

Robb Evans & Associates, Temporary Receiver of
Western United Service Corporation d/b/a
Titan Business Solutions
REPORT OF RECEIVER'S ACTIVITIES
October 26, 2000 through October 31, 2000

Initial Activities

My associates and I entered the premises of the defendant about 11:30 a.m. on October 26, 2000 and proceeded to take control over the business location, including computers and business records. We called for the previously arranged locksmith to change all the locks. Concurrently, my staff served the Order on all known banks, and later served the Order on a previously unknown depository, Merrill Lynch. On Friday and Saturday, October 27th and 28th, my staff visited another business location and an offsite storage location, both of which were revealed from our review of the business records. We confirmed with the property owner that the additional vacant business location was not accruing rent under any lease obligation. We also determined that the offsite storage facility contained only obsolete products and old records of the prior operating entity.

When I took control of the premises, there were about 80 employees on site. I further determined that most of the employees were sales agents talking to inbound callers, who were responding to classified advertisements placed throughout the nation promoting a medical billing business. I soon learned that the company was completing credit card or authorized check sales with about 30 to 45 of each day's callers, and each individual sale was about \$450. The product was medical billing software, shipped from a mailing service firm in San Diego, and included the billing program, a software manual, and other miscellaneous materials. Titan purchased the billing software for \$25 per unit.

I determined that it was necessary to stop sales activity and required that all shipping from the San Diego supplier cease. At the request of the defendant, I agreed to allow the customer service and technical support employees, a total of 11 persons, continue to function. The balance of the sales, verification, and data entry employees were asked to complete an employee questionnaire and then to leave the premises. After consulting with my counsel and attorneys for the Federal Trade Commission, I decided to complete the payroll that was scheduled to be delivered to all employees on Friday, October 27, 2000.

During the workday on Thursday and Friday my staff reviewed e-mails and listened to parts of conversations with previous purchasers. They determined that most of the support provided by the customer service and technical section was related to operating the software and completing an initial letter to possible billing prospects. The process of gaining the business of the screened prospect list (the list of doctors who are billing Medicare and others by a manual process) was hardly discussed or covered in the provided manual. Furthermore, assistance with creating an income producing client base, beyond an unsolicited mailing to a group of prospects, appears to be a minor portion of the assistance provided by the technical and support staff.

Information from Business Records

Other members of my staff immediately began to review the computer and paper financial records of the defendant. The company maintains a database of purchases by consumers, which is a mix of specialized software titled "Mail Order Management" and an Access database file maintained for computing sales commissions. The information is cumbersome to review or query, and my staff received different numbers using different review techniques. Nevertheless, it appears that since September 1999, the company has sold its medical billing software package to about 14,000 to 18,000 individuals. Two reviews of the database records indicated there were about 1,400 to 1,500 cancellations of sales before product shipment and about 900 to 925 refunds, usually after product was returned. According to company management, charge backs initiated by consumers are usually not entered in either database.

From review of documents, and interviews with company officers and employees, my staff determined that the company policy is to offer no refunds once a purchaser opens the software. The company literature encourages purchasers to use and learn the software and its use is required to take tests and pass certain certifications. Consumers cannot determine whether the software meets expectations unless it is opened and activated, which then excludes the

purchaser from any recourse to a refund. Notwithstanding the company policy, if there is an inquiry from any government body, or a Better Business Bureau, the company generally approves a refund to the consumer. The company refunds about 10% of each day's sales. Comments on authorized but unpaid refunds are discussed below.

The financial records are kept on the QuickBooks system. My staff members concluded that the financial records are sloppy and inaccurate. The numbers carried on the balance sheet and income statement represent a mix of cash-basis transactions, old accrued items that have not been adjusted or corrected, and most payables carried on an accrual basis. However, the liability for committed refunds and unshipped products is not accrued or shown on any financial record. As further detailed later, this liability, much of which would ordinarily be extinguished by shipping, is approximately \$116,000.

The company's financial condition is poor. The company has lost at least \$400,000 for the ten months ending October 26, 2000. Current liabilities are in excess of \$350,000 with the company depending on funding from daily cash sales and more than \$100,000 of credit card funding provided by Anthony Smith, who has a 40% ownership interest in the company. Liabilities are probably understated because the capital contributions of \$280,000 from the 40% owner appear to be liabilities that are documented by a Loan and Security Agreement dated December 1999.

The combined cash balance, according to the QuickBooks system, is \$13,750. After allowing for the \$35,000 accrued payroll for October 21 through October 27, the cash balance is reduced to a negative (\$21,250). The actual cash balance, because of the impact of the asset freeze, is \$23,350. Both balances are before any administrative expenses. Inventory held at the San Diego supplier totals \$50,000, and consists of 1,600 unassembled software packages and 400 assembled packages ready for shipping. Included in the accounts payable liability is \$50,000 owed to the software supplier for the inventory.

Other assets listed on the balance sheet include the following:

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| <u>Accounts Receivable</u> | \$90,209 |
| Unpaid by Cross Check, a former processor; now \$60,000 may be collectable under a recently concluded settlement. | |
| <u>Credit Card Reserves</u> | \$203,354 |
| All prepaid expenses have been consumed. | |
| <u>Various Prepaid Expenses</u> | \$91,000 |
| All prepaid expenses have been consumed. | |
| <u>Fixed Assets</u> | \$234,460 |
| Includes Furniture \$34,000, Leaseholds \$49,000, Office Equipment \$50,000, and Telephone Equipment \$90,000. Estimated realizable value: \$5,000. | |
| <u>Other Assets</u> | \$203,354 |
| Includes uncollectable loan of \$146,000 and leased autos titled in the names of officers, totaling \$64,000 | |

Under Tab 1 are a summary of cash balances and a printout from the company's QuickBooks program.

My staff further reviewed the books, records, physical checks, and bank statements for evidence of questionable payments or transfers to offshore institutions. Based on this preliminary review there were no unusual transactions. The review did reveal payments for two continuing contracts totaling about \$4,300 monthly. The details were confirmed by

accounts payable records and verified that the contracts were for public relations and for employment law compliance. My staff also reviewed the documents related to the company's June 1999 Chapter 11 voluntary bankruptcy filing. We determined that the liability remaining under the approved plan was \$90,000 due to the estate's attorney, and a 20% contingent payment to creditors if certain litigation is successful. We also reviewed a liability and property insurance policy indicating paid coverage was in place.

My staff learned from the review of the business records that the defendants are 50% owners of two new business ventures. The promotion and other expenses of these businesses may have been partially funded by assets of the defendants. At this time, we have not confirmed whether or if such funding occurred.

Other Issues

Consistent with my decision to stop sales activity, on October 26th my staff took steps to stop the processing of purchaser's electronic checks and credit card authorizations. They also directed the San Diego supplier to cease shipments. The credit card processor has not yet confirmed whether credit card transactions authorized on the 26th prior to my entry were completed or cancelled. Following is an estimated recap of the amount paid by consumers for unshipped billing packages, which includes credit card transactions for October 26th. I have also included the estimated amount of refunds authorized but not completed. Such authorizations are not centralized, or accrued in the QuickBooks system.

| | |
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| Credit Card Sales October 25 and 26 (67 transactions): | \$31,423 |
| Electronic Checks October 9 - October 25 (154 checks) (Checks for October 26th were not deposited) | \$72,226 |
| Estimated Authorized refunds | \$72,226 |
| TOTAL | \$115,649 |

I allowed both parties access to the premises and records during and beyond regular business hours on the 26th and 27th, and from 8:00 a.m. through 3:00 p.m. on Saturday, October 28. As I discussed earlier, I also allowed the customer service and technical support function to operate Thursday and Friday, the 26th and 27th. I instructed these employees not to market or sell the bookkeeping product, and strictly limit their activity to customer and technical support. Members of my staff monitored the activity, required a log of all calls completed, and reviewed all incoming facsimile letters. We believe the activities were within the agreed instructions.

However, I informed Ford that available cash was not sufficient to continue customer support and technical support beyond Friday the 27th. About 1:00 p.m. Monday the 30th, Ford was able to deliver a bank check for \$2,000 to fund a six-person support unit, with Receivership supervision, for 12 hours. I confirmed that the funds were provided by a non-defendant and were not covered by the freeze order. I agreed to allow the support unit to operate under the same directions through Thursday, November 2 if he provided additional satisfactory funding.

While the support unit operated I allowed Ford access to records and informed the plaintiff Commission that access was available to its attorneys.

Respectfully submitted

(signed) Gary Owen Caris (for)

Robb Evans

Temporary Receiver