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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON AT TACOMA

FEDERAL TRADE COMMISSION,

Plaintiff,

v.

MCS PROGRAMS, LLC, a Washington
Limited Liability Company, also doing business
as Mutual Consolidated Savings; UNITED
SAVINGS CENTER, INC., a Washington
corporation, also doing business as Mutual
Consolidated Savings; USC PROGRAMS,
LLC, a Washington Limited Liability
Company, also doing business as Mutual
Consolidated Savings; PAUL MORRIS
THOMPSON, individually and as an officer of
MCS Programs, LLC, United Savings Center,
Inc., and USC Programs, LLC; and MIRANDA
CAVENDER, individually and as a manager of
MCS Programs, LLC, United Savings Center,
Inc., and USC Programs, LLC,

Defendants.

Case No. C09-5380RBL

PRELIMINARY REPORT OF RECEIVER
MICHAEL A. GRASSMUECK

Michael A. Grassmueck is the duly appointed temporary receiver (the "Receiver") of MCS Programs, LLC (also doing business as Mutual Consolidated Savings), United Savings Center, Inc. (also doing business as Mutual Consolidated Savings), USC Programs, LLC (also doing business as Mutual Consolidated Savings), Paul Morris Thompson and Miranda Cavender

1 (collectively, the "Receivership Entities"). The Receiver's powers and obligations are set forth in
2 the Temporary Restraining Order With Asset Freeze, Appointment of a Temporary Receiver,
3 Immediate Access to Business Premises, Limited Expedited Discovery, and an Order to Show
4 Cause Why A Preliminary Injunction Should Not Issue, issued by the Court on June 26, 2009 (the
5 "Order").

6 The Receiver submits this Initial Report in order to inform the Court and all interested
7 parties of the status of the Receiver's activities, investigations, analysis, conclusions and
8 recommendations to date. Due to the short time that the Receivership has been active, the
9 analysis, conclusions and recommendations are limited and subject to change as further work is
10 done.

11 The Receiver's duties, responsibilities and activities to date generally fall into two
12 categories: (i) securing, protecting and recovering assets, including tangible and intangible assets;
13 and (ii) investigating and analyzing the finances and other legal facets of the Receivership Entities
14 in order to determine if they should continue to operate as an ongoing business.

15 **I. INITIAL ACTIVITIES OF THE RECEIVER.**

16 Due to the work schedule of the Receivership Entities on Friday, June 26, 2009, the
17 Receiver and the Federal Trade Commission ("FTC") determined that it would not be prudent to
18 take physical control of the offices of the Receivership Entities on that date because most
19 employees would not be present. Accordingly, the Receiver did not begin serving and
20 implementing the Order until June 29, 2009. The Receiver's immediate focus has been to secure
21 the identifiable physical assets, bank accounts, books and records of the Receivership Entities and
22 to begin analyzing the finances and other legal facets of the Receivership Entities.

23 Since June 29, 2009, the Receiver has taken the following actions:

- 24 □ With the assistance of the Tacoma Police Department, took physical control of the
25 Receivership Entities' office located at 1215 Earnest S. Brazill Street, Tacoma,
26 Washington 98405 (the "Office"), as well as a self-storage unit in Tacoma,
27 Washington;

- 1 □ Assured that approximately 30 bank accounts and credit card processing accounts
- 2 held by various institutions in the name of one or more of the Receivership Entities
- 3 were frozen and accounted for and obtained custody of such funds as appropriate;
- 4 □ Conducted a detailed inventory of, and videotaped, all property located at the
- 5 Office
- 6 □ Inventoried the property located in the self-storage unit;
- 7 □ Met and interviewed at least 54 individual employees of the Receivership Entities;
- 8 □ Interviewed named defendants Miranda Cavender and Paul Morris Thompson, as
- 9 well as other key employees, at length;
- 10 □ Took control and/or possession of incoming mail for the Receivership Entities;
- 11 □ Took control of websites used or managed by the Receivership Entities;
- 12 □ Performed an initial assessment of the viability of the Receivership Entities;
- 13 □ Began an evaluation of insurance issues relating to the Receivership Entities;
- 14 □ With the FTC, located and took mirror copies of the hard drives in approximately
- 15 eight computers, laptops and other electronic devices owned and/or used by the
- 16 Receivership Entities;
- 17 □ Inventoried and began review of thousands of pages of documents located in the
- 18 Office;
- 19 □ Terminated the employment of approximately 54 employees of the Receivership
- 20 Entities, arranged for the terminated employees to receive wages owed to them
- 21 through June 29, 2009, provided information regarding the State Department of
- 22 Labor & Industries, and obtained contact information in the event the Receiver
- 23 determines rehire is appropriate;
- 24 □ Began an accounting of the Receivership Entities and investigated potential
- 25 liabilities of the Receivership Entities, including consumer liabilities and creditors;
- 26 and
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- 1 □ Numerous other tasks associated with the management and investigation of the
2 Receivership Entities.

3 **II. PRELIMINARY FINDINGS.**

4 A. The Office.

5 The Receiver and his team entered the Office the morning of June 29, 2009. Defendants
6 Thompson and Cavender were present, along with approximately 52 additional employees in the
7 small two story building. Receiver and his team segregated employees by responsibility and
8 provided every person present with a copy of the Order. Attorneys for the Receiver read and
9 explained key parts of the Order to the employees. The Receiver and his team then conducted
10 interviews of individual employees.

11 Through these interviews, the Receiver determined that the Office served two essential
12 functions. The basement was used as a telemarketing call room. Here, approximately 16 hourly
13 wage employees contacted potential customers in the United States and Canada from a call list
14 generated for them by a computer program. The telemarketers read from scripts, selling
15 consumers on a "rapid debt reduction" program (the "Program"), which is more fully described
16 below. If the contact sounded interested in the Program, they were transferred to a "closer" that
17 purportedly verified the consumer's interest, understanding of the Program, credit card information
18 and contact information. Employees reported that these "verification" conversations were
19 recorded and stored indefinitely. The basement also housed the shipping department.

20 The upper (ground) floor of the Office housed Thompson and more senior employees.
21 Here, credit "specialists" – mostly reading from prepared scripts - contacted consumers that had
22 paid for the Program and up-sold them on other debt saving programs, handled "problem" clients
23 that wanted refunds, and contacted banks and credit card issuers on behalf of clients.

24 It was further determined that the Office served as a clearing house for similar call centers
25 across the country and in Pakistan. Employees and records identified approximately thirteen
26 additional call centers that were or had been under contract with the Receivership Entities to
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1 process orders for the Program. Employees stated that there are call centers located in Florida,
2 Texas and Pakistan.

3 B. Financial and Business Records.

4 At the Office, the Receiver located electronic accounting records spanning the past nine
5 years. The Receiver has reviewed these records, but has not validated their accuracy. The Office
6 also contained other business and financial records including, but not limited to, tax returns,
7 receipts, invoices, contractor agreements, employment agreements, bank statements and related
8 banking documents. These records were in a state of disarray so it was difficult to assess their
9 completeness.

10 C. The Program.

11 Based on employee interviews and company records (including scripts read by the
12 telemarketers), it is clear to the Receiver that the Receivership Entities made promises to
13 consumers that would be difficult if not impossible to keep, and there are several aspects of the
14 Program and how it was being sold that raise red flags.

15 Interviews with employees and documents found in the Office confirm that consumers
16 were required to pay for the Program on their credit card before receiving any goods or services.
17 The fee was substantial, usually around \$700. Consumers were "guaranteed" savings of "\$2,500
18 or more", and told that they would pay off their debt 3 to 5 times faster without increasing their
19 monthly payments. If asked why the fee was required up front, employees responded that since
20 the consumer was guaranteed a saving of at least \$2,500, the "processing fee [will] be completely
21 absorbed in the savings so it's not something you have to worry about." See "Sales Script",
22 attached as Exhibit "A". They were further coached not to answer any questions directly, but
23 rather to "Always answer a question with a question!" See "Always Answer a Question with a
24 Question!!!", attached as Exhibit "B".

25 The Package that was mailed to paying clients is described in Exhibit "C" hereto.
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1 There was also evidence that consumers that sought a refund based on the guarantee were
2 rebuffed. The Office contained numerous records of consumers charge backs based on "no service
3 provided" and other complaints.

4 D. Prior Legal Actions.

5 The Office contained evidence of ongoing problems with various state governments,
6 including, complaints, investigations, and cease and desist orders, in, among jurisdictions, New
7 York, Pennsylvania, South Carolina, North Carolina and Idaho.

8 **III. ASSETS IDENTIFIED.**

9 This section describes the assets of the Receivership Entities identified to date.

10 A. Cash/Bank Accounts.

11 Approximately 20 cash and investment accounts have been identified for Receivership
12 Entities and Defendant Thompson. Accounts for Receivership Entities contained approximately
13 \$385,000.

14 B. Real Property.

15 1215 Earnest S. Brazill Street, Tacoma, Washington 98405 owned by Paul Thompson
16 3504 96th Ave E, Edgewood, WA 98371 - Thompson Religious Society
17 3011 80th Ave Ct S, Lakewood, WA 98499 – Paul Thompson & Jessica Seewald
18 1808 S 356th St, Federal Way, WA 98003 – Paul Thompson

19 C. Personal Property.

20 Personal property found consists primarily of computers, office furniture and phone
21 systems, with a combined net value of perhaps \$10,000.

22 D. Other Contingent and/or Unliquidated Assets.

23 The Receiver has identified credit card reserves of approximately \$450,000. Additional
24 merchant processors have been identified and the Receiver is diligently working to ascertain what
25 reserves may be held by these companies.

1 **IV. SUMMARY OF PRELIMINARY FORENSIC ACCOUNTING ANALYSIS.**

2 The Receiver and his accountants have reviewed the accounting data that was maintained
3 for the Receivership Entities. While the data appears to be fairly complete, the Receiver has not
4 had sufficient time to validate the accuracy of the numbers contained within.

5 The Balance Sheet is attached as Exhibit "D" to this report. The Receiver has discovered
6 that the Receivership Entities have more cash than as reported on the Balance Sheet. The Balance
7 Sheet does not account for the significant cash reserves that are being maintained by the various
8 merchant processors.

9 The Receiver has not attempted to verify the fair market value of the Accounts Receivable
10 or Fixed Assets as reported on the Balance Sheet. Furthermore, an accurate presentation of total
11 payables and other liabilities will only be available once the Receiver has completed the claims
12 process.

13 The Income Statement is attached as Exhibit "E" to this report. The following table
14 indicates some of the Income Statement highlights for the past five years.

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	2005	2006	2007	2008	Jan 1 - Jun 29, 09
16 Total Income	1,106,736	1,424,004	7,960,441	11,657,874	3,876,580
17 Wages	340,884	554,894	638,468	1,327,489	604,227
18 Subcontractors	157,731	272,478	5,893,374	8,168,218	2,306,907
19 Total Expense	869,649	1,463,021	7,955,273	11,641,107	3,960,615
20 Net Income	223,244	(59,509)	(9,661)	(34,416)	(94,489)

21 As indicated by the above table, the Receivership Entities have not been profitable the past
22 four years. The profitability of the Receivership Entities has been largely affected by the sizable
23 payments to subcontractors, approximating 70% of total income the past three years. These are
24 payments made to the other call centers that worked with the Receivership Entities.
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1 **V. CONCLUSIONS.**

2 This Initial Report reflects the Receiver's work and conclusions as of this date. As
3 indicated above, the findings reflected in this report are preliminary and subject to clarification,
4 expansion or change pending additional work by the Receiver and his team. The Receiver's
5 current significant findings and recommendations are as follows:

- 6 The Receivership Entities do not appear to be viable economic entities if run
7 legally.
- 8 Significant evidence exists of improper or illegal trade practices.
- 9 Significant evidence exists that a pool of funds for the purpose of redress to harmed
10 consumers is warranted if at all possible.
- 11 The Receiver recommends a permanent Receiver be appointed to continue the
12 marshalling of assets.
- 13 The Receiver should preserve the assets pending the outcome of the underlying
14 actions and then, if warranted, take further actions based on that outcome such as
15 review of third party claims and collection actions on any judgments that may be
16 rendered.
- 17 The Receiver recommends that the receivership become permanent and that the
18 Receiver be allowed to take discovery, move forward with his investigation and
19 analysis of the Receivership Entities, and report its findings to the Court.

20 Date: July 8, 2009 Respectfully submitted,

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By: /S/ Michael Grassmueck
Receiver Michael Grassmueck