

**IN THE CIRCUIT COURT OF THE NINTH JUDICIAL CIRCUIT  
IN AND FOR ORANGE COUNTY, FLORIDA  
CIVIL DIVISION**

STATE OF FLORIDA,  
OFFICE OF FINANCIAL REGULATION,

Plaintiff,

vs.

CASE NO.: 48-2006-011136-O

TRANS CONTINENTAL AIRLINES, INC.,  
TRANS CONTINENTAL AIRLINES TRAVEL  
SERVICE, INC., TRANS CONTINENTAL  
ENTERPRISES, LLC, d/b/a TRANS CONTINENTAL  
ENTERPRISES, INC., LOUIS J. PEARLMAN,  
ROBERT FISCHETTI, and  
MICHAEL CRUDELE,

Defendants,

and,

LOUIS J. PEARLMAN ENTERPRISES, INC.,  
TRANS CONTINENTAL RECORDS, INC.,  
TC LEASING, LLC,  
TRANS CONTINENTAL TALENT, INC.,  
FASHION ROCK, LLC.,  
TRANS CONTINENTAL TRAVEL SERVICE, INC.,  
F.F. STATION, LLC,  
TRANS COUNTRY MUSIC GROUP, INC.,  
TRANS CONTINENTAL STUDIOS, INC.,  
TRANS CONTINENTAL AVIATION, INC.,  
AEGIS CONSULTING, INC., and  
KRISTIN FINGER,

Relief Defendants.

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**RECEIVER'S INITIAL REPORT OF INVENTORY, FINDINGS AND ACTIONS  
TAKEN FROM FEBRUARY 2, 2007 THROUGH FEBRUARY 22, 2007**

**BY: GERARD A. McHALE, JR.**  
1601 Jackson Street, Suite 200  
Fort Myers, FL 33901

## **INTRODUCTION**

For at least 15 years, Trans Continental Airlines, Inc., Transcontinental Airlines Travel Service, Inc., Transcontinental Enterprises, LLC (the “Receivership Entities”), all controlled by Louis J. Pearlman and/or Robert Fischette and/or Michael Crudele, have offered and sold “Employee Investment Savings Accounts” (“EISA”) by making fraudulent representations that the “deposits” were safe and secured because they were held in U.S. financial institutions guaranteed by the F.D.I.C. and otherwise insured by either Lloyds of London or A.I.G. A related “stock program” - the exact nature of which is unknown but which appears to have been related to the sale of unregistered securities, was also run as part of the fraud. This was all part of the “Ponzi” scheme operated by the Defendants. The money from this scheme went to either pay returns to earlier investors, commissions, expenses for operations or was otherwise funneled into the other various and many entities controlled by Louis J. Pearlman and his cohorts.

Part of the fraudulent scheme was the presentment of false financial statements from a non-existent accounting firm and fabricated non-existent insurance policies. Not only were individual investors defrauded, but several banks appear to have also been similarly defrauded. Over \$315 million was raised fraudulently from individual investors through the Receivership Entities and over \$120 million is due and owing to various banks and financial institutions who lent money to the Receivership Entities, the Relief Defendants and other affiliated entities.

### **I. LEGAL PROCEEDINGS – APPOINTMENT OF RECEIVER**

The State of Florida, Office of Financial Regulation (“OFR”), commenced investigations into the Trans Continental enterprise when complaints were made by

individual investors who could not obtain a return of their “deposits.” During their investigation, the OFR filed this action, seeking an injunction, an appointment of a receiver to protect the interests of the victims of the fraud and other ancillary relief. By Order dated February 2, 2007 (“Receivership Order”), Gerard A. McHale, Jr. was appointed as Receiver over the Receivership Entities. The Receivership Order also granted a temporary injunction over the books and records of the Receivership Entities, the EISA funds and over the accounts of the Relief Defendants, referenced in the above caption.

This initial report provides to the Court and the Plaintiff: (1) an inventory of property under the Receiver’s control or possession pursuant to his appointment; (2) a synopsis of the Receiver’s actions to date; and (3) an overview of pending and potential related litigation.

As required by Rule 1.620(b), Fla. R. Civ. P., and the Receivership Order, the Receiver will file additional periodic reports to update interested parties on all material developments in the receivership every 120 days.

## **II. INVENTORY**

The Receiver has recorded the Receivership Order in the public records and provided a copy of the Receivership Order to all known banks or depositories of the Receivership Entities and Relief Defendants. Such action caused the banks and depositories to freeze certain bank accounts of the Relief Defendants and caused banks to transfer approximately \$11,000 from accounts of the Receivership Entities to the Receiver. Apart from causes of action, some known and some yet to be discovered, there appears to be very little else by way of valuable assets which are unencumbered.

However, as discussed below, despite the commingling and how closely intertwined the Receivership Entities were operated with reference to the Relief Defendants; the assets and documents of the Relief Defendants are not in the direct control of the Receiver and such assets have not been made available to the receivership.

### **III. RECEIVERSHIP ACTIVITIES**

To best marshal, preserve, protect and safeguard the assets, the initial phase of the receivership is to find sufficient assets to fund the skeletal operations of the Receivership Entities. When the Receiver was appointed, the Receivership Entities were essentially “rudderless.” All officers had resigned and employees had not been paid for weeks prior to the receivership. There are insufficient funds to pay for the phones, utilities and security (assuming these are obligations of the Receivership Entities). The expenses for the maintenance and operations of the Church Street Station headquarters (the real estate being titled in the name of Relief Defendant, F.F. Station, LLC) had not been paid for weeks. For example, trash pick-up was halted due to failure to pay for services; the outstanding phone bill for Talent Rock (a business operated by Relief Defendant Fashion Rock, LLC) totaled in excess of \$30,000; the cleaning crew had not been paid; and the list goes on and on. While some of the bills are not specifically associated with the Receivership Entities, it was apparently the general expectation that these bills would be paid by those in control of the Receivership Entities. In fact, bills have been generally paid without regard to which entity actually owed the bill.

There did not appear to be any legitimate business operations associated with the Receivership Entities – only liabilities. Money was constantly transferred from one entity to another; from the Receivership Entities into other entities and almost all of the

funds have been funneled out of the immediate reach of creditors. It appears that E.I.S.A. funds which came into Trans Continental Airlines, Inc. were funneled to other operating entities and/or to Mr. Pearlman to cover operating losses and expenses. The Receivership Entities were merely used as “conduits” by Pearlman to siphon off money to himself and his other entities.

**A. Lack of Control over Assets and Control of “Relief Defendants” and Other Related Entities**

This has been the central problem encountered by the Receiver. Louis Pearlman, the apparent mastermind of the fraudulent scheme, has over 100 related entities. It was his practice to create a “new company” for every business venture. For example, he would create a new business entity for every new band that he promoted. However, the Receiver has reviewed the operations and after interviews with the former employees, has reached the conclusion that legal formalities distinguishing one entity from another were not observed.

As previously mentioned, money was regularly transferred without regard to proper accounting practices or legal formalities. Various loan payments were made without regard to which entity actually owed the obligation. Operations (accounting, human resources, legal, marketing) of all entities (Receivership Entities, Relief Defendants or otherwise) are concentrated in the Church Street Station headquarters. The same employees performed the payroll, accounting and human resources services for all the entities. Records for all the entities were generally kept in the same filing cabinets. Mail for all the entities came to the same location, it was sorted the same way and the mail slots for all the entities are also located in the same place. The computer system for all entities was linked to one set of servers. The forms used by all employees were

generic to all companies. The same office equipment was used by all entities, without distinction. Louis J. Pearlman utilized business letterhead and business cards referencing the “Trans Continental Companies.” These documents listed as many as eighteen (18) entities.<sup>1</sup>

There was only one common control over all the entities – Louis J. Pearlman. He was the person in charge.

The corporate records of all the entities were found all together in several cabinets (with the exception of Trans Continental Airlines, Inc., - which was kept in a safe, since it was main entity which was used in the EISA and Stock program). Many of the entities’ corporate records consist of merely pre-printed forms which could be purchased at any business store and many appeared never to have been used.

Thus, the Receiver has reached the conclusion that it was one intertwined enterprise. Given the money required for operating and debt service for all the Pearlman entities, the Receiver is confident that EISA and stock money was used for the operations of the other entities.

#### **B. State of Affairs Immediately Pre-Receivership**

In late 2006 or January 2007, employees shredded and carted off massive amounts of documents when the handwriting “was on the wall.” Many had their personal belongings boxed. Pre-Receivership, Pearlman himself prepared by allegedly selling off his interests in various entities such as Rocks (a jewelry store in the Millennium Mall), and the Pearl Restaurant (a Steakhouse and bar located at Church Street Station). He also

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<sup>1</sup> The letterheads state that Louis J. Pearlman is the “Chairman, President and Chief Executive Officer” for Trans Continental “Airlines, Inc., Aviation, Inc., Entertainment, Inc., Leasing, Inc., Management, Inc., Pictures, Inc., Productions, Inc., Publishing, Inc., Records, Inc., Studios, Inc., Television Productions, Inc., Travel Service, Inc.,” as well as for “Talent Rock, NYPD, Orlando Predators, Rocks Fine Jewelry and Church Street Station.”

sold off his real estate (luxury condos and apartments) in New York City as well as certain of his luxury vehicles. In late December 2006, Pearlman apparently transferred over \$5.0 million into and out of a personal bank account. In October 2006, Michael Crudele transferred in excess of \$1.5 million into and out of a personal bank account. Pearlman's personal assistant, Janet Hart, took possession of approximately \$20,000 in crystal vases – which were subsequently returned post-receivership. Checks worth over \$100,000 were written directly to the controller, Kamla Bacchus. Pre-Receiver's counsel for Pearlman and the Receivership Entities, Michael Ferderigos, took several plasma television screens, a surround sound system, and a conference room table and chairs. After demand by the Receiver, these items were also returned. The situation immediately preceding the Receivership was one of chaos as Pearlman and his employees knew that the inevitable end was near.

### **C. Post-Receiver's Transfers and Events**

Money has been transferred since the Receivership from accounts in the names of affiliated entities. For example, days after the Receivership, NYPD Pizza closed out its account with Fifth Third Bank and transferred in excess of \$60,000. The current ownership of NYPD Pizza is in question.

A business called Talent Rock, a fictitious name owned by Relief Defendant Fashion Rock, LLC, continues to operate at some level. Talent Rock is a telemarketing operation – the hard sell of “events” on cruise ships or otherwise -- run from the Church Street Station headquarters. Talent Rock has made payments of approximately \$40,000 to employees by using the electronic “PayPal” accounts from which it received money for telemarketing efforts. Despite an investigation by the State of Florida, Department of

Agriculture and Consumer Affairs, Talent Rock continues to operate to this day, and upon information and belief, is under the control of Pearlman related persons and/or entities.

Bank of America filed a foreclosure action against Relief Defendant F.F. Station, LLC, owner of the Church Street Station real estate. A hearing was scheduled on February 21, 2007, in the foreclosure case on Bank of America's motion to appoint a separate receiver for the real estate. However, in a twist of events, F.F. Station, LLC filed Chapter 11 bankruptcy the night before that scheduled hearing. Bankruptcy counsel for F.F. Station, LLC, reports that Pearlman "signed over" his management rights to Michael Moecker, a local insolvency professional. The F.F. Station LLC bankruptcy petition was signed by Terry Soifer, as President.

The Receiver has been attempting to cooperate with various banks, many which have asserted a pre-Receivership UCC security interest in various assets, including equipment, royalties, certain vehicles, receivables, stock, personal property and other assets. Despite the Receivership, certain banks have continued with the prosecution of litigation against Trans Continental Airlines, Inc. and other entities, in an apparent "race to judgment." The Receiver and his counsel have been forced to spend an inordinate amount of time and effort dealing with the various pieces of pending litigation and the various requests or demands of creditors.

On February 20, 2007, Washington Mutual attempted to obtain a judgment against Trans Continental Airlines, Inc. in an action pending in Seminole County. Counsel for the Receiver was required to appear and advised the court that the Receiver had sought a stay of all suits. In light of the Receiver's request for a stay, the Seminole

County Circuit Court continued the hearing until after the receivership court's consideration of the request for a stay. The Receiver believes that Florida law is clear that any post-Receivership judgment or judgment lien against any of the Receivership Entities cannot be used to obtain a priority or preference against other creditors of the receivership. Washington Mutual and others apparently disagree.

In light of the pending litigation, the Receiver has filed a Motion for Order Staying Suits and an Emergency Motion for Order Expanding Injunctions and Receiver's Powers. These motions are set for hearing on February 23, 2007.

#### **D. Books and Records**

The Receiver is still in the early stages of reviewing the books and records and performing a forensic investigation to determine what happened to investor funds and if there are any available assets. As previously mentioned, the books and records appear to indicate that all Pearlman entities were run as one basic enterprise. The books and records were not segregated by entity and were generally kept together, regardless of the legal fictions.

On the morning of the day that the Receiver was appointed – February 2, 2007 – Integra Bank obtained an order from the Federal District Court in Orlando granting immediate access to certain books and records of Trans Continental Airlines, Inc. After coordinating a review of records by Integra Bank's professionals, on February 15, 2007, many of the books and records (over 50 boxes and several file cabinets) were seized by the F.B.I., I.R.S., F.D.I.C. and OFR in furtherance of a criminal investigation into this financial fraud. The Receiver is now required to coordinate his review of those pertinent

records with these regulatory agencies. The Receiver continues to cooperate with these regulatory agencies in their ongoing investigations.

On February 20, 2007, American Bank of St. Paul obtained an order from the Federal District Court in Minnesota granting immediate access to certain books and records of two affiliated entities, Trans Continental Records, Inc. and TOTP, LLC. Despite the fact that these entities are not Receivership Entities, the order was served on counsel for the Receiver and demand for inspection of the documents was made on the Receiver. Federal marshals appeared at the Church Street Station offices on February 22, 2007, to execute the order. The Receiver cooperated with the marshals.

#### **E. Liabilities**

The Receiver estimates that investors' claims arising from EISA deposits and related stock programs will likely exceed \$315 million, with approximately 1,800 investors. Claims of bank lenders will likely exceed \$125 million.

The Receiver has communicated with hundreds of creditors through a website created for the Receivership. A mass mailing will be sent very shortly to all EISA and stock program investors explaining the Receivership and explaining the events that have recently occurred. The Receiver will attempt to update the website periodically to provide the creditors with information.

In witness whereof, the undersigned, Gerard A. McHale, Jr., hereby files this Initial Report of Inventory, Findings and Actions Taken from February 2, 2007 to February 22, 2007 with Renee A. Roche, Circuit Court Judge of the Ninth Judicial Circuit in and for Orange County, Florida, and declare under penalty of perjury and under the laws of the United States that the foregoing statements are true and correct on this 22 day of February, 2007.



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