

How a sweetheart deal turned ugly

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Of the Leesburg/Commercial

ORLANDO

Many of the people owed money by Continental Country Club claim that company president Donald W. Freeman has turned an untapped gold mine into an empty hole from which a nugget of profit has never emerged.

In less than three years the developers of this 1,000-acre golfing community east of Wildwood have run up \$13.7 million in debts, leaving only \$10.9 million in offsetting assets.

Creditors' attorneys grilled Freeman March 22 during a creditors' hearing in Orlando's U.S. Bankruptcy Court.

It was the first time Freeman — who is the sole stockholder of Continental Country Club Inc. — had spoken publicly about his company's financial troubles since Feb. 12.

That was the day Continental filed for corporate reorganization under Chapter 11 of the Federal Bankruptcy Act.

Freeman's testimony may have laid the groundwork for a case to prove that Continental defrauded some of the 160 buyers who placed deposits on lots and mobile homes, and now possess neither their money nor the property they had contracted to buy, says one of the attorneys, Michael B. Holden of Ft. Lauderdale.

Holden says Continental may have kept taking deposits long after all chances for solvency had disappeared.

The deposits ranged from \$200 to more than \$50,000 and total \$2.1 million.

Continental presently contains some 675 mobile homes. Freeman's company bought the development

Crisis at Continental: Part 2

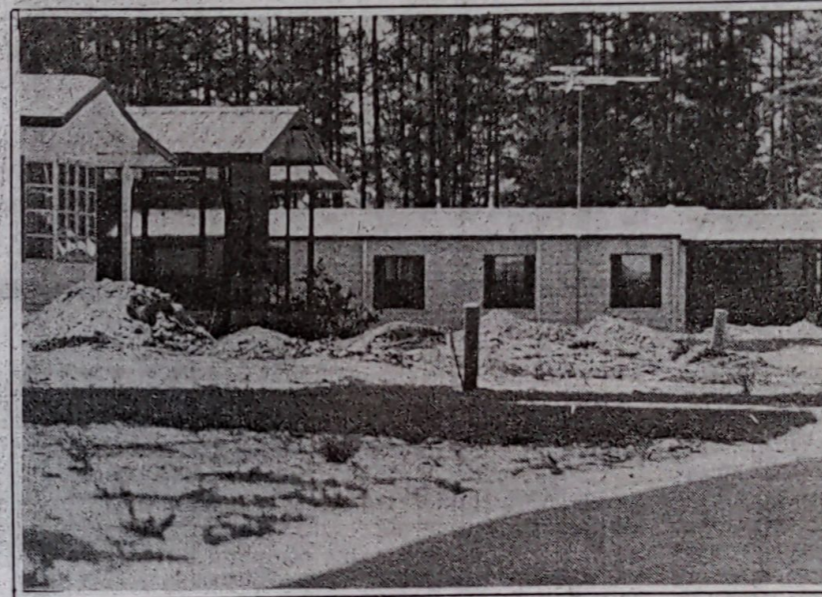


in April 1982, about 10 years after Continental's first developers opened for business.

Under the bankruptcy court's rules, Freeman had to take the witness stand for 30 minutes during the creditors' hearing. He answered questions from attorneys for several of the creditors.

Freeman testified that \$346,741 in payroll-tax liens filed by the federal government late in January forced his company to file for Chapter 11 bankruptcy protection.

But court records show that Continental had owed payroll taxes since December 1983 and Freeman testified that the company had fallen behind on



The Chapter 11 bankruptcy filing of Continental Country Club Feb. 12 has delayed placement of mobile homes and landscaping to some lots. Lawyers say about 160 buyers placed deposits on lots and mobile homes, and now possess neither their money nor the property they had contracted to buy.

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payroll-tax payments by October 1983. The total owed by the end of 1984 was \$595,111. The present total is \$646,230.

Even after the January tax-lien filing, Continental continued accepting deposits to hold mobile homes and lots for later purchase or lease.

"We haven't stopped taking deposits yet," Freeman testified.

An attorney for Continental, Harley Reidel of Tampa, later clarified that the company is presently taking deposits for mobile homes and lot leases only, not for land purchases, because of the present bankruptcy restrictions. Freeman would only answer

questions from the *Leesburg/Commercial* when they were submitted to Reidel for consideration and then answered later in a prepared statement.

It is important that the company was behind on payments for so long and had built such a huge debt, Holden says, because sound business judgment might have dictated an earlier bankruptcy filing or a change in operations.

Further, Holden says he would be able to prove fraud if he could show that Freeman kept encouraging deposits to skim money off for himself —

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knowing that the company was no longer salvageable.

Proving fraud could move the creditors' claims out of bankruptcy court into civil court where Freeman could be held liable for the company's debts, if found guilty, Holden says. It could also open Freeman up to criminal prosecution, he says.

Freeman testified that between April 1982 and Feb. 12, he made \$331,000 as president, an average of \$9,740 per month. During that period Continental bought him a Mercedes-Benz, Freeman testified.

The company bought cars for four other company officers, as well, according to court records filed by Continental.

Those records also show that Continental paid Freeman \$158,869 over the last year.

But, Freeman says, the company was working on refinancing agreements all along that would have pumped new money into the operation. None of the agreements went through.

"From time to time you run out of cash. But we did not feel we had financial problems as late as January 1985," Freeman testified.

Taking another approach in examining Continental's business practices during the creditors' hearing was Leesburg attorney Ben Cox.

Cox questioned the type of deposit contract used by Continental.

Although each contract called for the purchase of a mobile home chosen by the buyer and identified the lot chosen by the buyer, it did not call for the lot to be purchased. The lot could be leased; the decision to buy or lease the lot would be made at closing, and had to be agreed to by both Continental and the buyer.

The buy-or-lease options allowed Continental to deposit the down payments in its general accounts for immediate use, rather than holding the money in escrow accounts.

State land-sales laws usually require escrow deposits when a lot purchase is in the contract, Cox says.

"Most of the people I've talked to feel they've tied up a lot," Cox told Freeman. "Was that agreement set up to get around escrow?" Cox asked.

"That was one of the reasons," Freeman replied.

The down payments would have been protected, had they been deposited in escrow accounts. But, because the down payments went to the general accounts, and because the buyers held no collateral, their deposits are "unsecured."

Unsecured debts are always the last to be paid off in bankruptcy cases and the payments often fall short if the assets are too small to offset the debts.

Of the testimony and the circumstances, Cox says "It certainly would make you think that there's some area for misrepresentation."

But proving criminal liability is something Cox says "I wouldn't (try to) do without a lot of evidence."

The State Attorney's Office is also interested in the fraud question. "We're looking into each case reported," says Martin Campbell, an assistant state

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attorney in Tavares. "Filing for bankruptcy does not exempt you from criminal prosecution."

But, because gathering evidence that proves someone intended to commit fraud is difficult, State Attorney Ray Gill says the conclusions of his office's investigations could be a long time coming.

Gill says that complaints about Continental's sales practices are being taken through his Tavares office because of the consumer-law specialists stationed there.

This is not the first time a mobile home development connected with Freeman has been subject to public criticism and legal action.

Freeman testified in the creditors' hearing that he owns 40 percent of Florida Mobile Home Communities Inc. which owns Village Green Mobile Home Park in Vero Beach.

In 1983, Continental and Village Green shared sales and administrative staffs, Freeman testified.

Village Green has been the subject of dozens of lawsuits that fall into two categories:

First, Village Green promised to buy back mobile homes if the owners were not satisfied after a year, Clifford Miller claims. Miller is a Vero Beach attorney who represents a number of people who wanted to return their homes to the company. Village refused to accept them, Miller claims.

Second, Village Green — which sold mobile homes to be placed on leased lots — decided to convert to a condominium park about a year ago.

Under the condominium conversion, lots would be sold to the mobile-home owners rather than being leased, Miller says.

Miller claims Village Green was forcing those leasing lots to buy the lots by refusing to transfer leases when the mobile-home owners wanted to sell their homes.

The lawsuits on both issues are presently in appeals courts.

Tomorrow: Tenants say promises unkept.