

Jennifer A. James (No. 3914)
Neil A. Kaplan (No. 3794)
CLYDE SNOW & SESSIONS
201 S. Main Street, Suite 1300
Salt Lake City, UT 84111-2216
Telephone: (801) 322-2516
Facsimile: (801) 521-6280
jaj@clydesnow.com
nak@clydesnow.com

Attorneys for Court-Appointed Receiver R. Wayne Klein

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH

CENTRAL DIVISION

SECURITIES AND EXCHANGE COMMISSION

Plaintiff,

v.

Art Intellect, Inc., a Utah corporation, d/b/a Mason
Hill and VirtualMG, Patrick Merrill Brody, Laura
A. Roser, Gregory D. Wood,

Defendants.

Case No. 2:11CV00357 TC

Judge Tena Campbell

INITIAL STATUS REPORT
AND LIQUIDATION PLAN OF
R. WAYNE KLEIN, RECEIVER

*(For the period April 18, 2011
to June 30, 2011)*

R. Wayne Klein, the Court-Appointed Receiver (the "Receiver") of Art Intellect, Inc.

("Art Intellect"), d/b/a Mason Hill ("Mason Hill") and VirtualMG ("VirtualMG"), and the assets
of Patrick Merrill Brody ("Brody"), and Laura A. Roser ("Roser"), collectively, the
"Receivership Entities," hereby submits this Initial Report for the period of April 18, 2011
through June 30, 2011 (the "Reporting Period").

PROCEDURAL HISTORY

1. On April 18, 2011, this action was commenced with the filing of a lawsuit by the Securities and Exchange Commission ("SEC"). The SEC lawsuit alleges, among other things, that Art Intellect, Mason Hill, VirtualMG, Brody and Roser operated a fraudulent investment program in violation of the antifraud and registration requirements of the federal securities laws. In essence, the SEC alleges that the defendants engaged in a Ponzi scheme, whereby more than \$2.5 million was fraudulently taken from investors.

2. The same day, the Court entered various orders in response to requests from the SEC including an "Order Appointing Receiver, Freezing Assets and Other Relief" ("Order") [Docket No. 5]. Among other things, this Order:

- a. Prohibits the transfer, dissipation, and disposal of assets;
- b. Requires defendants to deliver to the Receiver all records of the Receivership Entities;
- c. Requires the defendants to provide an accounting of all property owned by the Receivership Entities including bank accounts, brokerage accounts and other assets;
- d. Requires financial institutions to freeze any accounts held by the defendants and to provide information regarding account balances;
- e. Requires the defendants to grant the Receiver access to their books and records;
- f. Appoints Wayne Klein as Receiver for the companies and any affiliates or subsidiaries and for the assets of defendants Brody and Roser; and

g. Stays the commencement or continuation of litigation against the Receivership Entities and assets of the Receivership.

3. On April 19, 2011, the Defendant Gregory Wood consented to the entry of a judgment against him. On April 20, 2011, the Court signed the judgment of permanent injunction and lifted the asset freeze as to Wood and his assets.

4. The Receiver has engaged Jennifer A. James, and her firm, Clyde, Snow & Sessions, as his counsel. This appointment was approved by the Court on April 26, 2011.

5. Through counsel, the Receiver engaged attorneys to file copies of the SEC complaint and the Order Appointing Receiver in federal courts in Kansas, Ohio, and Florida. These filings are necessary to be able to take action against any assets that might be found in those states.

6. Because Brody and Roser sought to avoid being served with copies of the SEC lawsuit, on April 25, 2011, the Court approved service of the lawsuit on them by publication of notice in the newspaper. The defendants were later personally served with a copy of the lawsuit. They subsequently have appeared through counsel and filed an answer.

7. The Court held hearings on April 25, 2011, May 17, 2011, and June 29, 2011 on the SEC's motion for preliminary injunctions against the defendants. Following those hearings, the court entered the following orders:

- a. April 25, 2011: order extending the temporary restraining order;
- b. May 17, 2011: order extending the temporary restraining order; and
- c. June 29, 2011: order extending the temporary restraining order until the preliminary injunction hearing is completed.

8. On May 10, 2011 and June 16, 2011, the SEC filed motions to compel the deposition testimony of Roser and Brody. On May 13, 2011, the SEC filed a motion to have Roser and Brody held in contempt for their refusal to appear at the time set for their depositions and for their conduct in attempting to sell assets belonging to the Receivership. The Court held hearings on May 17, 2011, June 22, 2011, and June 29, 2011 regarding the SEC motions and ordered Brody and Roser to:

- a. Cease their efforts to sell Roser's home and other personal assets,
- b. Grant the Receiver and the SEC access to Roser's home to take an inventory, and
- c. Appear for their depositions.

9. Brody and Roser later did appear to be deposed. Brody and Roser asserted their right against self-incrimination under the Fifth Amendment to virtually all questions asked by counsel for the SEC and the Receiver.

10. On May 18, 2011, the Receiver and the SEC were granted access to Roser's home and took an inventory of assets found at the home.

11. On May 18, 2011, counsel for Brody and Roser filed a motion for a protective order, seeking to prevent the Receiver from selling any assets the Receiver had seized, including Mason Hill's office furnishings. On May 19, 2011, the Court instructed the Receiver to postpone the sale he had scheduled for May 21 and set a hearing on the defendants' motion for a protective order. At a May 27, 2011 hearing, the Court denied the motion for a protective order and authorized the Receiver to move forward with plans to sell the furnishings at the Mason Hill offices.

INITIAL ACTIONS TAKEN BY THE RECEIVER

Closing the Mason Hill Offices

12. Shortly after the Court signed the Order Appointing the Receiver, the Receiver and his staff went to the Mason Hill offices in Salt Lake City. During this visit, the Receiver and his staff:

- a. Notified all employees in the office of the SEC lawsuit and Court order appointing a Receiver. Employees were given a copy of the court order, interviewed, and allowed to take their personal belongings;
- b. Had the locks to the office changed, to prevent any unauthorized entry;
- c. Posted a notice on the office door announcing the closure of the office and the appointment of the receiver; and
- d. Took an inventory of records and furnishings in the office.

13. When the Receiver took control of the Mason Hill offices, several employees were extremely helpful, providing the Receiver with bank account information, lists of investors and employees, an explanation of how the company operated, and a description of how the company's records were maintained.

14. Company employees provided substantial assistance to the Receiver in understanding and accessing the company's information technology system:

- a. All passwords to Internet services used by the company were changed on April 18, 2011;
- b. The company's web hosting service provider was notified of the Receivership and all of the company's websites were taken down;

c. Access was obtained for Internet-based sales and marketing systems used by the company.

15. The Receiver gave notice of the Receivership to the landlord of a second Mason Hill office in Salt Lake and to UPS private mail box locations in Salt Lake and Midvale.

16. The following week, the Receiver boxed up all the Mason Hill business records and transported them to the offices of the Receiver.

17. The Receiver downloaded and analyzed sales and marketing information that the company maintained using online services.

18. The Receiver identified a large number of other websites that had been created and maintained by VirtualMG on behalf of others companies. If the companies were unrelated to Art Intellect, they were notified that they needed to make other web-hosting arrangements because VirtualMG would cease providing those services. After a short period, all websites that had been hosted by Art Intellect, Mason Hill, or VirtualMG were terminated.

Communications With Investors, Creation of Website

19. During the first several weeks, the Receiver responded to telephone calls and exchanged e-mails with many investors, providing them with information about the receivership and answering questions. In the process, the Receiver learned significant information about the operation of the companies and how the investments were solicited.

20. The Receiver created a website with information about the Receivership. The website has copies of the SEC lawsuit, the order appointing the Receiver, and other court filings. The website also has information regarding tax treatment of Ponzi scheme losses, general

information about how receiverships operate, and communications from the Receiver to investors. The web address is: www.kleinutah.com/index.php/receiverships/mason-hill.

21. The website will be the most efficient means of communicating with investors. As new developments occur, information will be posted on the website. Investors are encouraged to check the website periodically to learn of new developments.

Freeze of Bank Accounts, Cessation of Property Management Services

22. As a result of the asset freeze, all rents and security deposits that had been collected by Mason Hill were in bank accounts that had been frozen. These funds were no longer available for the operations of the property management business of Mason Hill or for distribution to property owners.

23. One of the first tasks for the Receiver was determining whether any business operations of Mason Hill should be continued. Shortly after being appointed, the Receiver determined to cease all business operations, including property management services.

24. In late April, the Receiver notified investors who had been using Mason Hill as their property manager that they needed to find a new property manager. Investors were urged to act quickly so future rents would not be deposited into bank accounts that were frozen. The Receiver believes that all properties now have new property managers.

Other Actions Taken by the Receiver

25. The Receiver secured control over most of the mail being delivered to the defendants. This includes mail delivered to the Mason Hill offices on Wasatch Boulevard, the downtown Salt Lake City offices of Art Intellect, and a UPS mail drop used by the defendants.

The Receiver sent notices to the U.S. Postal Service, directing that mail for the defendants should be directed to the Receiver.

26. As mail has been delivered to the Receiver, it has been opened, logged, and analyzed. Letters are mailed to the senders of mail, notifying them of the receivership.

a. A check for \$1,100.00 was found in incoming mail for services that Art Intellect provided to a Florida company. The Receiver also located a refund check for \$65.08 in the files of the company. These amounts were deposited into the Receivership bank account.

b. The majority of mail delivered to the defendants contains bills and demands for payment. These are summarized in a later section of this report.

IDENTIFYING, SEIZING, AND DISPOSING OF RECEIVERSHIP ASSETS

Cash and Bank Accounts of the Receivership Entities

27. When the Mason Hill offices were taken over, the Receiver found a petty cash box containing \$121.55 in cash. This cash has been deposited into a bank account opened by the Receiver for assets recovered in this case.

28. The Receiver has identified three bank accounts that Art Intellect, Mason Hill, and VirtualMG maintained in Utah:

a. Art Intellect maintained an account at Zions Bank with an April 18, 2011 balance of \$279.53.

b. Mason Hill maintained a bank account at Zions Bank with a balance of \$32.87.

c. VirtualMG maintained an account at Zions Bank with a balance of \$52.57.

29. On June 29, 2011, Zions Bank delivered these amounts to the Receiver. These funds have been deposited into the Receivership bank account.

30. Among the items found by the Receiver at the Utah Mason Hill offices were two “code keys,” devices with randomly generated numbers that change periodically. These appear to relate to one or more bank accounts at Wells Fargo Bank. The Receiver questioned Laura Roser about these code keys and possible bank accounts at Wells Fargo, but she refused to respond, asserting her Fifth Amendment privilege against self-incrimination. The Receiver served a copy of the Order on Wells Fargo bank, requesting documents relating to this account and expects to receive these documents in the next few weeks. Initial indications are that this was a payroll account that does not hold any current funds.

31. The Receiver has identified seven bank accounts held at Wachovia Bank (now Wells Fargo) in Florida. These were used for the business operations of the Florida companies and to hold security deposits and rents collected on properties being managed by affiliates of Mason Hill. On June 30, 2011, the Receiver deposited \$37,198.46 from Wells Fargo, representing the balances of these bank accounts as of April 30, 2011.

32. The Receiver has obtained copies of the bank statements for all these bank accounts. The bank records are being compared to internal financial records of the company. With this information, the Receiver has begun reconstructing the financial transactions of the companies, creating a summary of all financial transactions. This analysis is expected to:

- a. Show the sources of funds paid to the companies;
- b. Reveal how the company funds were expended, including suggesting which amounts were diverted to personal uses;

- c. Identify persons and entities who received funds improperly;
- d. Indicate potential sources of recovery for the Receivership Estate; and
- e. Demonstrate that Mason Hill was operating as a Ponzi scheme and that it was insolvent beginning at an early point in its operations. Determining the extent to which these occurred will assist the Receiver in bringing actions to recover funds paid out by the company to others.

Identifying, Preserving, and Disposing of the Utah Assets of Mason Hill

33. Assets at the Mason Hill offices primarily consisted of office furnishings, including desks and chairs, cubicles, computers, monitors, printers, paintings, and other office furnishings.¹ The Receiver also seized cameras and camera equipment belonging to Laura Roser.

34. The Receiver has possession of the computers used by Mason Hill, but these are being retained for potential use in the Receiver's analysis of this case or investigations by government agencies. It is expected that the computers will be sold at a later date.

35. The Receiver undertook to sell the furniture and other assets of the Mason Hill offices in Salt Lake. When he contacted a wholesale office furnishing company, the Receiver was offered only \$400.00 for all the office furniture. The Receiver decided to advertise and sell the furniture himself. Advertisements were placed on a Salt Lake-based online classified advertising portal.² After a number of open houses, most of the furnishings have been sold.

¹ The Receiver determined that Mason Hill's telephone system was leased and arranged to return the system to the owner.

² Two potential buyers contacted the Receiver expressing interest in a camera and the furniture, but in a manner suggesting fraud. The buyers said they were located outside the area and would send cashier's checks for more than the purchase price. They then wanted the Receiver to wire a

Most of the remaining items were donated to a charitable organization.³ The proceeds of these sales include:

- a. \$2,800.00 for cameras and camera equipment belonging to Laura Roser;
and
- b. \$3,238.00 for desks, chairs, printers, a phone system, and other office furnishings.

36. A review of company records suggested that the company owned shares in a penny stock company. Further research has revealed that the stock has some value. The Receiver has notified the transfer agent that the Order provides that the stock is under the control of the Receiver and that any instructions from Laura Roser should not be carried out. The Receiver has submitted forms to get a new stock certificate issued. The Receiver expects to sell the stock.

37. Company records also contained evidence of a retirement account held by Hartford Insurance. Further investigation revealed that this was a 401(k) account in the name of Art Intellect. None of the defendants have any funds in a retirement account at the Hartford and only one former employee has any funds still in this plan. The Receiver is taking steps to terminate this retirement plan.

portion of the cashier's checks to a third party who would pick up the items. The Receiver declined these offers.

³ Artwork from the office which was not sold has been delivered to a consignment store for sale. Some office cubicles were sold before June 30, 2011, but payment has not yet been received. On July 2, 2011 (after the end of the Reporting Period), a few items were sold. All other office furnishings and supplies that had not been sold were donated to CharityAnywhere.org.

Identifying and Disposing of Office Assets in Florida

38. Mason Hill operated several affiliated companies in Florida. The businesses operated from rented office space. The Receiver reached an agreement with former employees of Mason Hill under which the Receiver agreed to transfer the furniture to the employees in exchange for the employees assuming all responsibilities for the office lease.

39. Under this agreement, employees of the affiliated companies also relinquished all claims they had to partial ownership of the affiliated companies and properties owned by any of the companies.

40. The Receiver contacted the title companies used by Mason Hill in Florida and elsewhere to determine whether any funds were being held by the title companies for Mason Hill. None of the title companies were holding funds belonging to Mason Hill, other than one earnest money deposit that was recovered from Stewart Title relating to a purchase agreement that the Receiver canceled.

Identifying Personal Assets of Defendants Roser and Brody

41. On May 18, 2011, pursuant to authority from the Court, the Receiver and the SEC took an inventory of assets located at the home owned by Laura Roser. As noted in the SEC's motion for contempt (described above), several items appeared to be missing. This includes automobiles, a piano, a hot tub, and paintings. The Receiver is attempting to determine the location and status of these assets. Laura Roser and Patrick Brody have refused to answer questions about these assets.

42. The Receiver has determined that the home where Brody and Roser live is owned solely by Roser. The home has an assessed value of \$544,600.00. The Receiver obtained a

report by a title company showing that there are two deeds of trust on the home totaling \$832,407.00. There is also a lien of \$6,344.11 on the home for delinquent property taxes.

43. According to records of the company and records the Receiver obtained from the Utah State Tax Commission, there are six vehicles under the control of Defendants.

a. Three of the vehicles are leased and the Receiver is investigating whether there is sufficient equity in those vehicles for the Receiver to justify taking possession of them. One of these leased vehicles has, for several years, been under the control of Patrick Brody's criminal defense attorney. The company has also appears to have been paying the insurance costs for that vehicle.

b. One of the vehicles was at the Roser home when the inventory was taken.

c. The other two vehicles have been identified, but have not yet been located.

At their depositions, Brody and Roser refused to disclose the location of these vehicles.

44. As noted above, the Receiver seized cameras and related items from the Mason Hill offices that belonged to Laura Roser. These items were sold by the Receiver.

Analyzing Real Estate Transactions and Identifying Properties Owned by the Receivership

45. Significant time was expended identifying real estate owned by the Receivership Entities. Because Mason Hill or Art Intellect was the seller for so many of the properties sold to investors, it was difficult to determine what real estate is currently owned by the Receivership Entities.

46. The Receiver identified seven situations where Mason Hill was in the process of purchasing properties, but the closing had not occurred. The Receiver canceled those transactions:

a. Mason Hill was scheduled to purchase five properties in Kansas. These transactions were canceled. There were no deposits or earnest monies paid for these properties;

b. A property purchase in Cape Coral, Florida was canceled on May 4; and

c. For a property purchase in Ft. Myers, Florida, an earnest money deposit had been paid by Mason Hill and the Receiver recovered \$1,000.00 when the sale was canceled.

47. Five properties have been identified as currently belonging to the defendants. All are in Florida and all have liens on the properties. All the mortgages appear to be granted to non-commercial lenders. Two of the properties have two mortgages each.

a. 340/342 Rogen Street, Lehigh Acres, FL. The home is not completed and needs approximately \$20,000.00 of finishing work. This home was purchased for \$50,100.00 on May 27, 2010 in the name of Art Intellect. On July 7, 2010, the home was sold by Art Intellect to Laura Roser for \$100.00. The home has a first mortgage in the amount of \$40,000.00 and a second mortgage in the amount of \$51,000.00.

b. 3963/3965 20th Street W, Lehigh Acres, FL. This home is in the name of Art Intellect. It was purchased September 20, 2010 for \$71,500.00. The home is subject to two mortgages. The first mortgage is for \$51,000.00 and the second is for \$65,000.00.

c. 1138 SW 1st Terrace, Cape Coral, FL. This home is in the name of Art Intellect. It was purchased December 30, 2010 for \$62,400.00. It is subject to a \$55,000.00 mortgage.

d. 112/114 Pullman Street, Lehigh Acres, FL. This home is in the name of Mason Hill Properties, LLC. It was purchased on December 30, 2010 for \$62,400.00. It is subject to a \$60,000.00 mortgage.

e. 5217 29th Street SW, Lehigh Acres, FL. This home is in the name of Art Intellect. It was purchased April 4, 2011 for \$71,000.00. The home is subject to a \$68,000.00 mortgage.

48. The Receiver is in contact with the lenders on these properties, to explore ways of resolving the interests of the lenders and the Receivership Entities. It is too early to predict whether settlements can be reached or litigation will be necessary.

49. The Receiver has engaged a property manager in Florida to manage these properties. The Receiver and property manager have assumed responsibility for the many tasks incident to ownership of income properties:

a. The Receiver has paid for insurance and taxes on some of these properties. These are described in the financial section later in this report.

b. Repairs and maintenance expenses have been paid by the Receiver for these properties.

c. Four of these properties have tenants and are earning rents. The property manager provides monthly reports to the Receiver describing income and expenditures. For May, the Receivership was paid a net \$2,310.43 in rent from these properties.

IDENTIFYING POTENTIAL CLAIMS AGAINST THE RECEIVERSHIP

Investors and Other Creditors

50. Mason Hill investors can best be understood by dividing them into three categories:

a. Reservation fees were paid and properties were delivered. Thirty-nine investors paid \$1,298,137.00 to Mason Hill as reservation fees. Together, these investors purchased 56 properties. Most reservation fees were for \$20,000.00 or \$22,500.00.

b. Reservation fees were paid, but no properties delivered. Fifty-one investors paid 73 reservation fees to Mason Hill for properties, but received no properties from Mason Hill.⁴ These 73 reservation fees totaled \$1,462,250.00. Some investors are in both categories; they received properties for some reservation fees and paid other reservation fees for which they received no properties. In at least two instances, these investors were told that their reservation fees were being converted to loans and that Mason Hill would repay the amount of their reservation fees over time, along with 2% monthly interest.

c. Lenders. A third group of investors loaned money to Mason Hill for its business operations. Some of these lenders loaned money to Mason Hill for its general business operations, in return for promised interest payments and a return of the loan amount. Three other investors loaned money to Mason Hill to purchase specific

⁴ Some investors sent their reservation fees directly to Classic Title. The reservation fee agreement states that the money would be going into an escrow account. However, those funds were released by Classic Title to Mason Hill upon the request of Mason Hill. The funds were not retained by Classic Title for use at closing for the particular property being purchased by the investor. To the extent Classic Title actually held an escrow account, the escrow was controlled by Mason Hill, not by the investor.

properties. These properties were purchased by Mason Hill for rehabilitation and subsequent resale to investors. Some of these loans had interest rates as high as 18%. Lenders with mortgages loaned \$239,000.00 to Mason Hill. One lender, who does not appear to have a mortgage, loaned \$91,000.00.

51. All these investors can be expected to assert claims against Mason Hill. Those who did not get properties are expected to seek returns of their reservation fees. Those who got properties are expected to assert claims for rehabilitation work that was promised but not performed, payment of minimum rent guaranteed by the company, recovery of the first year's maintenance and repair costs, and rents and security deposits frozen when Mason Hill was closed down.⁵ Lenders are expected to seek return of their unpaid principal.

52. The Receiver also has been gathering information regarding other potential claims against the Receivership Estate. These claims relate to i) operation of the business and ii) liens on personal assets of the defendants and include:⁶

- a. Former employees of the companies (\$10,579.90);⁷
- b. State and federal taxes, including employment taxes (\$7,794.34);
- c. Claims by contractors who performed rehabilitation, maintenance, and repair work on properties purchased by Mason Hill (including properties resold to investors) and claims by vendors who sold appliances for these properties (\$54,150.88);

⁵ The Receiver has identified claims of \$182,935.81 for this group. This number includes certain claims known to the Receiver, but the actual amount is expected to be much higher.

⁶ The amounts listed here are based on information discovered by the Receiver to date. Some of these category totals are expected to be much higher. If sufficient assets are recovered to make payments to claimants, all persons making claims will need to provide verification of their claim amounts. No claims process has been proposed at this stage of the Receivership.

⁷ The Receiver is investigating the potential theft of company funds by former employees.

d. Florida utility companies who provided electrical services that were the responsibility of Mason Hill (\$1,687.60);

e. Unpaid rents and other business operating expenses for the Florida and Utah offices (\$5,759.41);

f. Credit card companies – on credit cards listing a company name (\$8,805.05);⁸

g. Liabilities associated with assets – debts related to Roser's home and vehicles (\$707,939.23);

53. These non-investor creditor claims total \$796,716.41.

54. The investor and lender claims total \$2,075,185.81.

55. The grand total of the two general categories is \$2,871,902.22. A summary of all potential claims are detailed in Exhibit A to this Report.

Lawsuits Filed Against Mason Hill

56. Two lawsuits have been filed against Mason Hill:

a. One of the investors, Mila Goldberg, has filed suit in California state court against Mason Hill. The suit seeks recovery of \$20,000.00. The Receiver has notified the plaintiff that her lawsuit is stayed by the Order.

b. One of the lenders, Michael Seybold, has filed suit in Florida state court seeking to foreclose on the Rogen Street property. Seybold loaned \$40,000.00 to Mason

⁸ A preliminary review of some of the credit card statements indicates that many of the credit card purchases were for personal expenses of Laura Roser and Pat Brody. Witnesses at the June 29, 2011 preliminary injunction hearing testified that tens of thousands of dollars in company funds were used to pay for extravagant vacations by Laura Roser and Pat Brody. The Receiver expects to conduct further analysis to determine whether prior payments can be recovered.

Hill. Plaintiff's counsel has informed the Receiver that she will put those foreclosure proceedings on hold.

FINANCIAL SUMMARY

57. The Receiver has established a bank account at Wells Fargo for the Receivership.

Between April 18 and June 30, \$48,198.49 has been deposited into the Receivership bank account. \$721.65 has been spent out of that account, leaving a June 30, 2011 balance of \$47,476.84. The following chart shows the sources of the income to date:

<i>Category</i>	<i>Amount</i>
Business Income ⁹	4,410.43
Cash and Securities ¹⁰	37,750.06
Interest/Dividend Income	0.00
Business Asset Sales	3,238.00
Sales of Personal Assets	2,800.00
Third-Party Litigation Income	0.00
Miscellaneous, Other	0.00
<i>Total Funds Received</i>	48,198.49

58. The Receiver has expended \$721.65 from the Receivership bank account. The following chart shows the purposes of the expenditures:¹¹

<i>Category</i>	<i>Amount</i>
Disbursement to Receiver, Other Professionals	0.00
Business Asset Expenses	532.45
Personal Asset Expenses	101.00
Investment Expenses	88.20
Third-Party Litigation Expenses	0.00
Tax Administrator Fees and Bonds	0.00

⁹ This includes operating income of VirtualMG, refunds of earnest money for a canceled sale, and net rental income on properties in Florida.

¹⁰ This includes the balances of the Mason Hill bank accounts at Zions and Wachovia banks, petty cash seized at the Mason Hill offices, and a Costco refund certificate that was redeemed.

¹¹ As noted earlier, the Receiver has expended some of his own funds for Receivership purposes before funds were available in the Receivership bank account to pay these expenses. The Receiver will be asking the Court for approval to reimburse these expenditures.

Federal and State Tax Payments	0.00
<i>Total Expenditures</i> ¹²	<i>721.65</i>

59. A complete schedule of all the receipts and disbursements is attached at Exhibit

B.

LIQUIDATION PLAN

60. Under paragraphs 53-54 of the Order Appointing a Receiver, the Receiver is to “develop a plan for the fair, reasonable, and efficient recovery and liquidation of all remaining recovered, and recoverable Receivership Property (the ‘Liquidation Plan’).”

61. This case presents a number of conditions that make development of a liquidation plan difficult:

a. Despite the large amount of funds sent to Mason Hill over the past two years, very little remains in bank accounts. The Utah operations of Mason Hill had only \$364.97 in cash and bank account balances.¹³

b. There are few assets owned by Mason Hill or the other defendants and most of those assets have high liabilities connected with them. The five properties owned in Florida all have mortgages – and in two cases, double mortgages. Laura Roser’s home has two mortgages that appear to be for an amount greater than the value of the home. She is already behind on those payments and foreclosure proceedings had begun. Three of the five cars are leased, leaving little equity.

¹² Another \$445.54 was spent by the Receiver from his own funds for Receivership expenses. Counsel for the Receiver has also incurred out-of-pocket expenses for legal work performed to date. These will be described in the Receiver’s application for expenses and fees.

¹³ As noted earlier, a larger amount recovered from the Florida operations derived from rents and security deposits, not from profits earned or investor deposits still in Mason Hill’s possession.

c. The manner in which Mason Hill conducted its operations resulted in many unpaid bills from vendors and contractors. This is primarily a product of Roser and Brody's practice of expending so much money on personal expenses. The company's inability to pay its bills was also caused by unexpectedly high rehabilitation costs, high company operating expenses, and high commissions paid to salespeople and strategic partners.

d. The company's business model also made it difficult to earn profits. Funds were borrowed from lenders at 18% in order to purchase homes for resale. Mason Hill bore the cost of maintenance and repairs for the first year on all properties sold where Mason Hill was the property manager. Guaranteed rents were paid to property buyers, even when units were not occupied or had tenants who were not paying rent. In one instance, a property owner was given monthly rental reports showing all 26 of his rental units earning \$650.00 per month. When the property owner notified Mason Hill that he was changing to a new property manager, his next rental report accurately showed that only nine of the 26 units had paying tenants. These business practices used up significant amounts of the company's available funds.

62. This does not mean there are no assets. The Receiver's preliminary forensic accounting has identified a number of payments made by the company that can be challenged under the Utah Fraudulent Transfer Act. The Receiver intends to conduct further investigation of these claims and, if justified, file suit to recover payments improperly made. However, there cannot be a high confidence that these lawsuits will be successful, that the defendants will be able to pay judgments that are obtained, or that the recoveries will be greater than the expenses

incurred in performing the forensic accounting, operating the receivership, and prosecuting litigation against recipients of funds.

63. One option would be to recommend that the Court terminate the Receivership quickly, based on an estimation that a recovery for investors is unlikely.

64. Another option is to continue the Receivership despite the low likelihood of recovery for investors and other claimants. The Receiver is recommending that the Receivership continue for three primary reasons:

a. Some work still has to be accomplished, even if there are no additional funds are recovered. There are five properties in Florida owned by Mason Hill. If the Receiver does not complete their sales, the company would need to be put into bankruptcy. Bankruptcy would be expected to result in even greater liquidation costs than the Receivership.¹⁴ Continuation of the Receivership also will result in a more cost-effective and fair means of dealing with liabilities of the company.

b. There is the possibility that sufficient funds can be recovered to permit a distribution to investors. Further forensic analysis might reveal additional avenues of recovery. Further investigation by the SEC or the Receiver, or newly-discovered information, might identify other recoveries.

c. There may be a psychological benefit to the investors in the Receiver reconstructing the financial activities of the company and investigating improper payments. Even if money is not recovered, knowledge of how the fraud operated and

¹⁴ There also are some personal assets that need to be taken from Brody and Roser and liquidated.

where the money went may provide some closure to the victims of this fraud and provide information that will reduce the likelihood that similar frauds will succeed in the future.

65. In light of this, the Receiver recommends that the goals of the Receivership should be to:

- a. Conclude the termination of business operations of the companies;
- b. Sell the business assets of the companies and the personal assets of Laura Roser, and Patrick Brody;
- c. Deal with real estate currently owned by the companies (including the Rogen Street property transferred into the name of Laura Roser) by preserving the properties, ensuring that the properties are rented and earning income, resolving lender claims, and selling the properties;
- d. Complete a financial analysis of the operations of the companies, including determining when the companies became insolvent and identifying the purposes of expenditures by the company;
- e. Search for assets, including making demands on those who were paid funds improperly – and, where necessary, filing suit to recover funds;
- f. Inform investors and the Court of our findings and the progress of our investigation; and
- g. Assist law enforcement agencies in their investigations of the conduct of the defendants.

66. Nevertheless, the Receiver is very concerned about the likelihood that his expenses and those of his attorneys may consume most of the funds recovered to date and

recovered in the future. If the Court determines that the low likelihood of recovering sufficient funds to make payments to investors means the Receivership should be terminated quickly, the Receiver will propose a plan to accomplish that.

RECEIVERSHIP FEES AND EXPENSES

67. The Order requires that the Receiver prepare an application of fees and expenses. This will be submitted to the SEC by mid July. After the SEC has 30 days to review the application, it will be filed with the court and made public.

CONCLUSION

The Receiver respectfully submits this Initial Report for the period from April 18, 2011 through June 30, 2011.

The Receiver verifies under penalty of perjury that the foregoing is true and correct.

DATED this 28TH day of July, 2011.



WAYNE KLEIN, Receiver

Exhibit A: Likely Claims Against the Receivership
Exhibit B: Schedule of Receipts and Disbursements

CERTIFICATE OF SERVICE

IT IS HEREBY CERTIFIED that service of the above was served via email on this 28th day of July, 2011 on the following:

Steven R. Paul
NELSON SNUFFER DAHLE & POULSEN, PC
10885 South State Street
Salt Lake City, UT 84070
spaul@nsdplaw.com

Attorney for Defendants

Cheryl M. Mori
Daniel J. Wadley
Thomas M. Melton
U.S. SECURITIES AND EXCHANGE COMMISSION
15 W. South Temple, Suite 1800
Salt Lake City, UT 84101
moric@sec.gov
wadleyd@sec.gov
meltont@sec.gov

Attorneys for Plaintiff Securities and Exchange Commission

R. Wayne Klein
KLEIN & ASSOCIATES, PLLC
299 S. Main Street, Suite 1300
Salt Lake City, UT 84111
wklein@kleinutah.com

Court-Appointed Receiver

/s/Jennifer A. James

EXHIBIT A
POTENTIAL CLAIMS AGAINST MASON HILL

Creditors	Debt	Address
Rehab and Maintenance		
A+ plumbing	\$10,593.52	
Advantage Electric Specialist	\$1,116.75	11538 SE Shelfer Ave Arcadia FL 34266
Anytime Septic	\$245.00	PO Box 585744, Orlando FL 32858
Arriola, Juan Manuel	\$500.00	
Baker, Leslie	\$180.00	
Belcher, Leslie	\$295.00	
BNB Air	\$11,470.00	3802 SW 20th Place, Cape Coral FL 33914
Classic Carpet Care	\$1,425.00	PO Box 7329, Fort Meyers, FL 33911
Epcon	\$105.00	
Garage Door Division	\$300.00	
Gonzalez, Javier	\$1,100.00	
House of Carpets	\$2,880.10	1765 Commercial, Dr. Naples FL 34112
Kline Zeigler's Used Appliances	\$3,218.10	1171 N Tamiami Trail, Fort Meyers FL 33903
Lennys Pest Control	\$1,006.00	
Martinez, Alicia	\$325.00	
Pat's Locksmith	\$1,802.16	740 Milwaukee Blvd, Lehigh Acres FL 33974
Porter, Mike	\$595.00	
Pritchard, Jack	\$465.00	
Prudencio Quevedo (AC Repair)	\$3,300.00	9311 Aegean Cir, Lehigh Acres FL 33936 -6011
Ron Boulais Inc	\$270.00	
Sunshine Forecast/Landscaping	\$10,006.00	
Tarpon Technology	\$60.00	
Tech Master	\$314.50	
Tims Termite & Pest Control	\$850.00	
Total Lawn Care	\$1,617.50	
West Coast Fire Equipment	\$111.25	4637 Orange River Loop Rd, Fort Meyers, FL 33905
Sub Total	\$54,150.88	
Utilities		
Cape Coral Utilities	\$70.13	
FPL (Florida Power & Light)	\$520.97	General Mail Facility, Miami FL 33188-0001
LCEC (Lee County Electric Cooperative)	\$1,096.50	PO Box 31477, Tampa FL 33631-3477
Sub Total	\$1,687.60	
Employees		
Algeo, Thomas	\$515.00	
Becker, Anna	\$1,666.00	
Keith, Michael	\$2,457.14	
Parker, Stacie L	\$900.00	
Perkins, Joshua	\$1,750.00	
Rankin, Jackie	\$3,291.76	
Sub Total	\$10,579.90	
Business Operating Expenses		

Bassine Insurance Agency LLC	\$895.45	909 Pondella Rd. Fort Meyers Florida 33903
Comcast	\$207.60	PO Box 34744, Seattle WA 98124-1744
Eagle Plaza	\$2,600.00	4505 S. Wasatch Blvd, Salt Lake City UT
Florida Tenant Reporting	\$270.00	1171 N.Tamiami Trail, Fort Meyers FL 33903
Hartford Life Insurance (Retirement Plan)	\$325.13	PO Box 1583, Hartford CT 06144-1583
National Life Insurance (Roser)	\$64.35	PO Box 371894 Pittsburgh PA 15250-7894
ProTel Network	\$53.43	1336 South 1100 East, Salt Lake City UT 84105
Qwest	\$1,343.45	PO Box 29040, Phoenix AZ 85038-9040
Simplii (Phone System)		Salt Lake City, UT
Sub Total	\$5,759.41	
Government/Taxes/Fees		
City of Cape (Florida)	\$70.13	
IRS	\$25.62	Ogden, UT 84201-0039
IRS (Fed Employment Tax)	\$7,304.31	Ogden, UT 84201-0039
Utah Dept. of Workforce Services	\$344.17	PO Box 45285, SLC UT, 84145-0288
Utah State Tax Commission	\$50.11	210 N 1950 W, SLC UT 84134-0700
Sub Total	\$7,794.34	
Credit Cards		
American Express	\$2,454.92	PO Box 297879 Ft. Lauderdale, FL 33329-7897
Capital One	\$3,853.13	PO Box 60599, City of Industry, CA 91716-0599
HSBC	\$2,497.00	
Sub Total	\$8,805.05	
Liabilities Associated with Assets		
Chase Bank, Mortgage on Roser Home	\$704,338.16	3415 Vision Drive Columbus OH 43219
BMW Financial (BMW Lease)	\$1,261.10	PO Box 78103, Phoenix, AZ 85062-8103
Land Rover Capital (Land Rover Lease)	\$1,561.96	PO Box 551939 Detroit, MI 48255-1939
Ally Bank (Cadillac Lease)	\$778.01	PO Box 380902 Bloomington MN 55438-0902
Sub Total	\$707,939.23	
Total Creditors	\$796,716.41	
Investors and Lenders on Properties		
Investors without Properties (50)	\$ 1,462,250.00	
Investors with Properties (39)	\$ 182,935.81	
Hills, Ken	\$234,000.00	
Lee, Robert	\$65,000.00	
Seybold, Michael	\$40,000.00	PO Box 2137, Land of Lakes FL 34639
Victor Marques	\$91,000.00	
Total Investors	\$2,075,185.81	
Grand Total	\$2,871,902.22	

EXHIBIT B
SCHEDULE OF RECEIVERSHIP RECEIPTS AND DISBURSEMENTS

Source/Payee	Purpose	Date	This Period		Since Inception	
			Deposit	Payment	Deposit	Payment

RECEIPTS/SOURCE OF FUNDS

Mason Hill/Art Intellect/VirtualMG - Cash and Bank Balances						
Mason Hill	Petty Cash	5/2/2011	120.39		120.39	
Subconscious Training Corp.	Virtual MG Invoice #5594	5/2/2011	1,100.00		1,100.00	
Costco	% refund on annual purchases	5/19/2011	65.08		65.08	
Petty cash	From Roser desk	5/19/2011	0.55		0.55	
Petty cash	From employee desks	5/23/2011	0.61		0.61	
Stewart Title	Refund Willin St. earnest \$	5/23/2011	1,000.00		1,000.00	
Summit Crest Properties	Rents for May on FL properties	6/29/2011	2,310.43		2,310.43	
Zions Bank	Balance from account #0809	6/29/2011	279.53		279.53	
Zions Bank	Balance from account #6178	6/29/2011	32.87		32.87	
Zions Bank	Balance from account #3569	6/29/2011	52.57		52.57	
Wells Fargo	Balance from Florida accounts	6/30/2011	37,198.46		37,198.46	
Subtotal			42,160.49		42,160.49	

Sales of Mason Hill Furniture						
Cash Buyer	Sale of six office side chairs	5/13/2011	300.00		300.00	
Cash Buyer	Sale of old phone system	5/23/2011	300.00		300.00	
Cash Buyers	Sale of furniture, supplies	6/8/2011	995.00		995.00	
Cash Buyer	Furniture purchases	6/13/2011	1,160.00		1,160.00	
Cash Buyer	Office supplies purchases	6/13/2011	20.00		20.00	
Cash Buyers	Buyers of furniture, supplies	6/15/2011	128.00		128.00	
Cash Buyer	Purchase of office supplies	6/24/2011	125.00		125.00	
Cash Buyer	See list of assets sold	6/29/2011	210.00		210.00	
Subtotal			3,238.00		3,238.00	

Sales of Roser/Brody Personal Assets						
Cash Buyer	Sale of Roser Nikon camera	5/6/2011	700.00		700.00	
Cash Buyer	Sale of video camera, etc.	5/19/2011	2,100.00		2,100.00	
Subtotal			2,800.00		2,800.00	
Total Receipts			48,198.49		48,198.49	

DISBURSEMENTS/PAYMENTS OF EXPENSES

Asset Maintenance						
United Property & Casualty	Insurance on 5217 29th St.	5/3/2011		90.52		90.52
United Property & Casualty	Insurance on 5217 29th St.	6/9/2011		21.93		21.93
Summit Crest Properties	A/C repair, 20th Street	6/20/2011		420.00		420.00
Subtotal				532.45		532.45

Investigation of Assets						
First American Title	Title report on Roser home	5/4/2011		95.00		95.00
Utah Tax Comm, DMV	Motor vehicle records	5/19/2011		6.00		6.00
Standard Registrar	Replacement stock certificate	6/21/2011		30.00		30.00
Wells Fargo	Cashier's check for acct. stmts.	6/28/2011		36.00		36.00
Subtotal				167.00		167.00

Receivership Operations						
Harland Clark	Check printing	5/10/2011		22.20		22.20
Subtotal				22.20		22.20
Total Disbursements				721.65		721.65

NET OF RECEIPTS AND DISBURSEMENTS	47,476.84	47,476.84
--	------------------	------------------