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13 Attorneys for Chapter 11 Trustee
 for Morgan Drexen, Inc.

14
 15 UNITED STATES DISTRICT COURT
 16 CENTRAL DISTRICT OF CALIFORNIA
 17 SOUTHERN DIVISION

18 Consumer Financial Protection Bureau,

19 Plaintiff,

20 vs.

21 Morgan Drexen, Inc. and Walter Ledda,
 individually, and as owner, officer, or
 manager of Morgan Drexen, Inc.,

22 Defendants.
 23

Case No. SACV 13-01267 JLS (JEMx)

**NOTICE OF CESSATION OF ALL
 OPERATIONS OF MORGAN
 DREXEN ALREADY IN PROCESS
 BY CHAPTER 11 TRUSTEE;
 REQUEST FOR EX PARTE
 HEARING**

1 **PLEASE TAKE NOTICE** that John C. Hueston, as Chapter 11 Trustee (the
2 “Trustee”) of bankruptcy debtor and defendant Morgan Drexen, Inc. (“Morgan
3 Drexen”), hereby advises the Court that, prior to receipt of this Court’s Order (Dkt.
4 No. 306) on June 19, 2015, the Trustee already had made the decision to commence
5 the immediate cessation and shutdown of the business operations of Morgan Drexen.
6 The Trustee provided notice of his decision to the Consumer Financial Protection
7 Bureau and the Office of the U.S. Trustee by email on June 18, 2015, attached hereto
8 as **Exhibit A**. Indeed the Trustee held a conference call with representatives from
9 the CFPB and Office of the U.S. Trustee on June 19, 2015 at 10:00 a.m., where the
10 plan for cessation of all operations was detailed to the agencies.

11 The reason for the Trustee’s decision and this Notice is that, since the hearing
12 before this Court on June 15, 2015, additional significant issues have come to light;
13 thus, the Trustee requests that this Court schedule an *ex parte* hearing in the near
14 future to discuss the Trustee’s request for further orders consistent with this Notice,
15 the Freeze Order by this Court entered on April 30, 2015 (Dkt. No. 289), and the
16 Permanent Injunction Order entered today (Dkt. No. 306).

17 The Trustee’s decision was based on additional investigation, analysis, fact-
18 finding and events that have occurred since the joint hearing before this Court and
19 the Bankruptcy Court on June 15, 2015. Factors that influenced the Trustee’s
20 decision included, but are not limited to, the following:

- 21 • Since the hearing on June 15, 2015, the business operations of Morgan Drexen
22 have been subjected to obstructionist tactics, interference and threats by the
23 attorneys with whom Morgan Drexen has contracts (the “Attorneys”). The
24 actions by the Attorneys demonstrate that any form of continuing business is
25 unmanageable and impractical, that any potential sale transaction would be
26 unduly expensive and/or infeasible to implement, and that the Attorneys do not
27 intend to cooperate with the Trustee unless it means selling the Morgan
28 Drexen business to them.

- 1 • Further, the Trustee believes that the actions of the Attorneys violate this
2 Court's Freeze Order entered on April 30, 2015 (Dkt. No. 289), specifically
3 the provisions prohibiting the selling, disbursing, or transferring of assets, and
4 the Permanent Injunction Order entered today (Dkt. No. 306), specifically the
5 provisions prohibiting the collection of fees from consumers and continued
6 representations regarding debt settlement services. In addition, the Trustee is
7 concerned that the Attorneys' actions, under the false heading of allegedly
8 protecting their "clients," are designed to allow the Attorneys to further
9 manipulate and take advantage of consumers, putting the *consumers'* funds
10 currently held in the trust accounts in jeopardy.
- 11 • The Trustee believes that substantial claims exist against the Attorneys as well
12 as against insiders of Morgan Drexen; and the Trustee will be pursuing those
13 claims. The Trustee further believes that the Attorneys will continue to
14 obstruct and interfere with an orderly wind down of the business, and that as a
15 result, the business should be closed as soon as possible to allow the Trustee to
16 address the best interests of creditors and consumers through litigation and
17 court orders as necessary.
- 18 • The Trustee previously had been informed that approximately 14,000
19 consumers were on existing debt settlement plans with Morgan Drexen. Upon
20 further investigation, the Trustee has determined that the 14,000 figure
21 included all consumers who *ever* had been on a debt settlement plan, as
22 opposed to consumers on a *current and active* debt settlement plan. At this
23 time, the Trustee is informed that the number of consumers on existing debt
24 settlement plans is approximately 9,000, not 14,000. Thus, among other
25 problems, monthly fees may have been charged to a much larger number of
26 consumers who are not on current debt settlement plans than the Trustee
27 previously believed.
28

- 1 • After the joint hearing on June 15, 2015, the Trustee has examined means to
2 make further cuts of expense and personnel. The Trustee initiated the
3 termination of all employees with the exception of a few key personnel,
4 ceasing all operations and services rendered by Morgan Drexen to attorneys
5 and consumers.

6 Separately, the Trustee will be filing in Bankruptcy Court a motion to enforce
7 the automatic stay and for sanctions against the Attorneys for willful violations of the
8 automatic stay. Regardless, prior to this Court's issuance of Permanent Injunction
9 Order, the Trustee has already concluded that the conduct of the Attorneys has
10 shown that the Morgan Drexen business model is irretrievably broken – legally and
11 practically. The Attorneys only will respond to Court orders – whether of this Court
12 or the Bankruptcy Court – and the Trustee will be requesting such orders.

13 As background, the Trustee attaches hereto as **Exhibits B and C**
14 communications from, among others, Attorneys named Vincent Howard (“Howard”)
15 and Lawrence Williamson (“Williamson”). The Trustee has reason to believe that
16 Howard sent an email to all engagement and local counsel who receive services from
17 Morgan Drexen, calling them to action and instructing them to immediately contact
18 Evan Borges, counsel for the Trustee, and demand “1. that you have clients that are
19 serviced by MD, 2. that any interference with your contracts and relationships with
20 your clients will not be tolerated, and 3. that they consult with you first before
21 canceling the services MD provides for your clients at your direction so that you can
22 arrange for alternative services.” The Trustee also has reason to believe that Howard
23 also instructed the attorneys to contact Morgan Drexen employees David Walker and
24 Deborah Ketsdever and “1. Revoke MD's authority and access to your client trust
25 accounts. 2. Insist that they invoice you and you decide what bills to pay. 3. Demand
26 an accounting to see if they even did the services. 4. And demand that they send you
27 an electronic copy of all your clients information.” As shown in Exhibit B, many of
28 these attorneys followed Howard's instructions, resulting in a bombardment of

1 harassing emails to counsel for the Trustee and employees of Morgan Drexen.
2 Exhibit C contains a separate email sent late last week from Williamson alleging
3 breach of his service contracts with Morgan Drexen and demanding an accounting,
4 among other relief. Ex. C at 2-3.

5 The Trustee is informed that Howard, Williamson and their law firms
6 together purport to have attorney-client relationships with approximately
7 10,000 consumers.¹ Howard and Williamson, along with the other Attorneys
8 acting in concert with them, have made continued operations impossible.

9 The Trustee requests that the Court set an *ex parte* hearing in the near future,
10 as the Trustee intends to request additional relief and orders from this Court and the
11 Bankruptcy Court, as appropriate. These orders, include, without limitation:

- 12 • Enforcement of the Freeze Order and the Permanent Injunction Order,
13 including clarification that it freezes the *consumer* trust accounts
14 pending further order of this Court;
- 15 • Enforcement of the automatic stay, including sanctions and damages
16 against the Attorneys for willful violations of the automatic stay.

17 Dated: June 19, 2015

18
19 By: /s/ John C. Hueston
20 John C. Hueston
21 Chapter 11 Trustee
22 for Morgan Drexen, Inc.
23
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25

26 ¹ Mr. Williamson already is liable on a judgment of \$1,225,000.00, based on civil
27 penalties imposed by the State of West Virginia, due to findings of illegal conduct in
28 that State by him and Morgan Drexen. *State of West Virginia v. Morgan Drexen, Inc., et al.*, Case No. 11-C-829, 70 (July 15, 2014) (Final Order).