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14	FEDERAL TRADE COMMISSION,	Case No. 2:17-cv-07048 SJO (KSx)
15	Plaintiff,	PRELIMINARY REPORT OF TEMPORARY RECEIVER
15 16	Plaintiff, v.	TEMPORARY RECEIVER
	v. ALLIANCE DOCUMENT	
16	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero
16 17	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document Aid, et.al.,	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero
16 17 18	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero
16 17 18 19	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document Aid, et.al.,	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero
16 17 18 19 20	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document Aid, et.al.,	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero
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16 17 18 19 20 21 22	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document Aid, et.al.,	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero
16 17 18 19 20 21 22 23	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document Aid, et.al.,	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero
16 17 18 19 20 21 22 23 24	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document Aid, et.al.,	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero
16 17 18 19 20 21 22 23 24 25	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document Aid, et.al.,	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero
16 17 18 19 20 21 22 23 24 25 26	v. ALLIANCE DOCUMENT PREPARATION, LLC, also dba EZ Doc Preps, Grads Aid, and First Document Aid, et.al.,	TEMPORARY RECEIVER JUDGE: Hon. S. James Otero

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PRELIMINARY REPORT OF TEMPORARY RECEIVER

I.

INTRODUCTION

On Thursday afternoon, September 28, 2017, this Court entered a Temporary Restraining Order ("TRO") appointing me Temporary Receiver for Receivership Defendants.¹ By this Preliminary Report, I report to the Court my initial actions and preliminary observations. I apologize in advance for the lack of depth in the report, but we did want to get something to the Court prior to the scheduled preliminary injunction hearing this afternoon. I will provide additional details in future reports as we further review and evaluate the business.

We took possession and control of Receivership Defendants' known Los Angeles business location on Monday, October 2, 2017. The offices, which turned out to house substantially more employees than anticipated, were entirely telemarketing call rooms. From these rooms, Defendants have been and are operating an unlawful advance fee business offering various services related to student loan debt.

As described more fully below, the Defendants recently learned of a Federal Trade Commission ("FTC") case in the Central District against another student loan relief operator. In that case, a TRO was issued and a receiver appointed by order entered September 19, 2017.² In apparent response to that FTC action, the Defendants have made some efforts to purge some of their most deceptive

¹ Receivership Defendants are defined to include: Alliance Document Preparation, LLC, also dba EZ Doc Preps. Grads Aid, and First Document Aid; SBS Capital Group, Inc., also dba Grads United Discharge; SBB Holdings, LLC, also dba Allied Doc Prep and Post Grad Services; First Student Aid, LLC; United Legal Center, LLC, also dba Alumni Aid Assistance, Post Grad Aid, and United Legal Discharge; Elite Consulting Service, LLC, fka First Grad Aid, LLC, also dba First Grad Aid; Grads Doc Prep, LLC; Elite Doc Prep, LLC, also dba Premier Student Aid; Direct Consulting Service, LLC, and Capital Doc Prep, Inc., and each of its subsidiaries, affiliates, successors, and assigns. TRO, Definitions, page 6.

² Federal Trade Commission v. M&T Financial Group, et al (C.D. Cal.), Case No. 2:17-cv-06855-ODW (the "M&T Case").

practices, sanitize some script materials, implement slight prophylactic training and

agency. However, the bulk of the materials we found on site revealed that the sales

practices were premised on deceit and misrepresentation and that the overriding

objective was to enrich Defendants and the commission-based employees, not to

relieve consumers from their student loan debt. Based on our initial review, any

changes implemented in the days before our arrival did not eliminate deceptive

efforts to delete records on their Telegram messaging service used for internal

practices or remove advance fees as a central component of the business. As noted

below, upon our entry at least one Defendant and some employees took immediate

employee warnings, and cast themselves as an innocent document preparation

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operations and will await further guidance from the Court.

companies' communications.

II.

Based upon our observations and investigation to date, we have suspended

RECEIVERSHIP ACTIVITIES

Immediate Access – 1435 S. La Cienega Blvd, Los Angeles, CA Α. 90035

The TRO (Section XXI page 27) identifies one specific office location at 1435 South La Cienega Blvd (1st and 2nd floors) in Los Angeles. We took control of that site commencing at 10:00 a.m. on Monday, October 2, 2017 with the initial support of uniformed officers from the Los Angeles Police Department. After securing the premises, we provided access to counsel for the FTC consistent with the TRO (Section XXI).

The offices have no identifying signage of any kind, exterior or interior, other than a non-descript "G" on the entrance door to the 1st floor space.

At entry, we encountered approximately 150 telemarketing personnel and managers, most (approximately 125 individuals) located on the 2nd floor and the remainder (approximately 25 individuals) in the smaller Suite G downstairs. We

instructed them to cease all operations and to step away from their computers and phones.

In Suite G on the 1st floor, the personnel were generally cooperative and 12 of them completed a short questionnaire. After our brief presentation as to the role of the Receiver, they were excused.

Upstairs, we encountered overt obstruction and belligerence from several employees and, in general, very limited cooperation from the others. The majority of these employees promptly departed the premises, emboldened by the primary obstructionist who loudly yelled they had no legal obligation to remain or fill out the Court-ordered questionnaire. Only 11 employees on the 2nd floor completed the questionnaire. Notably, at least one employee was overheard telling other employees in the parking lot to "Burn Telegram" – i.e., delete the messaging system the employees used in the businesses for internal communications.³

None of the Individual Defendants were present at our arrival and did not appear thereafter. But, two defendants, Ben Naderi and Avi Rubeni, were aware of the FTC action and our presence. Neither has assisted or cooperated.

I personally spoke to Mr. Naderi over the telephone shortly after we arrived. I explained the existence to the FTC action, the appointment of a receiver, and the role of a receiver. I asked him to provide the administrative passwords for the cloud-based information system used by the operations (Google's G Suite). He gave permission for an onsite employee to provide the passwords, but that employee claimed that Mr. Naderi, not the employee, would have the administrative level passwords. In a second call, Mr. Naderi claimed he could not remember the passwords.

³ We were informed by an FTC computer forensic employee who was at our immediate access that he recognized an M&T employee near our location. This M&T employee was onsite at the time of the immediate access in the M&T Case. He was observed in conversation with Defendants' employees on the street adjacent to the offices.

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We did not speak with Avi Rubeni after we entered the offices, but we were able to observe through the remnants of his instant messaging statements that he became aware of our presence shortly after we arrived. Rather than instruct his employees to cooperate with the receiver, Mr. Rubeni instead instructed his employees via Telegram instant messaging to destroy evidence. He first ordered the employees to "TERMINATE ALL ACTIVE SESSIONS" of the companies' Telegram messaging system and later to "LOG OFF UR TELEGRAMS." (See Exhibit 2.) This had the practical effect of deleting these internal office communications permanently. See also Section II(F) infra.

The office space is leased at \$13,000 per month pursuant to a lease agreement between Defendant Alliance Document Preparation, LLC and the building owner who also holds a \$12,500 security deposit. Individual Defendants Benjamin Naderi and Avi Rubeni were signers to the lease on behalf of the tenant. Individual Defendant Shawn Gabbaie was also a signer of that lease as the tenant's broker for the transaction.

In general, the office space is functional, not luxurious, with the usual trappings of a telemarketing "boiler room." The furniture and equipment are roughly consistent throughout. The telemarketers operate from sales cubicles, each equipped with a computer, dual monitors, and a headset. Some workstations with 3 monitors were apparently set up for managers. Of the Individual Defendants, only Avi Rubeni appears to a have designated office on site on the 2nd floor.

Suite G on the first floor is equipped with 27 workstations, all but two of which appear to be fully operational, and a small rear office.

The second floor is equipped to handle up to 125 telemarketers. It is configured as four basic rooms (some with small sub-rooms) which have individual entrances, but no doors or access limitations.

We retained a locksmith who changed the locks to both suites in order to ensure receivership control of the premises.

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Exhibit 1 is a preliminary inventory and schematic of the office space at 1435 S. La Cienega Boulevard.

We also took immediate steps to take control of identified commercial mail drops located at: P.O. Box 351054, Los Angeles, CA 90035; P.O. Box 691004, Los Angeles, CA 90069; and 369 S. Doheny Dr., PMB 1124, Beverly Hills, CA 90211.

B. **Bank Accounts**

Immediately after receiving the TRO, the FTC and the Receiver served the asset freeze notice on banks and other financial institutions at which Defendants were known to have accounts. In the brief time since the TRO was entered, neither the FTC or the Receiver's office have received follow up information from these institutions.

C. **Documents/Information/Electronic Data**

Upon taking possession, we confirmed that the limited hard copy documents on site were secure. We retained a computer forensic firm to supervise the FTC's forensic team in making images of selected desktop computers.

The process of securing electronic data has been complicated by the fact that Defendants did not maintain electronic documents onsite through local file and mail servers, which would retain documents and email on individual CPUs and servers. Instead, Defendants extensively utilized cloud services for their communications and documents. Defendants appear to use Google's services for their email communications with consumers. Defendants also use Google Docs, Google Sheets, and Google Drive to store their documents online. Despite several requests to the Defendants, they have not provided the administrative user login information and passwords. Without this information, retrieving documents from Google will be extremely difficult.

Instead of relying on traditional email for internal communications, Defendants have used Telegram, which is a messaging application that works from

desktop computers and mobile devices. Unlike email, messages within Telegram 1 2 generally cannot be retrieved by IT forensic professionals. Telegram messages can also be encrypted and set to self-destruct within seconds of being read. Telegram 3 was loaded on all the desktop computers at the Defendants' offices and users were 4 5 logged into various groups to allow them to communicate with each other. Based on our review of some remaining Telegram messages visible on several desktop 6 7 computers, users were also logged into Telegram via their smartphones. For example, there were messages indicating that an employee would be late to work 8 9 because he or she was stuck in traffic. Additionally, after the employees were escorted from the building, they left the Telegram group at the instruction of Avi 10 Rubeni.⁴

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D. **Compliance with TRO**

We took immediate steps to insure compliance with the TRO by suspending sales activities, excusing the sales personnel present and changing the locks to prevent further access by the Individual Defendants or their employees.

Ε. Accounting

At this early stage, we do not have a clear picture of the financial condition of the Receivership Defendants. Our computer forensic team was ultimately able to identify an onsite Quick Books accounting system which contains financial data as to some of the Receivership Defendants. We have identified accountants who have provided bookkeeping and tax preparation services in the past – we will follow up with them to secure relevant records. We have also located copies of some tax returns on individual computers onsite. We also have as a start point the forensic work of the SEC's forensic accountant Emil George (Declaration of Emil

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⁴ The ability to wipe information from computers was apparently very important to the Defendants. We observed an interesting electronic sticky task note on the computer screen of the employee identified as the IT person. He noted a "to do" item to determine the availability of software to wipe all the computers daily.

George, filed September 27, 2017, ECF No. 10 at PX37 pages 1377-1404), who concluded that Defendants had extracted more than \$20 million from consumers since mid-2015, before deduction for chargebacks and refunds.

We did locate a copy of Alliance Document Preparation LLC's 2016 tax return on the computer of Avi Rubeni which reported 2016 gross receipts of \$7,109,461 and net income of \$3,178,547.

We have retained an experienced forensic accountant, Richard Winkler, to review all available financial records – he will provide his ultimate analysis and conclusions in a future report. Based on the limited information available to date, he has provided a very preliminary report which is attached as Exhibit 3.

F. Cooperation

To date, we have received no cooperation from any of the Individual Defendants – Benjamin Naderi; Shawn Gabbaie; Ramiar Reuveni; Avinadav Rubeni; Farzan Azinkhan; and Michael Ratliff. I did have a brief phone conversation with Mr. Naderi at about 10:30 a.m. on Monday in which I requested the Google administrative passwords, advised him of the asset freeze, and instructed him not to make any effort to access funds from any accounts. I have had no other contact with any other Individual Defendant and none have made any effort to appear at the offices.⁵

We did discover direct evidence of acts by Mr. Rubeni which appear to be direct violations of the TRO. On October 2, 2017 at 10:18 a.m., after we had commenced our immediate access, Avi Rubeni sent a message on Telegram reading: "LOG OFF UR TELEGRAMS" and at 10:25 a.m. a second message reading "TERMINATE ALL ACTIVE SESSIONS". Our forensic team has advised that shortly after that numerous Telegram accounts were closed, causing a

⁵ I spoke to counsel on Monday who indicated they "may" be coming in for Mr. Naderi. I spoke last night to counsel who will be appearing for Mr. Rubeni. I stressed to counsel in both calls the urgency of getting the administrative passwords.

loss of messages from those accounts. Erika Alta, the office administrator, gave staff a similar direction. Instead of using email for internal communications, Defendants used Telegram for internal communications. Messages on Telegram can be set to self-destruct. Unlike emails, our computer forensics professionals report that Telegram messages cannot be easily preserved or downloaded. We were only able to recover some remnants of the messages on Telegram by capturing individual computer screenshots.

G. Notice to Consumers.

We have posted a Notice to Consumers on the Receiver's website at http://regulatoryresolutions.com/ and will post regular updates on that website as the case progresses.

III.

BUSINESS OPERATIONS

In the few days since my appointment, we have not undertaken an audit of the FTC's specific allegations, but we certainly found ample evidence onsite that the prohibited practices alleged by the FTC were occurring and, indeed, were ingrained in the business. It was almost immediately clear to me and my team that the mission of this business was to prey on consumers struggling with student debt – the sales team solicited and consumers paid unlawful advance fees based, for the most part, on deception and false promises as to the reduction or elimination of student loan payments.

Our preliminary review of hard copy documents and electronic data on site confirmed that these prohibited practices were prevalent.

Sell or Else

Like most boiler rooms, the real goal in this business was to sell, not to provide useful assistance to consumers buried by student loan debt. Examples of this "sell or else" mentality abounded:

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- White Boards in nearly every room tracked sales performance by telemarketer by day, week, and month. Many boards highlighted a variety of cash bonuses based on the number and dollar amount of actual closings. A Daily Bonus of "Lunch on the House" went to a telemarketer who closed 15 deals by noon. Telemarketers were exhorted to "ABC – Always Be Closing." (See Exhibit 4.)
- Special bonuses were extended to BD Sales which were sales to students of specified for-profit colleges who were categorized as "Borrower Defense" situations. These BD sales offered the possibility of a double fee, one for the traditional student loan product and another for students of for-profit schools who may have a separate fraud claim, which could remove the debt altogether. Lists of BD schools were posted in multiple locations. (See Exhibit 4.)
- Commissions went as high as 25% depending on the sales amount. (See Exhibit 5.)

Advance Fees

The economic model of this business was based on and required the payment of advance fees. Defendants were vigilant in collecting these advance fees.

- Fee Schedules were prominently displayed in scripts and other materials throughout the offices, with the amount of the fee based on the balance of the student loans and full payment generally to be completed through three payments. (*See* Exhibit 6.).
- Scripts included expansive discussion of fees, including discounts for the "expedited option" of complete payment within 30 days. (See Exhibit 7.)

• Scripts included a "congratulations" to each consumer after they were "approved" to become a client and then promptly escalated for payment processing. (*See* Exhibit 7.)

Deception and Misrepresentation

The La Cienega site was replete with scripts and other materials reflective of sales tactics prohibited by the TRO. Below are just a few examples.

- Consumers were told that they definitely meet all of the qualifications for the forgiveness program, but they were required to cover the cost of their paperwork, which was based on the amount being forgiven.

 (See Exhibit 8.)
- In one of the closing scripts, consumers were told that their "loan is on an administrative hold, which means you won't need to pay your current lender again. Your loans will be consolidated all into one loan and . . . then will be bought out by the DOE." "At the end of this (240 or 300) month program term your loans will be completely forgiven principal and interest all gone." (*See* Exhibit 9.)
- Sales personnel sometimes improvised with their own handwritten scripts. According to one handwritten script, "D.O.E. is willing to cover all court fees, filing costs, unpaid interest, back payments owed, and any/all fees required to be paid before [consumer] can submit/pursue claim." However, the student was "responsible for . . . the cost of the actual caseworker who's assigned, [and] who will be representing [the student] throughout pursuance [sic] of your full discharge." (*See* Exhibit 10.)
- We did see some script materials which appeared to be freshly minted to appear more compliant, but these appear to be more window dressing than reflective of a genuine wholesale change in the sales tactics or fee model. (*See* Exhibit 11.)

Common Enterprise

While these Defendants operated under an assortment of corporate names and dbas, they appeared to operate as a common enterprise. All were student loan relief operators, based in the same building, and selling the same services and techniques. They appear to have shared customer leads and used a common administrator, Erika Alta, who maintained her office on the 2nd Floor. They all used the same cloud services, document hosting services, and VOIP phone services. They also shared access to the same Telegram account for internal messaging. There were also substantial fund transfers between and among the Defendants.

Recent Efforts to Appear Compliant Seem to Follow the FTC's Complaint in the M&T Case

During the first day of our immediate access, we learned that Defendants, beginning on or about September 26, 2017, launched a modest effort to at least appear more compliant. This occurred immediately after learning of the M&T Case filed by the FTC against another student loan relief operation.

Our review of the documents on the computer of Erika Alta, the omnibus office administrator, revealed that on September 25, 2017, the office received separate photos of each page of the FTC's complaint in the M&T Case which set forth claims nearly identical to the FTC's claims in this case. On September 26, 2017, the Defendants received a PDF copy of all 1,054 pages of the FTC's filing in the M&T Case.

These documents apparently inspired immediate efforts to sanitize scripts and require compliance pledges from employees. We learned from an employee who had been on the job for only one week that three script revisions were instituted during her short time there. This employee, who arrived at the offices at approximately 3:30 p.m. on October 2, 2017, reported the script evolution. When she was shown a copy of a script – with bold disclaimers that the telemarketers did

not work for DOE or DOJ – she said that it was actually the second script she had received in the space of one week. The previous script had *not* contained the disclaimer. That disclaimer only appeared in the second script late last week. Thereafter, she said that employees were shown a third, even newer script on a projection during a training session that Saturday, but she had not received an actual copy of it.

IV.

CAN THE BUSINESSES BE OPERATED LAWFULLY AND PROFITABLY?

Section XI(S) (at page 21) of the TRO authorizes the Temporary Receiver to suspend business operations if, in his judgment, such operations cannot be continued legally and profitably. While the financial information in Section II.D *supra* suggests that these businesses may have been profitable in the past, to operate lawfully would require paradigm shifts in the sales techniques and the collection of fees.

To operate lawfully, Defendants would have to function without advance fees, and to only collect fees on successful student loan restructures consistent with the advance fee regulations of the Telemarketing Sales Rule. This alone would limit cash flow and require a completely different business model that would be doomed absent the availability of capital to finance the business until fees were collected properly.

Even if the advance fee hurdle could be overcome, a fully compliant business would be severely challenged. If sales efforts were fully compliant with full disclosures, no hyperbole, no hype, and no misinformation, that alone would slow sales dramatically and increase expenses for hiring, training, and supervision.

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While Defendants have made some efforts to cast their business as a student support group and/or a document preparation agency, any effort to actually live up to those monikers would require a complete transformation of their current model. Dated: October 4, 2017 By: /s/ Thomas W. McNamara Thomas W. McNamara, **Temporary Receiver**

CERTIFICATE OF SERVICE I hereby certify that on October 4, 2017, I caused the foregoing to be electronically filed with the Clerk of the Court using the CM/ECF system, which will send notification of the filing to all participants in the case who are registered CM/ECF users. /s/ Andrew W. Robertson Andrew W. Robertson