

ROBB EVANS & ASSOCIATES LLC

**Receiver of National Consumer Council (NCC) AZ; NCC CA; NCC NV;
London Financial Group; United Consumers Law Group;
National Consumer Debt Council, LLC; Solidium, LLC;
J. P. Landis, LLC; Financial Rescue Services, Inc.;
Signature Equities, LLC; M&L Springfield Trust;
PC Hailey Trust; Via Lido Trust**

**Supplement to
Report of Temporary Receiver's Activities
May 3, 2004 Through May 14, 2004
First Report to the Court
(Filed with the Court on May 26, 2004)**

Background Information

On May 3, 2004 the United States District Court entered an Order appointing Robb Evans & Associates LLC as Temporary Receiver of the listed Receivership Defendants, but not including United Consumers Law Group. Thereafter, on May 21, 2004, the Receivership Defendants, and United Consumers Law Group, each entered into a Stipulation and Preliminary Injunction for the appointment of Robb Evans & Associates LLC as Receiver and continuation of an asset freeze and other relief.

The Receiver then began and completed a review of the financial and business operations of United Consumers Law Group. From interviews of non-defendant management personnel and other personnel, reviewing business and accounting records, and from other observations, the Receiver has compiled the following summary of the business organization of United Consumers Law Group. The individual defendant and management personnel were cooperative with the Receiver.

Description, Organization, and Ownership

In August 1995 Walter Haines formed a professional law corporation in the name of Law Offices of Walter L. Haines, Inc. under California Law. In May 2003 the name of the entity was changed to United Consumers Law Group (UCLG) when it commenced operations in the business of providing debt negotiation and other related services in conjunction with the entities in the common enterprise. UCLG is wholly owned by Walter Haines and had about

11 employees including five attorneys. The financial information and the accounting system of UCLG were maintained and managed by London Financial Group (LFG) under the same service arrangement provided to the other entities.

As described in our First Report to the Court (First Report), all consumers were issued a LEAD number that is the primary identification for the LEADS database and data management system, which manages all information related to consumer activities. All incoming and outgoing communication and documents, including settlement and legal documents, were scanned and stored in the database under the consumer's LEAD number. All information about the customers of UCLG was maintained in the LEADS database and commingled with the consumer information of the customers of the other entities.

Business Activities

As described in the First Report, J.P. Landis, LLC (JP Landis), or National Consumer Debt Council, LLC (NCDC) prior to July 2003, would assign certain debt negotiation contracts with consumers to UCLG due to UCLG's law-firm status as certain qualification restrictions were imposed by some states regarding debt negotiation. UCLG would then assign the cases to Solidium, LLC (Solidium) for its debt negotiation services.

For those consumers who could not afford the programs offered by the common enterprise and decided to file bankruptcy, UCLG would also provide the bankruptcy filing services. UCLG also provided other related services to consumers, including pro per documents for responses to summons and complaint, interrogatories, preparation for arbitration, and preparation of motions to dismiss.

Fees Charged and Funds Collected

The types of fees charged to the consumers by UCLG and the computation thereof, were exactly the same as those charged by NCDC as described in the First Report. Total establishment fees, monthly service fees, and settlement fees recorded by UCLG for the period from May 1, 2003 to March 31, 2004 were approximately \$6,900,000, \$2,200,000, and 2,700,000, respectively, which totaled \$11,800,000.

The flows and the accounting of the funds collected were exactly the same as NCDC's as described in the First Report.

The Brokerage Account with UBS Paine Webber

As described in the First Report, the Business Services Account (BSA) with UBS Paine Webber was holding the individual trust funds of all consumers, including programs held by NCDC, UCLG and Consumer Guidance Corporation. The First Report also described that on May 7, 2004, the Client Trust Account on the books of National Consumer Council, a

Nevada Corporation (NCC-NV) had a balance of \$23,034,368 and the BSA had an actual balance of \$20,980,771, which resulted in an unfunded difference of \$2,053,597.

Of the \$23,034,368 carried on the general ledger account, Client Trust Account, of NCC-NV, \$6,428,384 was the total of the individual trust account balances for those consumers with programs held by UCLG. Of the \$20,980,771 actual balance of the BSA, \$5,727,310 belonged to consumers with programs held by UCLG. Therefore, UCLG owed \$701,074 to the BSA on May 7, 2004. However, on May 7, 2004 UCLG's books carried a bank account balance of \$2,948,512, which was more than sufficient to pay the amount owed to the BSA.

Financial Statements for the Period from May 1, 2003 (Commencement of Operations in Debt Negotiation Business) to March 31, 2004

Statement of Operations

Under Tab 1 is a statement of operations for the period from May 1, 2003 to March 31, 2004. The highlights of the statement are as follows:

Total revenue of approximately \$12,447,000 from consumers and unrelated parties:

- Establishment fees, settlement fees, and monthly service fees of approximately \$6,900,000, \$2,700,000, and \$2,200,000, respectively, for a total of \$11,800,000;
- Approximately \$422,000 in legal fees for legal services provided to consumers other than bankruptcy filing;
- Approximately \$129,000 in check handling and NSF fees;
- Approximately \$58,000 in bankruptcy filing service fees; and
- Approximately \$38,000 in other income.

Total expenses incurred of approximately \$2,100,000 to unrelated parties:

- Salaries and related benefits of approximately \$1,300,000;
- Professional fees, legal and accounting, of approximately \$414,000; and
- Other operating expenses totaling approximately \$386,000.

By excluding intercompany relationships with the common enterprise, UCLG had estimated cash inflows from consumers totaling approximately \$9.6 million and estimated cash outflows to third parties totaling approximately \$2.0 million, leaving a net cash inflow of approximately \$7.6 million available for transfer to the common enterprise.

UCLG paid Walter Haines a \$255,000 bonus in 2003 and salaries totaling \$433,846 between January 1, 2004 and May 7, 2004 (for the pay period ended May 1, 2004 and under the arrangement of a \$110,000 monthly salary), which totaled \$688,846. Also as described in the First Report, the common enterprise paid \$2,143,000 in total to Walter Haines between January 1, 2002 and April 23, 2004. In summary, the common enterprise together with

UCLG paid \$2,831,846 in total to Walter Haines between January 1, 2002 and May 7, 2004, an average of approximately \$101,000 per month.

Statement of Financial Condition

Under Tab 2 is a statement of financial condition of UCLG at March 31, 2004. The statement disclosed that UCLG had no significant liabilities except payables to the common enterprise entities and had a negative equity that was caused solely by the intercompany fee allocation arrangements with the common enterprise entities.

Observations and Conclusions

In form UCLG was not a direct member of the common enterprise; in substance it was a participating member, as the occurrence of its accumulated revenues from the consumers resulted solely from the operations of the common enterprise.

Consumer Activity and Statistics Reported in the First Report

The Receiver’s First Report included the following summary of consumer activity and statistics.

	<u>Consumers</u>		<u>Total Recorded Fees From Consumers</u>	<u>Total Consumer Debt Payments Excluding Fees</u>	<u>Total Consumer Debt Under the Programs</u>
	<u>Number</u>	<u>%</u>			
In 3 year-and-4 month Period:					
Current Consumers	24,973	55.7%	\$ 64,011,627	\$ 73,240,474	\$ 725,842,857
Cancelled Consumers	19,235	42.9%	34,217,769	19,158,498	567,815,057
Debt Programs Completed	638	1.4%	3,316,665	8,297,084	14,478,326
(Data Table Rounding)	<u>(2)</u>	<u>0.0%</u>	<u>(8,307)</u>	<u>(6,382)</u>	<u>(68,093)</u>
All Consumers	<u>44,844</u>	<u>100.0%</u>	<u>\$101,537,754</u>	<u>\$100,689,674</u>	<u>\$1,308,068,147</u>

The data presented, including the Total Consumer Debt of \$1,308,068,147, were included in the results of a query of the LEADS database completed at the Receiver’s request by the Information Technology personnel of the Receivership Defendants.

In a Declaration executed on May 28, 2004, Del Meeks, Chief Financial Officer of LFG and a CPA, stated that original consumer debt under management was \$835.3 million and he

could not “ascertain how the Receiver arrived at the suggestion that approximately \$1.3 billion in debt has been under management.”

Although the Information Technology personnel of the Receivership Defendants provided the consumer debt total of \$1.3 billion to the Receiver, the same personnel never provided, or even suggested, a debt total of \$835.3 million to the Receiver.

Respectfully Submitted,

Robb Evans & Associates LLC, Temporary Receiver

By: _____
Robb Evans, Chief Executive Officer

UNITED CONSUMERS LAW GROUP, A PROFESSIONAL CORP.

STATEMENT OF OPERATIONS

PERIOD FROM MAY 1, 2003 (COMMENCEMENT OF OPERATIONS IN DEBT NEGOTIATION BUSINESS) TO MARCH 31, 2004

INCOME:	Notes	
Establishment fee	2	\$ 6,884,952.51
Settlement fee	3	2,659,070.58
Monthly service fee	4	2,249,044.91
Legal fees	5	421,782.07
Check handling fee	6	72,163.00
Bankruptcy filing fee	7	58,220.00
NSF fee	8	56,590.00
Bankruptcy option fee	9	21,150.00
Bankruptcy fees	7	9,860.00
Legal Advice Line revenue	10	7,720.50
Consulting revenue		5,388.00
Other income		<u>1,500.00</u>
TOTAL INCOME		<u>12,447,441.57</u>
EXPENSES:		
Establishment fees	2	7,015,590.27
Settlement expense- Solidium	3	5,320,936.55
Monthly service fees	4	2,253,518.43
Payroll and benefits		1,302,017.74
Professional fees	11	413,833.42
Bad debt		200,955.45
Contributions	12	200,000.00
Insurance		81,139.09
Rent		67,439.16
NSF fee expense	8	61,770.00
Filing fees		46,262.45
Printing and reproduction	13	33,640.82
Supplies		30,770.59
Bank charges		21,216.64
Franchise fees		8,974.50
Automotive	14	8,504.00
Postage and delivery		7,891.99
Legal Advice Line	10	7,600.00
Parking expense		7,193.50
Travel and entertainment		6,353.09
Temporary help		6,063.21
Associate recognition & reward		4,692.47
Taxes		3,852.45
Telephone		3,723.81
Membership dues		3,665.72
Moving		3,313.36
Advertising	15	3,071.78

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Employee relations	2,981.93
Dues and subscriptions	2,234.61
Outside services	1,663.27
Legal library	942.36
Marketing	870.10
Reference materials	755.11
Licenses and permits	460.00
Education reimbursement	125.00
Legal documents	125.00
Legal research	125.00
TOTAL EXPENSES	<u>17,134,272.87</u>
NET LOSS	<u>\$ (4,686,831.30)</u>

Notes:

1. The company was formed as a California professional law corporation by Walter Haines in August 1995. It had been operated under the name of "Law Offices of Walter L. Haines, Inc." till May 2003 when it commenced operations, under the changed name of United Consumers Law Group, in providing debt negotiation and other services in conjunction with the entities in the common enterprise.

As certain qualification restrictions were imposed by certain states, NCDC, or JP Landis subsequent to June 2003, would assign certain debt negotiation contracts with consumers to the company due to the company's law-firm status. The company would then assign the cases to Solidium for its debt negotiation services. The company also provided bankruptcy filing services for consumers who could not afford the programs and decided to file bankruptcy. Other than Walter Haines, the company had 11 employees including five attorneys.

The company's books were maintained by LFG under the accrual basis. If converted to the cash basis, the net loss amount would have been substantially eliminated. By excluding intercompany relationships with the common enterprise, UCLG's estimated cash receipts from consumers were approximately \$9.6 million, estimated cash disbursements to third parties totaled approximately \$2.0 million, leaving net cash receipts of approximately \$7.6 million available for transfer to the common enterprise.

The titles of the accounts were taken from the original company descriptions. Also, the amounts resulted from intercompany fee allocation arrangements with common enterprise entities, i.e., establishment fee expense, settlement expense, monthly service fee expense, and NSF fee expense,

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STATEMENT OF OPERATIONS

PERIOD FROM MAY 1, 2003 (COMMENCEMENT OF OPERATIONS IN DEBT NEGOTIATION BUSINESS) TO MARCH 31, 2004

may be different from the corresponding amounts reported by the common enterprise entities. LFG was aware of such differences and the reconciliation of the differences was included in its internal accounting control system.

2. The company recorded an establishment fee income at 3.5% of the total outstanding balances of credit card debts at the date the enrollment agreement was signed, or \$500, whichever was higher.

Upon assignment of a program, the company recorded an expense of \$1,100.00 payable to NCDC, so that the company's recorded establishment fee income from consumers may be shared by the other two ultimate owners of the common enterprise. Such expenses were recorded as establishment fee expenses.

Also, of the 3.5% recorded establishment fee income, the company was to pay 1.0% (of debt balance) to LFG for various services provided by LFG. Such expenses were also recorded as establishment fee expenses.

Total recorded establishment fee expense for the period amounted to \$7,015,590.27 and was payable solely to NCDC and LFG.

For the period, the company's total establishment fee expenses exceeded total establishment fee income by approximately \$130,000.00. This was caused primarily by the \$1,100.00 fee allocation arrangement with NCDC.

3. The company recorded settlement fee income at 25% of the "money saved", computed as the difference between the final settlement amount and the outstanding balance of the credit card debt

Of the settlement fee income recorded, 80% was payable to Solidium for its debt negotiation services. Such expenses were recorded as settlement expenses.

In addition, upon settlement of a credit card debt, the company recorded an expense of \$700.00 payable to NCDC, so that the company's recorded settlement fee income from consumers may be shared by the other two owners of the common enterprise. Such expenses were also recorded as settlement expenses.

Total recorded settlement expense for the period amounted to \$5,320,936.55 and was payable solely to Solidium and NCDC.

For the period, the company's total settlement expenses exceeded total settlement fee income by approximately \$2,661,000.00. This was caused primarily by the \$700.00 fee allocation arrangement with NCDC.

UNITED CONSUMERS LAW GROUP, A PROFESSIONAL CORP.

STATEMENT OF OPERATIONS

PERIOD FROM MAY 1, 2003 (COMMENCEMENT OF OPERATIONS IN DEBT NEGOTIATION BUSINESS) TO MARCH 31, 2004

4. The company charged the consumers monthly service fee of \$45.00 for the first six cards enrolled in the program and \$3.00 for each additional card enrolled.

Of the \$45.00 monthly service fee income recorded, \$15.00 and \$30.00 were payable to LFG and Solidium, respectively, for their respective monthly services and were recorded as monthly service fee expense. Monthly service fee expense for the period amounted to \$2,253,518.43 and was payable solely to LFG and Solidium.

For the period, the company's total monthly service fee expense exceed total monthly service fee income by approximately \$4,400.00. This was caused by the reduction of fee income, without matching reduction of fee expense, upon issuing of credit memos to the consumers.

5. Legal fee income was earned directly from consumers for services provided. Such services included responding to summons and complaint; interrogatories; preparation for arbitration; and preparation of motions to dismiss.
6. To cover the delivery cost, the company charged consumers \$10.00 for each settlement check/letter sent to the credit card company.
7. The \$58,220.00 amount represents bankruptcy filing service fees earned by the company. It charged \$700.00 per case for single person and \$1,200.00 for joint debtors. The \$9,860.00 amount represents filing fees charged by the court, \$290.00 per filing, which the company collected from the consumers.
8. The company charged a \$15.00 fee at each occurrence of NSF for ACH processing. The NSF fee expenses were payable to LFG, as LFG was the ACH processor.
9. The company recently initiated a new program in which current enrolled consumers may pay \$25.00 per month for 18 months, in addition to the \$45.00 monthly service fee, and obtain the company's bankruptcy filing service for \$450.00.
10. The company referred certain consumers to Legal Advice Line and collected the service fees on behalf of Legal Advice Line.
11. The amount represents professional fees charged by third-party attorneys and accountants.
12. The contribution represents transfer of funds to NCC-CA to subsidize NCC-CA's operating expenses.
13. The printing and reproduction expense was incurred primarily for producing forms for internal use.
14. The company had no auto leases. The automotive expense represents mileage reimbursements to Walter Haines.
15. Advertising expense was incurred for the hiring of paralegals.

**UNITED CONSUMERS LAW GROUP, A PROFESSIONAL CORP.
(Under Receivership of Robb Evans & Associates LLC)**

**STATEMENT OF FINANCIAL CONDITION
MARCH 31, 2004**

ASSETS	Notes	
CURRENT ASSETS:		
Cash in banks		\$ 262,000.11
Accounts receivable, net	1	2,258,628.94
Prepaid expenses		99,308.36
Due from affiliates		<u>597,033.66</u>
Total current assets		3,216,971.07
 PROPERTY AND EQUIPMENT		 10,710.18
 OTHER ASSETS	 2	 <u>133,968.55</u>
 TOTAL		 <u><u>\$ 3,361,649.80</u></u>
 LIABILITIES AND DEFICIT		
CURRENT LIABILITIES:		
Accrued expenses		\$ 82,845.60
Unearned revenue	3	114,510.00
Due to affiliates	4	<u>7,851,125.50</u>
Total current liabilities		8,048,481.10
 DEFICIT-		
Cumulative losses		<u>(4,686,831.30)</u>
 TOTAL		 <u><u>\$ 3,361,649.80</u></u>

Notes:

1. The accounts receivable amount represents fees due from consumers.
2. The amount of other assets represents a suspense balance in connection with Law Offices of Walter L. Haines, Inc. currently being investigated by management.
3. The unearned revenue represents unearned bankruptcy filing fees and bankruptcy fees.
4. The balance of due to affiliates was different from the corresponding balance of due from UCLG reported by the common enterprise. The difference arose primarily from an allowance for bad debt carried by Solidium and another difference since corrected. The management was aware of the difference and the reconciliation of differences was a regular process of the internal accounting control system.