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9
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 IN AND FOR THE COUNTY OF NEVADA
12

13
14 PEOPLE OF THE STATE OF
15 CALIFORNIA,

16 Plaintiff,

17 v.

18 (P) PHILIP LESTER; SUSAN LAFERTE, (B)
(A) JONATHAN BLINDER; ELLEN LESTER (C)

19 Defendants.
20

No. F12-380 A, B, C, D

DECLARATION IN SUPPORT OF
ISSUANCE OF ARREST WARRANT

21 I, Debra Gard, declare:

22 I am a Peace Officer as defined in Penal Code Section 830.1. I have a P.O.S.T. advanced
23 Peace Officer certificate and have been a Peace Officer in the State of California since 1988. I
24 have been a Special Agent with the California Department of Justice (DOJ) since February 2001.
25 Since October 18, 2010, I have been assigned to the Special Crimes Unit (SCU) within the
26 Division of Criminal Law. SCU is a vertical prosecution team that coordinates the investigation
27 and prosecution of crimes involving large-scale, investment and financial frauds. The unit also
28 investigates and prosecutes public corruption cases. In addition, the unit handles high-tech crimes

1 where the scope and complexity of offenses exceed the investigative and prosecutorial resources
2 of local law enforcement and other state agencies. My prior assignments within the DOJ have
3 been with the Bureau of Investigation and Intelligence and the Bureau of Medi-Cal Fraud and
4 Elder Abuse. I completed a seven week Special Agent academy when I was hired by the DOJ. I
5 received formal and informal training in all aspects of investigation, ranging from elder abuse and
6 neglect to Internet crimes to officer-involved shootings. I have maintained on-going training with
7 an emphasis on financial crimes.

8 Prior to my employment with the DOJ, I spent 5 years as a Welfare Fraud Investigator with
9 the El Dorado County Department of Social Services. From 1988 through 1996, I was a Peace
10 Officer with the City of Vacaville Police Department, where I performed Patrol duties, conducted
11 undercover narcotics investigations and received advanced officer training. From 1981 through
12 1988, I was a Peace Officer with the Largo, Florida Police Department. In addition to Patrol
13 duties, I conducted undercover investigations, and participated in the investigation and seizure of
14 physical and financial assets. During my career as a Peace Officer, I have attended specialized
15 training including asset forfeiture and fraud investigations, interview and interrogation
16 techniques, identity theft, financial crimes investigation, and forensic computer investigation. I
17 have a Bachelor of Arts degree from Golden Gate University in San Francisco.

18 INTRODUCTION

19 In October 2010, I began an investigation into the activities of Philip Neil Lester (P.
20 Lester), Ellen Carter Lester (E. Lester), Susan Laferte (Laferte), Jonathan Blinder (Blinder) and
21 Gold Country Lenders (GCL) after the California Department of Justice (DOJ) received
22 complaints from multiple investors alleging they had been the victims of fraud. The complaints
23 alleged Lester and GCL were offering/issuing securities in the form of fractionalized deeds of
24 trust secured by parcels of land which were supposed to be developed and sold. P. Lester, E.
25 Lester, Laferte and Blinder failed to inform investors that, on most of the large project loans, P.
26 Lester was the property owner, partner, developer, appraiser and/or borrower, as well as the loan
27 broker. P. Lester, E. Lester, Laferte and Blinder did not disclose that investor money would not
28 be used for the purpose(s) stated, would be used to make principal/interest payments to other

1 investors and was not secured as promised. At the time of their investments, several of the
2 complainants were age 65 years or older. Between September and October 2008, more than 100
3 investors were notified by letters from GCL that GCL was suspending the monthly interest
4 payments owed to investors for 6 months. In early 2009, several of the investors contacted GCL
5 after learning Philip and Ellen Lester were partners of Linx Group (Phil and Ellen Lester created
6 Linx Group using variations of "Linx" such as "Lynx" and "Links." For purposes of this
7 declaration, "Linx" is collectively identified as "LGI"). LGI was the borrower on at least 3 loans
8 which were in default status. The investors demanded their money be returned. They were told
9 by GCL staff there was no money available. To date, investors have been unsuccessful in their
10 demands for the return of their principal.

11 P and E Lester moved to Nevada County in the late 1980s. P. Lester became a licensed real
12 estate broker with the California Department of Real Estate (DRE) in 1985 and had been working
13 as a successful real estate broker in Walnut Creek prior to moving to Nevada County. P. Lester
14 initially helped people buy and sell properties and get loans. In 1991, the corporate name for
15 GCL was registered with the California Secretary of State (SOS) and in March 1992, GCL was
16 licensed by DRE as a real estate company. P. Lester owned GCL and served as the company's
17 broker. P. Lester also hired his sister, Laferte, as a salesperson. Laferte was licensed by DRE as
18 a salesperson in 1994, and subsequently licensed as a broker in 2001.

19 P. Lester became more ambitious and started doing real estate development projects by
20 putting people together to fund projects rather than seeking bank funding. P. Lester, with the
21 assistance of his wife, E. Lester, an attorney, created partnerships and limited liability companies
22 to own and fund the projects. Over time, as word spread, P. Lester and Laferte cultivated a large
23 number of people who invested with GCL and made money in his projects.

24 P. Lester's success also sowed the seeds of his downfall. P. Lester, unbeknownst to most of
25 the investors, was the borrower on many of the projects, and had no money of his own with which
26 to fund the project or pay investors. P. Lester issued fractional deeds of trust secured by property
27 which he either owned outright or owned in partnership with other developers. Laferte solicited
28 money for P. Lester's projects, which was then used to pay the investors on other projects. P.

1 Lester was borrowing from an increasing circle of people and obligating himself and GCL to pay
2 interest at the rate of between 8% and 12% per year. Generally, in seeking money, he would tell
3 the lenders their funds would be for a particular project but fail to disclose the borrower or
4 property owner. Generally he promised the lenders security for money in the form of first or
5 second deeds of trust on property owned by the entity in which the lender thought his or her
6 investment was being made.

7 More often than not, the promises of security were an outright lie – in most instances the
8 promised security was not provided and the properties that were supposed to act as security were
9 encumbered with loans in favor of others. P. Lester brokered loans which he said would be used
10 for development by various entities, but failed to disclose that he was the borrower and/or
11 property owner. On some of the properties, extensive toxic waste clean up was required before
12 any development could begin. In several of the loans brokered after January 2005, much of the
13 money went toward the purchase and operation of the Auburn Country Club (ACC), a gold
14 course and clubhouse in an exclusive Auburn community where the Lesters resided and P. Lester
15 golfed. Between supporting investor payments and operating costs of the ACC, P. Lester's
16 financial promises were unsustainable and his empire was spiraling out of control and becoming a
17 vast Ponzi scheme. Investors were paid their interest, but because their money was not put to use
18 as promised, the interest was often paid without corresponding sustainable income. Projects were
19 not completed where money had been borrowed pending the completion of the project. Proceeds
20 from the few individual loans that were completed were used for interest payments on incomplete
21 projects. P. Lester and Laferte rolled funds over to other projects rather than repaying
22 investments (because there were no funds available to make the repayments).

23 As his scheme started to fall apart, and as the losses mounted, P. Lester became ever more
24 desperate. P. Lester, E. Lester, and Blinder, along with two other partners, created Enlibra, Inc., a
25 holding company into which were placed the projects that carried the highest number of investors
26 and the most amount of money owed. Laferte rolled investor money from other projects into
27 Enlibra. P. Lester, E. Lester, and Blinder gave presentations to investors for Enlibra, failing to
28 clearly disclose that P. Lester was the property owner and/or developer on one or more of the

1 properties held by Enlibra. By May 2009, GCL sent letters to investors stating there were no
2 more funds to pay the interest payments on the existing loans. In May 2010 and May 2011,
3 Laferte, as Chief Financial Officer (CFO) of GCL, sent letters to investors on specific loans
4 stating the project was a total loss and there was no expectation the investor would receive a
5 return of their principal. P. Lester and GCL owed investors in excess of \$2.3 million.

6 CALIFORNIA'S SECURITIES LAWS

7 The sale of investment opportunities to the public is subject to California's Corporate
8 Securities Law. The statutory scheme covers more than stocks; it exists to protect the public
9 against the imposition of unsubstantial, unlawful and fraudulent investment schemes (*People v.*
10 *Syde* (1951) 37 Cal.2d 765-766) and to promote the full and fair disclosure of all information
11 necessary to make informed and intelligent investment decisions. *People v. Park* (1978) 87
12 Cal.App.3d 550, 565; see also *Silver Hills Country Club v. Sobieski* (1961) 55 Cal.2d 811.

13 Corporations Code section 25019 defines a security to include any " . . . note; . . . evidence
14 of indebtedness . . . participation in any profit-sharing agreement . . . investment contract; . . . or
15 in general, any interest or instrument commonly known as a 'security'" This definition is
16 expansive and is designed to insure that the regulatory purpose of the law will meet " . . . the
17 countless and variable schemes devised by those who seek the use of the money of others on the
18 promise of profits." *SEC v. Howey Co.* (1946) 328 U.S. 293, 299; see also *Silver Hills Country*
19 *Club v. Sobieski, supra*, 55 Cal.2d at p. 814. Keeping this purpose in mind, courts have "adhered
20 to the principal that substance governs over form." *People v. Figueroa* (1986) 41 Cal.3d 714,
21 734.

22 The primary test in California to determine whether an offering is a security is the "risk
23 capital" analysis developed in *Silver Hills Country Club v. Sobieski, supra*. By that test, an
24 offering is a security where there is " . . . an attempt by an issuer to raise funds for a business
25 venture or enterprise; an indiscriminate offering to the public at large where the persons solicited
26 are selected at random; a passive position on the part of the investor; and the conduct of the
27 enterprise by the issuer with other people's money." 55 Cal.2d at 815. The basic test for
28 distinguishing a security from other commercial dealings is whether the scheme involves an

1 investment of money in a common enterprise with profits to come solely from the efforts of
2 others. *People v. Smith* (1989) 215 Cal.App.3d 230, 237, relying on *SEC v. Howey Co.*, *supra*;
3 see also *People v. Figueroa*, *supra*, 41 Cal.3d at p. 734.

4 Two cases, cited with approval in *Figueroa* (41 Cal.3d at 736), are instructive. In *People v.*
5 *Leach* (1930) 106 Cal.App. 442, unsecured promissory notes on real property were held to be
6 securities. In *People v. Walberg* (1968) 263 Cal.App.2d 286 unsecured, interest bearing
7 promissory notes were held to be securities. See also *People v. Simon* (1995) 9 Cal.4th 493
8 [interests in promissory notes]; *People v. Corey* (1995) 35 Cal.App.4th 717 [interests in a Michael
9 Jackson board game]; *People v. Miller* (1987) 192 Cal.App.3d 1505 [funds borrowed for
10 investment purposes]; *People v. Schock* (1984) 152 Cal.App.3d 379 [fractional interests in
11 inadequately capitalized deeds of trust].

12 Here investors loaned money to P. Lester and GCL with the understanding P. Lester and
13 GCL would use their funds in particular investment projects, that they would get fractional deeds
14 of trust issued by GCL, and the notes would be secured by the project, an interest in the project or
15 a deed of trust. Any return to the investors - their interest payments and return of principal - was
16 dependent on the efforts of P. Lester, and investors relied on his skill, services, solvency, success,
17 and his false representations that their investments were secured.

18 Making misrepresentations in the sales of securities through misrepresentations or
19 omissions of material facts is a violation of law pursuant to Corporations Code section 25401
20 and is made criminal by Corporations Code section 25540(b). The evidence shows that here P.
21 Lester promised security he did not deliver, and that he omitted to tell investors (1) he was the
22 owner or partner of many of the projects under development; (2) he was the partner of the
23 development company borrowing funds to develop the projects; (3) E. Lester was a partner on
24 loans for LGI; (4) money would not be used as promised; (5) of his substantial investment losses;
25 (6) new investor and rollover money was being used to pay other investors; and (7) there were
26 insufficient assets and too many obligations to pay investors back. P. Lester operated a fraudulent
27 securities scheme in violation of Corporations Code section 25541.

28 P. LESTER'S INVESTMENT OFFERINGS

1 **Deer Creek Pines/Kenny Ranch/Wildflower Ridge**

2 In 1999, the property known as "Kenny Ranch" was given "Special Development Area
3 (SDA)" status by the Grass Valley city council. In June 2000, Steve Elder (Elder), a developer
4 and business partner on many projects with P. Lester, purchased the property for \$1,537,600.00.
5 GCL facilitated the loan for Elder through private investors. In July 2000, P. Lester registered
6 Deer Creek Pines, LLC (DCP), with the SOS, and in August 2000, P. Lester registered Kenny
7 Ranch, Inc. with the SOS. P. Lester and Elder were partners in both DCP and Kenny Ranch, Inc.
8 In January 2001, the CA Department of Toxic Substances Control (DTSC) sent a letter to Elder
9 advising him to enter into a Voluntary Cleanup Agreement (VCA) for toxic waste issues
10 identified on the Kenny Ranch property. Elder signed a VCA with DTSC on January 31, 2001.
11 DTSC estimated their oversight cost for the VCA at approximately \$8277.00, though there was
12 no firm clean up estimate because of disagreements in toxic waste levels between DTSC and
13 Holdrege and Kull (H&K, the company contracted by GCL). In February 2001, GCL loaned
14 \$500,000.00 to DCP through the sale of "subscription units" of DCP. Laferte was one of the
15 GCL sales representatives who sold the investment units of DCP. Laferte failed to tell investors
16 that P. Lester was one of the partners of DCP and Kenny Ranch. Laferte also failed to inform the
17 investors that toxic waste had been identified on the property and the VCA required that the toxic
18 waste be satisfactorily removed prior to proceeding with any development.

19 In 2003, GCL began a strong push for investors on the DCP project. Between January 2003
20 and April 2003, GCL solicited loans 1941, 1944, 1945, and 1946 totaling \$1,305,000.00 for DCP.
21 The money was loaned to DCP for the purpose of development. Investors were told by Laferte
22 and P. Lester that the property was in Grass Valley's SDA, and would be developed into a mixed
23 use of housing and shopping. In February 2003, the Grass Valley city council revised the SDA
24 for DCP, pushing out annexation to 2015. Investors who were solicited between January and
25 April 2003 were never told the SDA had been revised and the plan pushed out 12 years.

26 In August 2005, GCL issued promissory notes extending loans 1941 through 1946. GCL
27 continued to solicit loans on DCP, issuing "second" deeds of trust to investors totaling
28 \$300,000.00 (loan 2139).

P. Lester took the DCP plan to the Nevada County Planning Commission in June 2006. The planning commission reviewed the plan and determined the development plan for the parcel was not going to be approved any time in the near future. In August 2006, the Grass Valley city council re-affirmed its position that the project would not move forward until sometime between 2016 and 2020. In August 2006, P. Lester donated land valued at \$545,000.00 to Hospice of the Foothills without telling investors. In January 2007, GCL solicited another \$400,000.00 from investors (loan 2178, a second deed of trust to loan 1944) without revealing all of the prior history on the existing loans.

In January 2008, Blinder was contracted by Enlibra, LLC, as the chief operating officer (COO), with a deferred salary of \$10,000.00 per month. Between January and March 2008, DCP was rolled into Enlibra, LLC, and rebranded as "Wildflower Ridge." The equity investors of DCP and Kenny Ranch (those who bought subscription units) were rolled into Enlibra, LLC and letters were sent to investors stating their interest was increasing from 8% to 11%. In May 2009, all DCP/Kenny investors (loans 1941, 1944, 1945, 1946, 2139, and 2178) were rolled into a massive consolidation loan identified as 2216DC. The total in that loan was \$3.8 million.

Between the "subscription units" which were transferred to Enlibra, LLC, and the loans backed by deeds of trust, it appeared that investors invested more than \$5.3 million in the DCP/Kenny Ranch project. I interviewed the following investors who were solicited and invested in DCP/Kenny Ranch :

| Count | Victim | Date | Charge | Amount Invested |
|-------|-------------------------|----------------------|--------|-----------------|
| | Deer Creek Pines | | | |
| 3 | | January 8, 2003 | 25401 | \$200,000.00 |
| 13 | | November 21, 2006 | 25401 | \$ 50,000.00 |
| 30 | | March 5, 2007 | 25401 | \$ 35,000.00 |
| 14 | | January 2 to 7, 2008 | 25401 | \$ 50,000.00 |
| 62 | | April 18, 2008 | 25401 | \$ 25,000.00 |
| 15 | | May 5, 2009 | 25401 | \$ 50,000.00 |
| 6 | | May 8, 2009 | 25401 | \$200,000.00 |
| 11 | | May 8, 2009 | 25401 | \$125,000.00 |
| 12 | | May 8, 2009 | 368(d) | \$125,000.00 |
| 31 | | May 8, 2009 | 25401 | \$ 35,000.00 |
| 39 | | May 8, 2009 | 25401 | \$ 55,000.00 |

| | | | | |
|----|--|--------------|--------|--------------|
| 40 | | May 8, 2009 | 368(d) | \$ 55,000.00 |
| 64 | | May 8, 2009 | 25401 | \$ 30,000.00 |
| 34 | | May 28, 2009 | 25401 | \$ 50,000.00 |
| 35 | | May 28, 2009 | 368(d) | \$ 50,000.00 |
| 63 | | June 3, 2009 | 25401 | \$ 25,000.00 |

Some of the investors rolled over investments from other P. Lester/GCL projects to this investment. Some investors had multiple notes combined and yet others rolled over earlier notes issued for the same purpose into new notes. At the time the property was rolled into loan 2216DC in May 2009, none of the early investors were paid off. More importantly, to the extent that the investors were promised their money was to be used for the development of DCP/Kenny Ranch, no development has been completed (two different land use plans were presented to the City of Grass Valley and the Nevada County Planning Commission but both plans were put on hold and investors were not informed that the plans were shelved), and a parcel was donated to Hospice of the Foothills without their knowledge, authorization or approval. In addition to the \$4.3 million owed to investors, when I reviewed the existing deeds of trust on the property, it appears P. Lester gave deeds of trust to everyone to whom he owed money (I talked to a representative of H&Kull, Jason Muir, who said H&K received a deed of trust for Kenny Ranch in lieu of money owed to them for work performed.). Finally, to date no property taxes have been paid on the property, and the property is moving toward a foreclosure/tax sale by Nevada County.

Bullards Bar

In 1997, Pat Browning (Browning), Scott Leonhard (Leonhard), and P. Lester partnered to purchase the Bullards Bar property, 2700+ acres along the Yuba River. The purpose of the partnership was to log the property and resell it. The purchase price was \$850,000.00. P. Lester's role was to obtain financing for the loan. Between 1998 and 2001, the property was logged, decreasing the underlying value of the property. The partners netted approximately \$1.8 million from the timber sales. Browning estimated the partnership made enough money in the first three months of logging to repay the \$850,000.00 loan obtained for the purchase. In 2001, after the logging was completed, Browning wanted to sell the property as agreed in the partnership agreement. P. Lester refused to sell the property for less than \$9 million.

1 Unbeknownst to the partners, P. Lester had begun using the property as a "cash cow" to obtain
2 loans for projects completely unrelated to Bullards Bar.

3 In January 2001, P. Lester and GCL brokered loan 8800 in the amount of \$600,000.00,
4 using the Bullards Bar property as collateral for the loan. The money was used for the Auburn
5 Country Club (ACC). In August 2003, loan 8800 was rolled into the ACC loan #1980 and
6 Bullards Bar was unencumbered until January 2005.

7 Between January and February 2005, P. Lester and GCL solicited three different loans
8 using Bullards Bar as collateral. The first loan, 2082, in the amount of \$945,000.00, used specific
9 Assessor Parcel Numbers (APNs) associated with parcels located in Yuba County. The second
10 loan, 2090, in the amount of \$855,000.00, used APNs associated with parcels located in Nevada
11 County (the property straddled the Yuba/Nevada County lines with the river as the dividing line).
12 The third loan, 2091, in the amount of \$160,000.00, was secured as a second by all APNs.
13 Though investors received documents stating they were loaning money to the "Bullards Bar
14 Project," they were never specifically told how their money would be used, that P. Lester was one
15 of the partners and owners of the Bullards Bar property, the property had been logged and the
16 underlying value decreased due to the logging. Further, as a partner in the property, P. Lester had
17 to seek authorization and approval from the other partners before encumbering the property.

18 In February 2006, loan 2091 was re-written, changing it to loan 2141 and adding another
19 \$65,000.00 to the loan. In January 2007, loan 2141 was re-written as loan 2182, adding another
20 \$50,000.00, bringing the total to \$275,000.00. In January 2008, loan 2182 was extended and
21 another \$250,000.00 was added to the loan, bringing the total owed to \$525,000.00.

22 Documents seized pursuant to search warrant showed handwritten notes by Laferte stating
23 the funds from loans 2082 and 2090 were to be "loaned" to the ACC, to be repaid at a later date.
24 Further documents seized pursuant to search warrant showed P. Lester used the funds from loans
25 2082 and 2090 to assist with the purchase of the ACC. Investors were never told their money was
26 being used for the purchase of the ACC.

27 Based on GCL's financial records as well as documents provided by investors, I have
28 determined that investors invested more than \$2.3 million with P. Lester for Bullards Bar loans

2082, 2090, and 2182. During the course of the investigation, I attempted to contact all of the Bullards Bar investors. The following seven investors were willing to be interviewed:

| Count | Victim | Date | Charge | Amount Invested |
|-------|---------------------|-------------------|--------|-----------------|
| | Bullards Bar | | | |
| 29 | [REDACTED] | January 26, 2006 | 25401 | \$ 20,000.00 |
| 32 | [REDACTED] | February 15, 2006 | 25401 | \$ 5,000.00 |
| 33 | [REDACTED] | February 15, 2006 | 368(d) | \$ 5,000.00 |
| 4 | [REDACTED] | March 16, 2006 | 25401 | \$105,000.00 |
| 61 | [REDACTED] | April 18, 2008 | 25401 | \$ 45,000.00 |
| 26 | [REDACTED] | February 2, 2007 | 25401 | \$ 30,000.00 |

Of those seven, five investors had paperwork for Bullards Bar and recalled loaning money specifically for the Bullards Bar Project. Some investors were told the loans were short term, and the property was going to be sold. Some investors were told of vague plans to develop homes and a hunting/fishing retreat. All investors who initially invested in 2005 had their principal rolled over. None of the investors expected to have their money diverted and used for the purchase of the ACC.

In March 2007, P. Lester signed a "Statement of Responsibility" accepting responsibility for loans 2082 and 2090. However, he did not accept responsibility for loan 2182, nor did he acknowledge the additional \$250,000.00 he added to loan 2182 in January 2008.

I spoke to investors [REDACTED] who invested \$45,000.00 in the Bullards Bar Project in April 2008. They were solicited by Laferte who told them they were being placed in a first deed of trust, when in fact, they were placed in loan 2182, a second deed of trust. The [REDACTED] were told the property was in escrow, and their money was a short term loan to be repaid when escrow closed (the property was never in escrow). Documents seized pursuant to search warrant showed their \$45,000.00 investment was used to pay out another investor, MJR Consulting. The Subbotins had no idea their money was being used to buy out a previous investor.

Osborne Hill Project

In 2004, P. Lester and Elder purchased the Osborne Hill property from Robinson Enterprises (a logging company) for the amount of \$1,840,000.00. It was collectively known as

1 the Osborne Hill Project, which was a development project between P. Lester and Elder. The
2 purchase was financed by investors who were told the property, which bordered the Empire Mine
3 State Park, would be developed into a mixed use community of housing and open space. At the
4 time of purchase, there were toxic waste issues identified and documented by the DTSC. Elder
5 initially attended meetings with the DTSC and signed a tentative VCA in 2004. In July 2005,
6 DTSC's initial estimate for oversight of the VCA was \$14,346.00.

7 Between 2004 and 2009, DTSC and Holdrege and Kull (H&K) exchanged revisions of the
8 VCA based on work done on the property to identify that various locations of the contaminants.
9 Costs for clean up escalated, as did DTSC's oversight estimate (for example, in July 2005,
10 DTSC's revised cost for oversight was \$24,193.00. By 2007, it had climbed to \$60,847.00).
11 Elder was still named in the documents as the developer, but P. Lester and Blinder attended
12 subsequent meetings with DTSC on behalf of GCL and Elder. The final agreement, executed in
13 April 2009, was addressed to Blinder rather than Elder. The additional oversight cost to DTSC
14 was \$13,967.00. In addition to the DTSC costs, H&K estimated their remedial action costs for
15 excavation to be \$157,200.00, as well as annual inspection costs of \$3500.00. H&K also
16 submitted bills to GCL each time DTSC wanted further testing or samples taken.

17 Investors in the Osborne Hill project were never informed there were toxic waste issues
18 that needed to be addressed before any development plan could be approved. In fact, in an effort
19 to avoid the toxic waste issue, P. Lester subdivided 33 acres containing the worst of the toxic
20 waste and transferred ownership to another developer, Curt Haidle (Haidle), with whom P. Lester
21 had an existing partnership (HL Enterprises). P. Lester asked Haidle to develop the 33 acres as a
22 single family "spec" home which would be sold to facilitate further development of the Osborne
23 Hill Project. P. Lester and GCL solicited \$750,000.00 from investors (loan 2144) for the
24 development of the 33 acres. P. Lester did not tell investors the property contained toxic
25 substances. P. Lester also failed to tell Haidle about the toxic waste issues.

26 When Haidle attempted to obtain approval from Nevada County for the development of
27 the property, Haidle was told about the toxic clean up required before any development could
28 occur. In the interim, per documentation obtained pursuant to search warrant, notes written by

1 Laferte indicated P. Lester had used \$400,000.00 of the \$750,000.00 solicited for loan 2144 for
2 the operation of the ACC. Haidle received the other \$350,000.00 which was used for the
3 development of other property.

4 In July 2006, Linx Group (LGI) purchased 6 acres from the Osborne Hill Project for
5 \$200,000.00 (loan 2166). The loan was financed by four private investors. In October 2007, P.
6 Lester obtained a loan from Citizens Bank in the amount of \$1,560,000.00. All investors on the
7 loans for which the Osborne Hill Project borrowed money were subordinated to the Citizens Bank
8 loan. Investors were required to sign new documents for loan 2202, placing them in a second
9 deed of trust (loan 2166 had been transferred to LGI and was not encumbered by Citizens Bank).
10 P. Lester held meetings for the investors after obtaining the loan from Citizens Bank, telling them
11 the development could go forward, but the project required additional funds to pay back taxes.
12 By this time (early 2008), GCL had run out of money and was unable to pay any investors who
13 wanted their principal returned.

14 In September 2008, P. Lester and GCL suspended interest payments to investors. In
15 October 2008, P. Lester solicited an additional \$175,000.00 from investors, claiming the money
16 would help pay taxes and move the project forward. Due to missing bank records, it is unknown
17 if the money went toward back taxes. However, the additional \$175,000.00 did not move the
18 project forward because in 2009, P. Lester defaulted on the Citizens Bank loan. In September
19 2010, a Notice of Trustee's Sale was sent out to investors and GCL.

20 Based on loan records and documents seized from GCL pursuant to search warrant, I have
21 determined that investors invested more than \$3.8 million with P. Lester for the Osborne Hill
22 Project, loans 2202 (\$2 million) and 2203 (\$1.8 million). I interviewed the following investors
23 who responded to my contact and said they either loaned money specifically for the Osborne Hill
24 Project or had money from other GCL loans which were rolled into the Osborne Hill Project:

| Count | Victim | Date | Charge | Amount Invested |
|-------|---------------------|----------------|--------|-----------------|
| | Osborne Hill | | | |
| 41 | | April 15, 2004 | 25401 | \$100,000.00 |
| 45 | | April 15, 2004 | 25401 | \$100,000.00 |
| 47 | | April 15, 2004 | 25401 | \$100,000.00 |
| 50 | | April 21, 2004 | 25401 | \$ 70,000.00 |

| | | | | |
|----|--|-------------------------------------|--------|--------------|
| 51 | | January 27, 2005 | 25401 | \$ 30,000.00 |
| 52 | | May 4, 2005 | 25401 | \$ 10,000.00 |
| 42 | | October 3, 2005 | 25401 | \$ 25,000.00 |
| 43 | | October 24, 2005 | 25401 | \$ 20,000.00 |
| 53 | | December 15, 2005 | 25401 | \$ 15,000.00 |
| 66 | | February 23, 2006 | 25401 | \$ 20,000.00 |
| 65 | | February 23, 2006 | 25401 | \$ 70,000.00 |
| 5 | | May 2, 2006 | 25401 | \$ 15,000.00 |
| 7 | | June 29, 2006 | 25401 | \$100,000.00 |
| 59 | | July 1, 2006 | 25401 | \$ 20,000.00 |
| 19 | | February 5, 2007 | 25401 | \$ 25,000.00 |
| 23 | | February 5, 2007 to October 9, 2007 | 368(d) | \$ 25,000.00 |
| 20 | | August 17, 2007 | 25401 | \$ 40,000.00 |
| 22 | | September 13, 2007 | 25401 | \$ 40,000.00 |
| 8 | | October 9, 2007 | 25401 | \$100,000.00 |
| 21 | | October 9, 2007 | 25401 | \$ 25,000.00 |
| 27 | | October 9, 2007 | 25401 | \$250,000.00 |
| 36 | | October 9, 2007 | 25401 | \$ 40,000.00 |
| 37 | | October 9, 2007 October 22, 2007 | 368(d) | \$ 40,000.00 |
| 38 | | October 9, 2007 | 25401 | \$ 75,000.00 |
| 44 | | October 9, 2007 | 25401 | \$160,000.00 |
| 46 | | October 9, 2007 | 25401 | \$100,000.00 |
| 48 | | October 9, 2007 | 25401 | \$100,000.00 |
| 54 | | October 9, 2007 | 25401 | \$125,000.00 |
| 49 | | October 25, 2007 | 25401 | \$100,000.00 |
| 60 | | April 18, 2008 | 25401 | \$ 35,000.00 |

From those investors I learned they expected their money would be used for development and construction of the Osborne Hill Project. None of the investors were told there were toxic waste issues that had to be resolved prior to the approval of any development plans. None of the investors expected to have their money diverted and used for the operating expenses of the ACC. Due to the subordination of loans 2202 and 2203 to the Citizens Bank loan, and P. Lester's subsequent default, all of the investors, with the exception of the four on loan 2166, lost their entire investment.

Enlibra, LLC

In April 2004, E. Lester filed documents with the SOS for Enlibra, LLC. P. Lester was

1 listed as the agent for service of process. The purpose as stated in the articles of incorporation
2 was to develop the South Auburn Street Project (SASP) in Grass Valley. At that point in 2004,
3 the SASP had been purchased, and funding initiated. Elder was the initial developer. Over \$4.75
4 million had been solicited from investors for development purposes.

5 In September 2007, Blinder, an investor on the SASP, presented an "update on all
6 projects" to GCL staff. Blinder noted there were toxic substance issues not only on the Osborne
7 Hill property, but the SASP as well. Blinder noted regarding SASP, "The numbers, no matter
8 how we tweak, how we try to fool ourselves or create a best case scenario, DO NOT WORK!!"
9 Blinder noted they would need to raise \$5-6 million for Enlibra in order to move projects forward.
10 Toward that goal, investment documents were created, including prospectuses, subscription
11 agreements, Class A and Class B shares created, and agreement entered to "purchase" four GCL
12 projects, though only three were placed into Enlibra: SASP (renamed Parkside Village),
13 DCP/Kenny Ranch (renamed Wildflower Ridge), Osborne Hill (renamed Vista Trails),

14 In February 2008, E. Lester filed new documents with the SOS, listing herself and P. Lester
15 as managers of Enlibra. The operating agreement listed E. Lester as the person who formed the
16 new company for the purpose of "provid(ing) governance of the Company and the conduct of its
17 business, and specify the relative rights and obligations of all Members."

18 In July 2008, P. Lester obtained a loan from Citizens Bank in the amount of \$500,000.00 to
19 provide working capital for projects including Enlibra. In July 2008, DCP investors were rolled
20 into Enlibra, as were Kenny Ranch equity interests. In August 2008, Blinder, P. Lester and other
21 GCL staff members began soliciting for the sale of investment shares of Enlibra. Many investors
22 did not understand that Enlibra consisted of projects which were already encumbered. The
23 Enlibra prospectus materials contained more detailed information about Enlibra projects, but
24 many investors did not receive the materials until after they gave their money to GCL.

25 Between January and July 2008, Enlibra rolled or solicited \$650,000.00 from investors.
26 From records seized pursuant to search warrant, I determined that investors invested more than
27 \$1,725,000.00 in Enlibra, LLC. I interviewed the following investors who said their money was
28 either rolled out of another investment into Enlibra without their authorization or prior

knowledge, or invested in Enlibra, LLC without realizing that they were already invested in the projects held by Enlibra:

| Count | Victim | Date | Charge | Amount Invested |
|-------|----------------|-------------------|------------|-----------------|
| | Enlibra | | | |
| 1 | [REDACTED] | February 25, 2008 | 182 (A)(1) | \$100,000.00 |
| 28 | [REDACTED] | February 25, 2008 | 25401 | \$100,000.00 |
| 1 | [REDACTED] | July 29, 2008 | 182 (A)(1) | \$ 50,000.00 |
| 9 | [REDACTED] | July 29, 2008 | 25401 | \$ 50,000.00 |
| 10 | [REDACTED] | July 29, 2008 | 368(d) | \$ 50,000.00 |
| 1 | [REDACTED] | July 29, 2008 | 182 (A)(1) | \$ 50,000.00 |
| 24 | [REDACTED] | July 29, 2008 | 25401 | \$ 50,000.00 |
| 25 | [REDACTED] | July 29, 2008 | 368(d) | \$ 50,000.00 |

Some investors were not told about the toxic waste issues associated with SASP and Osborne Hill. Most investors were unaware that the projects contained in Enlibra were existing GCL projects. Some investors were unaware that they were essentially buying "stock" in a limited liability company (LLC) that claimed it would pay investors as projects completed. Many investors were under the mistaken belief that they were supposed to receive monthly interest checks similar to their other investments with GCL. Rather than discourage that belief, Blinder, Lester and Laferte aggressively pushed Enlibra on the investors, many of whom were elderly.

Documents seized pursuant to search warrant indicated that one reason Enlibra was created was to entice "young money" to invest in stalled or failed GCL projects. The bank account for Enlibra was overdrawn at the time of the search warrant and the investors have not been refunded their principal.

Linx Group, Inc. (LGI)

In December 2003, E. Lester filed incorporation documents with the SOS for LGI indicating LGI was a closed corporation. P. Lester was listed as the president and E. Lester was listed as the secretary. GCL solicited private investor loans on behalf of LGI. Those loans included: loans 2088/2163 "Gates;" 2042/2186 "Auburn Valley Road (AVR);" and 2200 "High Street" as well as other loans.

Loans 2088 and 2163 were on bare land known as "Rattlesnake-Gates." It was a land-

1 locked parcel contiguous to a Rattlesnake Ridge, a housing development successfully completed
2 by Lester and Elder. The property was not completed due to toxic substance issues from prior
3 mining. The DTSC in conjunction with Nevada County would not approve development of the
4 property. According to documents seized pursuant to search warrant, the property taxes were not
5 paid on the property, and Elder and P. Lester had no money to pay the taxes or pay investors. P.
6 Lester suggested the investors could foreclose on the property.

7 Loans 2042 and 2186 were on P. and E. Lester's personal residence, ~~9900 Auburn Valley~~
8 ~~R~~. The property was built by developer Haidle. E. Lester signed loan documents on behalf of
9 LGI. In December 2007, E. Lester, on behalf of LGI, signed a Grant Deed transferring ownership
10 of the house from LGI to P. and E. Lester. The Grant Deed was notarized by Laferte. In March
11 2011, E. Lester, on behalf of herself and P. Lester as community property holders, signed a Grant
12 Deed transferring sole ownership of the residence to P. Lester. In a status update report seized
13 from GCL pursuant to search warrant, E. Lester allegedly deeded the property to P. Lester to
14 avoid any litigation with the home owners association. Seized documents also indicated the
15 Lesters owed investors \$2000.00 per month in interest payments on the loan. Due to the market
16 downturn, the property value had fallen significantly, and the Lesters could not pay the lenders.
17 The status update noted the house could be rented or the lenders could foreclose.

18 Loan 2200 was one of nine loans on property at 1240 High Street, Auburn, CA. High
19 Street (HS) was an office building P. Lester purchased in 2005 for the purpose of development. It
20 was in a desirable area close to the old Placer County courthouse. Unfortunately, Placer County
21 built a new court complex in Roseville, CA, and the demand for office space in Auburn stopped.
22 In 2007, GCL solicited in excess of \$2.7 million for loan 2200 to fund the remodel of the
23 building, transitioning it to mixed use office and condominium space. At the time of the remodel,
24 P. Lester did not obtain the appropriate permits from Placer County to convert the building to
25 live/work space. P. Lester was also in default on the prior loans he had obtained during the initial
26 construction of the office space. When GCL solicited for loan 2200, they failed to disclose to
27 investors the prior existing loans, the fact that LGI was P. and E. Lester and they were already in
28 arrears on the prior loans. The building was lost to foreclosure in 2009. I interviewed the

following investors who were solicited and invested in LGI:

| Count | Victim | Date | Charge | Amount Invested |
|-------|-------------------|-----------------------------------|--------|-----------------|
| | Linx Group | | | |
| 16 | [REDACTED] | March 30, 2007 August 25, 2007 | 25401 | \$60,000.00 |
| 18 | | April 11, 2007 | 25401 | \$25,000.00 |
| 56 | | November 22, 2007 | 25401 | \$30,000.00 |
| 57 | | May 10, 2008 | 25401 | \$20,000.00 |
| 58 | | May 10, 2008 | 368(d) | \$20,000.00 |

During the investigation, I interviewed [REDACTED] (C) who invested \$95,000.00 with GCL in March 2007 in loans 2163, 2186, 2145, and 2019. The [REDACTED] met with Laferte who conducted all of their transactions with GCL. Laferte told the [REDACTED] that LGI was a construction company that developed properties. Laferte never told the [REDACTED] that P. and E. Lester were the owners and principals of LGI. Laferte split the \$95,000.00 from the [REDACTED] into four different loans: \$25,000.00 in loan 2163; \$30,000.00 in loan 2186 (AVR); \$30,000.00 in loan 2145 "West Homes;" and \$10,000.00 in loan 2019 "Lynx Properties."

The [REDACTED] were not told at the time they invested in loan 2163 that there were toxic waste and mining impacts preventing the property from being developed.

In August 2007, the [REDACTED] received a reconveyance for loan 2145, "West Homes." They called GCL after signing it to find out when they would get their principal back. The [REDACTED] spoke to Lester who referred them to Laferte. Laferte didn't call them back, but when the [REDACTED] received the statement for loan 2186, they noticed the money in the loan had doubled by the amount of their principal from loan 2145. The [REDACTED] never authorized anyone at GCL to roll their investment into another loan, and never signed paperwork authorizing a rollover.

In February 2008, the [REDACTED] received a reconveyance for loan 2186. They signed and returned the paperwork to GCL, then called GCL to find out when they would get their principal. Kim Fitzgerald, a GCL employee, told the [REDACTED] that loan 2186 was on Lester's personal residence, and Lester had no money or equity to repay the loan.

1 **Lynx Properties**

2 Lynx Properties (LP) was initially created by E. Lester in October 2003 as a partnership
3 between P. Lester and Michael Reuther. It appeared to have been created as a property
4 management company. There were two identified loans associated with LP, loan 2019 "Holly
5 Branch," and loan 2084 "Melody Road." Loan 2019, in the amount of \$280,000.00, was initiated
6 in December 2003 when Laferte was granted the property by her brother, David Lester (D.
7 Lester). In January 2004, Laferte transferred ownership of the property to LP, and in February
8 2004, \$200,000.00 was solicited by GCL for a new septic system and remodel. There was no
9 indication GCL notified the investors that LP was a partnership with P. Lester. Documents seized
10 pursuant to search warrant indicated GCL used money solicited for loan 2084 to pay for work
11 done on the Holly Branch property. During an extension notice sent to investors in February
12 2006, Laferte asked GCL staff to tell investors the property would hopefully be sold within six
13 months as a way to convince investors to extend their repayment. The property was never sold,
14 and has been a rental under Laferte's oversight since 2009.

15 I interviewed the following investors who invested in LP:

| Count | Victim | Date | Charge | Amount Invested |
|-------|------------------------|----------------|--------|-----------------|
| | Lynx Properties | | | |
| 17 | ████████████████████ | April 11, 2007 | 25401 | \$10,000.00 |

18 The ██████████ were never told that P. Lester was the partner behind LP. Laferte told the
19 ██████████ that she was renting the Holly Branch property for \$800.00 per month. However, Laferte
20 claimed additional repairs and improvements have made it impossible to pay interest on the loans.
21 In 2011, the ██████████ received \$144.00 for the entire year.

22 **Melody Road**

23 In 2007, LP purchased property on Melody Road in rural Nevada County for the
24 purpose of developing the property which consisted of two vacant parcels contiguous to a parcel
25 with a partially completed house. LP contracted with a local builder, Ted Fike (Fike) to complete
26 construction. From July through September 2007, Laferte solicited investors for construction
27 loan 2193 in the amount of \$412,500.00, failing to tell investors that P. Lester was the property
28

1 owners as part of LP. In fact, the loan was made in the name of Fike, and LP was not mentioned
2 in any loan documents. Laferte told investors the loan was short term and the property would be
3 sold quickly. In September 2008, the loan was paid off and all money returned to GCL.

4 During the investigation I interviewed investor [REDACTED] regarding his
5 investment in loan 2193. [REDACTED] invested \$40,000.00 in loan 2193 (the money was rolled from
6 another GCL loan which matured). In January 2011, [REDACTED] was contacted by a fellow Melody
7 Road investor who told him the loan had paid off in September 2008. The investor, [REDACTED]
8 claimed P. Lester had used [REDACTED] \$40,000.00 to complete some finish work on the house, then
9 sold the house to his (Lester's) son who defaulted on the loan. [REDACTED] claimed she learned about
10 the loan when she audited GCL's loans. [REDACTED] contacted First American Title Company
11 (FATCO) and confirmed the loan had been paid in full and all proceeds returned to GCL. [REDACTED]
12 confronted P. Lester who told [REDACTED] that he ([REDACTED]) agreed to accept a promissory note rather
13 than accept payoff. [REDACTED] who was undergoing chemotherapy at the time and had medical bills,
14 said he never agreed to accept a promissory note in lieu of payment. [REDACTED] filed a report of
15 fraud and theft with the Nevada County Sheriff's Department on January 20, 2011 (NCSO event
16 #11001410). [REDACTED] received notification from GCL that there was no hope of recovery of his
17 funds.

18 STATUTE OF LIMITATIONS

19 The statute of limitations for the crimes of grand theft of any type, and for violations of
20 Corporations Code sections 25540 and 24451, does not begin to run until the crimes are
21 discovered (Penal Code section 803(c)(1) and (2)). Pursuant to Penal Code section 801.5

22 . . . prosecution for any offense described in subdivision (c) of Section 803 shall be
23 commenced within four years after discovery of the commission of the offense, or
within four years after the completion of the offense, whichever is later.

24 In this case, the victims had no knowledge of P. Lester's and GCL's impending financial
25 doom. In September and October 2008, P. Lester/GCL sent letters to investors stating they were
26 suspending interest payments for 6 months until they had a chance to reassess their economic
27 situation. P. Lester blamed his inability to repay investors on the downturn in the world
28 economy. P. Lester failed to tell his investors that he had overextended his ability to pay by

1 borrowing on multiple multi-million dollar projects at the same time. He also failed to tell
2 investors that he used project funds to purchase and operate the Auburn Country Club, a golf club
3 that was in financial crisis at the time he negotiated for its purchase. No single borrower had
4 knowledge of the nature and extent of P. Lester's web of investments, the number of notes he and
5 GCL had issued or his use of borrowed funds. With P. Lester's substantial history of paying on
6 his notes, borrowers had no reason to suspect that the security he offered for his investments was
7 non-existent or that he was continually rolling over millions of dollars of investment notes while
8 continuing to take in new investment funds. In short, no investor had notice that he or she was a
9 victim, and there was no way that reasonable diligence would have disclosed anything to the
10 contrary before 2009 at the earliest.

11 CONCLUSION

12 Based on the foregoing, I believe Philip Lester and Susan Laferte violated Corporations
13 Code sections 25401/25540 with regard to the sale of Kenny Ranch, Deer Creek Pines, Bullards
14 Bar, Enlibra, Osborne Hill, Linx, Lynx, Linx Group, or Lynx Properties and other projects,
15 developments and entities through Gold Country Lenders.

16 I believe that Philip Lester and Susan Laferte committed financial elder abuse in violation
17 of Penal Code section 368(d) with regard to investors [REDACTED]
18 and [REDACTED]
19 [REDACTED] Philip
20 Lester and Susan Laferte knew their investors were elders as defined in 368(g). Philip Lester and
21 Susan Laferte knew many of these investors for years, and had established personal as well as
22 business relationships with them.

23 I believe that Philip Lester, Jonathan Blinder, Susan Laferte and Ellen Lester, conspired to
24 violate Corporations Code Section 25401/25540 with regard to the sale of securities by means of
25 false statements or omissions of material facts, in violation of Penal Code section 182(a)(1).

26 I believe Jonathan Blinder violated Corporations Code section 25401 when he failed to
27 inform investors in Enlibra of the toxic substance issues related to Kenny Ranch, Osborne Hill
28 and South Auburn Street. He further failed to clearly identify ownership of the properties, and

1 failed to specifically inform investors that the projects contained within Enlibra were existing
2 GCL projects which were already encumbered and unable to move forward.

3 I believe Ellen Lester violated Corporations Code sections 25541 when she created shell
4 partnerships Linx Group, Lynx Properties and Linx Ventures which were then used as fronts to
5 solicit money from investors.

6 Philip Neil Lester is more particularly described as: White, Male, Date of Birth 09/12/1947,
7 5'11" 180 lbs, residing at [REDACTED];

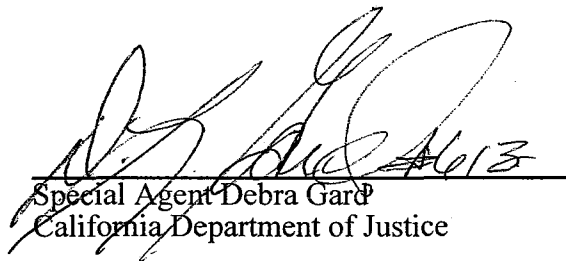
8 Ellen Carter Lester, is more particularly described as: White, Female, Date of Birth
9 05/17/1948, 5'6" 127 lbs, residing at [REDACTED]

10 Susan Leigh Laferte is more particularly described as: White, Female, Date of Birth
11 02/06/1954, 5'02" 137 lbs, residing at [REDACTED]

12 Jonathan Blinder is more particularly described as: White, Male, Date of Birth 02/26/1954,
13 5'11" 163 lbs, residing at [REDACTED]

14 I declare under the penalty of perjury under the laws of the State of California that the
15 foregoing is true and correct. Executed on this 18th of September, 2012, at Nevada City,
16 California.

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Special Agent Debra Gard
California Department of Justice