

ROBB EVANS
Temporary Receiver of
LucasLawCenter “incorporated” and Future Financial Services, LLC., et al

REPORT OF TEMPORARY RECEIVER'S ACTIVITIES
JULY 9, 2009 THROUGH JULY 13, 2009

This report covers the activities of the Temporary Receiver¹ since the inception of the Temporary Receivership. This is the first Report to the Court on the progress of the Temporary Receivership. It does not constitute an audit of financial condition and is intended only to provide information for use by the Court in assessing the progress of the Receivership.

Custody, Control and Possession

On July 10, 2009 the Temporary Receiver entered the ground floor business premises of the receivership defendants. The Temporary Receiver met with and interviewed defendants Paul Lucas, Christopher Betts, and Frank Sullivan and served a copy of the Temporary Restraining Order With Asset Freeze. Paul Lucas discussed various details of the business and the business operation with the Temporary Receiver. However, after a brief period Christopher Betts and Frank Sullivan stated they would not continue any discussions with the Temporary Receiver.

The Temporary Receiver confirmed that the LucasLawCenter (Lucas Law Center) had been soliciting and accepting clients for its foreclosure relief services since April, 2008. According to the defendants, most consumer contacts were originated through radio advertising and some referrals. Paul Lucas stated that in September, 2008 nationwide radio advertising was discontinued and radio advertising was limited to the California market.

The Lucas Law Center obtains signed retainer agreements with its consumers for the foreclosure relief service. The Temporary Receiver interviewed about 10 of the 14 employees that gather financial and mortgage information from the consumers, and prepare and forward modification requests to lenders. Some employees are paid on an hourly or salaried basis by the Lucas Law Center, but the majority are paid as independent contractors by Future Financial Services, LLC (FFS). The Temporary Receiver also interviewed 11 of the 20 employees that accept inbound telephone calls and follow-up on the initial conversations with potential consumers to obtain a signed retainer agreement and collect a fee ranging from \$2,000-\$3,995 per property. These employees are paid on a sliding commission scale by FFS.

¹ Reference to the Temporary Receiver in this report means the Temporary Receiver, the Temporary Receiver's Deputies, his staff, and his counsel.

Mr. Lucas claims to have personally trained the employees working in the intake department and is careful to refer to them as “Legal Aids” rather than paralegals. The Temporary Receiver reviewed the script followed by the “Legal Aids to Paul Lucas,” who accept nearly all the incoming telephone calls generated from radio advertising. The Temporary Receiver also studied the information and claims posted on the Lucas Law Center's website. Both sources claim to use attorneys to negotiate for the consumers, discuss having mitigated thousands of home foreclosure cases, claim to have positive working relationships with key people at most banks, and offer a 100% money back guarantee if the Lucas Law Center does not obtain a loan modification for the consumer.

The Temporary Receiver noted these claims were the basis for the complaint filed by the Federal Trade Commission. The Temporary Receiver determined that the business could not be operated profitably or lawfully without further review and analysis of the practices and procedures. With the agreement of Mr. Lucas, the Temporary Receiver temporarily suspended all advertisements and stopped accepting inbound inquiries from potential consumers.

The Temporary Receiver directed the negotiation and consumer service staff to prepare a list of established foreclosure sale dates through the end of August 2009. The Temporary Receiver arranged for negotiators and support staff to continue to make contacts and work with the lenders to eliminate or postpone the foreclosure sale dates.

Business Systems and Operations

System and Operating Information

The companies have several non-integrated systems and procedures to record financial and consumer data and to keep track of the financial results and foreclosure relief efforts. The companies use QuickBooks accounting software, a database system called CRM, a fill-in Excel worksheet titled Information Requests Form, and a consumer file with notes written on the outside cover and sometimes on Post-it notes inside the file. Some negotiators maintain a personal Excel schedule with selected consumer and loan data and follow-up information.

While the CRM system appears to have numerous fields for storing and retrieving consumer data the Temporary Receiver observed that, except for the consumer's basic contact details, all information is recorded in brief summary notes. Consequently, the system cannot produce any reports, such as a summary report of approximately 2,100 consumers, or the status of each pending negotiation, or a schedule of completed or discontinued negotiations, or a chronological schedule to determine how long the negotiations have been pending. Additionally, the Temporary Receiver observed numerous instances where the content of handwritten notes on the outside of the consumer file or stored inside were different from or not included in the notes on the CRM system.

The accounting function attempts to maintain financial information by each consumer's name in the QuickBooks accounting software. However, any meaningful reports about the status or outcome of the foreclosure relief efforts for an individual or a group of consumers are not available.

With these limitations on reviewing and producing information and data on the results of or the current status of foreclosure relief efforts, and with the limited time available to produce a report for the scheduled court hearing, the Temporary Receiver decided to review and evaluate a representative sample of the completed modifications by reviewing the consumer files and the notes in the CRM. The Temporary Receiver also reviewed and evaluated the status and condition of certain pending modifications by reviewing the consumer files and the notes in the CRM.

Review and Evaluation of Sampled Files and Other Documents

In a June 30, 2009 e-mail Paul Lucas stated that the Lucas Law Center had 517 successful loan modifications. The Temporary Receiver asked the staff to copy all completed loan modifications. The staff copied about 421 documents representing completed modifications, although most were not signed. Staff members stated that the approved modifications are usually sent to the consumers by the lender and the Lucas Law Center may not get a fully executed copy. The Temporary Receiver requested a representative sample of 28 of the files containing completed modifications, selecting every 15th file. However, the staff members were able to locate only 21 files.

Of the 21 files and modification documents reviewed, 14 appeared to be completed modifications with reduction of interest rates and payments. In most cases past due payments and other charges were added to the loan balance. Five of the files and modification documents indicated the arrangement was not a modification but a repayment of past due amounts with some structured repayment over three to six months. In some cases it appeared the lender was unwilling to modify the loan and would allow only a repayment of past due amounts. In two of the files and modification documents there was no evidence the modification agreement was obtained.

In summary, the results from the review of the files that were represented by Lucas Law Center as being completed modifications indicated that two thirds of the consumers received a loan modification and one third received either no modification or an agreement to bring past due amounts current.

The Temporary Receiver also reviewed another 34 files that had a resolution effort pending, or were canceled, or resolution efforts were discontinued for some reason. Among other issues, a goal of the review was to determine whether the Lucas Law Center issued a 100% refund if the modification was not obtained for the consumer. Of the 34 files reviewed the resolution activity for three of them was in progress. Of the remaining 31 files, the file and

CRM details indicate a full refund was made to 17 consumers. Thirteen other consumers either did not get a refund or received only a partial refund when Lucas Law Center did not obtain a loan modification. In one file and in the related CRM notes, it was unclear whether the consumer received a refund.

In summary, the results of the files that were reviewed indicated that about 55% of the consumers received a full refund when the company was not able to obtain a loan modification. About 42% of the consumers received either no refunds or a partial refund when the company was unable to obtain a loan modification.

Complaints directly from consumers and from the BBB

The Temporary Receiver reviewed numerous consumer complaints that appeared to be transmitted electronically by the Better Business Bureau or were received directly from consumers. Generally, the consumers complain about infrequent or sporadic contact from the Receivership Defendants and very little or no progress toward a resolution of a pending foreclosure or mortgage relief.

Several consumers allege that they were advised to stop making mortgage payments by personnel of Lucas Law Center so they could either pay their retainer fee or because a lender would not negotiate a modification unless the homeowner was delinquent. Some consumers were promised significant reductions in the principal amount of their loan and specific reductions in interest rates.

Other consumers point out that even though Lucas Law Center did help them obtain a modification, the modification actually increased their monthly payment and put the consumer in a worse financial condition than before they retained the services of Lucas Law Center. In these instances, it appears the Lucas Law Center refused to give a refund stating that a modification was obtained for the client.

Even though the Lucas Law Center was unable to obtain a modification for a number of the complainants, the Lucas Law Center still refused to provide a 100% refund. Many of the consumers that did get a partial refund suggest that they only received the refund after threatening to file a complaint or seek legal advice.

It appears from notes in the CRM that Lucas Law Center did obtain a modification for several of the complainants that allege that nothing was done. However; the Temporary Receiver is not able to determine if these modifications actually provided a benefit to the consumer by reducing monthly payments, principal amounts or interest rates because of the cryptic nature of the notes in the CRM.

In one instance, the Lucas Law Center refunded \$400 of the total retainer of \$2,500. Notes in the CRM state that Lucas Law Center personnel spent 5.8 hours working on the file. It does not appear that Mr. Lucas spent any time working on this particular file. As a result,

the client was charged \$362 an hour for time spent by administrative staff. The lender did offer a modification, but it was not acceptable to the client.

Financial Operations and Details

The financial activities of Lucas Law Center and Future Financial Services, LLC (FFS) are described below.

Lucas Law Center

Under Tab 1 is the Profit & Loss Statement of Lucas Law Center for the period from June 20, 2008 to July 10, 2009 prepared from the QuickBooks accounting software by Lucas Law Center (described in the accounting records as Lucas Law Group). This statement shows that Lucas Law Center had net income of approximately \$2.8 million for the period from its commencement of operations to July 10, 2009.

The profit and loss accounts with significance are described below.

Attorney Fee Income

Attorney fee income represents total agreed-upon fees to Lucas Law Center from consumers who signed the Retainer/Fee Agreements. Paul J. Lucas, an individual defendant, signed the agreements on behalf of Lucas Law Center. Total agreed-upon attorney fee income from at least 2,159 consumers, net of certain merchant account fees, was approximately \$8.4 million and is summarized as follows:

Months	Amounts
Jun-08	\$ 39,409
Jul-08	390,346
Aug-08	543,171
Sep-08	756,257
Oct-08	1,056,025
Nov-08	716,964
Dec-08	391,815
Jan-09	518,285
Feb-09	639,830
Mar-09	784,219
Apr-09	521,750
May-09	710,705
Jun-09	1,048,500

07/01/09-	
07/09/09	<u>282,520</u>
	<u>\$ 8,399,796</u>

Fees Collected and Refunds to Consumers

Of the approximate \$8.4 million attorney fee income agree-upon with consumers, Lucas Law Center collected approximately \$7.1 million. Of the approximate \$7.1 million fee income collected from the consumers, Lucas Law Center refunded approximately \$1.0 million, or about 12%, to approximately 447 consumers as follows:

Months	Amounts	Number of Clients
Jun-08	\$ 2,400	2
Jul-08	6,000	6
Aug-08	40,513	20
Sep-08	44,040	21
Oct-08	119,675	68
Nov-08	55,095	26
Dec-08	111,861	63
Jan-09	119,730	48
Feb-09	109,042	37
Mar-09	109,409	40
Apr-09	117,433	49
May-09	92,965	34
Jun-09	91,891	29
07/01/09-		
07/09/09	<u>12,550</u>	<u>4</u>
	<u>\$ 1,032,604</u>	<u>447</u>

The \$1,032,604 sum was derived by adding up actual payments made by Lucas Law Center, which slightly differs from the \$1,044,639 sum shown on the Profit & Loss Statement. Also, the actual number of payments made to consumers was higher than 447, as more than one payment might be made to the same consumer.

Due to insufficient internal control systems of the defendants, the Temporary Receiver is unable to determine the number of the consumer refund claims which are still in the review process or were denied by the defendants.

Management Fee Expense

Lucas Law Center's books recorded management fee payments to FFS totaling \$4,332,500 between July 2, 2008 and July 2, 2009, which was the latter's only source of income. However, the books of FFS showed management fee income received from Lucas Law Center totaling \$3,906,450 during the same period. The \$426,050 difference (i.e. \$4,332,500 minus \$3,906,450) is comprised of six management fee payments by Lucas Law Center totaling \$476,500 which were not shown on FFS' books and three management fee receipts by FFS totaling \$50,450 which were not shown on Lucas Law Center's books.

Payroll Expense

Lucas Law Center paid its staff as regular employees and recorded the payments as payroll expense, while FFS paid its staff as independent contractors and recorded the payments as commission expense and/or subcontracted services expense. There were few staff members who were paid by both Lucas Law Center and FFS.

The payroll expense of Lucas Law Center is discussed below together with the commission expense of FFS.

Legal Fee and Professional Fee Expenses

Legal Fee Expense

Lucas Law Center paid three individual attorneys in the amounts of \$450 (May 14, 2009), \$3,000 (May 21, 2009) and \$11,582 (May 1, 2009 and June 30, 2009), and paid \$1,139 to Legalzoom.com (between June 26, 2008 and May 15, 2009), which totaled \$16,171.

The magnitudes and dates of payments suggest that none of the legal fee expense was paid for mortgage loan modification and foreclosure avoidance counseling services.

Professional Fee Expense

Lucas Law Center paid professional fee expense totaling \$19,645 between September 2, 2008 and January 26, 2009. The Temporary Receiver reviewed the payee names and determined that none was an attorney or a law firm. Under Tab 2 is the Balance Sheet of Lucas Law Center at July 10, 2009 prepared by Lucas Law Center. The accounts with significance are described below.

Cash

The Balance Sheet showed total cash balances of \$1,265,270 including the \$1,255,903 “undeposited funds” representing cash receipts which were not yet reconciled to specific consumer names.

The Receiver has confirmed that Lucas Law Group had bank account balances, excluding the balance held at the merchant account, totaling approximately \$302,000 at July 10, 2009.

Accounts Receivable

The Balance Sheet showed accounts receivable due from consumers totaling approximately \$1.2 million at July 10, 2009. Based on observing certain accounting entries, the Temporary Receiver was not able to confirm if the account receivable balance at July 10, 2009 was accurate.

No allowance for uncollectible accounts was set up.

Shareholder Distributions

Shareholder distributions represented payments to or on behalf of Paul Lucas. The books showed that between June 19, 2008 and May 26, 2009, Lucas Law Center received \$50 from Paul Lucas, paid \$304,665 to Paul Lucas and paid \$28,190 on behalf of Paul Lucas, which resulted in a net balance of \$332,805.

Future Financial Services, LLC

Under Tab 3 is the Profit & Loss Statement of FFS for the period from June 10, 2008 to July 10, 2009 prepared from the QuickBooks accounting software by FFS. This statement shows that FFS had net income of approximately \$44,000 for the period from its commencement of operations to July 10, 2009.

Profit and loss statement accounts with significance are described below.

Management Fee Income

Management fee income received from Lucas Law Center was FFS’ sole source of income. FFS’ books recorded management fees received from Lucas Law Center totaling \$3,906,450 between July 2, 2008 and May 31, 2009.

As described above, the \$3,906,450 sum was not in compliance with the \$4,332,500 sum recorded by Lucas Law Center as management fee expense to FFS.

Subcontracted Services

The subcontracted services account included payments made by FFS between July 3, 2008 and July 10, 2009 totaling \$463,562 mainly to staff members of Lucas Law Center (both sales and administration) and FFS as well as for other purposes including advertising and internet services. None of the payments included in this account was made to an attorney or a law firm.

Payments to certain staff members by FFS were recorded in both the “subcontracted services” account and the “commissions” account. Commissions expense is discussed below.

Commission Expense

As described above, FFS paid its staff as independent contractors and recorded the payments as commission expense. This account included payments to sales persons, the ones who answered the sales calls by the consumers, and to negotiators and their assistants.

Summarized below are total payments made by Lucas Law Center and FFS to sales persons and negotiators (including the assistants to the negotiators):

Recorded as	Sales Persons	Negoti- ators
Lucas Law Center- Payroll expense	\$ 15,449	\$ 66,745
FFS:		
Commission expense	819,777	308,852
Subcontracted services expense	<u>4,930</u>	<u>204,096</u>
	<u>\$ 840,156</u>	<u>\$ 579,693</u>

These payments did not include payments made to Frank Sullivan, an individual defendant.

Payments to Frank Sullivan

FFS paid \$154,535 to Frank Sullivan between July 16, 2008 and July 9, 2009 and recorded the payments as commission expense and Lucas Law Center paid \$10,635 to Frank Sullivan between May 8, 2009 and July 10, 2009 and recorded the payments as payroll expense.

In total, FFS and Lucas Law Center paid \$165,170 to Frank Sullivan between July 16, 2008 and July 10, 2009.

Legal Fee Expense

FFS paid legal fees totaling \$6,749 to an attorney between November 17, 2008 and April 30, 2009 and \$17,100 to a law firm between July 16, 2008 and December 17, 2008, which totaled \$23,849.

The magnitude and dates of payment suggest that none of the legal fee expense was paid for mortgage loan modification and foreclosure avoidance counseling services.

Under Tab 4 is the Balance Sheet of FFS at July 10, 2009 prepared by FFS. The accounts with significance are described below.

Cash

The Balance Sheet showed total cash balances of negative \$7,568. The negative balance was to be adjusted after the completion of the bank reconciliation work.

The Receiver has confirmed that FFS had bank account balances totaling approximately \$564,000 at July 10, 2009.

Members Draw

This account recorded FFS' payments to and receipts from Christopher Betts. The activities of the account are summarized as follows:

Contributions received directly from the member	\$ 383
Payments of FFS' expenses directly by the member, recorded as capital contributions	928,862
Payments of the member's personal expenses directly by FFS, recorded as capital withdrawals	<u>(976,688)</u>
Net Balance	<u>\$ (47,443)</u>

The "Members Draw" account recorded all FFS' transactions with Christopher Betts. The Receiver is uncertain whether Mr. Betts' \$928,862 expense payments as capital contributions to FFS were made entirely for FFS' connection with the mortgage loan modification business.

Combined Summary of Operations

The following summarizes the operations of Lucas Law Center and FFS on a combined basis based on their books:

- Collected approximately \$7.1 million from the consumers
- Refunded approximately \$1.0 million to the consumers
- Earned approximately \$39,000 of miscellaneous income
- Paid approximately \$840,000 to sales persons
- Paid approximately \$580,000 to negotiators and their assistants
- Paid approximately \$332,000 to Paul Lucas, an individual defendant
- Paid approximately \$47,000 to Christopher Betts, an individual defendant
- Paid approximately \$165,000 to Frank Sullivan, an individual defendant
- Paid approximately \$40,000 in legal fees
- Paid approximately \$2.5 million in other operating expenses
- Had an un-reconciled difference of approximately \$426,000 between the \$4,332,500 management fee expense recorded by Lucas Law Center and the \$3,906,450 management fee income recorded by FFS
- Had a net cash inflow of approximately \$1.2 million resulting from the above transactions

Summary and Conclusion

From the review of the limited file and database information that was available, the Temporary Receiver was unable to confirm that the receivership defendants are able to or have obtained a mortgage loan modification in all or virtually all instances. In fact, from the limited information available, it appears that a significant percentage of consumers do not receive a loan modification, or receive only a short-term arrangement to repay past due amounts.

From the same limited information, it appears that a high percentage of consumers do not receive a full refund when the defendants do not obtain a loan modification.

The issues raised in consumer complaints include recommendations to the consumer to stop making mortgage payments, the inability to reach assigned modification specialists, and not obtaining the full mortgage relief assured to be available by the Legal Aids during the sales presentation.

The website for the Lucas Law Center claims it has a first-class network of over 30 affiliated attorneys. The Temporary Receiver did not locate any documents or information that would support an affiliation of over 30 attorneys. The review of the financial information prepared by the defendants confirms that none of the legal fee expense was paid by the defendants to outside attorneys for mortgage loan modification and foreclosure avoidance counseling services.

Respectfully submitted,

/s/

Robb Evans
Temporary Receiver

TAB 1

6:01 PM
07/11/09
Accrual Basis

Lucas Law Group
Profit & Loss
All Transactions

	<u>Jul 10, 09</u>
Ordinary Income/Expense	
Income	
Attorney Fees	8,399,796.38
Forensic Auditing Income	34,580.69
Short Sale Income	6,500.00
Merchant Account Fees	-105,922.82
Client Refunds	-1,044,638.97
Total Income	<u>7,290,315.28</u>
Expense	
Management Fees	4,332,500.00
Payroll Expenses	98,208.64
Professional Fees	19,644.67
Legal Fees	16,171.00
Computer and Internet Expenses	9,625.00
Rent Expense	7,074.04
Advertising and Promotion	5,294.00
Office Supplies	4,954.83
Licenses & Permits	1,382.50
Filing Fees	1,354.00
Bank Service Charges	764.40
Continuing Education	340.68
Automobile Expense	181.00
Dues and Subscriptions	130.00
Total Expense	<u>4,497,624.76</u>
Net Ordinary Income	<u>2,792,690.52</u>
Net Income	<u><u>2,792,690.52</u></u>

TAB 2

6:02 PM
07/11/09
Accrual Basis

Lucas Law Group
Balance Sheet
All Transactions

	<u>Jul 10, 09</u>
ASSETS	
Current Assets	
Checking/Savings	
Operational 8746	-184,100.60
Escrow - 8784	-169,559.98
LLC - 7841	60,492.47
Personal - 9164	3.05
Escrow Ckg- 3789	284,787.51
Suspense	17,744.40
Total Checking/Savings	<u>9,366.85</u>
Accounts Receivable	
Accounts Receivable	1,194,615.67
Total Accounts Receivable	<u>1,194,615.67</u>
Other Current Assets	
Undeposited Funds	1,255,903.00
Total Other Current Assets	<u>1,255,903.00</u>
Total Current Assets	<u>2,459,885.52</u>
TOTAL ASSETS	<u><u>2,459,885.52</u></u>
LIABILITIES & EQUITY	
Equity	
Shareholder Distributions	-332,805.00
Net Income	2,792,690.52
Total Equity	<u>2,459,885.52</u>
TOTAL LIABILITIES & EQUITY	<u><u>2,459,885.52</u></u>

TAB 3

6:03 PM

07/11/09

Accrual Basis

Future Financial Services
Profit & Loss
All Transactions

	<u>Jul 10, 09</u>
Ordinary Income/Expense	
Income	
Management Fees	3,906,450.00
Client Refund	-2,500.00
Total Income	<u>3,903,950.00</u>
Cost of Goods Sold	
Subcontracted Services	463,562.19
Total COGS	<u>463,562.19</u>
Gross Profit	3,440,387.81
Expense	
Advertizing and Promotions	1,544,707.30
Commissions	1,298,688.78
Rent Expense	319,427.87
Office Supplies	116,374.88
Professional Fees	
Accounting	26,363.35
Legal Fees	23,848.99
Total Professional Fees	<u>50,212.34</u>
Telephone Expense	22,229.17
Automobile Expense	14,235.16
Office Expenses	9,368.83
Computer and Internet Expenses	8,059.78
Meals and Entertainment	5,733.72
Internet Expense	3,188.09
Travel Expense	1,747.14
Airline Expense	1,106.17
Postage and Delivery	916.16
Bank Service Charges	517.81
Total Expense	<u>3,396,513.20</u>
Net Ordinary Income	<u>43,874.61</u>
Net Income	<u><u>43,874.61</u></u>

TAB 4

6:03 PM
07/11/09
Accrual Basis

Future Financial Services
Balance Sheet
All Transactions

	<u>Jul 10, 09</u>
ASSETS	
Current Assets	
Checking/Savings	
- 0806	63,330.45
-0807	<u>-70,898.57</u>
Total Checking/Savings	<u>-7,568.12</u>
Total Current Assets	-7,568.12
Other Assets	
Advances	4,000.00
Total Other Assets	<u>4,000.00</u>
TOTAL ASSETS	<u>-3,568.12</u>
LIABILITIES & EQUITY	
Equity	
Members Draw	-47,442.73
Net Income	<u>43,874.61</u>
Total Equity	<u>-3,568.12</u>
TOTAL LIABILITIES & EQUITY	<u>-3,568.12</u>