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9
10 **UNITED STATES DISTRICT COURT**
11 **CENTRAL DISTRICT OF CALIFORNIA**
12 **Western Division**

13
14 **SECURITIES AND EXCHANGE
COMMISSION,**

15 **Plaintiff,**

16 **vs.**

17 **STEVE CHEN, *et al.*,**

18 **Defendants.**

Case No. CV15-07425 RGK (PLA)

**DECLARATION OF CHARLES
CARMONA IN SUPPORT OF
PLAINTIFF SECURITIES AND
EXCHANGE COMMISSION'S
MOTION FOR SUMMARY
JUDGMENT AGAINST STEVE
CHEN**

1 I, Charles Carmona, declare pursuant to 28 U.S.C. § 1746 as follows:

2 1. I am President of Guild Laboratories, Inc., based in the downtown Los
3 Angeles jewelry district. I also have offices with joint-venture partners in Hong
4 Kong and Shenzhen, China (Guild Gem Laboratories). I started Guild (US) in 1980
5 as a professional gemology practice providing scientific gemstone identification
6 services and gemstone and jewelry appraisals. My appraisal services also cover coins
7 and currency and silver flatware and hollowware.

8 2. I have expertise in the identification and appraisal of all commercially
9 available gemstones, including all of the species and varieties of gem materials
10 involved in this action. In my 36 years of professional practice, I have consulted with
11 and testified on behalf of clients in dozens of cases, from simple issues of gemstone
12 nomenclature to industry practices to complex inter-market valuations. My clients have
13 included Interpol, The World Bank, agencies within the Departments of Homeland
14 Security, State, Interior, Treasury, Justice and other federal, state and local consumer
15 and law enforcement entities.

16 3. Prior to the establishment of Guild, I was an importer of gemstones from
17 South America, which began as an extension of my childhood “rockhound” hobby.

18 4. After studies at UCLA, I received my Graduate Gemologist (GG)
19 diploma from the Gemological Institute of America in 1978, and my Accredited
20 Senior Appraiser (“ASA”) designation from the American Society of Appraisers in
21 1986. My curriculum vitae include a complete list of my publications and prior
22 testimonies in the last four years (*see* Exhibit A, attached hereto).

23 5. A list of the documents I considered in forming the opinions expressed
24 herein is attached hereto as Exhibit 2.

25 6. I have been retained by the Securities and Exchange Commission
26 “SEC”) to provide expert testimony in this action. Guild Laboratories is being
27 compensated for my work as Principal Gemologist/Appraiser in this matter at my
28 customary rate of \$425 per hour. That compensation is not in any way dependent on

1 the opinions I express on the issues in this case or the outcome of this matter. I am
2 independent of both the Plaintiff and the Defendants in this matter. Under my
3 supervision, I have been assisted in my work on this case by my Primary Assistant,
4 for whose work Guild Laboratories is being paid \$150 per hour.

5 7. My obligations under the contract with the SEC include the examination
6 of the USFIA gemstones, jewelry and related personal property and review and
7 analysis of records, in order to prepare a report estimating the Orderly Liquidation
8 Value of the property examined. Orderly Liquidation Value is defined as “an opinion
9 of the gross amount, expressed in terms of money, that typically could be realized
10 from a liquidation sale, given a reasonable period of time to end a purchaser (or
11 purchasers), with the seller being compelled to sell on an as-is, where-is basis, as of a
12 specific date (ref: American Society of Appraisers). The examination took place at
13 the USFIA building, located at 135 East Live Oak Avenue, Arcadia, CA 91006,
14 during late September/early October 2016.

15 8. USFIA based much of its marketing on its Amber “holdings,” but as a
16 percentage of the volume and value, the Amber represented less than 20% of what I
17 observed. The Amber I observed came in raw (rough) form, polished loose, and
18 polished and set in gold and silver jewelry.

19 9. Most of the gemstones examined included varieties of what is known in
20 the gemstone trade as "ornamental" stones. Ornamental stones are generally those
21 stones that are opaque or translucent and occur abundantly (supply side). Add to that
22 the fact that they are relatively unknown (demand side) means that they are
23 inexpensive in the market. In the wholesale markets, they sell by the kilogram and in
24 the retail markets they sell by the gram instead of by the carat (5 carats = 1 gram).
25 The ornamental stone varieties that were observed on the business premises included
26 Jadeite, Pectolite, Rhodochrosite, Shell, Sunstone, Turquoise, Opal, Aventurine,
27 Moonstone, Dyed Coral, Carnelian, Variegated Quartz, Fire Agate, Ruby-in-Zoisite,
28 Rose Quartz, Nephrite, several colors of Chalcedony, Lapis Lazuli, Malachite,

1 Amazonite and Black Onyx. Ornamental stones seen were in rough form, polished
2 and drilled and woven or set in silver jewelry, such as rings, earrings, bracelets,
3 pendants, necklaces and body drapes.

4 10. Those gemstone varieties commonly known as “semi-precious” and
5 “precious” that were that were observed on the business premises were of the lowest
6 commercial quality seen in the market, as their colors were very light and their
7 clarities were translucent to opaque, just like the ornamental stones. These varieties
8 included Tourmaline, Amethyst, Aquamarine, Tanzanite, Peridot, Citrine and
9 Kunzite. These varieties of gemstones were seen mostly polished as beads or
10 cabochons, or drilled and woven or set in silver jewelry, such as rings, earrings,
11 bracelets, pendants, necklaces and body drapes. As far as the “precious” category,
12 there were a few temporarily strung strands of dark opaque purplish Ruby beads and
13 some very small, heavily flawed Diamonds set in jewelry.

14 11. The type of property examined with the greatest volume and (thus net)
15 value by far was the sterling silver jewelry including rings and pendants set with
16 genuine and manufactured stones (over 185,000 pieces in total).

17 12. Other property of value that I observed included 43 designer purses, and
18 2 large ship models (1 out of wood from a kit, and 1 of carved Nephrite), 3 oil
19 paintings, and the free-standing showcases in the showroom.

20 13. Most of the various varieties of gemstones were purchased loose in
21 quantities, each at its own per unit price, as evidenced by the documents that I
22 received from the Receiver. But much of the original purchases have been separated
23 from their initial lots of purchase and intermingled with other varieties, and in some
24 cases with value added by metal and labor. In fact, items of many categories were
25 found distributed to many of the seven areas located on two floors where we
26 conducted our examination. Those areas were, on the ground floor, a storeroom, a
27 showroom and an office, and on the first floor up, two large common offices, one
28 small executive office and one workroom. For that reason, I have chosen to value the

1 entirety of this inventory by re-grouping it into seven (7) categories. Those categories
2 are:(a) polished amber, loose and in silver jewelry;(b) silver jewelry;(c) all stone
3 beads;(d) rough gem material;(e) gold jewelry with stones;(f) purses; and (g)
4 miscellaneous.

5 14. All of the polished amber, loose and set in silver jewelry, I lotted
6 together with a value based on its total weight. If a subsequent decision is made to lot
7 it into smaller lots by size, color or other distinction, it might net more in a sale,
8 depending on additional costs associated with a more expansive auction process. This
9 estimate of value for the entire lot takes into account the smallest, lowest value piece
10 up to the larger, higher value pieces, as well as pieces with insect inclusions that are
11 more collectible. Attached hereto as Exhibit 3 is a photographic image showing
12 typical packaging of Amber pendants and loose Amber stones that I examined, which
13 are priced from \$1000 to \$20,000 each. These types of pendants are readily available
14 for sale to the public on the Internet for under \$50 each.

15 15. All of the silver jewelry, rings and pendants, are set with different
16 stones, but I lotted them together as well, as their resale value is basically their silver
17 content, with little or no value consideration for the small stones set in them. The
18 maximum value to be realized for the Receiver in this category will be to melt them
19 for their metal value and not send them to auction at all. Attached hereto as Exhibit 4
20 is a photographic image showing many of the 132 plastic tubs, each containing 1,000
21 rings, and labeled with a value of \$10 million, or \$10,000 per ring. These types of
22 rings, set with manufactured gem simulants, are readily available for sale to the
23 public on the Internet for under \$10 each.

24 16. The various varieties of stone beads I lotted together and valued at a
25 single estimate based on their total weight. As in the case with the Amber, lotting
26 them by variety for sale might net more, but the expanded costs associated with
27 further lotting also might negate the final value received.

28 17. Rough gem material (Jadeite, Amber, Pectolite) are a separate market

1 from the polished material and will be bid on by a different kind of buyer, so it makes
 2 sense to lot these together, at their appropriate per unit values.

3 18. The small amount of gold jewelry I also lotted together as it will sell for
 4 little more than its intrinsic melt value at auction. This jewelry is set with Amber and
 5 Synthetic Rubies, which will add little or no value in an auction situation. As with the
 6 silver jewelry, the Receiver might net more by just melting it for its gold value and
 7 not bother with the auction process.

8 19. The 43 designer purses (Hermes, Louis Vuitton, Chanel) are described
 9 and values are estimated based on accomplished sales at the large auction houses that
 10 have a specialty department for this type of property. If they are sold at a warehouse
 11 type auction along with the gem materials, they will probably get less, as the buyers
 12 will be different. Therefore, it is recommended that they be consigned to one of the
 13 large auction houses in order to realize their full value in the resale market.

14 20. The miscellaneous category includes the 3 oil paintings, 2 ship models
 15 and the lighted showcases in the showroom.

16 21. Total weights are approximate as minor rounding is compounded when
 17 weighing hundreds of lots of disparate varieties. The total quantities are amber =
 18 105.95 kg.; silver in jewelry = 435.14 kg.; stone beads = 312.44 kg., rough gem
 19 material= 479.49 kg. and gold in jewelry = 0.35 kg. Purses and miscellaneous are not
 20 valued by weight.

21 22. Total estimates of Orderly Liquidation Value, as defined above, are:

22	Amber	\$ 52,975
23	Silver	174,054
24	Beads	9,373
25	Rough	27,493
26	Gold	7,245
27	Purses	51,500
28	Misc.	2,500

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Total \$ 325,140

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed this 26th day of October, 2016 in Los Angeles, California.



Charles Carmona

1 **SEC v. Steve Chen, USFIA, Inc., et al**
2 **United States District Court – Central District of California**
3 **Western Division**
4 **Case No. CV 15-07425 (RGK)(GJSx)**
5 **LA-4482**

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