 5% returns, compounded daily, which equates to approximately
23 \$70,000 per month.

24 These cash funds derive primarily from: settlements with GMM/LFGI principals
25 Friedman, Levy, and Lohr; settlement with Paul Levy's former wife; settlements in
26 avoidance actions in Bankruptcy Court; distributions from the Highcrest Partnership; and
27 proceeds from the sales of Santarus stock held directly by GMM and held by LF Global
28 through its investment in Parvix Capital.

1 My current projection of net funds that may be available for distribution to investors
2 is between \$25 million and \$30 million. This would represent a nearly 40% recovery against
3 our current calculation of net-stripped capital claims of \$68 million. I must caution,
4 however, that this is a projection with many variables.

5 All settlements have now been funded except \$170,000 due from Mark Albrecht upon
6 court approval of his settlement and the outstanding note from Mrs. Levy with a principal
7 balance of \$400,000 due October 31, 2007.

8 Other remaining assets include: 11 remaining avoidance actions in Bankruptcy Court
9 with gross claims of more than \$4 million; non-Bankruptcy claims against Zenith Capital and
10 Granite Financial with an uncertain collectible value; interest in Highcrest Partners, LP with
11 projected value of approximately \$10 million; various illiquid interests in private companies
12 owned by GMM or LF Global or assigned to the estate by Paul Levy, all with uncertain
13 value; and a \$14 million judgment against Paul Levy. We continue our efforts to locate any
14 additional Levy assets.

15 **Highcrest**

16 The Highcrest interest is our most valuable non-cash asset. Highcrest is an asset of
17 the receivership through LF Global's 94.7% interest in LF Global Holdings LLC ("LFGH").
18 LFGH was formed in 1997 by Paul Levy and Marvin Friedman theoretically as an entity
19 separate and distinct from GMM and LFGI. Its purpose was to raise funds to invest in the
20 Highcrest Partnership which would, in turn, invest in identified money management firms.

21 While LFGH was formed as a separate LLC, it evolved into a slush fund for the LF
22 Global principals. Funds from LFGH, GMM, and LF Global were commingled from the
23 outset. When the time came for LFGH to fund its \$5 million commitment to Highcrest, LF
24 Global simply moved \$5 million directly from GMM to LFGH and from there to Highcrest.
25 LF Global had previously raised nearly \$3.5 million from individual investors, but that
26 money had apparently been diverted by LF Global by the time funding was required.

27 As LFGH received distributions from Highcrest, that cash was funneled to LF Global
28 and/or GMM and in many cases used to fund pay-outs to departing GMM investors. Over

1 time, new money coming into GMM was rerouted to LFGH. In many respects, LFGH
2 became an adjunct ponzi scheme with new money for LFGH going into GMM and new
3 money for GMM going to LFGH as circumstances required.

4 For a period of four years, Paul Levy used one LFGH bank account as a personal
5 account through which he ran more than \$10 million to and from his various personal and
6 business accounts. The principals of LF Global also used an LFGH account as the vehicle
7 through which they ran a totally separate investment in a convertible debt instrument of a
8 company having no connection with Highcrest.

9 In addition to LF Global, there are six other members of LFGH with aggregate
10 interests of 5.3%. As with GMM and LF Global, however, the accounting records are so
11 sketchy and unreliable and the commingling of funds so pervasive, that it is not possible to
12 reconstruct with precision their capital accounts with LFGH.

13 Despite this complex history, the interest in Highcrest is a substantial asset of the
14 estate. Because of the history of commingling and the interrelationships with GMM and LF
15 Global, I intend to move to consolidate LFGH in the GMM bankruptcy. This appears to be
16 the fairest way to treat the investors in GMM (from which funds were diverted to the benefit
17 of LFGH) and the investors in LFGH (who believed they were investing in a separate
18 enterprise but were in reality placing their funds into the bigger GMM fraud). By
19 consolidation, all investors will receive equal pro rata shares of the combined assets.

20 III.

21 Claims Against Principals

22 We have completed settlements with all the principals.

23 The settlement with Marvin Friedman required him to deliver all his assets to the
24 Receiver and to cooperate with the Receiver, including the identification of any assets held
25 by family members which were purchased with GMM funds. The settlement is expressly
26 conditioned on the accuracy and completion of the financial disclosures. Friedman was also
27 indicted on June 9, 2005, and any conviction will include a substantial restitution order. A
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1 Consent Judgment has also been entered against Friedman in favor of the SEC in the amount
2 of \$5.4 million. To date, we have collected \$773,342 from Friedman.

3 As to Paul Levy, we secured an OSC re Contempt and Asset Freeze against Mr. Levy,
4 his wife, and their controlled entities in May 2005. Levy later stipulated to a Preliminary
5 Injunction and entered into a settlement with the Receiver which required him to deliver all
6 his assets based on a sworn asset disclosure. On May 20, 2005, Levy stipulated to a
7 Judgment of \$14.1 in favor of the Receiver. Levy has also been indicted and any conviction
8 will include a restitution order. To date, we have collected \$2.3 million from Levy which
9 was originally placed in an escrow account in May 2004, plus an additional 250,000
10 recovered from other Levy accounts and assets.

11 We have also settled our claims versus Milton Lohr from whom we have collected
12 \$570,000.

13 We also reached a resolution with Ken Widder as the General Partner of Parvix
14 Capital which resulted in the release of Santarus shares held by Parvix Capital, which we
15 later liquidated for net proceeds of \$1.4 million. We made no claim of any wrongdoing by
16 Mr. Widder.

17 The Receiver has made no claim of wrongdoing against the former Mrs. Levy, but we
18 have settled our equitable claims that assets within her control are traceable to GMM investor
19 funds diverted by Paul Levy. Mrs. Levy has paid \$3,000,000 to the estate and has paid
20 \$100,000 against a \$500,000 note due to the estate. The remaining \$400,000 is due in
21 October 2007.

22 IV.

23 GMM Bankruptcy

24 GMM filed a voluntary Chapter 11 bankruptcy petition on March 12, 2004.

25 Claims

26 Our review of the claims filed in the GMM bankruptcy case is now complete. The
27 face amount of the claims is approximately \$453 million. However, this number includes
28 duplicate claims, a large claim by the SEC, large indemnification claims by the principals of

1 Zenith, and inflated amounts by GMM investors whose claims include fictitious gains that
2 were reflected in GMM account statements. After stripping inflated claims down to the
3 actual net stripped capital invested, we have identified 198 claims in the amounts of \$68
4 million. We believe that this approximates the total amount of the investor's unreturned
5 capital. In order to get the claims to this number, however, it will be necessary to file formal
6 objections to many of the claims pursuant to Bankruptcy Court procedures. We will seek to
7 limit all investors' claims to their net stripped capital. We will also file objections, as
8 necessary, to eliminate duplicate claims, the indemnification claims, and other claims that we
9 believe should be disallowed.

10 Avoidance Actions

11 To date, we have filed a total of 28 avoidance and/or preference actions in the GMM
12 Bankruptcy. We have now settled 14 of the filed cases and one pre-filing case for total
13 settlements of \$5,117,400.

14 There are 14 actions that remain active in Bankruptcy. Of those, we have been
15 unable to serve two and we have a default judgment as to one. We are actively litigating the
16 remaining eleven cases. The gross amount of those claims total more than \$4 million. Seven
17 of these claims are now scheduled for mediation before Magistrate McCurine in April and
18 May 2007.

19 V.

20 Claims Against Third Parties

21 The Receiver has also investigated and, where appropriate, made formal claims
22 against third parties who contributed to the demise of GMM, including accountant Mark
23 Albrecht and brokerage firm Granite Financial. We have also brought a disgorgement action
24 against money management firm Zenith Capital on the basis that they received substantial
25 fees from GMM. We have asserted no claim of wrongdoing by Zenith, but an equitable
26 claim for return of the fees since they were based on GMM's bogus performance calculations.

27 In addition to basic litigation risk, the practical value of the Receiver's claims against
28 Albrecht and Zenith have been reduced by the pendency of suits brought by 12 different

1 GMM investors in state and federal court. As Receiver, I have always discouraged investors
2 from suing parties who are also being sued by the Receiver because such claims tend to
3 compete with the Receiver. These investors, however, do have the technical right to assert
4 direct claims against such parties.

5 Both Albrecht and Zenith had insurance coverage, but the policies were "wasting"
6 policies under which the liability coverage is reduced by on-going legal and other "defense
7 costs." These defense costs, as incurred in multiple cases in multiple jurisdictions, could
8 potentially deplete the entire liability coverage. Given the economics of a "wasting" policy,
9 multiple competing claimants in multiple jurisdictions, and the demand of both Albrecht and
10 Zenith that any settlement be "global" including all Plaintiffs, these cases presented a real no-
11 win situation for all. I saw the very real possibility that even if all Plaintiffs prevailed,
12 judgments would be simply uncollectible.

13 In order to avoid such a litigation dead end, we have devoted considerable effort to
14 settle all claims against Albrecht and Zenith. Although cumbersome, this process has now
15 achieved some success. In January, 2007, we reached a settlement with accountant Mark
16 Albrecht which will contribute \$170,000 to the estate. The Receiver's claims against
17 brokerage firm Granite Financial and money management firm Zenith Capital remain active,
18 although we do not see either as likely to bring substantial additional funds to the estate.

19 VI.

20 The Criminal Case

21 On June 9, 2005, the federal grand jury in San Diego returned a criminal indictment
22 against GMM principals Marvin Friedman and Paul Levy and GMM administrative assistant
23 Alice Swiderski. The indictment, unsealed on June 16, 2005, asserts counts for mail fraud,
24 wire fraud, money laundering, tax fraud and false statements to a government agency. As of
25 this Report, both Marvin Friedman and Alice Swiderski have entered into plea agreements.
26 The actions against Paul Levy remain active. His trial is set for May 1, 2007.

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1 **VII.**

2 **Interim Distribution and Timetable for Wind Up of Receivership**

3 From the outset, I have been committed to getting recovered funds back to defrauded
4 investors as soon as possible. This process has been complicated by (i) the existence of two
5 different receivership defendants - GMM and LFGI; (ii) the pendency of two parallel
6 proceedings – one in the Bankruptcy Court and the other in the District Court; and (iii) the
7 illiquidity of assets significant which can not be converted to cash until mid-2008.

8 We have now committed to a process which will set immediately in motion
9 procedures to achieve an interim distribution in 2007 before the Bankruptcy is completed and
10 before all assets are collected. That procedure is as follows:

- 11
- 12 1. On or before April 1, 2007, in my capacity as the Debtor-in-Possession in GMM's
13 Bankruptcy, I will file a Liquidating Plan of Reorganization in the Bankruptcy
14 Court. That Plan will include the consolidation of LF Global Investments and LF
15 Global Holdings in the Bankruptcy such that all assets of those two entities will
16 be included with GMM assets. This Plan must ultimately be approved by the
17 Court after solicitation of acceptance from creditors and investors.
 - 18 2. Under the proposed Reorganization Plan, the Receiver as "Disbursing Agent" will
19 have the power to make interim distributions "as he deems appropriate" based on
20 allowed claims.
 - 21 3. On or before April 1, 2007, GMM's Bankruptcy Counsel will file objections to
22 Claims filed in the Bankruptcy case with the goal that most claims disputes be
23 resolved by the court by August 1, 2007. This target could, of course, be
24 disrupted if there are any unexpected disputes over claims evaluation.
 - 25 4. As Receiver, I will continue to pursue any remaining non-Bankruptcy claims
26 on behalf of GMM or LF Global Investments in the District Court
 - 27 5. As Debtor-in-Possession in Bankruptcy, I will continue to pursue
28 the remaining avoidance claims in Bankruptcy Court except as to any of those
claims in which the reference to Bankruptcy has been withdrawn – as to those
cases, the proceedings will proceed in the district court

By this procedure, we can simultaneously seek resolution of any claims disputes and
move toward an interim distribution. Absent any protracted disputes over claims, our target
for an interim distribution is Fall 2007.

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At this time, we believe that all available assets will be converted to cash by mid-2008 and that the bankruptcy will be terminated and a final distribution could occur during 2008.

Dated: March 16, 2007

s/Charles G. La Bella
Court-Appointed Receiver for
Global Money Management, L.P. and
LF Global Investments, LLC
Email: clabella@labellamcnamara.com