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8 UNITED STATES DISTRICT COURT
9 CENTRAL DISTRICT OF CALIFORNIA
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11 FEDERAL TRADE COMMISSION,

12 Plaintiff,

13 v.

14 ELEGANT SOLUTIONS, INC., et al.,

15 Defendants.
16

Case No. 8:19-cv-01333-JVS (KESx)

STATUS REPORT OF RECEIVER

JUDGE: Hon. James V. Selna

CTRM: 10C

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1 Thomas W. McNamara, as Court-appointed receiver (“Receiver”), submits
2 this report of receivership activities for the period of July 19, 2019 to January 13,
3 2020.

4 **I.**

5 **INTRODUCTION**

6 On July 8, 2019, this Court entered a Temporary Restraining Order and
7 appointed Thomas W. McNamara as temporary receiver of the Receivership
8 Entities¹ (ECF No. 23) (“TRO”). The Receiver filed his Preliminary Report on
9 July 18, 2019 (ECF No. 54), which described in detail the initial implementation of
10 the receivership, summarized Defendants’ operations and finances, and
11 documented the Receiver’s conclusion that the Receivership Entities could not be
12 operated lawfully and profitably going forward. The Receiver’s appointment was
13 confirmed, and the temporary designation removed, by the Order Entering
14 Stipulated Preliminary Injunction entered July 17, 2019 (ECF No. 52).

15 Since the entry of the Preliminary Injunction, the Receiver’s primary focus
16 has been on winding down the business, addressing outstanding issues, vacating
17 the office and storage facilities, liquidating Receivership Entities’ assets, including
18 office equipment and vehicles and coordinating with the parties as needed.

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23 ¹ Receivership Entities include Corporate Defendants (Elegant Solutions, Inc., also
24 d/b/a Federal Direct Group, Trend Capital Ltd., also d/b/a Mission Hills Federal,
25 Dark Island Industries, Inc., also d/b/a Federal Direct Group and Cosmopolitan
26 Funding Inc., Heritage Asset Management, Inc., also d/b/a National Secure
27 Processing, Tribune Management, Inc., also d/b/a the Student Loan Group), as well
28 as any other entity that has conducted any business related to Defendants’
marketing of Debt Relief Services, including receipt of Assets derived from any
activity that is the subject of the Complaint in this matter, and that the Receiver
determines is controlled or owned by any Defendant. On August 5, 2019, the
Receiver notified the parties that RCC America LLC is a Receivership Entity. To
date, no one has filed a motion challenging the Receiver’s determination.

1 **II.**

2 **SUMMARY OF RECEIVERSHIP ACTIVITIES**

3 **A. Receivership Entities' Assets**

4 On August 14, 2019, the parties stipulated to an order authorizing the
5 Receiver to liquidate or abandon Assets of the Receivership Entities located at
6 3 Studebaker, Irvine, CA (the "Receivership Site"), sell or return certain leased
7 vehicles, pay out the net proceeds of consigned vehicles sold before the entry of
8 the TRO, and vacate the Receivership Site. *See* ECF No. 57. The Court entered an
9 order granting the stipulation later that same day. *See* ECF No. 58. Since then,
10 and as authorized by the Court order, the Receiver:

- 11 • Preserved all business records, including hard copy documents (some
12 450 bankers boxes) and electronic materials (i.e., hard drives, servers,
13 etc.), which were located at the Receivership Site and in leased
14 storage units and placed them into storage controlled by the Receiver;²
15 • Engaged an estate sale company, which conducted a sale at the
16 Receivership Site in mid-September 2019, netting approximately
17 \$11,000 from the sale of office equipment and furniture;
18 • Sold other Assets of the Receivership Entities, including industrial
19 fans, hydraulic lifts, etc., receiving approximately \$12,000;
20 • Returned a trove of luxury vehicles leased by the Receivership
21 Entities after determining they had no equity, specifically: two 2019
22 Rolls-Royce Ghosts, a 2019 Rolls-Royce Dawn, a 2019 BMW M850i
23 xDrive Coupe, a 2017 BMW 328d xDrive Sports Wagon, and a 2019
24 Mercedes Benz G63;

25 _____
26 ² The Plaintiff Federal Trade Commission and Defendants were kept informed of
27 the status of documents and electronic materials collection each step of the way
28 and both parties had the opportunity to inspect the Receivership Site and
Receivership Entities' Documents prior to the records being boxed up. Then
again, prior to sending the documents and electronic materials to storage both
parties were informed of the plans and provided the opportunity for input.

- 1 • Remitted the net proceeds from the sale of the 1957 Chevrolet Bel Air
- 2 (\$45,000), 1957 Chevrolet Sedan Delivery (\$45,000), and 1967
- 3 Chevrolet Corvette (\$120,435) to the respective owners who had
- 4 consigned cars to one of the Receivership Entities;
- 5 • Abandoned assets which the Receiver was unable to profitably
- 6 liquidate; and
- 7 • Vacated the Receivership Site on December 1, 2019.³

8 Defendants stipulated to the sale of a 2018 Apache Trailer, 1957 Cadillac
 9 Coupe de Ville, 1971 Chevrolet Pickup, 2006 Ford E250 Van, and a 1997 Ford
 10 F350 Pickup; the Receiver later received authority to sell a 2019 GMC Sierra 1500
 11 Denali, 2018 Cadillac Escalade ESV, 2018 Chevrolet Camaro ZL1, 2016 GMC
 12 Sierra K2500 Denali, 1997 Chevrolet C3500 Pickup, 1989 Chevrolet Blazer, 1989
 13 Toyota Land Cruiser, 1981 Pontiac Firebird Trans Am, 1971 Pontiac GTO, 1968
 14 Ford Mustang, and a 1964 Plymouth Belvedere. The Receiver has now sold or
 15 otherwise disposed of all but two of the vehicles. Below is a chart summarizing
 16 the vehicles that sold, the sale date and the sale price.

17 Vehicle	Sale Date	Sale Price
18 2018 Apache Trailer	Sept. 19, 2019	\$6,500
19 1957 Cadillac Coupe de Ville ⁴	Aug. 15, 2019	\$23,000
20 1989 Chevrolet Blazer	Jan. 8, 2020	\$16,000
21 1997 Ford F350 Pickup	Sept. 11, 2019	\$8,000
22 1968 Ford Mustang	Sept. 25, 2019	\$17,000
23 2019 GMC Sierra 1500 Denali	Oct. 8, 2019	\$55,000

24 ³ Before vacating, the Receiver allowed Individual Defendants to retrieve four
 25 vehicles stored at the Receivership Site, including 1972 Chevy C10, 1964 Ford
 26 Mustang, 1991 Mercedes Benz 560SEC, and 1994 Mercedes Benz S420.

27 ⁴ At the time of initial entry, Defendants had already agreed to have Mecum
 28 Auction, Inc. sell the 1957 Cadillac Coupe de Ville at a no reserve auction with 5%
 commission. At auction, the vehicle sold for \$23,000, resulting in net sale
 proceeds of \$21,850.

Vehicle	Sale Date	Sale Price
2016 GMC Sierra K2500 Denali	Sept. 5, 2019	\$45,000
1981 Pontiac Firebird Trans Am	Oct. 7, 2019	\$27,500
1989 Toyota Land Cruiser	Sept. 30, 2019	\$12,200

To date, the gross proceeds from the sale of the vehicles is \$210,200. The net proceeds is less because it was necessary to pay an outstanding loan balance, commissions, transportation costs, fees, and other expenses.

The 1971 Chevrolet Pickup, 1997 Chevrolet C3500 Pickup, and a 1971 Pontiac GTO were in various states of disrepair at a third-party body shop in Santa Fe Springs to which Defendants had sent the vehicles. After reviewing the amounts allegedly owed to the body shop, the amount of time and money required to finish the vehicles, and the potential future value after repairs and restoration, the Receiver determined that it was not in the best interest of the receivership to expend further funds and released any claims to these vehicles.

After determining that the 2018 Cadillac Escalade ESV and 2018 Chevrolet Camaro ZL1 were actually leased by the Receivership Entities, the Receiver reviewed the payoff amounts and determined there was no equity in the vehicles. Accordingly, they were returned to the lessors.

The only vehicles left to be sold include the 1964 Plymouth Belvedere, which has been modified to a track-only vehicle (i.e., not street legal), and a 2006 Ford E250 van.

B. Consumer Notice

In order to notify consumers of the underlying action and the receivership, the Receiver provided notice to customers via email, responded to hundreds of customer inquiries, posted notices on the Receivership Entities' websites, and updated the telephone greetings.

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III.

RECEIVERSHIP ACCOUNTING

Attached as Exhibit A is a Receipts and Disbursements Summary from July 30, 2019 through January 13, 2020. During this time period, receipts were \$3,721,399.92, primarily comprised of funds from accounts frozen under the provisions of the TRO and the sale of Receivership Entities' vehicles, office furniture, and equipment. Disbursements were \$502,087.40, primarily comprised of disbursements made pursuant to the Order entered August 14, 2019 (ECF No. 58) which, among other things, authorized the Receiver to pay the net proceeds of consigned vehicles sold before entry of the TRO (\$210,435), the payment of the Receiver and professional fees authorized by the Court (ECF No. 72), vehicle-related costs (loan payoff, vehicle repairs, towing, and title expenses, \$29,419.31), commissions and expenses paid for the sale of vehicles (\$12,340), utilities for 3 Studebaker site (\$15,395.21). In aggregate, the receivership bank accounts have a current balance of \$3,219,312.52.

Dated: January 14, 2020

MCNAMARA SMITH LLP

By: /s/ Edward Chang
Edward Chang
Attorneys for Receiver,
Thomas W. McNamara

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CERTIFICATE OF SERVICE

I hereby certify that on the 14th of January, 2020, 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/ Edward Chang
Edward Chang
Attorney for Receiver,
Thomas W. McNamara