

UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF FLORIDA
JACKSONVILLE DIVISION

IN RE:

LYDIA CLADEK, INC.

CASE NO. 3:10-bk-02805-PMG

Debtor.

_____ /

Hearing re: 341 Meeting of Creditors, held at the United States Courthouse, 300 North Hogan Street, First Floor, Suite 1-200, Jacksonville, Duval County, Florida, on Wednesday, May 5, 2010, commencing at 3:00 p.m., as reported by Denice C. Taylor, Notary Public in and for the State of Florida at Large.

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STATEWIDE REPORTING SERVICE
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A P P E A R A N C E S

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JACOB BROWN, ESQUIRE

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P R O C E E D I N G S

May 5, 2010

3:00 p.m.

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MR. MEEKER: As Mr. Brown has mentioned a moment ago, we tried to find an alternate location in the building, tried two different places. They were not available. This building has been open about five years and we've never --

UNIDENTIFIED SPEAKER: Speak up, please.

MR. MEEKER: I'll try. We've never had anything of this magnitude as far as the crowd here, and we realize it's difficult for people. We will try to make ourselves heard. It's going to require everybody to be as quiet as possible and not whisper to your neighbor about, what did he just say, or this sort of thing. You know, if it takes a question to follow-up, to make clear what was said, we will do that.

Couple of last-minute housekeeping items. There's a couple of chipboards going around which have charts that would show who was here, if you're an attorney, who you're representing, if you're a creditor, who you are and a phone number, et cetera. Please make sure you get on that list.

1 So I'm going to officially start the
2 meeting. This is the first meeting of creditors
3 in Case Number 10, dash, 2805, Lydia Cladek, Inc.
4 It's May 5, 2010, shortly after 3 p.m., in
5 Jacksonville, Florida.

6 My name is Ken Meeker, Assistant United
7 States Trustee. My office is in Orlando,
8 Florida. I think many of you have already been
9 in touch with our office through our staff. If
10 you have any questions of me individually after
11 the meeting, I'd be happy to stay and answer
12 them. I am going to have to leave for a short
13 period of time to attend to something in court.

14 This meeting is intended -- under the code,
15 the bankruptcy code, calls for this meeting, and
16 it indicates that it is for the purpose of
17 inquiring about assets and liabilities of the
18 debtor. We have a corporate debtor. This case
19 started as an involuntary. The debtor then filed
20 a Chapter 11. The two cases were ordered
21 combined, so we're traveling in one case at this
22 point in time.

23 Shortly after that activity, there was a
24 motion by some of the involuntary creditors, I
25 believe, to appoint a trustee. That matter was

1 taken before the Court. And, again, a
2 housekeeping item, if you want to attend court
3 hearings, the courtrooms are located on the
4 fourth floor of this building. The bankruptcy
5 clerk's office is on three. The bankruptcy court
6 is on four. There will be no more case
7 activities on the first floor. Today is it for
8 this location.

9 The Court entered an order directing the
10 United States Trustee to appoint a trustee in the
11 case. We consulted with parties and interests,
12 and after that consultation, arranged to appoint
13 Mr. Michael Phelan, who is on my far right.

14 Now, on my immediate right is Jacob Brown,
15 who is his attorney. We do not have any members
16 of the prior management team of this debtor, that
17 I'm aware of, who will be here to testify.

18 Mr. Phelan will discuss what he has found,
19 what he's done, and I assume to some extent what
20 he anticipates doing in the near term.

21 We will try to take questions. Because of
22 the conditions, as I mentioned earlier, some of
23 you may not have heard it, but if you do have a
24 question that you haven't sent it up in written
25 form as of yet, we will take oral questions, but

1 we will ask the questioner to come to the front
2 and state the question so it can be recorded.
3 And we will deal with those questions as best we
4 can.

5 Some questions will be beyond what would
6 normally take place at a creditors' meeting.
7 Some questions dealing with the FBI and
8 prosecutorial activities are issues that cannot
9 and should not be discussed at this particular
10 meeting.

11 There may be some reference to it, but
12 certainly no detail, primarily because a lot of
13 those details are not shared with our office or
14 with the trustee.

15 So let me start out with Mr. Brown, if he
16 has any other housekeeping matters or any general
17 introductory comments, and then we'll let
18 Mr. Phelan take the floor.

19 MR. BROWN: The one thing I will say at this
20 point since Mr. Meeker just brought it up, on the
21 criminal investigation, while we are in touch
22 with the U.S. Attorney's Office and
23 representatives of the FBI, they're really not
24 letting us know much about what's going on as far
25 as any criminal investigation.

1 So even if we could say anything, there's
2 not a lot that I would have to divulge. I will
3 say that it is our intention to work with the
4 U.S. Attorney's Office and the FBI to try to
5 maximize recovery to each of you that are
6 creditors in this case, and that to date they
7 have indicated that that is their intent as well
8 to work with us towards that goal.

9 And so there are a lot of specific things to
10 come forward, and I'll talk about some of those
11 after Mr. Phelan gives his initial remarks on
12 what's happened, what he's found, and kind of
13 where we anticipate going from here.

14 MR. PHELAN: First, thank you all for coming
15 out today. You're obviously interested in this
16 case, and a case with interested creditors
17 generally turns out better for creditors.

18 My name is Mike Phelan. I'm with Michael
19 Moecker & Associates. My office is in Fort
20 Lauderdale. This is Mark Healy, who is the
21 manager of our office in Jacksonville.
22 Mr. Brown's office is in Jacksonville. I have a
23 number of other cases in Jacksonville, so I'm --
24 my nominal office is in Fort Lauderdale, but I'm
25 probably here as much as I am there.

1 What I'm going to talk about is what we
2 found when we walked into the office of Lydia
3 Cladek, Inc., two and a half, three weeks ago,
4 what we've done since then, where we see the case
5 going in the short term, and where we see the
6 case sort of playing out in the longer term.

7 Obviously stuff that's going to happen in
8 the future is imperfect information at best now,
9 but I'm trying to share with you my view based on
10 the couple of weeks of work we've been able to
11 conduct.

12 Mr. Brown is then going to talk about the
13 general bankruptcy format. I realize most of you
14 people have not been involved in bankruptcy
15 cases, and they operate a little bit strangely
16 for people who are used to watching court unfold
17 in one hour on Law & Order. This one is not
18 going to take an hour.

19 So what we've found when we walked in on day
20 one, which was the morning -- I was appointed
21 5:00 or thereabouts in the evening. I came in
22 the next morning, Mark and I did. We had 33
23 people soldiering on, doing their jobs,
24 collecting checks, reposing cars, selling repo'd
25 cars. We have the accounting staff bringing the

1 records up to date, and we had 33 pretty
2 understandably shell-shocked people.

3 A very quick examination of the books and
4 records showed that there were approximately 4
5 million, maybe 5 million in real assets, loans
6 that were being collected, stuff on the ground,
7 you know, the office furniture, other things we
8 could put our fingers on.

9 We found 50, maybe 75 million in seriously
10 impaired assets, generally deficiencies on car
11 loans. The guy skipped. He wrecked his car. He
12 short-paid the loan. We had to repo it. All of
13 that added up to somewhere between 50 million and
14 55 million. Most of these deficiencies were
15 seriously old, years old. So the collectibility
16 of those assets is, at best, questionable.

17 We found a hundred million dollars or
18 thereabouts in lender liabilities, and a nominal
19 amount in this case, maybe a quarter of a million
20 dollars, of payables. We call them trade
21 payables: the Office Depot bill, the phone bill,
22 et cetera, et cetera.

23 The bookkeeping system was a total
24 disaster. The books for 2007 had not been closed
25 yet. They were still entering data from the

1 middle of 2009. To even work on 2008, you had to
2 close 2007. So we've had, you know, a small team
3 there actively working to bring those books up to
4 date. But when we walked in, it was an
5 unmitigated diaster.

6 There are two computer systems. They don't
7 talk to each other. One keeps track of the car
8 loans. The other one keeps track of the
9 finances. What I'm talking about is the finances'
10 accounting system. The car loan system seemed to
11 be in and remains, you know, up to snuff.

12 We saw the bankruptcy schedules that were
13 filed. Normally that's the first place the
14 trustee goes to go in and look at the schedules,
15 what the company says the assets and liabilities
16 were. In this case they were inadequate.

17 There was no cash in the till. What cash
18 was in bank accounts had been frozen by the
19 federal government. Most of the computers in the
20 place were seized by the FBI, a significant chunk
21 of records seized by the FBI.

22 So the summary at the end of the day looked
23 to us like we had a company that was upside down
24 by 90, \$95 million, maybe a hundred million
25 dollars, and no real business. The company, to

1 the gentleman's question earlier, never made a
2 nickel.

3 All right. So what have we done for the
4 last couple of weeks? First thing we did was we
5 trimmed the staff back so that I could balance
6 the cash going out with the cash coming in and
7 generate a little cash flow cushion, at least,
8 and hopefully cash flow that ends up going into
9 the pot that will eventually be distributed.

10 We took control of the cash in the
11 business. All the money is going into and out of
12 my account, which is a trustee account,
13 supervised by the U.S. Trustee.

14 We've accelerated the process of bringing
15 the books up to date, so where we're at today is
16 we have 2007 closed. We've got 2008 closed.
17 We've got 2009 within, you know, maybe a day or
18 two of close. We're really just balancing. And
19 2010, I think most of the data is entered, but
20 until we actually close 2009, I can't be a
21 hundred percent certain.

22 So, you know, from a company that was three
23 years behind in its bookkeeping, to bring it up
24 to today in three weeks with a couple of people
25 and, you know, whatever assistance we've been

1 able to provide, I think is an important
2 accomplishment.

3 It's an important accomplishment because we
4 want to understand what happened in the past;
5 but, more importantly, we need to understand the
6 picture of what we've got today.

7 Is this a viable business? Is this, you
8 know, a phoenix that can rise out of the ashes?
9 Or is this the situation where the best solution
10 is simply to liquidate the portfolio, put the
11 cash in the pot, and, you know, at this point,
12 absent a very significant cash infusion -- and
13 significant is, you know, a number, 50, 25, 80,
14 75, big number of millions of dollars -- this
15 phoenix doesn't look to me like it's coming out
16 of the ashes.

17 So what I'm doing at present is attempting
18 to interest effective competitors of the company,
19 companies in similar businesses in the Southeast,
20 in buying the portfolio as a package and moving
21 the portfolio to their premises. We'll leave the
22 cash from the sale in the pot and, you know,
23 proceed to take the other actions that we take in
24 bankruptcy cases.

25 At present I think I've got six companies

1 doing due diligence. I've met with a group of
2 creditors who said they were interested in
3 formulating a plan. So far they haven't gotten
4 back with me. I know some of them are in the
5 room today and, you know, maybe they're get back
6 to me shortly.

7 What I need to do is generate a serious
8 buyer with a serious dollar offer on the table
9 that I can T up, that I can perhaps get other
10 people interested in bidding against, and then we
11 would look to have a sale of those assets
12 according to the clerk's schedule, you know, in
13 the next 30, 45 days.

14 I can keep this company on the heart-lung
15 machine for that period of time. I really can't
16 keep it on the heart-lung machine for much longer
17 than that. This stream of cash coming in is
18 going to decline. No new loans have been made.
19 No new loans really have been made for the last
20 year and a half.

21 So, you know, the portfolio just peters out
22 and I can only reduce staff so much. At some
23 point the lines cross, we lock the doors and move
24 on. So that's why the urgency to find a buyer of
25 the package as a whole, and that's something

1 we're working very aggressively on.

2 We've also started investigating potential
3 causes of action. It looks like some people did
4 some bad things here. And one of the roles that
5 a trustee has to do is figure out what those bad
6 things are and chase the evildoers and get the
7 money back.

8 So where are we at today? The books, as I
9 said earlier, are almost up to date. We've got,
10 I think, a clear picture of what's transpired
11 over the last three or four years and I think a
12 reasonably clear picture of what transpired over
13 the last, you know, four months, five months,
14 whatever it's been in 2010.

15 We should have amended bankruptcy schedules
16 which are more reflective of the true assets and
17 liabilities and financial situation of the
18 company ready to file in a week, two weeks on the
19 outside.

20 The operations that we're running are
21 cash-flow positive. I always expected a little
22 more cushion on the front end because, again,
23 this declining slope of revenue from the loan
24 portfolio. So at present, in three weeks we've
25 probably put 300 grand in the bank, maybe a

1 little bit more than that.

2 As I said earlier, we've got multiple buyers
3 engaged in due diligence. We're continuing to
4 attempt to attract other potential buyers. So
5 this is a process, and the process is partly
6 getting a buyer sufficiently informed and engaged
7 that he's intellectually able to make an offer
8 and figuring out whether that offer is a
9 reasonable offer. And then once I get to that
10 point, we can start through the court process,
11 which as I said earlier, takes maybe 30, 45 days
12 to get through.

13 We have received one offer. I deemed it
14 inadequate and rejected it. That doesn't mean
15 he's out of the ballpark. He may come back
16 later.

17 We've also got some preliminary results of
18 our investigatory work. As I said earlier, it
19 looks like there's a 95- to 100-million-dollar
20 hole. That's a big hole. It's a big hole in a
21 small town. It's a big hole in a big town.

22 Of that hole, it looks like 20 to 25 million
23 was siphoned off by the principal, and it looks
24 like the rest of it was lost over the course of
25 multiple years of bad management, bad business

1 practice, not paying attention to your knitting.

2 There was too much overhead and there was
3 too little effort in collecting on the bad, bad
4 stuff, whether it was a delinquency or not taking
5 a repo on a car soon enough. All of those things
6 you've got to do in this admittedly tough
7 business to protect the value of the loan
8 portfolio.

9 Where are we going from here? In the short
10 term, the next two or three months, I'm working
11 to get a sale put together. If someone comes up
12 to me with a plan that says, hey, I've got this
13 big chunk, I think it's a big enough chunk to
14 resurrect the thing, that just feeds right into,
15 you know, my efforts to maximize the value of the
16 assets on the ground.

17 I would much prefer that. It just doesn't
18 seem to me today that that is going to happen.
19 So I'm not going to wait for that to happen. I'm
20 going to proceed to sell it off in, hopefully,
21 one big chunk or two or three big chunks.

22 In the meantime, we're going to collect the
23 loans. We're going to repo the cars. We're
24 going to pursue the bad loans. We're going to
25 sell the repo'd cars. We're going to do the

1 standard elements of the business. And the money
2 from those standard elements of the business goes
3 into the pot and eventually will be distributed.

4 We're going to continue to peel the onion
5 back on where the money went, who it went to, and
6 what we've got to do to get it back. We're going
7 to get the bankruptcy filings corrected and the
8 paperwork processed. The bankruptcy court has
9 very strict schedules. It wants its paperwork
10 done right and done on time and we will do that.

11 Longer term, one way or another, these
12 assets are going to be liquidated and, again, the
13 proceeds from the liquidation will go into the
14 pot. We're going to have causes of action that
15 are going to be prosecuted. Those are going to
16 take a long time to prosecute, because those are
17 standard court -- again, it doesn't take an hour
18 to get to the end of the case.

19 As Mr. Brown mentioned earlier, once we get
20 to the claims bar date, which is August 3rd, one
21 of my responsibilities is to examine the claims
22 that are filed, make sure the numbers are right,
23 make sure they're filed in the right category,
24 make sure there's not a reason, some other reason
25 to reject the claim, and we'll prosecute to the

1 extent it's needed, and hopefully it's not
2 needed, objections to claim, which is sort of
3 just a standard function in the bankruptcy
4 court.

5 So at the end of that process, we'll have a
6 list of, these are the real creditors, this is
7 the total amount, and if the total amount is a
8 hundred million dollars and you've got a
9 one-millionth piece of it, you're going to get 1
10 percent of whatever is distributed.

11 Somewhere along the way, and Jay will talk
12 to this, the mechanics of filing a plan, but it
13 looks to us at least at this point -- and,
14 admittedly, this is very preliminary -- like this
15 is going to be a liquidating plan. We're going
16 to get to some point where the tangible assets
17 have been turned to cash, and we've got this
18 whole plethora of legal actions that are going to
19 take a long time to prosecute.

20 So those get turned over to a liquidating
21 trustee. The bankruptcy of Lydia Cladek, Inc.,
22 is terminated. The liquidating trust is created.
23 The liquidating trust pursues the causes of
24 action and actually makes the distributions to
25 the creditors.

1 Typically those are done on an interim
2 basis. So the pot is this big at the end of a
3 year, we distribute that, or most of that, and we
4 build it up the next year and do the same thing.

5 You know, the big question in all of your
6 minds is, what am I going to get out of this?
7 And, frankly, it's way too early to tell. But,
8 you know, I've described the hole as I see it. I
9 hope that's not -- you know, I hope we find the
10 pot of gold in the hole in the backyard, but so
11 far we haven't. And those numbers, if they are
12 indeed accurate or anywhere near accurate, are
13 not good news.

14 With that, I'm going to turn it over to
15 Jay. He's going to talk about the bankruptcy
16 process. Then we'll deal with questions. I
17 think first we'll deal with the written ones that
18 we haven't obviously covered already, and then
19 we'll deal with oral questions, if there are any.

20 MR. BROWN: If everybody -- if you've got a
21 question right now, please write it down and pass
22 it up. It will help streamline. I'm going to
23 talk about the bankruptcy process and kind of
24 where things are.

25 From the bankruptcy process, we're still

1 very, very early in this case. Mr. Phelan has
2 only been on board less than a month at this
3 point and you've heard what he's done.

4 We're looking into potential lawsuits and
5 looking at potential assets that are in the name
6 of other people. These things don't just convert
7 over to cash overnight and it takes
8 investigation. We have to look at these things.
9 We possibly could try to force people to turn
10 things over or to give money back without filing
11 lawsuits, but a lot of times it does.

12 Now, there's a couple different categories
13 of claims that we'll be looking at, and I know
14 that a lot of people that were creditors and they
15 got money back have concerns about what will
16 happen there. It's very early in the case, so we
17 don't know, and there's a lot of ways that that
18 can be resolved.

19 I've talked to some people about having --
20 that the plan would provide that certain people
21 that got money back before the bankruptcy, rather
22 than try to come after them, if there's a
23 legitimate way we could do that to get that money
24 back, the plan would just say, they don't get
25 paid distribution from the liquidating trust

1 until people that got zero back would get paid.

2 This is all very early, but that's an
3 alternative we're looking at. It may be a
4 cut-off point and a dollar figure, and we don't
5 know if that dollar figure is going to be 20,000,
6 30,000. Certainly it does not make a lot of
7 sense to try to go after smaller amounts of money
8 to bring those into the pot if that's available.

9 The primary things that we're looking at are
10 assets that were purchased with company money
11 that are in other person's names and trusts and
12 whatnot. That's going on. Some of those assets
13 are also the subject of a pending federal
14 forfeiture action.

15 There's a couple of pieces of property.
16 There's been some cars that have been hit.
17 There's been some bank accounts that have been
18 hit. We don't know the extent of the value
19 there, but we're going to try to work to get
20 everything we can. And that's the overriding
21 goal here, is to get everything that we can and
22 get it into the pot and get as much distributed
23 out to creditors as possible, do it in the most
24 efficient and cheapest way that we can.

25 We would anticipate that a plan is not going

1 to get filed any sooner than probably, I would
2 say, 60, 90 days out; and, quite frankly, it may
3 be after the August 3rd claims deadline has
4 passed so we know what the claims body looks
5 like, but we'll be working on it.

6 Anyone who has any interest in trying to
7 keep this thing going as a going concern -- and
8 I've heard people say we have investors; there
9 are people that have been telling me that, I'm
10 going to get a written plan, that they're going
11 to have a proposal, have an offer -- any of those
12 things, please bring those forth. We will
13 consider every offer and we will let you know if
14 we don't think it's viable, and we will explain
15 to you why we don't think it's viable. But there
16 are possibilities.

17 If there is someone who comes in and says,
18 we want to bring this company back, the one thing
19 I could tell you is that they're not going to put
20 new money into this business likely without
21 requiring that they're the ones that get paid out
22 every single penny they put in as new money
23 before any other creditor gets a dime out. And
24 if they're not -- if they're willing to do it
25 another way, that would surprise me, but that's

1 what we would anticipate.

2 Still, if that's that person's intent and
3 that kind of proposal would bring about a better
4 result than a liquidation, then we'll look at
5 that and consider it.

6 Anything that the trustee does that's not in
7 the ordinary course of running the business,
8 which is collecting the car loans, repossessing
9 cars, trying to collect on deficiencies, anything
10 that happens has to be presented to the Court
11 either through a motion or a plan, and the Court
12 is going to have to take evidence on it and the
13 Court will have to approve that. So that's --
14 and it's going to have to make business sense.

15 I've talked to -- I think I've talked to a
16 group led by Mr. Ford. I don't know if he's
17 present today or Mr. Roth. They talked about
18 having people that wanted to put money in and
19 expressed that they were going to have a
20 proposal. I haven't gotten it.

21 But if there is an offer to try to bring
22 this company back, then one way to deal with this
23 under the plan is to take a restructured company,
24 and like Mr. Phelan said, if you have a
25 million-dollar claim and there's a hundred

1 million pooled, you would get 1 percent possibly
2 to get stock out in that same proportion in the
3 new company as a distribution. So those things
4 are being considered. Nothing is being
5 foreclosed, but it's a pretty grim picture at
6 this point.

7 So I would encourage anyone who knows
8 anybody or has a plan of themselves to expedite
9 getting that into my hands or into Mr. Phelan's
10 hands as soon as possible.

11 We talked earlier, a little bit before,
12 about the formation of a creditors' committee.
13 Generally a creditors' committee is formed, quite
14 frankly, to do much of the same stuff that
15 Mr. Phelan is doing to assure that the company is
16 operating in a way to maximize recovery to
17 creditors.

18 We're looking out and trying to -- the whole
19 reason that the effort was brought forth to get
20 Mr. Phelan in place was to try to take control of
21 the company and get the best result possible for
22 all of the creditors. It's a horrible
23 situation. I'm very sorry for those of you that
24 are in this. I know there's -- I've talked to
25 hundreds of people. There are a lot of bad

1 stories out there. It looks like there are a lot
2 of bad things that happened. We're trying to
3 work to get a maximum recovery to everybody.

4 As far as noticing -- and a couple things
5 that we'll be doing with the Court, tomorrow
6 morning there is a motion to -- emergency motion
7 that was filed to deal with utilities. Under the
8 bankruptcy code, utility companies have special
9 provisions. They can cut off the lights. They
10 can cut off the computer system, cut off the
11 phones for this business. It's very important to
12 keep those things running.

13 So the motion tomorrow, the only thing on
14 the Court for hearing tomorrow is to deal with
15 making sure that the utilities -- keep the
16 service provided. We've got to provide them with
17 a little bit of a deposit to make sure we can
18 keep the lights on and keep the company running
19 for the time being. So that's happening.

20 Motions that we'll be filing coming down the
21 road, one of which will be a motion to limit the
22 notices that go out. In a lot of bankruptcy
23 cases, everybody says, I want a copy of what
24 comes in. And you have that right. We're going
25 to ask the Court, though, to allow us to do a

1 couple different things.

2 One: Mr. Phelan has set up a website called
3 Cladektrustee.com, C-L-A-D-E-K, Trustee,
4 T-R-U-S-T-E-E, dot-com, where we will be
5 uploading filings and orders and other things in
6 the case as they come forth that you will be able
7 to view and avail yourself of.

8 The other thing is we've taken down a list
9 here and we'll put this on the website and we're
10 also going to put this in the motion to limit
11 notice and the order that will come out on that,
12 but saying if you want to get an e-mail copy of
13 things that are filed, at least that we file,
14 that the trustee files and court orders that we
15 feel are important, let us know and we'll e-mail
16 those out to you.

17 We want to make sure that everybody has an
18 easy way to get as much information as you want,
19 but also recognize when we get hundreds of phone
20 calls and e-mails and such, sometimes it takes a
21 lot of time to respond to those and distracts
22 from the case.

23 The bigger thing, though, on the noticing is
24 every single time we have to mail a piece of
25 paper out to a thousand creditors, it's a huge

1 labor-intensive expense, mail-intensive expense
2 and paper-intensive expense.

3 There's an article recently, I think, on the
4 Lehman Brothers' bankruptcy in The New York Times
5 talking about that there was, like, a one-month
6 copying bill that was around \$750,000. We're
7 taking steps to try to avoid that by having
8 notice of things done through electronic means.
9 I think that makes sense for everybody.

10 So I would encourage people to avail
11 themselves to the information on the website and
12 also to get us their e-mail address if that's a
13 way that we can get you information.

14 Again, recognize that every time we have to
15 send out a hard copy of something, it is an
16 expense that is going to take away from the
17 distribution that ultimately we're hoping to get
18 into your hands.

19 The claims filing process. Everyone should
20 have gotten, with the notice that told you this
21 meeting was happening today, a claim form that
22 tells you with instructions how to fill that form
23 out, okay? And I'm going to go through that a
24 little bit, but the basic information you need to
25 put down there is your name, your address, your

1 phone number, the amount you're owed.

2 Some of you, I think, got statements within
3 the last few months or towards the end of last
4 year of what you're owed. It would be helpful if
5 you would attach those statements. I don't think
6 you have to attach hundreds of pieces of paper,
7 but if you have a summary statement or some
8 things, please attach it. What will happen at
9 the end of the day -- and then you need to mail
10 it into the office here.

11 Within the week we will upload on the
12 Cladektrustee website the claim form and the
13 claim instructions to try to help you out. I
14 know that some of you will still have questions,
15 and I fielded a number of questions, and I want
16 to make sure everybody gets their claims filed as
17 well.

18 There's attorneys that are out there that
19 will be glad to represent you to file a claim if
20 you want, and I think there's reasonably priced
21 people that are doing it on a bulk basis. If you
22 want to do it yourself and you've got questions,
23 you can e-mail me, and my information will be on
24 Mr. Phelan's website as well.

25 But let me talk just generally about filling

1 that form out. You can handwrite it in. Try to
2 make it as legible as possible. If you're like
3 me and have bad handwriting, do your best to
4 slowly go through it. Put down the amount that
5 you're owed.

6 I do not personally think, based on the law,
7 that anyone is secure, is a secured creditor, and
8 I'll go through the reasons for that in a
9 minute. There may be one or two people as a
10 result of some settlements that filed lawsuits
11 earlier. We'll be looking at those as well. But
12 I do not feel that there's anyone who is
13 legally -- was a secured creditor in this case,
14 and I'll explain that.

15 But put down the amount that you're owed on
16 that claim form, attach the paperwork, sign that
17 claim form, and you send it in to the bankruptcy
18 court here, 300 North Hogan Street, Jacksonville,
19 Florida, 32202. And it should be addressed to
20 the Clerk of the Bankruptcy Court.

21 Again, we will load something up on
22 Cladektrustee.com that has the form itself, if
23 you don't have it. I'll try to stick around for
24 a few minutes after we conclude today if you've
25 got specific questions about claims forms or

1 whatnot, or you can e-mail me later if you've got
2 a specific question or call me. If I don't get
3 back to you right away, it takes a couple days,
4 it's because I've been inundated with other
5 things.

6 All right.

7 UNIDENTIFIED SPEAKER: What is your e-mail?

8 MR. BROWN: It's Jacob, J-A-C-O-B, dot,
9 Brown, B-R-O-W-N, at Akerman, which is
10 A-K-E-R-M-A-N, dot-com. Does anyone want me to
11 go back through that?

12 UNIDENTIFIED SPEAKER: Yes.

13 MR. BROWN: Jacob, J-A-C-O-B, dot, Brown,
14 B-R-O-W-N, at Akerman, A-K-E-R-M-A-N, dot-com.
15 That information, again, will be up on the
16 Cladektrustee website.

17 All right. I'm not your lawyer, and this is
18 my initial opinion on why people are merely
19 unsecured creditors, everybody equal, unsecured
20 creditors in this case.

21 One: In Florida, to perfect a lien on a
22 note obligation, I believe you have to have the
23 original note obligation in your hand as well as
24 you would needed to have filed a UCC financing
25 statement with the State of Florida. Don't quote

1 me on this. I haven't looked at it in a lot of
2 detail. But we don't believe that there are
3 people that held original notes.

4 There were schedules we believe that were
5 given with VIN numbers, and I'll speak about that
6 as a separate thing in a minute. And there were
7 some people that have UCCs recorded. I think
8 there's maybe 10 or 15 that they assert that they
9 perfected in certain cars.

10 One: Those cars, in a large part, weren't
11 there or there were -- towards the end of the
12 operations here before we came in, it appears
13 that certain people were given notes back from
14 the company with VIN lists for cars that had
15 already been repossessed, for cars that -- for
16 papers that were -- for notes that had already
17 been purchased that were in default.

18 And I'm not sure it's going to make a lot of
19 sense at the end of the day to try to run that
20 out for all of, you know, 800 to a thousand
21 investors to determine how much bad stuff was
22 going on with that note. But we know that there
23 was some of that that was going on.

24 So that's another reason why people were
25 given -- were told they were being given

1 collateral that either wasn't really good
2 collateral, wasn't really there; and then the
3 process that, in the eyes of the law, to have had
4 you be perfected in actual -- the asset which was
5 the car paper or the repossessed car, that wasn't
6 satisfied.

7 And so at the end of the day when the plan
8 comes together, what the anticipation is that all
9 creditors in this case are going to be unsecured
10 creditors and everybody is going to share in that
11 pot on an equal basis. So what's in there,
12 what's in there, and there won't be secured
13 creditors that get paid an amount higher than
14 unsecured creditors.

15 I'm sorry for you. I know that's a
16 disappointing statement, but that's what our
17 investigations have revealed to date and that's
18 the belief we have. If something changes in that
19 regard, we will try to get notice out to
20 everybody either through the ways I talked about,
21 the Cladektrustee website or through e-mail
22 noticing.

23 The plan itself, what that plan may consist
24 of. At this point, it seems like that is going
25 to be a liquidating trust plan. That's not a

1 hundred percent set, but it looks like that's the
2 direction it's going in. What will then happen
3 at the point -- if the Court confirms that plan,
4 that all the money would go into that plan.
5 There would be a trustee that would be
6 appointed. That trustee would continue, would
7 have cash that was in there now, and this will
8 probably -- you know, I would say at the
9 earliest, towards the end of this year, that
10 could happen. It may be the beginning of 2011.

11 But that money would come into that trust
12 and each creditor would be a beneficiary of the
13 trust. You would have a pro rata unit and there
14 would be distributions made periodically.

15 Litigation in bankruptcy and pursuing assets
16 can take a long time. So there would be money
17 that comes out and then those lawsuits would
18 continue. As there's additional recovery made,
19 there would be periodic additional distributions.

20 That's what we see now. Again, that's not a
21 hundred percent, but it seems like that's where
22 this is headed. It could very well change.

23 Okay. I guess I'll start to look at
24 questions. If you didn't get signed in, maybe
25 come up towards the end.

1 (Reading) What can we do to recover more
2 than 5 percent that Mr. Phelan indicated?

3 Well, again, your involvement is important.
4 I know there's a lot of rumors out there, but
5 just because something may or may not be true, if
6 you hear of an asset, if you hear of something
7 that happened, we would encourage you to let us
8 know either through e-mail or call us and say,
9 hey, have you heard this? I hear a lot of
10 things, so I probably have heard it before, but
11 don't -- you know, we want to get every
12 information that we can.

13 So to the extent that you're aware of an
14 asset or anything that's out there, please let us
15 know and we'll be glad to look at that.

16 MR. LILLY: You asked that the person who
17 asked that question come forward. I am the
18 person that asked that question. My name is
19 Lawrence Lilly, and believe it or not, I am the
20 president of the corporation in question.

21 I know many of you are friends of Lydia
22 Cladek's and you've asked questions about her
23 welfare. I want you to know that she is doing
24 well. She's healthy. She is available. I talk
25 to her on a daily basis.

1 UNIDENTIFIED SPEAKER: Say your name again.

2 MR. LILLY: My name is on your invitation to
3 this meeting. If you will look at your
4 invitation, you will see it in this location,
5 about a third of the way down on the left side.

6 How can you get more than 5 percent? Well,
7 if you stay with this trustee without a
8 creditors' committee, you cannot. With a
9 creditors' committee, you very likely will get a
10 greater return. This is a viable business that
11 can be conducted. And a committee made up of
12 astute investors amongst this group or even a
13 larger group surely can come up with a better
14 idea than mere liquidation.

15 UNIDENTIFIED SPEAKER: Yes, I agree.

16 MR. LILLY: Why do we have a rush to
17 judgment? Why do we say liquidate?

18 Now, you've heard them say there are a
19 hundred million dollars worth of noteholders.
20 That's just not true. The number is
21 significantly less than that.

22 UNIDENTIFIED SPEAKER: What is it then?

23 Mr. LILLY: Well, unfortunately, the trustee
24 has not given me access to the records so I
25 cannot answer that question.

1 (Simultaneous speech.)

2 MR. LILLY: May I finish?

3 UNIDENTIFIED SPEAKER: You're the
4 president. How much money is there?

5 SECOND UNIDENTIFIED SPEAKER? You're the
6 president, you're supposed to have all this
7 information, Mr. President.

8 MR. LILLY: May I finish? The Court
9 appointed me as president of the corporation as
10 the debtor in possession.

11 UNIDENTIFIED SPEAKER: The Court?

12 MR. LILLY: The Court appointed me as -- the
13 corporation as debtor in possession, and I as
14 president, would be in control. By the
15 appointment of the trustee, however, that order
16 was negated. I no longer have authority.

17 Now, he talked about working with the FBI
18 and coordinating everything to get the best for
19 you. He also mentioned that there was a
20 forfeiture.

21 The United States Justice Department has
22 filed a forfeiture action on three major assets,
23 three major pieces of property. Those properties
24 should come to you, but in a forfeiture action,
25 they don't. They go into the general treasury of

1 the United States government.

2 Now, where is the trustee? Working with the
3 Department of Justice. That hurts you. It
4 doesn't help you.

5 Now, who is guarding the guards? The
6 trustee says he's the guard for your welfare.
7 Who is watching over him? The United States
8 Trustee certainly, but who is representing you?
9 The answer is nobody. But a creditors' committee
10 could do that, and a creditors' committee would
11 not have to accept the plan that the trustee
12 comes forward with. They could submit their own
13 plan, one which would get you the greatest
14 possible return.

15 I have no further questions, but I -- or
16 comments even, but I will be available to answer
17 anybody's questions that I can.

18 UNIDENTIFIED SPEAKER: Is what he said about
19 the forfeiture true?

20 MR. BROWN: No. Nothing he said is
21 accurate. Let me start -- let me start
22 responding.

23 One: Mr. Lilly elected himself president.
24 We don't know. We've asked for a turnover of the
25 records.

1 UNIDENTIFIED SPEAKER: His name is on the
2 list that we got in the mail.

3 SECOND UNIDENTIFIED SPEAKER: He's her
4 attorney.

5 UNIDENTIFIED SPEAKER: Appointed by the
6 Court though?

7 MR. BROWN: No. He was not appointed by the
8 Court to do anything.

9 UNIDENTIFIED SPEAKER: How come his name's
10 on there?

11 MR. BROWN: It's automatically generated by
12 the electronic notice once he filed the
13 bankruptcy case.

14 MR. LILLY: Here is the resignation of Lydia
15 Cladek and the appoint- -- and she is the sole
16 stockholder, and her appointment of me as
17 president.

18 MR. BROWN: Let me start. There's been no
19 Court appointment of Mr. Lilly as a president of
20 this company. Mr. Lilly -- I'm not going to
21 speak to claims against Mr. Lilly at this point,
22 because there very well may be.

23 Number 2: Once the trustee was appointed by
24 an arm of the Department of Justice, the U.S.
25 Trustee's Office, that trustee is charged under

1 an order -- it'll be on Cladektrustee.com -- to
2 look after your best interest. Mr. Lilly is not
3 involved at all anymore. We've sent him letters
4 advising him of this. He doesn't seem to respond
5 to those. We've asked him for his documents.
6 We've asked the accountant for other documents.
7 We've had resistance from other people that have
8 been involved with the company.

9 So what he's saying is not true. He thinks
10 that there is a way to reorganize this. Again,
11 anybody who has an idea, a solid, concrete idea
12 to reorganize this company, we are more than
13 welcome to look at it.

14 I don't think Mr. Lilly understands the
15 extent of what's going on here. He can say what
16 he wants and that's fine, but we disagree
17 wholeheartedly with the things that he has said.
18 If a committee is appointed, then sobeit, and we
19 will work with them to try to achieve the best
20 result here.

21 The things on the forfeiture action. We are
22 in communication with the U.S. Attorney's Office,
23 okay, on a weekly basis. We've been discussing
24 with them what will happen with those assets.
25 The goal here is for those assets to get

1 liquidated and for the monies from those, for the
2 real property and whatever that is part of the
3 forfeiture action, for those monies to get
4 ultimately back into your pocket on a pro rata
5 basis.

6 That's the goal. That's what we're working
7 on. It does not happen overnight.

8 MR. LILLY: You're entitled to your views,
9 but --

10 UNIDENTIFIED SPEAKER: Thirty-five or forty
11 people were not able to hear anything that was
12 said for the first 25 minutes of this, and I
13 think in all fairness to us that did not hear
14 that part, we're at a disadvantage.

15 MR. BROWN: I fully understand that. This
16 meeting is being transcribed right here and we're
17 going to order the transcript and will make that
18 available. You know, the things that were talked
19 about before. We can stay after if you have
20 specific questions and we'll answer those.

21 MR. LILLY: Mr. Brown said that what I said
22 is not true --

23 MR. BROWN: Mr. Lilly, you are not a
24 representative of this company.

25 MR. LILLY: I resent your saying it was not

1 true. I am the president of the corporation. I
2 am not --

3 MR. BROWN: You have no role in this company
4 anymore.

5 MR. LILLY: I am not required to get a court
6 order to say that. The sole stockholder has
7 appointed me as president. I am the president.

8 Now, I did not, as you suggest, assure you
9 that the creditors' committee will get a greater
10 return, but it has that possibility. I hope it
11 would. Certainly 10 or 20 heads together of
12 investors, people who have good bucks at issue,
13 would have more interest in getting a positive
14 result than one trustee who is getting paid by
15 the hour and -- enough said.

16 UNIDENTIFIED SPEAKER: Thank you.

17 (Simultaneous speech.)

18 UNIDENTIFIED SPEAKER: I invested, like,
19 120,000 in September --

20 MR. BROWN: Can you give us your name, sir?

21 MR. BATSON: Norman Batson.

22 MR. BROWN: Thank you, Mr. Batson.

23 MR. BATSON: I invested that in September,
24 okay, and I feel like none of it went to auto
25 loans. I feel like it all went to pay everybody

1 their payments. So that's 120 principal. That's
2 120 principal that I put in.

3 Now, I only got three payments back. Some
4 people have gotten maybe a hundred or more. So
5 how is that --

6 UNIDENTIFIED SPEAKER: When were the last
7 car notes bought?

8 MR. BATSON: How can that be right, you
9 know, that my money went out to all these others?

10 MR. BROWN: Look, there are somewhere
11 between 800 and a thousand creditors.

12 MR. BATSON: Will you even us all up? Will
13 we all get about the same payments?

14 MR. BROWN: The goal here is to try to do
15 equity and get everybody the right result. Now,
16 there are going to be diverging views. There's
17 already diverging views amongst the creditor pool
18 of a thousand people. That's just the way it's
19 going to be. Hold on. Let me finish up.

20 There were people that put money in
21 towards -- closer towards the end of things that
22 operated, and we are aware that it is very likely
23 that none of that went to buy any car notes,
24 okay? But that could also have been the same
25 case two or three years ago. We don't know.

1 At this point in time, we're still looking
2 at books and records. So we don't know the
3 extent of money that actually went in for
4 legitimate operations and the extent that money
5 would have come in and was always filtered back
6 out to pay creditors.

7 MR. BATSON: All right. But why should 95
8 percent of my principal go to make a payment on
9 someone else's payable, to someone that's already
10 recovered all their money --

11 MR. BROWN: I think I said this earlier.
12 One idea that we're talking about is for -- and
13 nobody is going to like this and nobody is --
14 nobody likes the situation that you're in in
15 general.

16 One concept that we're looking at right now
17 is a plan, okay, that would create a trust and
18 that trust would say that people that did get
19 some money back, okay, versus people that got no
20 money back would be treated -- would not get
21 returns out of that trust until the people that
22 got no money got evened up with the people that
23 did get some. We're looking at that. That's
24 being considered. It seems like one way that
25 there is some equity here.

1 Now, the people that got some of the money
2 back are going to say that's not fair. So,
3 again, we're analyzing the extent of people like
4 you, analyzing the extent of people that got a
5 lot of money back, some people that got some
6 money back, and at this point in time we don't
7 have a full picture of that.

8 And we've literally been in here having a
9 company that did not have good bookkeeping on the
10 investment side, and we know a lot of money was
11 going out the door. It looks like somewhere, you
12 know, around 20-something million dollars went
13 out the door. And so these things, we're
14 considering them.

15 Again, any idea you have that you feel would
16 be an equitable thing for a plan or to reorganize
17 the business --

18 MR. BATSON: I feel that if we all got the
19 same amount of payments, that we would all be
20 square.

21 MR. MEEKER: Well, let me say this. If
22 you've got some time and you've got access to the
23 Internet, I don't know what you would put in with
24 it, but put in Bernie Madoff and go to some of
25 the court proceedings that are taking place in

1 New York right now.

2 We now deal in Orlando with the whole
3 question on a smaller scale than Madoff involving
4 Lou Pearlman. And in the Pearlman cases, he had
5 a number of corporate entities and that
6 complicates it a good bit. But also what you
7 deal with is net winners and net losers and how
8 you treat them.

9 And I don't want to stir up any more than
10 apparently has already been stirred up, but you
11 will really see the friction take place if the
12 trustee decides to bring suit against net
13 winners, and that's a possibility to do what
14 you're talking about. Then he's got to sue the
15 people who got more in order to do the leveling.

16 MR. BATSON: Well, if it was a total fraud
17 to begin with, we're just --

18 MR. PHELAN: Gentleman in the yellow shirt,
19 state your name, please.

20 MR. DONNELLY: Brian Donnelly. Did you say
21 that the goal was to liquidate the assets, and is
22 the implication that you would not look at
23 getting this business back on its feet? I know
24 you talked about --

25 MR. BROWN: Let me back up there. There's

1 an operating business that is continuing to
2 operate right now. We have shored that up. We
3 know exactly what is -- not exactly, but we know
4 basically what's there. We have people that are
5 looking at purchasing the assets of that going
6 concern business, okay?

7 If they are -- again, I'll say this again.
8 If anyone has a plan or has money that they want
9 to put in and an idea for how to resurrect
10 that -- because there's not money there right now
11 to resurrect that business. That's just the way
12 it is. There's not sufficient money out there to
13 keep operating that business.

14 MR. DONNELLY: So just a quick follow-up
15 then. If there were a creditors' committee that
16 advanced a plan, you would be --

17 MR. BROWN: It doesn't have to be a formal
18 committee. It can be an individual creditor. It
19 can be -- you know, whatever it is; but, again,
20 someone is going to want to put money in, need to
21 put money into the business to resurrect it.
22 There's ways that that can be dealt with. And
23 the shares of the new business can be distributed
24 out.

25 But at this point that does not seem like a

1 strong likelihood that anyone is going to come in
2 and put a lot of money in this business to keep
3 operating it for a lot of reasons. And I'm glad
4 to talk to people about that separately, but I
5 want to get off that topic.

6 Let me talk about the other assets that are
7 out there. Those are claims, okay, and not just
8 claims against people that may have gotten money
9 as creditors. Those are really the last people
10 that we would want to go out and try to get money
11 back from. We're trying to look at doing equity
12 here.

13 There may be some people that got a lot of
14 money right before the filing that we would look
15 a little harder at, but for people that got, you
16 know, a few thousand dollars here and a few
17 thousand dollars there, it may not make sense for
18 us to file a lawsuit and spend time to drag those
19 people into the court process for a lot of
20 different reasons.

21 One: They may not have the money to recover
22 from. And two: It may not make financial sense
23 to do that. So it may make better sense to
24 propose a plan like I talked about, trying to
25 equalize things on an equitable basis.

1 Another set of claims is, the money that was
2 taken out of the business, what we feel was
3 inappropriately, that went to purchase real
4 estate, maybe went to purchase cars, other
5 things, we are looking at that. That is another
6 pool of assets.

7 Those items, we anticipate, if we can get
8 them and recover them, if it's real estate and
9 there's equity there, those will be liquidated
10 and that money will go into the pot and get
11 distributed out.

12 And I don't think anybody is out there
13 wanting to hold on to a real estate investment.
14 And, again, a lot of these are mortgaged, so it's
15 questionable whether there's equity or not. The
16 mortgages themselves may be questionable. So
17 these are all things that we're looking at right
18 now.

19 But the goal is to get as much money out of
20 those assets as possible and get it back into
21 your hands. And that would be the same goal that
22 a creditors' committee would work towards. Like
23 I said before the meeting, that committee would
24 maybe delay the process, and they're going to
25 have the chance to have other counsel that would

1 take money away from you.

2 So at this point, we're not overly
3 supportive of having a formal creditors'
4 committee formed that would come in and basically
5 serve the same role as the trustee. And that may
6 be an issue that we take to the Court. We'll
7 just have to see what happens.

8 There's also, we understand, people that are
9 trying to get on the committee that have agendas
10 that may not represent the majority of creditors
11 as a whole. You heard Mr. Meeker say, you get on
12 that committee, you have a fiduciary duty to the
13 creditor body as a whole. So that's just
14 something you may want to consider as the
15 creditors' committee is formed.

16 MR. PHELAN: This lady in the back is first.

17 UNIDENTIFIED SPEAKER: You said the
18 transcript will be available. Is that going to
19 be available on the same website?

20 MR. BROWN: We will make the transcript
21 available. It could be a couple -- again,
22 transcripts are expensive, like anything else.
23 And the court reporter is sitting here probably
24 shaking her head, because she likes to sell those
25 transcripts. But we will upload a pdf of it --

1 UNIDENTIFIED SPEAKER: Is there an audio
2 recording of this?

3 MR. BROWN: There is not an audio recording
4 as far as I know. But we'll make that
5 available. It could be ten days, two weeks out,
6 before we have that to you.

7 Yes, sir.

8 MR. BYERLY: My name is Wayne Byerly, and
9 I'd like to see if I can simplify this a little
10 bit in the minds of the folks that are here
11 today.

12 I would like to say that you're going to try
13 to recovery all the assets you can that have been
14 misappropriated or believed to be
15 misappropriated. That's going to get dumped in
16 the middle of the table.

17 You're going to try to recover all of the
18 collateral that you can. You're going to try to
19 recover all the income from the contracts that
20 you've kept. It's all going to go in the middle
21 of the table. And that's going to be a process
22 that goes on for a period of time, because each
23 of those events take time and they involve
24 lawsuits. Right?

25 MR. BROWN: Not everything will involve a

1 lawsuit.

2 MR. BYERLY: Not everything, but a lot of
3 them will. And I don't know about what the FBI
4 and federal government seizure does for assets
5 that have been bought with misappropriated
6 funds. That's going to be resolved. But if it
7 is resolved, that will bring money to the middle
8 of that table.

9 In the end analysis, once all those things
10 are done and the attorneys, like yourself and
11 anybody else that's involved in the
12 administration of this case, including the court
13 reporter, get paid.

14 Once that's taken off of the table, and what
15 is left is divided by the number of investors who
16 are holding notes proportionally to the size of
17 their investment, no matter when it occurred.

18 The question before was: Well, I put my
19 money in later, don't I have a better advantage
20 because maybe it wasn't really secured? I think
21 the answer to that is no. We have a thousand
22 people and they have various amounts of money in
23 different proportions. Whatever is left on the
24 table after you take all those actions and
25 accumulate all the money, with or without a

1 creditors' committee, gets distributed to
2 everyone who has an investment proportional to
3 the total amount of money that is on the table.
4 Is that not correct, sir?

5 MR. BROWN: In large part, that is
6 accurate. There may be some distinctions there
7 for people that got a lot of money paid out over
8 the course of time historically that maybe
9 there's some equities to try to even that up. It
10 may not be that the process -- it may not be that
11 you can make a process that makes everybody happy
12 at the end of the day, and I'm pretty sure that's
13 not going to happen.

14 I mean, there's people that put money in
15 five years ago and were encouraged to just roll
16 over their interest payments --

17 UNIDENTIFIED SPEAKER: Right, right.

18 MR. BROWN: -- and so those people, you
19 know, and no disrespect to where you're standing,
20 but those people, you know, probably feel that
21 they should share just as you should.

22 MR. BATSON: Sure. I believe they do.

23 MR. BROWN: You know, I'm not a judge here.
24 We're just trying to do -- to get to the right
25 result, get you the money, get money we can get

1 back into your pockets as soon as possible, as
2 cheap as possible, and in all likelihood, that is
3 not going to make anyone whole.

4 MR. BATSON: I just want to feel that I've
5 been treated as fair as everyone else, nothing
6 more, nothing less.

7 MR. BYERLY: Let me finish my point. The
8 people who reinvested their dividends -- or their
9 payments, rather, interest payments, simply
10 increased the amount of personal they had
11 involved in the company. Therefore, when that
12 total amount is known, it's added -- if their
13 original investment was a hundred thousand and
14 they put 50,000 in dividends back in, they now
15 have 150,000 involved.

16 When the pile in the middle of the table is
17 divided up, they have 150,000 involved, right?

18 MR. MEEKER: That may or may not be true.

19 MR. BYERLY: That's what I -- why not?

20 MR. MEEKER: Because it may be that claims
21 are only allowed for actual cash loss, not
22 theoretical interest based on a Ponzi scheme or
23 fraud.

24 UNIDENTIFIED SPEAKER: What about the fact
25 that we've paid interest to the IRS, taxes on the

1 interest that we had?

2 MR. MEEKER: Well, then you have to go back
3 and amend your IRS return.

4 UNIDENTIFIED SPEAKER: There is a bill --
5 (Indiscernible)

6 MR. MEEKER: I do not understand that
7 comment and I think most people in the room do
8 not understand.

9 The comment is that it's conceivable that
10 claims will only be allowed for actual cash loss,
11 not the theoretical interest that you got on
12 paper that was really just part of perpetuating a
13 Ponzi scheme.

14 MR. BYERLY: My point was, the people were
15 reinvesting their payments from Cladek --

16 MR. MEEKER: Well, I understand that. But
17 what I'm telling you is --

18 MR. BYERLY: That makes a \$90,000 loan, a
19 hundred thousand dollar loan if they decide to
20 reinvest their interests.

21 MR. MEEKER: There may be a subtle
22 distinction. I'm not -- I'm just -- you're
23 trying to set up this hypothetical, and I'm just
24 telling you, playing devil's advocate, that there
25 may be some issues with that. May or may not be

1 issues with that.

2 For instance, it could be different. If you
3 got a check and you endorsed it back and sent it
4 back and got a new note for that amount as
5 opposed to just a paper transaction --

6 MR. BYERLY: I see.

7 MR. MEEKER: -- which there was never any
8 payment on --

9 MR. BYERLY: I see. Okay.

10 MR. BROWN: Look, it's really -- there's a
11 claims deadline of August 3rd. It's more than
12 speculative to talk about what exactly is going
13 to happen until the whole claims pool is in. And
14 the records appear good. It appears like it's
15 around a hundred something thousand dollars of
16 claims -- I mean, a hundred million dollars of
17 claims that are out there. A hundred million
18 dollars of claims that are out there, give or
19 take some money.

20 Come August 3rd, there will be, you know, a
21 number of people that have filed claims. That's
22 going to need to be reconciled and gone through.
23 So some of this stuff, it's just too early to
24 speak to what will happen.

25 It's quite possible that if a creditors'

1 committee is formed or we look at it or
2 something, a decision is made that the equities
3 or what should happen is that it's a principal
4 only amount or, and I'm not saying one way or the
5 other right now, that the interest is included in
6 that.

7 So it's just too early to tell on that
8 particular issue. But, again, the goal is to get
9 as much in. That issue on how much -- you know,
10 the equities of what goes out the door is really
11 too early to start talking about whether you get,
12 you know, the whole 18 percent, or some people
13 were promised more than that. Some people, quite
14 frankly, I think, were given inflated numbers and
15 told they could just -- I'll give you an extra
16 amount of money if you just hang in there for
17 another year or two without any new investment.

18 So there are some potential inequities out
19 there with just a generalization of how that
20 claims process is going to work. We don't have
21 all the information right now. It is a thing
22 that we're going to look at, and the goal here is
23 to try to make it as equitable as possible on
24 distributions. So that's what we want to do.

25 MR. MEEKER: The gentleman in the middle.

1 THE REPORTER: Your name, please.

2 MR. SPRINGER: Jewett Springer.

3 UNIDENTIFIED SPEAKER: Stand up, please.

4 MR. SPRINGER: Since we're playing kind of
5 an if game, along the lines, if there is a fine
6 against Lydia Cladek of several -- whatever the
7 amount will be, is that amount potentially, at
8 least a part of it, going to be a part of the
9 pool that the gentleman was talking about for
10 this?

11 MR. MEEKER: For those of you in the back
12 who couldn't hear that, the question was, if
13 there is a fine assessed against Lydia Cladek,
14 will that -- and it's paid -- would that become
15 an asset of this estate?

16 MR. BROWN: Quite frankly, I'd have to
17 understand what that fine is. I think that the
18 government possibly, government entities that are
19 involved in this case, could try to assess a fine
20 that does not go back to you.

21 I don't -- now, based on my communications
22 to date with the U.S. Attorney's Office, I do not
23 believe that that is their intention. I believe
24 their intention is to try to work with us to help
25 get as much money back in your pockets as

1 possible. We are talking with them, okay? So
2 we're going to try to make that happen as quickly
3 and easily as possible.

4 They have certain rights and remedies that
5 the bankruptcy trustee doesn't have. The
6 bankruptcy trustee has certain rights and
7 remedies that they don't have, and we're in
8 discussions on trying to use those, all those
9 rights and remedies, together in a corroborative
10 effort, and that's the goal that we're at least
11 going to try to work towards.

12 I can't speak for how they're going to
13 proceed, but it's my expectation that they're
14 going to try to work for you to get money back in
15 and not necessarily to assess a fine that would
16 just go into the coffers.

17 MR. MEEKER: And let me follow that up, just
18 to parse a little bit. I think it's highly
19 unlikely that any fine amount -- a fine is paid
20 to the government as part of the punishment.

21 But if a district court judge, federal
22 district court judge, would order restitution, it
23 could be funneled through this estate. But,
24 again, that's pretty far down the road and it's
25 hypothetical, and can you collect it, and if you

1 forfeit all the assets that she has anyway,
2 what's she going to pay restitution with?

3 MR. BROWN: Yes, ma'am. Give your name.

4 MS. ANGELL: Susan Angell.

5 If the FBI comes out and they do charge her
6 with fraud as if it's a Ponzi scheme, does that
7 change the way any of these proceedings will take
8 place?

9 MR. BROWN: Based on what I know at this
10 point, I don't believe it's going to change
11 anything that we would be doing in this case. It
12 may actually help us.

13 Yes, sir.

14 MR. GLYNN: James Glynn.

15 There's a statute of limitations regarding
16 amending tax returns for interest claimed and
17 earned. Will the timing of the proceedings allow
18 for people to go and amend their tax returns?

19 MR. BROWN: I have to say, I'm not a tax
20 expert. I would encourage you to talk to your
21 counsel to look at that. I know that to the
22 extent that this is labeled a Ponzi scheme or
23 whatnot and that's ultimately established, that
24 there are benefits that you have as a -- for your
25 loss that are greater than a traditional

1 investment loss.

2 I don't know a hundred percent of the
3 details how that works out. I think you can take
4 it on a more expedited basis, and it's a
5 better -- I don't think it's a credit, but it's a
6 better deduction that you get.

7 As far as what the limitation is on going
8 back and amending returns, I don't know that,
9 but --

10 MR. GLYNN: I think I know the answer to
11 that is three years, but --

12 MR. BROWN: Okay.

13 MR. GLYNN: -- I don't -- my question, I
14 think, is really about timing of some proper
15 documentation to allow to file with the IRS.

16 MR. BROWN: I think all you need is the
17 proof of claim in the bankruptcy, but, again,
18 don't quote me on that. I mean, again, I don't
19 know, but I think once you file your claim in the
20 bankruptcy, that's at least part of the equation.

21 MR. MEEKER: If you want to take this down,
22 I believe the website is Scammedbypearlman.com.
23 People there have a lot of discussion about the
24 IRS question and their code cites. I don't vouch
25 for its accuracy, but at least it will give you

1 some information.

2 UNIDENTIFIED SPEAKER: What is that site
3 again?

4 MR. MEEKER: Scammedbypearlman.

5 MR. BROWN: I have a couple of questions.
6 Yes, ma'am, go ahead.

7 MS. BERARDO: I'm Donna Berardo.

8 I'm a retired University of Florida
9 professor. I want to speak a minute about the
10 creditors' committee. I served for over 20 years
11 as a member of the creditors' committee of what
12 was once called or has been called the
13 longest-standing receivership in the state of
14 Florida.

15 And it was against -- this is not my first
16 rodeo; you'd think I would have known better.
17 But it was a mortgage Ponzi scheme, Robert Grace
18 (phonetic,) who was indicted by the FBI in a
19 similar kind of takeover. We had a small
20 investors' advisory committee. And as a result
21 of the committee, and the reason I'm bringing
22 this up is we've got this question of the
23 creditors' committee and what advantage it might
24 have or not.

25 We had real property. We had mortgages that

1 were paid out. In our case it was many, many
2 years because mortgages go for a long period of
3 time. So some of my questions would include, how
4 long are these car loans actually paying out?
5 And would it be to our benefit, rather than close
6 it down, the same number of assets we actually
7 had in that company, which was close to \$4
8 million, we paid them out over many, many years.

9 But the investors' committee actually
10 selected a person to run what was left of the
11 assets and keep it going.

12 The receiver in our case was Mr. Frank
13 Surface (phonetic), who is an attorney here in
14 Jacksonville. And what he did with the
15 investors' advisory committee was let us set up a
16 small group to run it after he had gotten all the
17 information together and gotten it gathered to
18 the point where we realized what was there, what
19 could work, how long it could work, where would
20 be the least expensive place to collect the
21 assets, certainly not in a big building like this
22 one.

23 We actually hired another woman who had been
24 collecting mortgages for a long time. If we had
25 sold our mortgages at a reduced or discounted

1 rate for our portfolio at that time, we would
2 have not collected as much money over the 20
3 years that we had the money.

4 So the problem I see of just liquidating and
5 closing down, if the mortgage interest rates are
6 high and the time goes out, we might could
7 collect more over the longer period.

8 MR. BROWN: Well, let me talk about that.

9 One: It sounded like that was a state court
10 or federal receivership and not a bankruptcy
11 case. It's a little different content.

12 MR. BERARDO: Yes. The business is
13 similar. It's a Ponzi scheme.

14 MR. BROWN: Well, it sounds a little bit
15 different. There are around 1,400 vehicle
16 contracts that require a fairly intensive amount
17 of employees to stay on those people, to make
18 phone calls to tell them, hey, where's your car
19 payment, to send them dinging letter, to go out
20 and repossess cars.

21 I think at one point there was 80 something
22 employees that were running at the Lydia Cladek,
23 Incorporated, facility. They're down to 20 now.
24 That may or may not get reduced further in the
25 weeks to come. So we feel like we're running a

1 skeleton crew to keep collecting. There's money
2 coming in every day and we're collecting on those
3 contracts. We're trying to make the most money
4 out of them.

5 Now, there is what is called a time valve of
6 money. So if we wait out whatever the years are
7 on those contracts, and I don't know what the end
8 time is, but the amount of money that comes in
9 every couple of weeks is going down and down and
10 down.

11 Some of the contracts get bad. Some of them
12 phased out. Some are repossession. So
13 maintaining that steady level of overhead to
14 collect that verses maybe trying to sell the pool
15 all at once and getting a big number in is a
16 business judgment, and it's a time-value-of-money
17 judgment.

18 There's no decision that's been made there
19 yet, okay? So we're still looking at that. But
20 without -- and I do think that real estate
21 mortgages and vehicle contracts, which are
22 typically lower dollar obligations with a little
23 bit more capital-intensive collection mechanism,
24 it might be a different asset to compare to it
25 the mortgage base.

1 There is a considering. I'm not sure,
2 without reinvigorating the money the company
3 would have and new money come in, it makes sense
4 to run that tail all the way out. And that's one
5 thing that's being considered.

6 UNIDENTIFIED SPEAKER: How long are they on
7 average?

8 MR. PHELAN: Less than two years. The
9 longest one is two years, but most of them are
10 considerably less. The slope is like this. You
11 know, so we're up here for a couple of months
12 maybe, and then it starts dropping off very
13 rapidly.

14 This lady here. Your name, please.

15 MS. RUSTEN: Robben Rusten. You said
16 earlier you feel that there are 800 --

17 UNIDENTIFIED SPEAKER: Stand up, please. We
18 can't hear you.

19 MS. RUSTEN: You said earlier that you
20 thought that there was 800 to a thousand
21 investors.

22 MR. BROWN: I called them creditors. But
23 that's somewhere roughly what the numbers we
24 have. We don't have all the figures on that.
25 That's where it seems like.

1 MS. RUSTEN: And these are the people that
2 will be in this pot?

3 MR. BROWN: Yes. You have to file a claim
4 to be in the pot.

5 UNIDENTIFIED SPEAKER: At some point will we
6 be able to have a list of all these people that
7 are creditors and how much they are claiming that
8 they're owed? Will there be --

9 MR. BROWN: Yes. Mr. Phelan right now is
10 working, looking at the books and records. When
11 we talked about updating the bankruptcy schedules
12 earlier, what he's doing, those schedules will
13 list out the creditors and the amount, at least
14 as best we can discern at this point in time, of
15 what those people are owed.

16 Now, there's going to be discrepancies.
17 People are going to feel they're owed more, they
18 may be owed less, but the bookkeeping of the
19 company may not have been perfect.

20 So at the end of the day, we'll be looking
21 at the claims that are filed. You have to file a
22 claim before August 3rd to share in
23 distributions. I encourage everybody to do that
24 that's owed money. And then we'll look at that
25 claim pool. The schedules are not what we go by.

1 We look at the claim pool, and then
2 that ultimately will be at the end of the day.

3 But, yes, there will be schedules that are
4 filed probably about two weeks out that will be
5 on Cladektrustee.com. It will be available on
6 Pacer. It will be a pretty large document, so it
7 will be hard to e-mail out. But it will be there
8 and you can look for that information.

9 MS. RUSTEN: Within two weeks?

10 MR. BROWN: Should be around two weeks, yes.

11 MS. RUSTEN: Okay. We don't have until
12 August 3rd to get an idea of how much money is
13 owed to everybody?

14 MR. MEEKER: Yes, you do, because we don't
15 know that until the claims are in.

16 MR. PHELAN: These are what we think it is.

17 MS. RUSTEN: Think. Okay.

18 MR. MEEKER: Yeah. You're going to have to
19 file a claim, and if someone doesn't do it, then
20 you're not in the pool.

21 MR. BROWN: Yes, ma'am. Your name, please.

22 MS. FIORE-MORELL: Janerae Fiore-Morell.

23 Are we going to get any notification that
24 you received our claims besides that?

25 MR. BROWN: You know, normally, no.

1 Normally when you mail it -- we don't take the
2 claims, okay? So you don't mail the claims to
3 us. They go to the clerk's office. They handle
4 the claims.

5 Now, there is a claims register that is part
6 of the clerk's office, and I guess we could
7 periodically take the register and print a hard
8 copy and put it online. So we will try to do
9 that as one of the things. We'll make a note of
10 that. Maybe every 15 days or so.

11 Literally, there are like 20 or 30 claims
12 coming in a day right now. The clerk's office is
13 very backed up on processing those claims.
14 Normally, in a normal case when they get
15 creditors, they get it electronic and they get
16 uploaded immediately. Most people are sending
17 them in, so they have to do it by hand and
18 there's probably a backlog.

19 But we will try every 15 days or so to
20 upload that claims register, if you have access
21 to Pacer; also you can check and you might be
22 able to call the clerk's office as well. I'm not
23 sure they'll respond to you.

24 MS. LaFLEUR: What about sending a copy in a
25 self-addressed, stamped envelope so you can get a

1 stamped copy back?

2 MR. BROWN: Yes, you can do that too. You
3 can send -- when you send your claim form in, you
4 can send it, say, please send -- send a copy of
5 the claim in with it, ask them to stamp it and
6 send it back with a self-addressed envelope. You
7 got to have the self-addressed envelope stamped
8 back to you to do that, and a copy of the claim.

9 MR. PHELAN: And you can always file it in
10 person.

11 MR. BROWN: Yes, ma'am.

12 MS. RODRIGUEZ: Yvonne Rodriguez.

13 You mentioned earlier the possibility of
14 some outside company buying the company.

15 What number are you looking for as far as
16 the sale price?

17 MR. BROWN: The best number.

18 (General laughter.)

19 MR. BROWN: Well, I mean, here's how the
20 process is going to work. Like Mr. Phelan said,
21 he's looking at it right now. He's keeping the
22 company operating. He's talking to people that
23 are doing due diligence, if there's other people
24 that want to do this. He will take the best
25 offer that he feels is out there, okay?

1 Whether it's somebody that wants to put
2 money in to try to resuscitate the company or
3 some that's the highest number to just buy the
4 assets and they're going to operate it
5 themselves, and that money that's coming in is
6 all you're getting, whatever he feels is the best
7 result, he's going to put that forth in a motion
8 to the Court. That motion will be on
9 Cladektrustee. There will be a hearing that's
10 set before the Court. The Court will take
11 evidence and hear from anybody as to whether they
12 think that's a good resolution or a bad
13 resolution, and the judge will ultimately enter a
14 decision saying, no, this option is better.

15 Quite possibly, if there's a lot of people
16 that are interested in the asset, he could just
17 hold an auction some point in time out. Maybe we
18 determine that we want to do it by auction and
19 sell the assets that way and think that that
20 might generate the best results.

21 MR. MEEKER: One thing you should know, day
22 to day, little things like, does he let go of a
23 staff person this week and cut back on payroll,
24 that sort of thing, the trustee has some
25 discretion and business judgment to do that.

1 But major events in this case, a sale of the
2 business, has to be approved by the Court. And
3 everybody who is of record in this case, whether
4 you file a claim or you get listed in the
5 schedule or whatever, you're going to get that
6 notice that a hearing is going to be held on this
7 particular issue. And it will describe what it
8 is and you will know what's being considered by
9 the Court. And if you feel strongly and want to
10 appear and be heard, you or your attorney are
11 entitled to do that.

12 MR. PHELAN: The gentleman in the back.
13 Your name, sir.

14 MR. EGELMAN: Michael Egelman, an investor
15 also.

16 To make any proposal or to understand what
17 could be done, we would need something like an
18 income statement and balance sheet. Will
19 something like that be presented to us so that we
20 can --

21 MR. PHELAN: Just contact my office and
22 we'll get you whatever you need to make your
23 decision.

24 MR. EGELMAN: Okay.

25 MR. PHELAN: Yes, sir.

1 MR. JOHNSON: My name is Buzz Johnson.

2 Of the \$55 million of delinquent loans, is
3 any effort being made to collect on those to help
4 benefit us? Usually you can get at least five,
5 ten cents on the dollar on those things. I mean,
6 there's still millions of dollars.

7 MR. PHELAN: We are talking to people about
8 purchasing them in bulk. At this point I have a
9 very limited staff and I'm choosing to go after
10 the ones that are alive. But I am actively
11 talking to people who have expressed an interest
12 in purchasing the pool of delinquencies.

13 MR. EGELMAN: Will that be auctioned off and
14 bid out as well? I mean, some people --

15 MR. PHELAN: It may be as part of the whole
16 package or it may be a separate package. But,
17 yes, the process that Mr. Brown described
18 earlier.

19 UNIDENTIFIED SPEAKER: It will be a
20 competitive bid?

21 MR. PHELAN: Yes.

22 MR. BROWN: Please note that the company
23 does not appear to have done anything to collect
24 any deficiency on cars that were repossessed or
25 people that stopped paying for a long time. So a

1 lot of the face value of those receivables, I
2 anticipate having a lot of difficulty in trying
3 to collect it.

4 As we sit right now, it seems like there's
5 more important things to preserve, the exiting
6 contracts, than to try to go and spend a lot of
7 money chasing down those other assets.

8 Again, if you have an idea there, we're more
9 than glad to receive it and listen to it.

10 Yes, sir. Can you give us your name, sir?

11 MR. EATON: Steve Eaton.

12 Do you know what the value is, the value of
13 the notes that are left to be paid over the next
14 two years?

15 MR. BROWN: When we got in, the face value
16 of those notes was approximately \$4 million.
17 Obviously there's overhead to collect those.
18 There's the time value of money, and some of them
19 go back.

20 Yes, ma'am. You had a question?

21 UNIDENTIFIED SPEAKER: I do. Is the company
22 investing in new notes --

23 MR. PHELAN: No.

24 THE REPORTER: Name, please.

25 UNIDENTIFIED SPEAKER: -- or are you simply

1 managing the existing notes, or is the company
2 reinvesting --

3 MR. PHELAN: We are not investing in new
4 notes.

5 MR. BROWN: There really is not a sufficient
6 amount of capital being generated from the
7 revenues of the business at this point in time to
8 invest in new notes.

9 So it's our position that on the \$4 million
10 that's coming in, that could yield, you know,
11 maybe a couple million dollars at the end of the
12 day.

13 There are going to be diverging views on
14 what should happen with that money. Some people
15 would say it should come out. Some people would
16 say invest the money in new contracts. And at
17 this point in time, there hasn't been a decision
18 made; but as the way things sit right now, my
19 anticipation and I think Mr. Phelan's is that
20 it's probably going to be distributed out and not
21 invested in new car notes.

22 Yes, sir. In the back, please, sir.

23 MR. PIONZIO: John Pionzio.

24 I was in the back and I didn't hear all
25 these figures, 5 percent.

1 MR. BROWN: Where do you say 5 percent?

2 MR. PIONZIO: I heard at best we might get 5
3 percent.

4 MR. BROWN: I think that was Mr. Lilly's
5 figure. It was not our figure.

6 MR. PIONZIO: Do you have a figure in the
7 ballpark?

8 MR. BROWN: At this point we do not. It
9 could be that 5 percent is an excellent result.
10 It could be that it's south of that; it could be
11 that it's north of that.

12 Really, it would be pure speculation to give
13 you a figure right now. We do not know what the
14 extent of the assets that are out there that
15 we're going to be able to recover. I do not
16 think it will be anywhere close to a hundred
17 percent, though, at this point.

18 This lady here.

19 MS. COCHRAN: Barbara Cochran.

20 Is it the intent to consider the interest
21 that we have already received as return
22 investments and, therefore, what we think we are
23 owed is greatly reduced based on the interest
24 we've received?

25 MR. BROWN: Well, that's a loaded question.

1 Let me see if I understand it. You want to know
2 if the money you've already got back should be
3 credited against what, everything?

4 MS. COCHRAN: As return of principal rather
5 than interest.

6 MR. BROWN: We're still looking at that and
7 what should happen. There are people that have
8 different views on how that should get played
9 out.

10 So some folks say that the money -- that you
11 got money and other people didn't, so the people
12 that didn't get money should get distributions up
13 to the point that you got money out. Some people
14 say that that should be credited out. So there's
15 a lot of different views out there. Nothing is
16 settled on how that will all totally play out in
17 the case.

18 Yes, sir. Sitting down in the striped
19 shirt.

20 MR. LIEBERMAN: Al Lieberman.

21 Mr. Lilly mentioned the fact that properties
22 that may be sold would go to the government, not
23 into the center of the table.

24 MR. BROWN: At this point in time there is a
25 forfeiture. I don't know what the government is

1 going to do or not do, but I do not anticipate
2 that they're going to take those monies for
3 themselves. I anticipate that any money that the
4 government may collect or from assets that
5 they've tried to pursue under a forfeiture, if
6 they ultimately get to liquidating that -- and we
7 don't do it -- that they're going to have that
8 money come over to creditors.

9 That's what I understand to be the case. I
10 can't speak for them, but that's what I believe
11 and understand to be the case. I would hope to
12 be the case too.

13 Yes, ma'am.

14 MS. BAIR: My name is Cathy Bair.

15 You mentioned earlier that you think all of
16 the loans are unsecured. If we filed a claim and
17 said that we thought we had a secured loan,
18 should we amend our claims at this point?

19 MR. BROWN: I wouldn't worry about that
20 right now. I mean, we're going to look at that
21 after August 3rd. I suspect there's going to be,
22 you know, hundreds of people that filed as
23 secured claims. And what we will do is we'll
24 file an objection with the Court that lists out
25 all those people that filed claims as secured and

1 tell the Court that we think it should be treated
2 as unsecured claims.

3 So as long as you've got a claim on file,
4 you should be fine. If you want to amend it to
5 be unsecured, certainly that would be great.
6 That might save us some trouble at the end of the
7 day, but you don't have to do that.

8 Yes, ma'am, in the dark jacket.

9 MS. GRAHAM: (Indiscernible) Graham
10 (phonetic), investor, and I also wrote that
11 letter asking several questions. But now that
12 I've listened to all of this, I am confused in
13 that I am not sure whether the assets that will
14 be sought by the trustee on behalf of the
15 creditors will only be related to the business
16 and its functioning as opposed to the assets that
17 will be garnered by the FBI and law enforcement.

18 In other words, are you looking at different
19 types of assets, or are you looking at the same
20 ones? Cars that were repo'd, for example, or
21 written off, will anything be done with those?
22 Funds that were given to charity. I understand
23 there's quite a large number of charities and the
24 amounts are somewhat significant. Who will go
25 after those? Is it the trustee's job to do that

1 or is it law enforcement?

2 MR. BROWN: At this point anything, any
3 asset that's out there, even the stuff that the
4 U.S. Attorney is going after in the forfeiture
5 action, we're looking at recovering for your
6 benefit every single asset.

7 Any claim against any entity, any piece of
8 property out there that was purchased with money,
9 whatever value can be achieved from the business
10 operation itself, our intent, okay, is to go
11 after every single asset that we can recover and
12 get the pot as big as possible.

13 My belief is, and I can't speak for them,
14 but my belief is that the U.S. Attorney's Office,
15 the government entities that are pursuing assets
16 as well, are going to cooperate with that effort.
17 They may not, you know, but they're only going
18 after some limited property at this point.

19 We will be looking at every claim that we
20 can pursue. Again, if you think that there's a
21 claim out there that can be pursued -- and
22 there's a lot going on so we may have missed
23 something. You know, we hope not. We're going
24 to try to do the best job we can and find
25 everything, but please let us know if you think

1 that there's something that we need to look at
2 that can be pursued and we will take a look at
3 it.

4 MS. GRAHAM: Can I just ask one more
5 question? And that is, in terms of the work that
6 you're going to do, is it a percentage that
7 attorney's -- fees for the attorneys and the
8 trustee that come off the top? How does that
9 work?

10 MR. BROWN: No. It's a hourly fee that we
11 get paid. It's subject to Court approval. We
12 will put those applications up on the Internet as
13 well, and we get paid hourly rates, the same
14 rates we would charge any client that's out
15 there. We're not asking for --

16 UNIDENTIFIED SPEAKER: What about the
17 president, Mr. Lilly?

18 MR. BROWN: I'm not going to speak about
19 what will happen with the president of the
20 company.

21 But, no, let me -- there are a couple of
22 questions up here that talk about fees.

23 Both Mr. Phelan and I filed sworn statements
24 with the Court laying out our fee schedule,
25 advising the Court what we anticipated charging.

1 Before we get paid, there will be a motion
2 saying, Judge, this is how we propose to get
3 paid. We will be filing applications with the
4 Court. Okay. This is how it happens in
5 bankruptcy cases.

6 We will be filing applications with the
7 Court, asking periodically, maybe every three or
8 four months, that the Court approve our fees to
9 get paid. Some fees we will ask to get paid on a
10 regular basis under a separate payment
11 procedure. All of that, all of that we will load
12 up on Cladektrustee.com.

13 Everybody can look at it. If there's
14 questions about fees that are charged, then those
15 things are -- you can bring it to our attention
16 if you've got a question, you can bring it to the
17 Court's attention.

18 And, again, we're looking to try to maximize
19 recovery and do this efficiently and get as much
20 money in your pocket. I know there's a lot of
21 bad sentiment about lawyers and charging a lot of
22 money and all that other stuff.

23 We really do want to try to work to get you
24 as much money as possible. I will take a lot
25 more pride at the end of the day to get more

1 money in your pocket than in deriving a fee.

2 Now, I need to get paid. I've got a wife,
3 kids, other expenses like everybody else. But,
4 you know, that is the claims process for payment
5 of professionals. And Mr. Lilly didn't apply to
6 the Court, by the way, for his own self to be
7 retained.

8 But every professional that gets retained in
9 the Court has to get approved by the Court and
10 their payment has to be approved by the Court.
11 It's an open process.

12 Yes, ma'am.

13 MS. LaRUE: Virginia LaRue.

14 My question is to Mr. Phelan. I believe you
15 said earlier that the company never made a
16 nickel.

17 MR. PHELAN: That's what it appears.

18 MS. LaRUE: That's what it appears. So does
19 that mean that it a Ponzi from day one, or would
20 there be some magic year that there was a
21 crossover that it was a functioning business and
22 then it went south --

23 MR. PHELAN: I think it has always been a
24 functioning business. Again, this is based on a
25 couple of weeks' worth of inadequate accounting

1 records' examination. But it appears that it was
2 always a functioning business, but it was never
3 functioning at a level sufficient to cover the
4 overhead that was supplied to the business, and
5 that the functioning business wasn't functioning
6 well enough to collect, for example, the
7 deficient loans in sufficient volume to cover it.

8 One thing that we've discovered is, during
9 their accounting, they never wrote off a loan.
10 So, you know, their records, absent that
11 correction, showed a loss for, I believe, 2006 to
12 2010, every year and increasing every year. But
13 when you add back this pool of, you know, \$55
14 million worth of delinquencies spread over that
15 time period, those losses become gigantic.

16 MS. LaRUE: So the answer is it was never --

17 MR. PHELAN: It was always dependent upon
18 investor money to keep the doors open. And at
19 some point, yes, there was a crossover where
20 investor money was actually taken in to pay
21 investor interest. That's the Ponzi scheme.

22 MR. BROWN: Yes, sir. In the back.

23 (Indiscernible)

24 MR. BROWN: Can you speak up?

25 MR. PHELAN: This is Ed Young.

1 The question was, how does the trustee get
2 paid? The same process that Mr. Brown just
3 described.

4 MR. YOUNG: I always thought the trustee
5 gets a percentage of the assets.

6 MR. BROWN: Not necessarily in a Chapter 11
7 case. And the way that we applied in this case
8 was it was an hourly rate, not a percentage
9 recovery rate. Chapter 7 cases are -- they
10 differ in that regard.

11 I think that -- I'm not sure that we
12 answered all written questions, but the ones I
13 flipped through, I see that we at least touched
14 on those subjects.

15 Are there other people that have questions
16 they'd like us to answer at this time?

17 Yes, ma'am, your name again.

18 MS. RODRIGUEZ: Yvonne Rodriguez.

19 I had two loans. I already filed my claim
20 and I put them together. Was I supposed to file
21 two separate claims, or is it okay to put them
22 together?

23 MR. BROWN: It's okay to put them together,
24 and some people may have. I know I've talked to
25 people over time that had investments in

1 retirement accounts and personal accounts. You
2 know, I can't tell you if you should separate
3 those out or not. Some people have them in the
4 name of trusts or whatnot. I think if you had
5 the investment in different legal entities, it's
6 going to help us a lot at the end of the day to
7 file different claims in those legal entities.

8 If you had different notes in your own name,
9 again, I'm not your attorney, but I would just
10 consolidate those into one group claim.

11 MR. MEEKER: But make sure your claim shows
12 it's two distinct loan numbers or whatever.

13 MR. BROWN: A lot of times if there's
14 confusion, you can handwrite a note out and
15 attach it to the back of the claim to say, here's
16 what it is. That can be helpful too.

17 Yes, sir.

18 UNIDENTIFIED SPEAKER: Since you merged with
19 the involuntary and voluntary bankruptcy, does
20 one take precedence over the other so if I would,
21 for example, research the law, I would look at it
22 one way or another?

23 MR. BROWN: At this point in time, it is
24 deemed a voluntary Chapter 11 bankruptcy case
25 with the Chapter 11 Trustee appointed. There's

1 not a distinction. At the point that an
2 involuntary bankruptcy case is converted on with
3 an order for relief entered, then it's just a
4 Chapter 11 case at that point in time.

5 The way it was initiated, it doesn't change
6 things on the going-forward basis. There's some
7 components of claims and whatnot during the
8 involuntary that are somewhat complex that I
9 don't need to get into. But it's basically, this
10 is a Chapter 11 bankruptcy case with a Chapter 11
11 Trustee having been appointed.

12 Yes, ma'am.

13 MS. BERARDO: Donna Berardo again.

14 Do you have any -- besides the website,
15 which is wonderful, do you have any plans to meet
16 with us as a group periodically, every six months
17 or every year? Something to let us know.

18 MR. BROWN: We haven't really talked about
19 that.

20 MR. MEEKER: I'll tell you what you find out
21 in these cases is, you know, a huge mob, crowd,
22 whatever you want to call it here today, and six
23 months from now, if we called this meeting, there
24 wouldn't be six people show up probably. People
25 just lose interest.

1 MR. BROWN: Let me tell you what my belief
2 is on that. We really do hope to have that
3 website have as much information for you as
4 possible such that it answers questions and
5 whatnot.

6 Now, again, I'm not opposed to holding
7 informal meetings. There's not a requirement to
8 have them by law. So if that's something that --
9 we'll be glad to talk about it, but if there's
10 information or questions that you have, then feel
11 free to reach out to me or Mr. Phelan by phone or
12 e-mail. We may not get back to you right away,
13 but we will do our best to try to answer any
14 questions you have if that information is not
15 available on the website. I would ask that you
16 try to find another website first.

17 Yes, ma'am.

18 MS. RUSTEN: Robben Rusten again.

19 The more I hear about this today it makes me
20 realize that there's -- sounds like there were
21 several people that had to be involved in running
22 this corporation into the ground the way that
23 they did. I mean, are these other people going
24 to be -- I mean, what if they have assets? What
25 if they have money that was taken from this

1 business? I mean, she couldn't have just done
2 this on her own.

3 MR. BROWN: We will look at every single
4 claim that can be tracked down. Again, there's a
5 lot of factors that play into whether you should
6 bring a lawsuit or not. But if you have
7 suspicions or an idea on claims that should be
8 pursued, please let us know. We will look into
9 them. We're glad to do that.

10 You know, let me just talk a little bit of
11 the practicalities of filing a lawsuit.

12 One: They cost money. They take time. And
13 you may have the best case in the world against
14 somebody and they may, on paper, owe a lot of
15 money; but they may not be recoverable, meaning
16 that, you know, a lot of times you can get a
17 piece of paper that says somebody owes you
18 hundreds of millions of dollars and they may not
19 have a penny to their name, and you can spend a
20 lot of money trying to chase it down.

21 So when we look at claims, even though there
22 may be a good claim against somebody or an entity
23 or whatnot, there are other factors that we have
24 to consider, because I suspect there are people
25 in this room that don't want to pay us to chase

1 after folks that there may be good claims against
2 that we might not recover anything at the end of
3 the day and run up a big tab on them.

4 So we keep that in mind before we take any
5 action.

6 MR. PHELAN: Gentleman in the middle here.
7 Name, sir.

8 MR. YOUNG: Jay Young.

9 I'm just wondering your anticipation of how
10 long your part of the operation is going to
11 extend. I mean, I'm getting old. Do you
12 anticipate two or three years or ten years? I
13 mean, I know the federal could be longer.

14 MR. PHELAN: I think there's two components
15 to my part. Component one is this run-off of the
16 tail of it, and at some point hopefully we will
17 sell it as a going concern to somebody, and that
18 point has to be within 60 days or so.

19 If we're unable to do that, then we've got
20 to figure out some way, like your neighbor there
21 said, to run the tail down economically. And at
22 most that's going to be a year.

23 The pursuing claims part of the case takes
24 years. But once we've liquidated the operating
25 components of the business, we can put the

1 proceeds of that into the pot and then chase
2 whatever we've got to chase and periodically make
3 distributions, as we talked about earlier.

4 MR. MEEKER: Even the simplist bankruptcy
5 case -- and we monitor all the Chapter 7 Trustees
6 and that sort of thing, and we try to keep the
7 cases moving. But even the simplist case, we
8 don't really pay a whole lot of attention to
9 until it's probably at least 30 months old.

10 MR. BROWN: On that point, our goal would be
11 to try to get some sort of plan pushed forward to
12 the Court. At this point, and it's not a hundred
13 percent, that has a trust or some mechanism to at
14 least get some of the money out early while we do
15 other things.

16 So that is a consideration. We're not
17 looking to hold on to the money for three years.
18 The goal here would be, again, to get you as much
19 money as fast as possible, as cheap as possible.

20 MR. PHELAN: The guy over here.

21 MR. BROWN: Yes, sir. I'm sorry if I'm not
22 getting to you fast enough. And we're going to
23 have to get out of here pretty soon.

24 So, yes, sir.

25 MR. RELER: My name's Bernie Reller.

1 Just an aside, in December of '08, the
2 Office of Financial Regulation initiated an
3 investigation of the company, and I have never
4 heard anything of a pronouncement. In fact, as
5 late as perhaps February, they were still
6 investigating. And just wondered if there had
7 been any pronouncement from that particular
8 office.

9 MR. BROWN: Not that I'm aware of at this
10 point. I don't know if Mr. Phelan --

11 MR. PHELAN: Not that I'm aware of.

12 MR. BROWN: We are aware of the
13 investigation and we're in communication with the
14 attorney that was handling the investigation for
15 Lydia Cladek, Incorporated.

16 I know I saw somebody -- yes, ma'am, in the
17 back, green shirt.

18 UNIDENTIFIED SPEAKER: What should I put
19 down on my IRS investment goal?

20 MR. BROWN: I'm not your accountant, but I
21 would think that you put down every penny you
22 lost.

23 UNIDENTIFIED SPEAKER: I'm talking about the
24 principal. I'm not talking about the interest
25 that was accrued. I had an investment. Are you

1 going to determine -- when is it going to be
2 determined that 99 percent of my investment was
3 lost?

4 MR. BROWN: I don't know. Again, that's a
5 number we won't know for a couple years. I hope
6 it's not 99 percent, but I don't know. We just
7 don't know that right now.

8 If it was me, I'm not your lawyer and I'm
9 not speaking as a lawyer, but if it was me filing
10 that claim, I would put down every penny.

11 UNIDENTIFIED SPEAKER: And that's what I
12 ask, when can we do it?

13 MR. BROWN: I don't know. I'm not a tax
14 expert, but I would do it sooner rather than
15 later. There are some beneficial -- I think
16 Mr. Meeker said that it was Lou Pearlman. What
17 was the website again?

18 MR. MEEKER: Scammedbypearlman. Scammed,
19 S-C-A-M-M-E-D, by Pearlman, and it's pearl, as in
20 the ring, M-A-N.

21 MR. BROWN: We'll try to get some of that
22 information on our website as well.

23 Yes, ma'am.

24 MS. EWING: Karen Ewing.

25 Mr. Phelan, I wondered, I know that Lydia

1 willingly took several hundred thousand dollars
2 toward the end, and I wondered if car notes were
3 purchased with that money and how many at the end
4 of the -- as it was winding up.

5 MR. PHELAN: I don't remember the date of
6 the last purchase, but there were very few car
7 notes purchased in 2010.

8 MS. EWING: Very few. Thank you.

9 MR. BROWN: This year. There was testimony
10 given on that at the trustee meeting.

11 Yes, ma'am.

12 MS. CROWELL: Lisa Crowell.

13 I'm just going to paint a little bit of a
14 picture before I ask my question.

15 Lydia Cladek, Incorporated, was a client of
16 mine, still is, and my question has to do with
17 the employees there. You had mentioned earlier
18 that you were going to try to get employees to
19 testify, and I know that employees were asked to
20 invest as well and that there are employees that
21 are still in place that were also investors.

22 Have you asked them to testify?

23 MR. BROWN: I don't understand when you say
24 testify.

25 MS. CROWELL: Or be part of this proceeding,

1 because you mentioned earlier that they're not in
2 this room and they're not included in anything.

3 MR. PHELAN: That was officers, specifically
4 Lydia.

5 MS. CROWELL: Only officers?

6 MR. PHELAN: We are in communication with
7 the employees that I'm still employing as well as
8 former employees regularly.

9 MS. CROWELL: So those employees are
10 included in whatever we're included in?

11 MR. PHELAN: Well, if they're creditors,
12 they're creditors, yes. Some of them are, some
13 of them aren't.

14 MS. CROWELL: I guess my confusion is, are
15 we sure they're not part of anything that's
16 sketchy? I don't know what other word to use.

17 MR. BROWN: Again, we will be looking at
18 that, and to the extent that anyone in this room
19 or you know of anyone that has information on
20 that, that would be helpful. We would consider
21 it, but those will be things that we take a look
22 at. It may not be that that's at the top of the
23 list, but it's on the list of things that we'll
24 look at.

25 Yes, ma'am, in the back.

1 MS. MacKAY: I'm Polly MacKay from
2 Gainesville, St. Augustine.

3 I ran upstairs, filed liked he said.
4 Ex-accountant, did it myself. I'm going to
5 charge myself \$250.

6 MR. BROWN: Okay. That you said the proof
7 of claim, is what you're saying?

8 MS. MacKAY: Yes. The question is, there
9 were car notes attached to that. My last
10 contribution was \$26,000 in January of '10. And
11 there were five cars attached to that. Again,
12 there's a gentleman that said he brought money in
13 January or November.

14 Again, to you guys, my question is, are you
15 sharing information with the FBI? Because if she
16 has a body of cars, then those notes that she
17 said are secured by those five cars are now
18 attached to the form upstairs.

19 MR. BROWN: Okay. The FBI seized records
20 before we ever got involved. So they -- and
21 we're talking to them about looking at what they
22 have. So they have a lot. I think it was --

23 MS. MacKAY: Are they going to call me and
24 say, hey, Polly, you were an idiot for buying
25 into this, but since you did, and in January you

1 handed over your kids' college funds, are you
2 going to -- can you testify on behalf that you
3 walked in and somebody who worked for Lydia took
4 my money away?

5 I mean, are they going to be taking that
6 information and prosecuting her, or are they not
7 available to certain things because she started
8 to get ready when she knew everybody was coming
9 to get her?

10 MR. BROWN: I think they have enough people
11 that they probably have already talked to to
12 advance whatever prosecution that they're going
13 to advance. I don't know.

14 And, again, I'm not the FBI, I'm not the
15 U.S. Attorney's Office and I don't speak for
16 them, but my belief is that they will formulate
17 the best claims that they can prosecute. And
18 they're still looking at them, and they probably
19 will not name every single claim, but they will
20 probably put the top five, ten claims together
21 and bring those forward.

22 I think there's some -- through evidence of
23 other bad doing that may play into this at
24 sentencing, if it gets to that point. I cannot
25 speak for what they're doing at this point. They

1 won't tell us, and I don't blame them for not
2 telling us. So it would be just pure
3 speculation. But that's kind of how I generally
4 understand how those things play out.

5 I have seen a lot of bad cases where it
6 takes a long time before -- you know, the people
7 that get prosecuted. So I can't speak for them.

8 MR. MEEKER: Last question. I think we've
9 got to go.

10 MR. WEGER: My name's Wayne Weger.

11 On your website is there a place where you
12 can send e-mails and get responses there, or do
13 we send it to a separate e-mail?

14 MR. PHELAN: I believe we have linked it to
15 our e-mail system so you can send me an e-mail
16 here.

17 MR. WEGER: On the website?

18 MR. PHELAN: Yeah. This is brand new, so,
19 you know, there's still pieces being added, but I
20 believe that piece is there.

21 MR. MEEKER: Let me make a couple of
22 comments in conclusion, and we do -- they want us
23 to clear the building by 5:00.

24 I have sensed kind of an undercurrent that
25 we need a committee because somehow the trustee

1 is adverse to us. I want to make clear, the
2 trustee has the same fiduciary responsibility
3 that a committee has. You know, he has certain
4 duties and obligations. And, you know, we
5 wouldn't have selected Mr. Phelan if there were
6 any questions about his ability to carry out
7 those duties and do it the right way.

8 Going forward. First of all, check the
9 website for information.

10 Secondly, if you have specific information
11 or a specific question that you can't get
12 satisfied on the website, then the contact is
13 either Mr. Phelan or Mr. Brown.

14 Thirdly, I know we've had a lot of questions
15 and, understandably, people are in the dark about
16 what's going on. A lot of them get directed to
17 us at the U.S. Trustee's Office because we're
18 kind of visible.

19 But we don't deal with a lot of the
20 day-to-day stuff here. We have a supervisory
21 role and, you know, we -- if you think there's
22 something systemically or, you know, a big
23 picture, there's a problem, we're more than happy
24 to talk with you and go over it.

25 But don't contact us just to say, hey, that

1 Phelan objected to my claim and I want to know
2 why, because we're not going to know why and
3 we're not going to take sides in it anyway.

4 If you really have serious questions, I
5 don't know that is it of economic benefit, it's a
6 judgment you have to make, you're entitled to
7 have an attorney represent you at any step of
8 this proceeding. Likewise, you're entitled to
9 come and participate in the court matters on your
10 own, if you wish.

11 As you probably picked up, this bankruptcy
12 thing is pretty arcane and pretty complex, but
13 you can navigate it yourself if you want to put
14 the time into it.

15 But, basically, all of us up here have the
16 same goal, and that is to recover as much as
17 possible and make it available in the most
18 economic and expeditious manner we can to the
19 people who have suffered losses.

20 You know, we will work with you in any
21 reasonable way we can. You know, don't walk out
22 of here thinking that somehow, you know, we've
23 got different teams here going in different
24 directions, because we're really trying to all go
25 in the same direction to achieve the same goal.

1 And we've got a couple minutes up here that
2 if any of you have individuals questions, I know
3 Mr. Brown has somewhere he's got to be fairly
4 quickly, but I just have to drive back to Orlando
5 and the traffic is heavy right now, so I'll wait.

6 MR. BROWN: I'll add to that. Again, we
7 want to work with you, we want to work for you,
8 we want to get the best result possible. That's
9 what we view our job is under the rules of the
10 court.

11 So if you have information, if you have
12 questions, we want to try to facilitate an open
13 process. We want to keep you informed and try to
14 work towards the end goal of getting you as much
15 money as cheaply, as quickly as possible.

16 I'll stick around. I do have to be
17 someplace, it's about a 20-minute drive, at 6:00,
18 so I can't stay for too long. I think they'll
19 kick us out in a minute.

20 If you didn't sign up and you want to,
21 please do.

22 (The 341 meeting was concluded at 4:51 p.m.)

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I, Denice Taylor, Notary Public, State of Florida at Large, do hereby certify that I was authorized to and did stenographically report the foregoing 341 Meeting of Creditors, held at the United States Courthouse, 300 North Hogan Street, First Floor, Suite 1-2001, Jacksonville, Duval County, Florida, on May 5, 2010, in the matter of In Re: Lydia Cladek, Incorporated, and that such transcript is an accurate recordation of the proceedings which took place.

A transcript of this proceeding has been produced on May 25, 2010.

STATEWIDE REPORTING SERVICE

Denice Taylor