

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF FLORIDA

CASE NO.: 17-CV-61937-WPD

FEDERAL TRADE COMMISSION,

Plaintiff,

v.

STUDENT DEBT DOCTOR LLC, a Florida
limited liability company,

and

GARY BRENT WHITE, JR., individually and
as an officer of Defendant Student Debt Doctor LLC,

Defendants.

SECOND REPORT OF RECEIVER ROBERT CAREY

Pursuant to Section XII of the Stipulated Preliminary Injunction [DE 24] (the “PI”), Robert Carey, not individually, but solely in his capacity as the Court-appointed receiver (the “Receiver”) for Student Debt Doctor LLC (“SDD”),¹ submits the following Second Report.²

¹ In Section II.B of the PI, SDD is defined as the “Corporate Defendant” and also includes SDD’s “divisions, subsidiaries, affiliates, successors, assigns, and any fictitious business entities or business names created or used by these entities, or any of them.” I am currently investigating what other SDD-related entities are appropriately covered under this specific definition. Similarly, in Section II.J of the PI, “Receivership Entity(ies)” not only is defined to include SDD but also “any other entity that [I] determine[] is controlled or owned by any Defendant and (1) conducted any business related to Defendants’ marketing of debt relief services, (2) commingled or pooled assets with any Defendant, or (3) otherwise participated in the transfer or receipt of assets stemming from any business activity that is the subject of the Complaint in this matter.” I am also currently investigating what other SDD-related entities are appropriately covered as “Receivership Entities.” Once I make that determination, which should be in the near future, I will submit the appropriate filing to this Court.

² Section XII of the PI requires me to file a “preliminary report” on or before October 16, 2017,

I. Reporting Requirements

Section XII of the PI requires me to submit this Report (and future Reports) regarding the following topics: “(1) the steps taken by [me] to implement the terms of the TRO and [PI]; (2) the value of all liquidated and unliquidated assets of the Receivership Entities; (3) the sum of all the liabilities of the Receivership Entities; (4) the steps [I] intend[] to take in the future to: (a) prevent any diminution in the value of assets of the Receivership Entities, (b) pursue receivership assets from third parties, and (c) adjust the liabilities of the Receivership Entities, if appropriate; (5) whether the business of the Receivership Entities can be operated lawfully and profitably; and (6) any other matters which [I] believe[] should be brought to the Court’s attention.”

II. The Steps Taken to Implement the Terms of the TRO and PI

A. Summary of Receivership Accomplishments

As more fully discussed in my First Report, as well as below, my professionals and I have accomplished much for the benefit of the Receivership Estate and consumers since my appointment in early October 2017. Such accomplishments, which are individually and collectively steps taken to accomplish the terms of the TRO/PI, include the following:

- i. Assisting in freezing SDD’s, its related entities’, and Mr. White’s accounts for a total amount of \$2,053,875.24 frozen;
- ii. Establishing a receivership bank account to deposit and safeguard receivership funds;
- iii. Serving the TRO/PI on many banks, credit card companies, and merchant companies that potentially had accounts subject to the TRO and asset freeze. I demanded that the banks, credit card companies, and merchant companies freeze any and all accounts in the name of any of the following: Mr. White; SDD; related entity Student Debt Direct LLC; related entity Fidelity Credit Repair LLC; related entity Fidelity Reserve

and then subsequent Reports every 90 days thereafter. I filed my First Report [DE 25-1] on October 16, 2017. Therefore, this Second Report is due 90 days later – *i.e.*, January 16, 2018 (given the weekend and federal holiday on January 15, 2018).

Loans LLC; related entity Fidelity Debt Reserve LLC; related entity G White Enterprises LLC; related entity Fidelity Law Center LLC; related entity Fidelity Asset Holdings Limited Partnership; and any companies owned, controlled, or held by Mr. White;

- iv. Securing (with the assistance of local law enforcement) three premises located at 3221 NW 10th Terrace, Suite 507 & 508, Oakland Park, FL 33309 and 3115 NW 10th Terrace, Suite 114, Oakland Park, FL 33309, where SDD and its related entities operated, and the books and records within;
- v. Securing and imaging massive amounts of computerized files, electronically stored information (“ESI”), servers and databases, thereby preserving all electronic data at the premises for the duration of this litigation; more specifically, securing all onsite and offsite data and video, including a sophisticated database, also known as a Customer Relationship Manager Structured Query Language (“SQL”) database (collectively, “CRM”). Among other things, the CRM: (1) logged and tracked client transactions, including payment information and the status of consumers’ contracts; (2) maintained telephone call notes; and (3) contained multiple development servers for a new CRM.
- vi. Securing and preserving all recorded consumer calls³ and CRM with a global cloud hosting company called Vultr Holdings Corporation (“Vultr”), which my professionals contacted, served the TRO on and subpoenaed to preserve, obtain images from and obtain immediate access to. As a result, I preserved all of this call data, as well as the various databases and 10 servers, including SDD’s and its related entities’ CRM, internal websites, and at least 44 domain names;
- vii. Analyzing these databases/servers, including listening to certain recorded telephone conversations with consumers and identifying approximately 30,000 potential consumer victims since early 2014 and approximately 8,000 currently⁴;
- viii. Running preliminary queries on the SDD CRM for consumer payments (*i.e.*, revenue) into the company, which total approximately \$13.4 million⁵;

³ There are 1,710,077 call files in MP3 format of 614 gigabytes.

⁴ According to SDD’s CRM, there were 29,835 customers. Fidelity Debt Reserve LLC and Fidelity Credit Repair LLC had separate CRM’s from SDD’s CRM. According to Fidelity Credit Repair LLC’s CRM, there were 562 customers.

⁵ I am in the process of running other queries on the CRM, including, but not limited to, chargebacks or “cancelled” transactions.

- ix. Preserving electronic mail (more than 1 million emails), rerouting at least 182 different telephone lines, maintaining the telephonic communication system, and providing voicemail messages within this box for all future, incoming calls which inform callers that: (1) SDD and the other entities operating out of the premises are shut down and subject to the TRO/PI; and (2) interested persons should review the receivership website <http://studentdebtdoctorreceiver.com>⁶;
- x. Ceasing all business operations and advising the employees that they need not report to work;
- xi. Serving subpoenas on all known financial institutions, including bank, brokerage, credit card and merchant accounts, with accounts in the names of SDD, its related entities, and Mr. White;
- xii. Analyzing the productions consisting of thousands of pages of documents from the subpoenas and responses to the TRO/PI, including tracking funds and assets to which the Receivership Estate would have an entitlement;
- xiii. Performing a forensic analysis of the relevant bank, brokerage, credit card, and merchant accounts to track any moneys to which the Receivership Estate would have an entitlement. From this analysis, I will be initiating lawsuits;
- xiv. Investigating the FTC's deceptive telemarketing allegations and preliminarily concluding that such allegations are true;
- xv. Inspecting the sales scripts and books and records on the premises, and listening to certain recorded phone conversations between telemarketers and consumers (including certain ones stored on Mr. White's business computer). For example, scripts instructed telemarketers to "push" an inaccurate definition of family size and one example read: "Family Size-(Push if needed) Your family size isn't your dependents on your taxes. It's anyone that you partially financially help. Niece, Nephew, cousin, sick mother or father. Anyone that takes away from your ability to make a monthly payment." Similarly, I personally listened to recorded phone conversations in which telemarketers pushed this inaccurate definition of family size, including grown children and grandchildren⁷;

⁶ The receivership website and voicemail messages include content in both English and Spanish (many customers only speak Spanish and/or are located in Puerto Rico).

⁷ Other scripts had, among other things, the same or similar inaccurate definition of family size, contained deceptive pre-qualifying language, removed language that informed the consumer of his/her rights, and represented that SDD was only paid after obtaining results. Similarly, there

- xvi. Filing and recording a Lis Pendens [DE 26] on Mr. White's townhome-condominium that is mortgage-free and was purchased with approximately \$737,000 in funds derived from SDD and/or its related entities;
- xvii. Securing possession of a Rolex Datejust watch that Mr. White had recently purchased but had been taken post-TRO by Mr. White's ex-girlfriend. I have moved to liquidate the Rolex for the benefit of the Receivership Estate, which the Court granted [DE 44, 46];
- xviii. Moving, which the Court granted, to pay SDD's employees' October 2017 insurance premiums [DE 28, 29], given compelling circumstances that had occurred that month and as explained in further detail in that motion;
- xix. Analyzing several leases, including the lease involving the office premises and a Porsche lease in the name of related entity G White Enterprises LLC, and evaluating their effects on the Receivership Estate;
- xx. Appraising the office personalty and moving to liquidate same, which the Court granted [DE 44, 46]; the auction occurred on January 13, 2018, and the office personalty and Rolex sold for a net total of \$18,314.50, after which the premises will be promptly vacated on or before the end of January 2018;
- xxi. Reviewing, organizing, and packing hard copy documents secured at the premises, and creating a detailed inventory with corresponding office schematics to preserve and identify which employee was associated with each computer and associated hard copy documents⁸;
- xxii. Communicating by email and telephone calls with countless consumers⁹ regarding the status of the proceeding, including creating a receivership website www.studentdebtdoctorreceiver.com for important updates to them and the public, including select court filings. The receivership site also contains an email address, admin@studentdebtdoctorreceiver.com, so that the public may contact me via email;

were materials on the premises stressing the importance of fear-based sales to pressure consumers and ultimately capitalize on their fears.

⁸ Items that have been preserved include 33 file boxes, seven computer servers, multiple hard drives, multiple thumb drives, and 145 computers corresponding to office schematics.

⁹ This is not surprising because there were more than 30,000 consumers.

- xxiii. Providing notice of the TRO at the receivership's commencement to, and interviews of, Mr. White and the employees regarding: (1) all books and records of SDD; (2) all books and records of its related entities; (3) all accounts and assets, including information on same, of SDD; (4) all accounts and assets, including information on same, of the related entities; (5) all accounts and assets, including information on same, of Mr. White; and (6) customer files and accounts;
- xxiv. Meeting with employees to return personal property not covered by the receivership;
- xxv. Changing the locks on the premises' doors, temporarily hiring security to patrol the premises during both business and non-business hours, ensuring the security video-camera system on the premises was actively working and under my control, and ensuring that the premises' security alarm account and passwords were changed into my name and under my control;
- xxvi. Obtaining dozens of company passwords and user ID data from three main sources and changing same;
- xxvii. Modifying 16 different social media outlets to include information about the receivership and its website;
- xxviii. Inspecting Mr. White's residence in Pompano Beach (with his consent and his counsel's consent) for company and personal assets, and for any receivership books and records; and
- xxix. Investigating potential targets for purposes of ancillary receivership litigation for the benefit of the Receivership Estate and consumers.

B. Identification of Assets and Accounts

1. Bank of America

As stated in my prior filings, Bank of America froze: (1) \$493,636.00 in the name of SDD; (2) \$80,761.58 in the name of related entity Fidelity Debt Reserve LLC¹⁰; (3) \$3,838.49 in the

¹⁰ I am currently investigating whether Fidelity Debt Reserve LLC is appropriately covered as a "Receivership Entity" under Section II.J of the PI. Once I make that determination, I will submit the appropriate filing to this Court. Until then, the subject funds will remain frozen pursuant to the TRO/PI. I understand that Mr. White owned and controlled Fidelity Debt Reserve LLC, which provided debt settlement and debt validation services, and also operated out of the SDD premises.

name of related entity Fidelity Credit Repair LLC¹¹; (4) \$2,363.10 in the name of related entity Fidelity Reserve Loans LLC¹²; and (5) \$354,808.40 in the name of Mr. White. At least one relevant account at Bank of America pre-receivership in the name of “G. White Enterprises LLC DBA SDD” had no funds.¹³

2. Banco Popular de Puerto Rico

Banco Popular de Puerto Rico froze \$24,621.67 in the name of SDD.

Because SDD is clearly a Receivership Entity, I requested that Bank of America and Banco Popular de Puerto Rico transfer the funds held in the SDD accounts at the respective banks to the receivership bank account. I have received the funds in the amount of \$493,636.00 from Bank of America and the funds in the amount of \$24,621.67 from Banco Popular de Puerto Rico.

I also received a double transfer of approximately \$167,000 from Banco Popular de Puerto Rico (an initial amount of \$168,000 was swept from Banco Popular de Puerto Rico to SDD’s Bank of America account shortly before the receivership commenced, which led to the frozen

¹¹ I am currently investigating whether Fidelity Credit Repair LLC is appropriately covered as a “Receivership Entity” under Section II.J of the PI. Once I make that determination, I will submit the appropriate filing to this Court. Until then, the subject funds will remain frozen pursuant to the TRO/PI. I understand that Mr. White owned and controlled Fidelity Credit Repair LLC, which provided credit repair services and also operated out of the SDD premises.

¹² I am currently investigating whether Fidelity Reserve Loans LLC is appropriately covered as a “Receivership Entity” under Section II.J of the PI. Once I make that determination, I will submit the appropriate filing to this Court. Until then, the subject funds will remain frozen pursuant to the TRO/PI. I understand that Mr. White owned and controlled Fidelity Reserve Loans LLC, was also known as Fidelity Lends, and was a lead company for lenders. This company was close to becoming fully operational and was going to operate out of the SDD premises.

¹³ I am also currently investigating whether this entity is appropriately covered as a “Receivership Entity” under Section II.J of the PI. Once I make that determination, I will submit the appropriate filing to this Court. I understand that this entity was owned and controlled by Mr. White, paid various expenses associated with SDD, paid Mr. White’s compensation/distributions associated with SDD, and essentially acted as a d/b/a for SDD and/or as an entity for Mr. White’s convenience.

\$493,636.00 at Bank of America). I will be returning the double transfer of approximately \$167,000¹⁴ back to Banco Popular de Puerto Rico upon receipt of certain requested instructions from its counsel.

3. Receivership Bank Account

There is currently \$645,677.97 in the receivership bank account, but this amount will obviously decrease after returning the double transfer amount of approximately \$167,000 to Banco Popular de Puerto Rico, after payment of the pending unopposed First Fee Application [DE 38], and after payment of upcoming administrative expenses.

4. Merrill Lynch

Merrill Lynch, which I promptly served with the TRO upon my initial meeting with Mr. White, froze \$1,041,761.00 in the name of Fidelity Asset Holdings Limited Partnership.¹⁵

5. TD Ameritrade

Shortly after filing my First Report, I learned that TD Ameritrade had \$50,000.00 in an account in Mr. White's name, which has been frozen.

¹⁴ There were some chargebacks applied post-TRO to the double transfer, which is the reason why the double transfer was not exactly \$168,000 but slightly less.

¹⁵ I am currently investigating whether Fidelity Asset Holdings Limited Partnership is appropriately covered as a "Receivership Entity" under Section II.J of the PI. Once I make that determination, I will submit the appropriate filing to this Court. Until then, the subject funds will remain frozen pursuant to the TRO/PI. I understand that Mr. White owned and controlled that entity, the entity was a limited partnership that Mr. White created for asset-planning purposes, and the entity was funded through consumer revenues derived from SDD and/or its related above entities. Therefore, Fidelity Asset Holdings Limited Partnership participated in the receipt of assets stemming from the business activities that are the subject of the FTC's Complaint.

6. PayPal

Shortly after filing my First Report, I learned that PayPal had \$2,085.00 in an account in Mr. White's name, which has been frozen.¹⁶

7. Rolex Watch

During my interview of Mr. White (with his counsel present), I discovered that Mr. White owned, and was wearing at that time, a Rolex Datejust II watch. Mr. White purchased the Rolex watch for over \$6,000 in late August 2017. The Rolex was later taken post-TRO by Mr. White's ex-girlfriend, but I retook possession without any motion practice after establishing to Mr. White's ex-girlfriend's counsel that the Rolex was a receivership asset purchased with funds derived from SDD and/or its related entities. I recently moved to liquidate the Rolex for the benefit of the Receivership Estate, which the Court granted [DE 44, 46]. As further discussed below, I recently liquidated the Rolex as part of the auction for the benefit of the Receivership Estate.

8. Pompano Beach Townhome/Condominium

During my interview of Mr. White, I also discovered that Mr. White owned a townhome/condominium in Pompano Beach located at 140 SE 4th Terrace, Pompano Beach, FL 33060. Mr. White purchased the property in 2016 in the amount of \$737,651.00 with funds apparently derived from SDD and/or its related entities and which subsequently had two prior mortgages fully satisfied by Mr. White with funds apparently derived from SDD and/or its related entities.

Because this real property is free and clear of mortgages, and was purchased with funds derived from SDD and/or its related entities, I promptly filed and recorded a Notice of Lis Pendens [DE 26] to ensure the property is not sold, mortgaged or otherwise transferred or encumbered post-

¹⁶ In addition, a PayPal account with an associated SDD username in the name of Mr. White's sister, Christy Tripp, has been frozen in the amount of \$782.53.

receivership and pending further Order of this Court. Upon further questioning, Mr. White did not identify any additional company or personal assets or accounts.

C. Securing the Premises, Including Books and Records

I have continued to secure the relevant premises located at 3221 NW 10th Terrace, Suite 507 & 508, Oakland Park, FL 33309 and 3115 NW 10th Terrace, Suite 114, Oakland Park, FL 33309, and the books and records therein (both hard copy and voluminous ESI). My many efforts regarding securing and preserving everything within the premises are summarized in Section II.A, *supra*, and discussed in great detail in my First Report; thus, any further discussion in this Second Report would be duplicative.

III. The Value of All Liquidated and Unliquidated Assets of the Receivership Entities

A. Accounts

As stated and listed above, I learned that SDD, its related entities and Mr. White had several accounts listed above at several financial institutions.

In addition, I, through my counsel, have subpoenaed several financial institutions and credit card companies, including Bank of America, Banco Popular de Puerto Rico, American Express and Merrill Lynch, for all account records, such as account statements, deposits, withdrawals, wires and account opening documents. I have also subpoenaed pre-receivership law firms and accounting firms which may have relevant receivership information, including Greenspoon Marder, P.A., Blaxberg, Grayson, Kukoff & Forteza, P.A., Rosenberg, Cummings & Edwards PLLC, Snyder & Snyder, P.A., Villela & Shilts, LLC and Kaufman Rossin, P.A., for their files, billing records, any remaining retainer amounts, asset information (including onshore and potential offshore¹⁷ accounts), and other related receivership documents. I have received and will continue

¹⁷ There were several references to, among others, Belize and the Cook Islands in Mr. White's office at the premises. I am obviously investigating this issue.

to receive the subpoenaed records. The subpoena productions, which have begun and will be forthcoming, will help assist me in, among other things, tracing of funds and analyzing potential third-party claims to file, namely “clawback” or fraudulent transfer claims, for recovery-based ancillary receivership litigation.

B. Office Furniture, Fixtures, and Equipment

I have secured the office furniture, fixtures, equipment, and personalty in the various premises. I have determined that the office personalty is subject to the Receivership Estate. I have moved to liquidate the office personalty through an auction, which the Court granted [DE 44, 46]. Specifically, the assets for liquidation include, among other things: (1) office furniture (*i.e.*, desks, tables, chairs, wall hangings, cabinets); (2) numerous cubicles; (3) computer related items (*i.e.*, monitors, keyboards, printers, speakers, and other peripheral devices; (4) office supplies; (5) electrical equipment; (6) various tools; and (7) a Rolex Datejust II watch.¹⁸ I did not liquidate any of SDD’s previously used computers, servers, or hard drives in the proposed auction if they contain electronic data. Also, I did not liquidate any of SDD’s proprietary, intellectual property assets or domain names at this time.

Specifically, the Court ordered the following: (1) the auction contract is approved; (2) additional appraisals are not necessary under 28 U.S.C. §§ 2001 and 2004 in light of the auction company’s marketing the assets and the ability for bidders to make offers at a public auction; (3) I am relieved from the statutory requirements under 28 U.S.C. §§ 2001 and 2004; (4) the auction shall commence and take place on a date and at a time as set forth in the auction contract or as when otherwise determined by me; (5) the location of the auction shall be 3221 NW 10th Terrace, Suites

¹⁸ Notably, Mr. White cooperated through his counsel in assisting me with obtaining possession of the Rolex watch, which was purchased at a wholesale price in August 2017. Mr. White’s counsel advised that Mr. White does not object to its sale for the benefit of the Receivership Estate.

507, 507W, and 508, Oakland Park, FL 33309 and 3115 NW 10th Terrace, Suite 114, Oakland Park, FL 33309; (6) I am authorized and approved to sell the assets and items set forth in the motion, including those listed and described in exhibits as well as the Rolex watch, at auction using my sole discretion and free and clear of liens, encumbrances, interests or other claims; (7) I am authorized, as I may reasonably determine to be in the best interests of the Receivership Estate, to adopt rules for bidding at the auction that will better promote the goals of the bidding process and that are not otherwise inconsistent with any order of the Court, as determined by me; (8) I am authorized to sell, convey, transfer, and assign the auctioned assets to the successful bidder(s) at the auction as a final sale, “as is,” “where is,” and free and clear of liens, encumbrances, interests or other claims; (9) I am authorized and empowered to take such steps, incur and pay such costs and expenses from the Receivership Estate, and do such things as may be reasonably necessary to implement and effect the terms and requirements of this Order; (10) after the five (5) day time period to remove purchased auction items, I am authorized, if I elect to do so to: (i) wholly vacate the premises; (ii) disconnect and cancel all utilities, telephone, Internet, cable, and security systems; (iii) hire any company necessary to clean and/or repair the premises to leave it in a reasonable manner; and (iv) donate, or otherwise dispose of, any unsold auction items or Receivership Entities’ assets, if needed; (11) the Court finds that the auction and actions authorized reflect my sound business judgment and constitute a proper exercise of my fiduciary duties; and (12) a reasonable and proper opportunity to object or to be heard regarding the motion, the auction, and the sale as presented has been afforded.

I engaged an appraiser/auctioneer Martin Claire & CO, LLC to value and liquidate the personalty items. The auction occurred on January 13, 2018, and generated a net total of \$18,314.50 (office personalty and Rolex). As a result, I intend to vacate the premises expeditiously on or before the end of January 2018. I also intend to attempt to obtain the premises’ landlord’s

agreement that the Receivership Estate is not liable for any future rent. Vacating the premises should eliminate a significant expense to the Receivership Estate.

C. Personal Items

I am continuing to investigate what personal assets may be subject to the receivership. At a minimum, and as stated above, I have confirmed that Mr. White purchased the above-discussed Rolex Datejust watch for over \$6,000 in late August 2017. As also stated above, Mr. White owns his townhome/condo in Pompano Beach free and clear, having purchased it for \$737,651.00 in 2016 and having previously paid off two mortgages on the property.

D. Security Deposits

I have served the TRO/PI on the landlord who leased offices at the relevant premises located at 3221 NW 10th Terrace, Suite 507 & 508, Oakland Park, FL 33309 and 3115 NW 10th Terrace, Suite 114, Oakland Park, FL 33309. There is a security deposit, which is subject to the Receivership Estate. I am currently negotiating with the landlord regarding the return of the security deposit.

E. Defendants' Accounting of Assets

Sections VII.A-C, XII.D, XIII.A-D, and XVI.A-B of the TRO and Sections VII.A-C, XVI.D, XX.A-D, and XXIII.A-B of the PI require Defendants to provide, among other things, various disclosures, primarily financial in nature, to me and the FTC. Defendants have provided certain initial financial disclosures to the FTC and me, which are expected to be supplemented in the near future. In addition, I will be serving a formal demand on Mr. White regarding various items of information and documents that are expressly owed under the TRO/PI, and/or required to be produced to me because the information/documents are related to the receivership.

Finally, Mr. White's deposition, at which time, among many other topics, his financials will be further explored, will likely be scheduled for March 2018.

IV. The Sum of All the Liabilities of the Receivership Entities

A. The Office Lease

On March 6, 2014, SDD began leasing offices located at 3115 NW 10th Terrace, Suite 114, Oakland Park, FL 33309 (“Suite 114”) from Oakland Commerce Center, LLC (the “Office Lease”). On August 10, 2015, the Office Lease was amended (the “First Amendment”), and SDD returned Suite 114 to the landlord and began leasing 3221 NW 10th Terrace, Suite 507 & 508, Oakland Park, FL 33309 (“Suites 507-508”). The term of the First Amendment was four years commencing on October 1, 2015 and expiring on September 30, 2019. On October 14, 2016, the Office Lease was amended a second time (the “Second Amendment”), and SDD added Suite 114 to the lease. The monthly rent for Suites 507-508 and Suite 114 was \$6,491.93 through November 30, 2017, and increased to \$6,752.70 on December 1, 2018 through November 30, 2019, when the Office Lease terminates. On September 28, 2017, SDD assigned its lease in Suite 114 to related entity Fidelity Reserve Loans LLC. Notably, Mr. White signed the assignment for both entities.

As stated above, I intend to vacate the premises expeditiously on or before the end of January 2018, which the Court has approved [DE 44, 46]. Vacating the premises should eliminate a significant expense/liability to the Receivership Estate.

B. The Porsche Lease

In addition to the Office Lease, there is a lease for a 2016 Porsche Panamera GTS that was driven by Mr. White, but leased in the names of G White Enterprises LLC (one of the related entities I am currently investigating as a potential Receivership Entity) and also Mr. White’s mother. I have continued to investigate and evaluate the best manner to have this lease cancelled, abandoned or transferred, or the Porsche vehicle sold, without liability to the Receivership Estate. I have met with a potential new lessee who is interested in taking over the lease. The lease has more than one year in remaining payments and has a monthly lease payment of \$1,890.56.

C. Receivership Administrative Expenses

As of the receivership's commencement, and putting aside professional fees and expenses, the receivership has incurred administrative expenses, including, but not limited to, monthly rent for the premises, moving expenses and storage at a secure location for hard copy files and computer equipment that must continue to be preserved, storage for the voluminous ESI that must continue to be preserved, Orna Security Services, bond premium, locksmith, appraisal reports and administrative personnel.

D. Forensic Reconstruction

As stated above, and in order to assist me in marshaling the Receivership Entities' assets for the benefit of the Receivership Estate, I retained the forensic accounting firm of KapilaMukamal ("KM"). KM identified and assisted in obtaining, requesting, and reconstructing financial records such as bank records, credit card statements, payroll records, merchant account records, and bookkeeping, tax and other professional services records.

The bank and credit card reconstruction process is substantially complete. The reconstructions will aid in not only quantifying the amount of consumer funds/revenues and ultimate disposition, but it will also be an integral tool for me to identify potential assets and targets of ancillary receivership demands and lawsuits for the benefit of the Receivership Estate.

1. Bank Reconstruction

KM analyzed and prepared a detailed bank reconstruction, which includes (1) 17 different bank accounts; (2) approximately 10,000 transactions; and (3) many account holders, including SDD, Mr. White, Fidelity Credit Repair LLC, Fidelity Debt Reserve LLC, Fidelity Reserve Loans LLC, Fidelity Asset Holdings Limited Partnership, G White Enterprises LLC, and Student Debt Direct LLC. KM also analyzed and reconciled transfers between SDD, its related entities, and Mr. White. KM discovered additional potential bank accounts and credit card accounts based on the

analyses performed. KM has documented a detailed record of available and pending bank and credit card records. KM also analyzed QuickBooks records and other accounting records and emails obtained from the former accountants.

2. Credit Cards

KM analyzed American Express credit card statements for three business accounts and for Mr. White's personal account.¹⁹ The American Express credit card statements collectively included over 6,000 transactions. The payments made by SDD and its related entities to the American Express credit cards were compared to the credit card records to determine which cards were being paid. KM completed, analyzed, and summarized a reconstruction of the five Bank of America credit card accounts, which included over 1,600 transactions.²⁰

3. Payroll Records

SDD utilized ADP payroll service to process payroll. I took custody of available ADP payroll records that were accessible on the ADP website. These available records spanned the pay periods ending February 9, 2017 through September 29, 2017. KM extracted payroll summary and detail reports for this period. Records prior to the February 9, 2017 pay period will be subpoenaed from ADP. The lists from ADP contain 86 active employees and 5 contractors.

4. Merchant Accounts

SDD and some of its related entities utilized merchant accounts to process payments from consumers. I have identified merchant accounts with American Express, Myclientline.net, Authorize.net, Evertec, PayPal, Banco Popular de Puerto Rico, Bank of America Merchant

¹⁹ These credit cards were in the names of SDD, Fidelity Debt Reserve LLC, Fidelity Law Center LLC, and Mr. White.

²⁰ These credit cards were in the names of SDD, G White Enterprises LLC, and Fidelity Reserve Loans LLC.

Services, First Data, Reliant Account Management, and ensured each was served with the TRO/PI so any funds or reserves remaining in the merchant accounts would be frozen.²¹ For accounts with known client login information, all available activity details were obtained from the merchant websites. Subpoenas have been issued for additional records. KM analyzed available merchant account records which detail consumer deposits, and merchant account data was compared to bank records and utilized in the reconstruction of cash activity.

V. The Steps I Intend to Take in the Future to: (a) Prevent Any Diminution in the Value of Assets of the Receivership Entities, (b) Pursue Receivership Assets from Third Parties, and (c) Adjust the Liabilities of the Receivership Entities, If Appropriate

A. Prevent Any Diminution in the Value of Assets of the Receivership Entities

I intend to attempt to promptly cancel all lease agreements without penalty to the Receivership Estate. As stated above, I have confirmed that the office furniture, furnishings and equipment are subject to the Receivership Estate, and have moved to liquidate such using Martin Claire & CO, LLC, which the Court granted [DE 44, 46]. I will be vacating the various premises, which should eliminate a continuing, significant leasehold liability and thus eliminate a diminution in value of assets of the Receivership Estate.

B. Pursue Receivership Assets from Third Parties

I will continue to investigate the number of affected consumers and the amount of their individual claims. This investigation includes the total number of consumers, the total amount of their loss, and potential litigation targets. The databases/servers preserved and imaged by Vultr, as well as my accountants' reconstruction of the relevant bank accounts, will be highly relevant for purposes this specific investigation.

²¹ Mr. White and others have informed me that there were never reserves held at the merchant companies. Naturally, I will be confirming same.

The amount of data from the bank records and CRM from the various databases/severs is very substantial and will take some time to analyze and digest. I will continue to be very mindful of the issue of expenses and the necessity for efficiency and limiting expenses as much as possible in every aspect of this proceeding, including investigating and filing ancillary lawsuits for additional recoveries to benefit the Receivership Estate. I intend to make every decision with a cost-benefit analysis of the specific spending versus the specific potential recovery, on a case-by-case basis.

I will continue to identify targets, including claims against various persons and business entities that improperly received funds derived from SDD and/or its related entities or otherwise did something improper to the detriment of SDD and/or its related entities.²² I will be serving pre-suit demand letters on identified targets, which may result in ancillary lawsuits. For the time being, I will not be identifying those targets for purposes of attorney-client privilege and work product.

C. Adjust the Liabilities of the Receivership Entities, If Appropriate

I have made significant progress reconstructing the financial and/or operational structure of SDD and its related entities, including the total amount of liabilities owed by them and making any necessary adjustments to their liabilities. I will continue to report on this issue in future Reports.

VI. Whether the Business of the Receivership Entities Can Be Operated Lawfully and Profitably

Based on my investigation to date, which is still ongoing, it is still my conclusion that Mr. White used SDD and related entities he owned and/or controlled to operate deceptive student debt relief and other deceptive debt relief businesses to the detriment of consumers and to enrich himself

²² Pursuant to 28 U.S.C. § 754, I have filed the TRO/PI in various jurisdictions where receivership assets are located, or may be located, to ensure federal receivership jurisdiction over same.

personally and others. However, a more extensive investigation is necessary so that I can expound on this seminal issue in my future Reports.

Given the entry of the PI, including, but not limited to, Section I.B, Defendants have expressly stipulated that “[t]here is good cause to believe that Defendants have engaged in and are likely to engage in acts or practices that violate Section 5(a) of the FTC Act, 15 U.S.C. § 45(a) and the FTC’s Trade Regulation Rule entitled the ‘Telemarketing Sales Rule’ (“TSR”), 16 C.F.R. Part 310, and therefore Plaintiff is likely to succeed on the merits of this action.” As a result, Defendants have preliminarily conceded that the subject business could not be operated lawfully and profitably in compliance with the TRO or PI.

Notwithstanding the above stipulated admission by Defendants, I have inspected the books and records on the premises, have reviewed sales scripts on the premises and have listened to certain recorded phone conversations between telemarketers and consumers (including certain ones stored on Mr. White’s business computer), and preliminarily conclude that SDD’s and its related entities’ business operations were non-compliant with the law. For example, scripts instructed telemarketers to “push” an inaccurate definition of family size and one example read: “Family Size- (Push if needed) Your family size isn’t your dependents on your taxes. It’s anyone that you partially financially help. Niece, Nephew, cousin, sick mother or father. Anyone that takes away from your ability to make a monthly payment.”

Similarly, I personally listened to recorded phone conversations in which telemarketers pushed this inaccurate definition of family size, including grown children and grandchildren. I have also learned through interviewing employees and reviewing company communications that it was understood by certain employees that when the colloquial phrase “bump family size” was used, it indicated that the salesperson should falsely inflate the number of family members to effectively lower the consumers’ monthly loan payment.

Other scripts had, among other things, the same or similar inaccurate definition of family size, contained deceptive pre-qualifying language, removed language that informed the consumer of his/her rights, and represented that SDD was only paid after obtaining results. Similarly, there were materials on the premises stressing the importance of fear-based sales to pressure consumers and ultimately capitalize on their fears.

VII. Any Other Matters Which I Believe Should Be Brought to the Court's Attention

As stated above, I intend to file in the near future an appropriate filing on the issue of additional "Receivership Entity(ies)" that should be part of the Receivership Estate. Such filing, if granted, will further fund the Receivership Estate with additional funds and/or assets.

My overall investigation is still early – being less than four months old – and will be ongoing for many months. I will supplement this Second Report with my Third Report 90 days from now.



Robert Carey, not individually,
but solely in my capacity as Receiver

Dated: January 16, 2018