

IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION



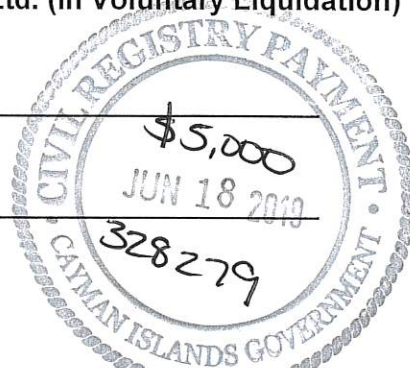
FSD CAUSE NO: 108 OF 2019

IN THE MATTER OF the Companies Law (2018 Revision)

AND IN THE MATTER OF Direct Lending Income Feeder Fund, Ltd. (in Voluntary Liquidation)



PETITION



**To the Grand Court**

The humble petition of Bradley D. Sharp of Development Specialists, Inc. (**DSI**) of 333 S. Grand Avenue, Suite 4100, Los Angeles, California 90071-1544 and Christopher D. Johnson of Chris Johnson Associates Ltd., Elizabethan Square, 80 Shedden Road, George Town, Grand Cayman, Cayman Islands (**Petitioners**) as joint voluntary liquidators of Direct Lending Income Feeder Fund, Ltd. (In Voluntary Liquidation) (**Company**) shows that:

**A. Background**

1. The Company was incorporated as an exempted company limited by shares on 15 June 2016 with registered number 1323302. The Company is a mutual fund registered and regulated pursuant to Mutual Funds Law.
2. The Company's registered office is 4th Floor, Harbour Place, 103 South Church Street , P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.
3. The Company is part of an investment group (**DLI Group**) which, in broad terms, is a master-feeder structure comprising an offshore feeder fund (i.e. the Company) and an onshore feeder fund incorporated in Delaware (Direct Lending Income Fund, L.P., **Onshore Feeder**), both of which invested all or substantially all of their assets in DLI Capital, Inc., incorporated in Nevada (**Master Fund**).

4. Direct Lending Investments, LLC is the investment manager of both the Company and the Onshore Feeder (**Investment Manager**). Brendan Ross is the sole managing member of the Investment Manager. Mr Ross held a number of other positions in the DLI Group including:
  - 4.1 chief executive officer of the Investment Manager, until his resignation on 18 March 2019;
  - 4.2 a director of the Company, until his resignation on 18 March 2019; and
  - 4.3 a director of the Master Fund, until his resignation on 1 May 2019.
5. The Company was incorporated to invest in the Master Fund. The Company's investment in the Master Fund is a combination of the Master Fund's debt and equity. The Master Fund is organised to invest directly and indirectly in short-term loans, lines of credit, receivables, real estate loans, portfolios of loans, intellectual property interests, real estate assets, consumer and small business loans and other assets. The Company carries on business primarily in the Cayman Islands and the United States.
6. On 11 February 2019, the Investment Manager wrote to the investors of the Company and the Onshore Feeder (**Investor Notice**), notifying them of the suspension of withdrawals and redemptions effective as of 8 February 2019 (**Suspension**). The reason given for the Suspension was as follows:
  - 6.1 the Funds (i.e. the Company and the Onshore Feeder) (through one or more affiliated vehicles) had extended loans to VOIP Guardian Partners I, LLC (**VOIP Guardian**);
  - 6.2 as of the date of the notice, the principal balance of the Funds' loan to VOIP Guardian totalled US\$192 million (which represented a substantial proportion of the Funds' aggregate net asset value of US\$758 million);
  - 6.3 from December 2018, VOIP Guardian had started to default on its repayment obligations to the Funds, because VOIP Guardian had itself failed to receive timely payments from its own obligors;

- 6.4 VOIP Guardian itself was owed US\$160 million and was unable to make its payments due to the Funds; and
- 6.5 the Investment Manager suspected that the cessation of payments to the Funds was the likely result of misconduct (although the Investment Manager had not yet determined by whom) and that a substantial portion of the US\$160 million may not be recoverable.
7. On 11 March 2019, VOIP Guardian filed a voluntary petition for liquidation under Chapter 7 in the U.S. Bankruptcy Court for the Central District of California.
8. On 22 March 2019, the United States Securities and Exchange Commission (**SEC**) filed a complaint (**SEC Complaint**) against the Investment Manager in the United States District Court Central District Of California (**District Court**). The SEC Complaint alleges:
- 8.1 the Investment Manager, through Mr Ross, perpetrated a *multi-year fraud ...which resulted in approximately \$11 million in over-charges of management and performance fees to fund investors [i.e. including the Company], and the inflation of DLI's private funds' returns [i.e. including the Company's returns];*
- 8.2 one of the investments made was in QuarterSpot, Inc. (QuarterSpot), an online small business lender. Management at the Investment Manager recently discovered that for years Mr Ross *arranged with QuarterSpot to falsify borrower payment information for QuarterSpot's loans and to falsely report to [the Investment Manager] that borrowers made hundreds of monthly payments when, in fact, they had not;*
- 8.3 according to a senior executive representative of the Investment Manager, many of the QuarterSpot loans should *have been valued at zero, but instead were valued at par, because of the false payments Ross helped engineer. The effect of this was that, between 2014 and 2017, [the Investment Manager] cumulatively overstated the valuation of its QuarterSpot position by approximately \$53 million and misrepresented the Funds' performance by approximately two to three percent annually. As a result, [the Investment Manager] collected roughly \$11 million in excess management and performance fees from the Funds that it would not have otherwise collected, had the QuarterSpot position been accurately valued; and*

- 8.4 by this conduct, the Investment Manager (an SEC registered investment adviser ) has violated, inter alia, provisions of the Securities Exchange Act of 1934, the Securities Act of 1933 and the Investment Advisers Act of 1940.
9. On 1 April 2019, on the application of the SEC, the District Court ordered that Mr Sharp be appointed as permanent receiver for the estate of the Company, the Investment Manager, the Master Fund and various other entities in the DLI Group.
10. On 13 May 2019, on the *ex parte* application of Mr Sharp (as permanent receiver of the Company) (which application was made on notice to the SEC, the Investment Manager and the Company), the District Court approved Mr Sharp's proposal to place the Company into voluntary liquidation in the Cayman Islands and to appoint the Petitioners as joint voluntary liquidators.

**B. Voluntary liquidation**

11. On 14 May 2019 (**Commencement Date**), the Company was placed into voluntary liquidation pursuant to a special resolution passed by Mr Sharp in his capacity as permanent receiver of the Investment Manager. The resolution was passed pursuant to article 45.2 of the Company's amended and restated memorandum and articles of association.
12. The resolution appointed the Petitioners as joint voluntary liquidators.

**C. Supervision order**

13. The Company did not have any directors as of the Commencement Date. More than 28 days have passed since the Commencement Date. The Voluntary Liquidators have not received a declaration of solvency in the prescribed form signed by all of the company's directors, and there is no prospect that a declaration of solvency will be signed in respect of the Company. The Petitioners therefore apply pursuant to section 124 of the Companies Law (2018 Revision) (**Law**) for the liquidation to be continued under the supervision of this Honourable Court.
14. It is also the Petitioners' view that the supervision of the Court will facilitate a more effective, economic and expeditious liquidation in the interests of the Company's contributories and creditors.

15. Mr Johnson is a qualified insolvency practitioner (as defined in the Law) and meets the requirements of a qualified insolvency practitioner pursuant to the Insolvency Practitioners' Regulations 2018 (IPR). Mr Johnson consents to being appointed as a joint official liquidator.
16. Mr Sharp is a foreign practitioner (as defined in the Law) and meets the requirements of a foreign practitioner pursuant to the IPR. Mr Sharp consents to being appointed as a joint official liquidator.
17. On 6 June 2018, the Petitioners caused a notice to be sent to the Company's known shareholders and creditors, notifying them of the proposed petition.
18. As at the date of this petition, the Petitioners have not received any communication from creditors or shareholders which gives the Petitioners reason to believe that any creditor or shareholder objects to the appointment of the Petitioners as JOLs of the Company.

Your Petitioners therefore humbly pray that:

- (1) The liquidation of the Company be continued under the supervision of the Court.
- (2) Bradley D. Sharp of Development Specialists, Inc., 333 S. Grand Avenue, Suite 4100, Los Angeles, California 90071-1544 and Christopher D. Johnson of Chris Johnson Associates Ltd., Elizabethan Square, 80 Shedden Road, George Town, Grand Cayman, Cayman Islands be appointed as joint official liquidators of the Company (JOLs).
- (3) The JOLs shall have the power to act jointly and severally.
- (4) The JOLs shall not be required to give security for their appointment.
- (5) The JOLs be authorised to take and action as may be necessary or appropriate to take possession, custody and control of the assets, books and records of the Company to the extent that the Company's property is not already in their possession, custody or control.
- (6) In addition to the powers prescribed in Part II of the Third Schedule to the Companies Law (2018 Revision) (Law) which are exercisable without sanction of the Grand Court, the JOLs

are hereby sanctioned to exercise, on a joint and several basis, the following powers set out in Part I of the Third Schedule to the Law:

- (a) the power to bring or defend any action or other legal proceeding in the name and on behalf of the Company;
- (b) the power to carry on the business of the Company so far as may be necessary for its beneficial winding up;
- (c) the power to dispose of any property of the Company to a person who is or was related to the Company;
- (d) the power to pay any class of creditors in full;
- (e) the power to make any compromise or arrangement with creditors of persons claiming to be creditors or having or alleging themselves to have any claim (present or future, certain or contingent, ascertained or surrounding only in damages) against the Company or for which the Company may be rendered liable;
- (f) the power to compromise on such terms as may be agreed all debts and liabilities capable of resulting debts, and all claims (present or future, certain or contingent, ascertained or sounding only in damages) subsisting, or supposed to subsist between the Company and a contributory or alleged contributory or other debtor or person apprehending liability to the Company;
- (g) the power to deal with all questions in any way relating to or affecting assets or the winding up of the Company to take any security for the discharge of any such call, debt, liability of claim and to give a complete discharge in respect of it;
- (h) the power to sell any of the Company's property by public auction or private contract with power to transfer the whole of it to any person or to sell the same in parcels;

- (i) the power to engage staff (whether or not as employees of the Company) to assist the JOLs in the performance of their functions; and
  - (j) the power to engage attorneys (including Cayman Islands and United States attorneys and attorneys in those jurisdictions where the JOLs consider it necessary to advise and assist the JOLs in the performance of their functions) and other professionally qualified persons to assist the JOLs in the performance of their functions.
- (7) No suit, action or other proceedings shall be proceeded with or commenced against the Company, except with the leave of the Court pursuant to section 97 of the Law.
  - (8) No disposition of the Company's property by or with the authority of the JOLs in carrying out their duties and functions and the exercise of their powers shall be avoided by virtue of section 99 of the Law.
  - (9) The JOLs be entitled to receive remuneration for their services by reference to the time properly given by them and their staff upon the affairs of the liquidation and the hourly rates and the amount of remuneration shall be determined in accordance with the Insolvency Practitioners' Regulations 2018 (IPR).
  - (10) The JOLs be at liberty to meet all disbursements reasonably incurred in connection with the performance of their duties.
  - (11) The JOLs fees and expenses be paid out of the assets of the Company in accordance with Section 109 of the Law, the IPR and the Companies Winding Up Rules.
  - (12) The JOLs be at liberty to and do pay their agents, employees, attorneys, solicitors and whomever else they may employ or instruct, remuneration and costs, and for the avoidance of doubt, all such payments shall be made as and when they fall due out of the assets of the Company as expenses of the winding up.
  - (13) The costs of and incidental to this petition shall be paid out of the assets of the Company as an expense of the liquidation.

AND you Petitioners will ever pray, etc.

Dated the 18 day of June 2019.

Collas Crill

Collas Crill  
Attorneys-at-Law for the Petitioners