

Prometheus Law Receivership
FAQs
Updated a/o 02/20/2018

1. What is the SEC's civil case about and what is the status?

The SEC filed its civil lawsuit on April 15, 2016 against Defendants Prometheus Law and its principals James Catipay and David Aldrich. The SEC alleged that Defendants committed securities fraud in connection with the solicitation of investments in the Prometheus legal marketing program. These solicitations constituted the illegal sale of unregistered securities and included fraudulent promises of short term returns in excess of 100% and other false statements and representations.

On April 26, 2016, the Court entered a Preliminary Injunction and appointed a Receiver to take control of PLC's operations. (*See* FAQ No. 3 below for details on the Receiver's role and duties.)

The SEC case was resolved when David Aldrich and James Catipay both stipulated to liability and consented to the entry of judgments against them. The Aldrich judgment includes a monetary judgment of \$3.6 million payable to the SEC which has not been paid. The Catipay judgment also includes a monetary award for \$11.7 million. If any funds are paid to the SEC, the SEC would make them available for restitution to investors through the receivership.

2. What is the criminal case about and what is the status?

David Aldrich and James Catipay were both charged with criminal securities fraud by the U.S. Attorney's Office in San Diego. Both pled guilty to one count of conspiracy to commit securities fraud and were sentenced to federal prison (24 months for James Catipay and 18 months for David Aldrich). Both were also ordered to make restitution of an aggregate amount of \$11.7 million.

Although the same conduct was involved, the SEC civil case and the criminal case are separate proceedings.

Some investors have inquired about why the Receiver did not respond to Victim Impact Statements they submitted. Prior to the sentencing of Catipay and Aldrich, the U.S. Attorney's office in San Diego, as the prosecutor in the criminal case, sent Victim Impact Statements forms to all victims of the Prometheus fraud – these statements were used by the U.S. Attorney's office to evaluate what would be the appropriate sentence for Catipay and Aldrich in the criminal case. These Victim Impact Statements were not sent out by the Receiver and have no connection to the receivership.

3. What is a receivership and how does it work?

When the SEC filed its civil action in the federal Court, it asked the Court to appoint a Receiver to immediately take over operations of the Prometheus business. The order appointing the Receiver grants the Receiver broad powers over the business. In that role, the Receiver is an independent party. He does not work for the SEC or for the Defendants.

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The Receiver operates as an agent of the Court, reports directly to the Court, is supervised by the Court, and can make no payments for fees of the Receiver or his professionals without the Court's approval based on detailed written application.

After confirming the illegality of the business, the Receiver suspended operations and shifted all efforts to the collection of available assets. The funds collected, net expenses, will be disbursed to the defrauded investors, subject to Court approval.

4. How do I keep up with what the Receiver is doing?

The Receiver's website is the most efficient vehicle for investors to keep up with developments. Go to <http://regulatoryresolutions.com/> and click the link for cases and then *Securities and Exchange Commission v. PLCMGMT LLC, et al.*

As required, the Receiver regularly files Status Reports and accountings with the Court which are also posted on the Receiver's website. The most recent such report (Receiver's Third Status Report and Accounting) was filed August 29, 2017 and is available on the website.

5. Does the Receiver Prepare Accountings of Receivership Activity?

Yes, the Receiver regularly prepares and files accountings with the Court. The most recent accounting is contained in the August 29, 2017 Third Status Report and Accounting which is available on the Receiver's website.

6. Is it true that David Aldrich has paid back \$3.5 million?

No. Some investors have reported that they heard that Aldrich has paid back \$3.5 million. The SEC does have a judgment against Aldrich for \$3.6 million, but he has made no payments toward satisfaction of that judgment. That judgment is in favor of the SEC, not the receivership, but if Aldrich does make any payments to the SEC, we anticipate that the SEC will make them available for restitution through the receivership.

7. When will the Los Angeles condominium be sold?

The receivership was able to secure control of the condominium in Los Angeles purchased with \$1.1 million of PLC funds, but the condominium was subject to a \$2.9 million Deed of Trust in favor of a third party which had been agreed to by Aldrich. After filing a lawsuit against the holder of that Deed of Trust, we reached a settlement which included cancellation of the Deed of Trust. We then secured the court's approval to sell the property which was completed in November, 2017.

8. Has the Receiver received any money from the Case Portfolios?

Yes, to date, we have received fees from lead counsel totaling \$185,043 as the receivership's share of fees in connection with the settlement of 18 cases involving the

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drugs Actos, Nuvaring, and Transvaginal Mesh (“TVM”). We have received no funds related to Risperdal cases because none have been settled or resolved.

9. What percentage of the funds collected does the Receiver get?

None. Several investors have suggested that the Receiver may receive some sort of percentage of the funds collected by the receivership. The Receiver does not receive any percentage. The Receiver and professionals retained by the Receiver are compensated at an hourly rate approved by the Court. And no payments may be made to the Receiver or his professionals until the Court approves such payments based on the detailed written application of the Receiver.

10. Why is the Receiver suing Sales Agents? They did not steal any money.

Some investors questioned why the Receiver is seeking the return of commissions by sales agents. One of the duties of a receiver in cases like PLC is to identify investors who received profits and sales consultants who received commissions. The law authorizes the Receiver to “clawback” such profits and commissions and add them to the pool of funds for later distribution to investors who lost money. Such clawback cases are a very common tool for receivers and are authorized by a long line of case authority. Only one investor actually made a profit from Prometheus and that was \$2,500 which has been returned to the receivership.

Sales agents/consultants were paid sizeable commissions of up to 11% for recruiting investors. The legal concept is that agents should not profit from the sale of unregistered securities in furtherance of a fraudulent enterprise, even if they were unaware of and did not participate in the actual fraud. By seeking to clawback commissions, the Receiver is not alleging that these salespeople stole money or were directly involved in the underlying fraud. We resolved the majority of these claims informally without the necessity of a formal suit.

11. What about the Case Portfolio – Shouldn't it generate enough money to pay back investors?

In order to provide as much clarification about the Case Portfolio and the revenues that have and will flow to the receivership from it, the Receiver has prepared FAQs specific to the Case Portfolio. See the Documents section of the website for Case Portfolio FAQs.