

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF NORTH CAROLINA
CHARLOTTE DIVISION

FILED
CHARLOTTE, N.C.
MAY 20 2004
U.S. DISTRICT COURT
W. DIST. OF N.C.

Michael J. Quilling, Receiver for §
Frederick J. Gilliland, §
Plaintiff, §
v. §
Grand Street Trust, Heartland Control §
Trust, Future Control Trust, Marie Margarite §
Gueco Mercado Paquette, Rein Evans §
Sestanovich, L.L.P. f/k/a Dressler Rein §
Evans & Sestanovich, L.L.P., Melrose §
Escrow, Inc., and Paul J. Cohen, §
Defendants. §

Civil Action No. 3:04cv1251

(JURY TRIAL DEMANDED)

COMPLAINT

TO THE HONORABLE JUDGE OF SAID COURT:

COMES NOW, Michael J. Quilling, in his capacity as Receiver for Frederick J. Gilliland, ("Plaintiff") and files this his Complaint against Grand Street Trust, Heartland Control Trust, Future Control Trust, Marie Margarite Gueco Mercado Paquette, Rein Evans Sestanovich, L.L.P. f/k/a Dressler Rein Evans & Sestanovich, L.L.P., Melrose Escrow, Inc., and Paul J. Cohen and in support of such would respectfully show unto the Court as follows:

PARTIES

1. Michael J. Quilling is the Receiver appointed for Frederick J. Gilliland in Civil Action No. 3:02CV128-McK, styled *Securities and Exchange Commission v. Frederick J. Gilliland, Defendant and MMACMC Banque de Commerce, Inc., Relief Defendant*, pending before the United States District Court for the Western District of North Carolina, Charlotte Division, the Honorable H. Brent McKnight presiding (the "SEC Proceedings").

2. Grand Street Trust is believed to be a trust established pursuant to the laws of the State of California and may be served with process by and through its trustee, Marie Margarite Gueco Mercado Paquette at 2701 Cartier Street, Calgary, Alberta, Canada T2T 3J5.

3. Heartland Control Trust is believed to be a trust established pursuant to the laws of the State of California and may be served with process by and through its trustee, Marie Margarite Gueco Mercado Paquette at 2701 Cartier Street, Calgary, Alberta, Canada T2T 3J5.

4. Future Control Trust is believed to be a trust established pursuant to the laws of the State of California and may be served with process by and through its trustee, Marie Margarite Gueco Mercado Paquette at 2701 Cartier Street, Calgary, Alberta, Canada T2T 3J5.

5. Marie Margarite Gueco Mercado Paquette (“Paquette”) is an individual resident and citizen of Canada and may be served with process at 2701 Cartier Street, Calgary, Alberta, Canada T2T 3J5.

6. Rein Evans Sestanovich L.L.P. f/k/a Dressler Rein Evans Sestanovich, L.L.P. (“Rein Evans”) is a professional limited liability partnership organized under the laws of the State of California and may be served with process at 1925 Century Park East, Sixteenth Floor, Los Angeles, California, 90067.

7. Melrose Escrow, Inc. (“Melrose Escrow”) is a corporation organized and existing pursuant to the laws of the State of California and may be served with process at 2465 East Orangethorpe Avenue, Fullerton, California 92831.

8. Paul J. Cohen (“Cohen”) is an individual resident and citizen of the State of California and may be served with process at 14550 Haynes Street, Suite 205, Van Nuys, California 91411.

JURISDICTION AND VENUE

9. This Court has jurisdiction over the subject matter of this action because the actions stated herein constitute Receivership Assets within the meaning of the Order Appointing Receiver in the SEC Proceedings. In addition, this Court has subject matter jurisdiction pursuant to 28 U.S.C. §§ 754, 1692, 1331, 1332, and Fed. R. Civ. P. 4(k)(1)(D).

10. Venue for this action is proper in the Western District of North Carolina because (1) the SEC Proceedings referenced above are pending in this District and this action is ancillary to it; (2) the Receiver was appointed in this District; and (3) the action involves Receivership Assets within the meaning of the Order Appointing Receiver.

BACKGROUND FACTS

11. On March 27, 2002, the United States Securities and Exchange Commission (“SEC”) initiated Case No. 3:02CV128-McK, styled *Securities and Exchange Commission v. Frederick J. Gilliland, Defendant and MM APMC Banque de Commerce, Inc., Relief Defendant*, and in connection therewith sought the appointment of a receiver as to Frederick J. Gilliland and all entities owned or controlled by him. By Order signed May 21, 2003 entered in the SEC Proceedings, Michael J. Quilling was appointed as the Receiver and he has continued to function in that capacity since that time.

12. Prior to his appointment, Frederick J. Gilliland (“Gilliland”) operated a huge international Ponzi scheme under the auspices of a number of different entities which he owned and controlled, including Sterling Management Services, Inc. and Sterling Asset Services, Ltd. Gilliland solicited investors promising them spectacular rates of return based upon alleged but non-existent trading programs. In most instances, investors were required to send their funds to offshore bank accounts controlled by Gilliland. Between late-1997 and late-1998, large amounts of funds were

raised from investors and funneled through the offshore accounts. Those funds were eventually deposited in to account no. 000669829075 at NationsBank (now Bank of America) in Charlotte, North Carolina in an account in the name of MM APMC Banque de Commerce, Inc. (the “NationsBank Account”). Ultimately, in December, 1998 the United States government seized all funds in the account and thereafter, in case no. 3:01CV205-McK styled *George and Delores Rollar v. United States of America, et al.*, the Honorable H. Brent McKnight presiding, a procedure was established to identify claimants to the funds and for distribution procedures.

13. After investor funds were initially placed in the NationsBank Account and prior to seizure of those funds by the United States government, on October 2, 1998 Gilliland cause \$2.5 million of investor funds to be wire transferred from the NationsBank account to account no. 6465-510055 in the name of Grand Street Trust at Wells Fargo Bank. The funds were then laundered through a series of accounts in the name of Grand Street Trust, Heartland Control Trust and Future Control Trust. From such accounts, Rein Evans was paid an aggregate of at least \$1,500,000.00. Of this amount, Rein Evans paid at least \$700,000.00 to Melrose Escrow and \$225,000.00 to Cohen’s law firm trust account. Rein Evans kept at least \$150,000.00 of funds ostensibly in payment of legal fees. No consideration of any value to the investors whose funds were diverted was given by Rein Evans, Melrose Escrow or Cohen. The remainder of the investor funds were stolen or otherwise wrongfully diverted by Paquette for no consideration whatsoever.

14. Grand Street Trust, Heartland Control Trust, and Future Control Trust are not legitimate business entities and instead are the alter egos of Paquette and all of their business affairs are controlled by her.

COUNT ONE

FRAUDULENT TRANSFER

15. The Plaintiff incorporates paragraphs 1 through 14 set forth above as if set forth verbatim hereat.

16. The alleged investment programs operated by Gilliland were fraudulent Ponzi schemes. Consequently, all funds received by each of the Defendants are fraudulent transfers pursuant to applicable law. The Plaintiff hereby sues to recover each fraudulent transfer or the value thereof, plus interest at the rate allowed by law, attorneys fees and costs of court.

COUNT TWO

CONSTRUCTIVE TRUST AND DISGORGEMENT

17. The Plaintiff incorporates paragraphs 1 through 14 set forth above as if set forth verbatim hereat.

18. The funds directed to each of the Defendants constitute and are directly traceable to the funds of the investors defrauded by Gilliland. As such, they are impressed with a constructive trust and constitute Receivership Assets within the meaning of the Order Appointing Receiver. Each of the Defendants should be required to disgorge their respective ill-gotten gains.

19. Pursuant to principles of equity, the Plaintiff seeks the imposition of a constructive trust upon any funds paid to any of the Defendants and a judgment requiring disgorgement of all funds received. To the extent the Defendants are unable to disgorge the funds received, the Plaintiff seeks a money judgment against each of them in the amount of the funds received, plus interest at the rate allowed by law, attorneys fees and costs of court.

JURY DEMAND

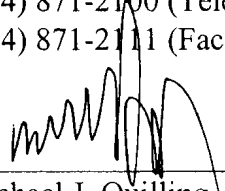
20. The Plaintiff respectfully requests that this case be tried before a jury.

WHEREFORE, PREMISES CONSIDERED, the Plaintiff prays that upon final trial hereof that the Court enter judgment in favor of the Plaintiff against each of the Defendants in an amount equal to the amount of investor funds received by each Defendant, plus pre- and post-judgment interest, attorneys fees and costs of court and for such other and further relief, general or special, at law or in equity, to which the Plaintiff may show himself justly entitled.

Respectfully submitted,

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By:



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