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8 **UNITED STATES BANKRUPTCY COURT**

9 **DISTRICT OF NEVADA**

10 In re:
11 AMERICAN PACIFIC FINANCIAL
12 CORPORATION,
13 Debtor.

Case No. BK-S-10-27855-BAM
Chapter 11

**DECLARATION OF PAUL HAZELL IN
SUPPORT OF TRUSTEE’S MOTION TO
CONVERT CASE FROM CHAPTER 11
TO CHAPTER 7**

Date: February 9, 2012
Time: 9:00 a.m.

16 I, PAUL HAZELL, declare, under penalty of perjury, as follows:

17 1. I have personal knowledge of the matters set forth herein and, if called as a
18 witness, could and would competently testify hereto under oath. I make this declaration in support
19 of Trustee Barclay’s and the SEC’s motions & declarations requesting this case to be converted to
20 a case under Chapter 7 for the following reasons.

21 2. I was appointed by the US Trustee to serve on the Official Creditors Committee
22 (“OCC”) in this case.

23 3. I am in agreement with Trustee Barclay that Mr. Polhill’s proven “track record of
24 decades of investor losses” and his own statements along with APFC’s illegal record keeping
25 illustrate the need for Mr. Polhill to be permanently removed from any operations associated with
26 APFC and its affiliates.

27 4. I am in agreement with Trustee Barclay that the APFC “lacks the funds to properly
28 investigate APFC and its associated creditor claims in this case.” An appointed Chapter 7 Trustee

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1 will have priority over administrative claims that will enable the proper investigation of APFC for
2 Fraud, Ponzi Scheme, Bank Fraud, Tax Fraud, numerous Securities Violations, Financial Elder
3 Abuse and numerous “insider relationships” with creditors, family members and some OCC
4 members.

5 5. I am in agreement with Trustee Barclay that conversion of this case to a case under
6 Chapter 7 is in the “best interests” of the unsecured creditor class.

7 6. APFC should be investigated for Ponzi scheme allegations as illustrated in the
8 “Greene Report” and both the SEC’s and Trustee Barclay’s declarations and pleadings.

9 7. It is my opinion that many of my fellow OCC members have not represented the
10 Unsecured Creditor Class and have violated their fiduciary duties by doing so. Several of these
11 people have been identified in Trustee Barclay’s declaration.

12 8. The “insider relationships” and “conflicts of interests” of members of the OCC
13 will be eliminated as a problem with the conversion to a case under Chapter 7. This is in the “best
14 interests of the creditors.”

15 9. There should be no releases of claims against APFC, Mr. Polhill, his family
16 members and employees. This is not in the “best interests of the creditors”

17 10. I am in agreement with Trustee Barclay that “Mr. Polhill has not acted in good
18 faith” during these proceedings.

19 11. It is unfortunate that the very people who have sent letters in opposition to the
20 motion for conversion to chapter 7 are not privy to the “real facts” in this case as illustrated in the
21 Greene Report and Mr. Polhill’s own statements, contradictions and dishonesty that warrant
22 conversion to Chapter 7.

23 12. Converting this case to Chapter 7 would allow a Chapter 7 Trustee, whether it is
24 Mr. Barclay or some other person, to review the numerous suspicious creditor claims filed by
25 APFC, review the numerous suspicious transactions of APFC and would allow for recovery of
26 funds diverted by APFC and Mr. Polhill.

27 13. I am in agreement with the SEC’s Objection to Approval of the Disclosure
28 Statement on all points and authorities.

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1 14. I am in agreement with the US Trustee’s Objection to Approval of the Disclosure
2 Statement on all points and authorities.

3 15. I am in agreement with Trustee Barclays Points and Authorities in Opposition to
4 the Approval of the Disclosure Statement. I am in agreement that:

5 “The disclosure statement contains no analysis of the claims which could be
6 asserted against Mr. Polhill, other than for a single instance of misappropriation of
7 a corporate opportunity, and fails to analyze this from the perspective of pursuing
8 the perpetrator and beneficiaries of a Ponzi scheme. There is no discussion as to
9 whether persons who received distributions over and above their capital invested
10 or principal loaned could be required to return funds to the estate for the benefit of
11 creditors who were not so favored. There is no discussion in a typical Ponzi case
12 as to whether the claims of insiders and affiliated entities (who are not adequately
13 identified, and whose distributions under the plan are not spelled out) could be
14 subordinated to the claims of other creditors.”

15 “The comparison to other Ponzi cases fails to disclose that in one the Midland
16 case presided over by the bankruptcy trustee, in addition to the distribution from
17 the bankruptcy, creditors received substantial additional distributions from a class
18 action lawsuit which built upon the evidence gathered by the bankruptcy trustee.”

19 “In that action, the bankruptcy estate took the lead and bore the investigative
20 expenses, and significant recoveries were achieved for creditor/investors from the
21 related class action. A Ponzi scheme recovery in the instant case has substantially
22 better opportunities for recovery, because the primary target would be Mr. Polhill,
23 the perpetrator of the scheme, and his related and affiliated entities, all of which
24 have significant assets.”

25 “Indeed, the plan is premised on Mr. Polhill having significant assets. The plan
26 and the settlement agreement are, as previously noted, inconsistent as to the
27 definition of Released Parties. The release contained in the plan, which
28 commences at page 28 of the proposed plan, appears designed to grant releases
for acts undertaken during the administration of the estate. “

“The settlement agreement, by contrast, is designed to release certain persons
from arguably wrongful acts committed both pre and post-petition. The two
settlements should not be in conflict and contradictory, as they are here.”

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