



substantial and continuing loss to and diminution of the estate, indicating an absence of a reasonable likelihood of rehabilitation; (3) The Debtor's schedules and statement of financial affairs indicate numerous insider and other potentially avoidable transactions that should require the appointment of a neutral trustee for their prosecution; and (4) The Debtor's failure to serve notice of the bankruptcy on all fifty States and all customers who have received services from the Debtor violates the requirements of Bankruptcy Code § 342 and Bankruptcy Rule 2002, as well as severely hampers the ability of any proposed plan of reorganization from being effective in that no certainty can be had as to what debts the Debtor has to repay or are to be discharged.

2. Oregon asserts that Orion operates under various "World Law" entities to target vulnerable consumers who are in financial trouble as a result, mostly, of credit card debt. Orion tells consumers that it is a law firm and that it will provide local licensed attorneys to resolve consumers' unsecured credit card debts. In reality, Orion employs no local attorneys and charges consumers illegal upfront fees for substandard debt negotiation services. Orion also charges illegal upfront fees before any debts are settled. Not only do Orion's fees exceed the statutory limits, but they are also grossly overinflated, causing more than 70 percent of the consumers' deposits collected by Orion to go directly to "Attorney Service Fees." Orion employees also tell consumers to stop paying their credit card debts. When consumers are ultimately sued by their credit card companies for failing to pay on their credit card balances, the consumers are provided with boilerplate pleadings (many of which contained untrue and inaccurate statements) which are drafted overseas by non-lawyers and often rejected by courts for failure to comply with local rules. Consumers are then forced to represent themselves *pro se* in state court proceedings, notwithstanding having subscribed to and paid for the Debtor's services. The consumers end up with money judgments against them for the full amounts of their debts, plus attorney fees and

filing fees. If consumers seek to terminate their relationship with World Law or attempt to obtain a refund of the money they have paid, they are typically unable to do so or only obtain a partial refund. Ultimately, consumers who have used Orion's services are forced to pay grossly inflated, often nonrefundable and illegal fees for legal services that were never provided, by attorneys that do not exist. These actions are not only occurring in Oregon, but across the United States.

## **II. JURISDICTION AND VENUE**

3. Pursuant to 28 U.S.C. §§ 1334 and 157, the Court has jurisdiction to hear this Motion. Under 28 U.S.C. § 157(b)(2)(A) and (O), this matter is a core proceeding. The relief requested in this Motion is sought pursuant to 11 U.S.C. § 1112.

4. Specifically, Bankruptcy Code § 112(b)(1) states:

(b) (1) Except as provided in paragraph (2) and subsection (c), on request of a party in interest, and after notice and a hearing, the court shall convert a case under this chapter to a case under chapter 7 or dismiss a case under this chapter, whichever is in the best interests of creditors and the estate, for cause unless the court determines that the appointment under section 1104(a) of a trustee or an examiner is in the best interests of creditors and the estate.

## **III. ORION PROCESSING'S BUSINESS HISTORY**

5. Derin Scott, the owner of Orion, entered the debt settlement business in 2006. Swift Rock Financial, Inc. ("Swift Rock") was one of Scott's debt settlement businesses. Orion Processing LLC ("Orion") was formed in 2008 to service Swift Rock's clients. Swift Rock charged advance fees to its clients, meaning that it charged the clients fees before settling any debt on the clients' behalf. Swift Rock was required to be registered in various States through the United States to provide its services but failed to do so.

6. In 2010, the Federal Trade Commission announced a new regulation that threatened the legality of the advance fees charged by Swift Rock. See July 29, 2010 FTC Press

Release, (<http://www.ftc.gov/news-events/press-releases/2010/07/ftc-issues-final-rule-protect-consumers-credit-card-debt>) Instead of charging fees to clients immediately upon enrollment, debt settlement companies are now required by federal law to wait until they have successfully settled a client's debt before charging fees. 16 C.F.R. 310.4(a)(5)(i). Oregon, as well as the other States, now have a parallel ban on advance fees. ORS 697.692(e).<sup>1</sup>

7. The FTC ban and the state bans contain a limited exception for services provided by attorneys. In 2010, based upon a belief that the advance fee ban threatened the advance fees that it charged, Orion began working with attorney Bradley Haskins, a Texas-licensed attorney, to form a new business enterprise through which Orion would continue its debt settlement services for clients and Haskins would provide attorneys who would provide certain legal services to the clients.

8. Thereafter, Orion, Haskins and Scott began enrolling clients in Oregon, Colorado and other States in the new program. The purported new entity that contracted with the clients was identified as "World Law Debt," a division of the law firm World Law Group. The World Law Group contracts provided that each client would be assigned a local attorney who would provide each client with appropriate advice through the representation. Although the contracts placed limitations on the scope of the attorneys' services, the contracts promised that the attorneys would negotiate with creditors on behalf of clients and would also evaluate all legal options in resolving each client's insolvency.

9. Consistent with the representations in the contracts, Orion also owned a website which advertised the services of World Law Group. Among other things, the website promised that each client would have an attorney "assigned directly to you" and further that "[o]ur

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<sup>1</sup> Colorado's Debt-Management Services Act is at C.R.S. § 12-14.5-223(d)(2). See also Exhibit 1, a 2012 survey of applicable debt management state laws compiled by the Association of the Bar of the City of New York

Attorneys have the experience necessary to negotiate with creditors on your behalf and successfully obtain settlements....” In furtherance of World Law Group’s obligations under the contracts, Orion was to negotiate with creditors to obtain settlements on behalf of residents. However, the promised legal services were not provided.

10. After enrolling in Orion's debt settlement program, consumers received a document titled "A Guide to Your Debt Settlement Plan," ostensibly from "World Law Group." The document's opening paragraph stated as follows: “Congratulations on your acceptance as a World Law Group Client! You will soon be receiving a call from your local attorney and the legal assistant assigned to your case.”

11. Swift Rock, the predecessor to Orion, was a provider of debt-management services. Swift Rock enrolled clients to provide debt settlement services, which Scott defined as “negotiating our clients’ debts with creditors for lump sum payoff.” Similarly, Orion negotiated to settle debts on behalf of both Swift Rock clients and World Law Group clients. Orion thus acts as an intermediary between individuals and their creditors. The purpose of Orion’s negotiation has been to get creditors to accept a payoff amount that is less than the original amount owed by the individuals. Orion thus seeks to obtain concessions from the creditors by asking the creditors to agree to new terms that are more favorable to the individuals for whom Orion is negotiating. Finally, World Law Group also is a provider of debt-management services. The agreements between World Law Group and the clients state that World Law Group will provide debt negotiations and settlement services on behalf of “CLIENT.”

12. Neither Swift Rock, Orion, nor World Law Group obtained the appropriate registrations before providing negotiation services to customers. As a result, Swift Rock, Orion,

and World Law Group violated the governing state statutes<sup>2</sup> by providing debt-management services to residents without a certificate of registration. Further, the States have alleged that Orion and the other actors (1) failed to have its customer agreements signed by a registered provider of debt management services; (2) provided form customer agreements that failed to adhere to statutory requirements designed to protect the consumer, including the appropriate cancellation provisions and other disclosures; and (3) required that consumers pay up-front fees prior to the start of any attempted services.

13. Despite both oral and written representations by Orion to consumers enrolling with "World Law" that debt settlement services will be provided by a local attorney, consumers reported no contact with a licensed attorney related to any debt settlement services other than with non-attorneys at Orion in Austin, Texas. Instead, purported "legal assistants" at Orion made regular calls to consumers to reassure them to stay in the program—usually right before their payment is due. Non-attorneys fielded phone calls from consumers, sent consumers emails, and performed any negotiation with creditors. The only possible person who could have been an attorney located at Orion's offices in Texas was Ian Raney, who, when deposed, stated that he never represented consumers. Mr. Raney was, at the time, studying for the Texas bar exam. A recent review of the State Bar of Texas' website indicates that Mr. Raney does not yet have his Texas law license.

14. Despite its claim to provide services by local attorneys, the only address given for "World Law Group" in the document titled "A Guide to Your Debt Settlement Plan," was P.O. Box 82641, Austin, Texas 78708. According to U.S. Postal Service Records, this address - P.O. Box 82641, Austin, Texas 78708 – was actually registered to Orion Processing, LLC, and has

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<sup>2</sup> See Exhibit 1.

been since September 2009.

15. When consumers enrolled with "World Law", they were directed by Orion to sign up with for a special purpose account with Global Client Solutions, a payment processor. Orion also instructed consumers to stop paying their creditors and instead start making payments to the special purpose account managed by Global Client Solutions. Since at least August 2010, Orion required and relied on assistance from Global Client Solutions<sup>3</sup> to collect and disburse monies through the consumers' special purpose accounts.

16. Orion and the other actors<sup>4</sup> directly received the front-loaded customer fee payments that were paid to World Law Group. Instead of using the funds to operate a legitimate law firm, Orion and the other actors used the funds for their own personal expenses. Orion and the other actors also used the funds to create the appearance that World Law Group clients were receiving promised legal services, although no such services were actually provided. As Bankruptcy Judge Sidney Brooks recently found in an avoidance adversary:

“[T]he Defendants [Swift Rock, Orion, Global Client Solutions] – three related, interconnected, cooperative entities who purportedly provide debt counseling, negotiation and relief services to financially distressed debtors – were paid \$9,334.49 by the Debtor prepetition and, as alleged, received in turn virtually no successful debt counseling, negotiation or relief services. The Trustee alleges that, essentially, the Defendants’ business was a sham.”<sup>5</sup>

17. Specifically, Orion and the other actors paid attorneys for nominal tasks that were separate from the obligations owed by World Law Group under its consumer contracts. Orion

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<sup>3</sup> Global was subsequently the subject of an enforcement action by the federal Consumer Financial Protection Bureau in 2014 in which consented to halt all illegal activity to pay over \$6 million in relief to consumers. Global was found to have assisted debt-settlement companies in the United States to charge consumers illegal fees. See <http://www.consumerfinance.gov/newsroom/cfpb-takes-action-against-global-client-solutions-for-processing-illegal-debt-settlement-fees/>.

<sup>4</sup> The other actors include Derin Scott, Bradley Haskins, David Klein, Swift Rock, Global Client Solutions, and a variety of entities sharing the name “World Law ----”.

<sup>5</sup> Order Certifying Global Client Solutions, LLC’s Appeal As Frivolous And Denying Motion To Stay Adversary Proceeding, at 2, *Larson v. Swift Rock, et al.*, Adv. Proc. No. 14-01507-SBB, United States Bankruptcy Court, District of Colorado.

and the other actors then used the names of those attorneys without their authorization to misrepresent that the attorneys were providing legal services to the World Law Group clients.

18. Orion and the other actors represented to clients that the clients would receive legal services from local attorneys. Specifically, the World Law Group client agreements stated that the clients would be assigned a local attorney who would provide them with appropriate legal advice throughout the representation. The promised advice would include an evaluation of all legal options in resolving the client's insolvency.

19. Orion's website, which advertised World Law Group's services, similarly advertised that by enrolling in the World Law Group program, clients would be hiring "the nation's leading debt settlement attorneys" who "will negotiate your debt directly with your creditors." Orion's web page further advised World Law Group clients against negotiating with creditors on their own because "[o]ur Attorneys have the experience necessary to negotiate with creditors on your behalf and successfully obtain settlements."

20. Although Orion and the other actors made these promises, they did not intend to actually provide the clients with the promised services from attorneys, local or otherwise. For example, when World Law Group clients were sued by creditors on enrolled debt, World Law Group hired Pennsylvania attorney Jay Carlin to call the clients the night before a court date. Although Carlin is an attorney, Carlin did not provide the clients with any legal services. Nor could Carlin have provided such services. Carlin did not receive any information from Orion about each individual client's case other than the client's name and phone number. Carlin's sole task was to phone the clients and make sure that they were aware of the time and location of their hearings. Carlin made such calls to more than 500 clients.

21. Notwithstanding Carlin's limited role, Orion and the other actors submitted

pleadings to the American Arbitration Association (“AAA”) misidentifying Carlin as an attorney who represented World Law clients. In fact, though, Carlin never represented any World Law Group clients in AAA proceedings – nor did he provide any legal services to World Law Group clients. Orion employees similarly identified themselves as Carlin’s paralegals, notwithstanding that Carlin did not have a paralegal and did not authorize anyone to identify themselves as his paralegal. In the Colorado litigation, Colorado World Law Group client Katherine Ewing testified that Carlin and Haskins were identified as her attorneys in an AAA proceeding, but that she did not know who they were and never spoke with them.

22. Orion and the other actors also misappropriated the names of other attorneys to create the appearance that licensed attorneys were involved in legal matters although the attorneys were not actually involved. Colorado attorney Josh Primm was hired to complete two research projects for World Law Group. World Law Group and Orion then misappropriated Primm’s name to create the appearance that he was involved in representing clients who he did not actually represent. They did so by purporting to send carbon copies of “notice of representation” letters to Primm. Primm testified that he did not receive copies of the letters and did not have any involvement in the matters referenced in the letters.

23. Other attorneys similarly testified that their names have been misappropriated. New York attorney Ariel Berschadsky testified that he received phone calls from representatives of Chase Bank and other banks who had the misunderstanding that Berschadsky was representing World Law Group clients. Berschadsky determined that the misunderstanding by the banks resulted from the misuse of his name on World Law Group notice of representation letters (the letters purportedly sent to Berschadsky, although he denied that he received them nor was he involved in the referenced matters).

24. Certain of the World Law Group notice of representation letters purported to be written on behalf of attorney Tracy Parsons. Parsons testified that she performed limited work for World Law Group but did not authorize the use of her name on the letters, was not involved in the matters referenced in the letters, and was not even aware that the letters were sent.<sup>6</sup>

25. Haskins' friend from college and law school, Michigan attorney Andrew Richner, similarly testified to the misuse of his name by the World Law Group. Richner is identified on a World Law Group website as a founding board member. However, Richner testified that he never served on any board of any World Law Group entity and that he asked Haskins to remove his name from the website when he learned of its use of his name.

26. Further, in opposition to one of Colorado's motions for summary judgment, Orion submitted the un-notarized affidavit of Gopi Krishnan. The affidavit purported to name the attorneys who have serviced World Law Group's Colorado clients. Five of the attorneys identified in the Krishnan affidavit (Primm, Sciolaro, Richner, Berschadsky, and Hendrick) have testified that the Krishnan affidavit was materially inaccurate because the attorneys actually did not service World Law Group's Colorado clients.

27. The facts that were developed in the state court proceedings show that the World Law Group law firm as advertised to consumers simply does not exist. Legal fees that were purported to be paid to World Law Group were not paid to any such law firm. Instead, the fees were paid into a Bank of America account that was in the name of a dissolved company (WLD Price Global, Inc.) and that was controlled exclusively by Haskins. Haskins had served as the president, chairman of the board, and chief executive officer of WLD Price Global. Haskins used the legal fees that were paid into the WLD Price BofA Account for his own personal expenses and to fund Orion and the other actors.

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<sup>6</sup> See Exhibit 2 - Affidavit of Tracy Lynn Parsons,

28. Using those accounts, Haskins paid attorneys for tasks that were to be performed on behalf of World Law Group, but not on behalf of World Law Group's customers. The attorneys that Haskins paid include Carlin, Primm, Sciolaro, Berschadsky, and Parsons. Orion and the other actors then used the attorneys' names to falsely claim that they were attorneys representing World Law Group clients.

#### **IV. REGULATORY LITIGATION BACKGROUND**

29. Title 28 U.S.C. § 959(b) states:

(b) Except as provided in section 1166 of title 11, a trustee, receiver or manager appointed in any cause pending in any court of the United States, including a debtor in possession, shall manage and operate the property in his possession as such trustee, receiver or manager according to the requirements of the valid laws of the State in which such property is situated, in the same manner that the owner or possessor thereof would be bound to do if in possession thereof.

30. Consequently, any Chapter 11 debtor-in-possession must operate within the confines of applicable state law.

31. The Debtor's business in Oregon violated and is believed to continue to violate state law by unlawfully providing debt management services without being licensed by the Oregon Department of Consumer and Business Services and by representing itself as a law firm to its Oregon customers without the authority to practice law in Oregon.

32. On July 1, 2013, Oregon filed a state court complaint against the Debtor and others in Multnomah County Circuit Court in the case styled *State of Oregon, et al., v. Swift Rock Financial, Inc. and Orion Processing, LLC*, Case No. 1307-09347.<sup>7</sup>

33. On July 12, 2013, the Oregon court issued its Preliminary Injunction<sup>8</sup> in which the court, after a finding that Oregon had made a sufficient showing that the Debtor was in violation of Oregon's debt management services regulations, enjoined the Debtor and the other

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A. <sup>7</sup> See Exhibit 3.

B. <sup>8</sup> See Exhibit 4.

defendants from taking the following actions:

- a. Offer to perform debt management services for, or provide debt management services to, Oregon residents until Defendants are registered as debt management service providers with the Director of the Department of Consumer and Business Services;
- b. Perform debt management services for, or provide debt management services to, Oregon residents until Defendants are registered as debt management service providers with the Director of the Department of Consumer and Business Services;
- c. Enter into agreements with Oregon residents to perform debt management services for, or provide debt management services to, Oregon residents until Defendants are registered as debt management service providers with the Director of the Department of Consumer and Business Services;
- d. Collect any fee, directly or indirectly, from any Oregon resident related to the performance of a debt management service until Defendants are registered as debt management service providers with the Director of the Department of Consumer and Business Services;
- e. Transfer, spend, or dispose of any money or funds received, directly or indirectly, from any Oregon resident in connection with Defendants' debt management services, except to pay the creditors of Oregon residents or to return funds to Oregon residents, until Defendants are registered with the Director of the Department of Consumer and Business Services as debt management service providers;
- f. Advertise themselves as, or represent themselves to be, attorneys authorized to practice law in the State of Oregon until Defendants are active members of the Oregon State Bar,

- employ an active member of the Oregon State Bar, or are in compliance with rules issued by the Supreme Court under ORS 9.241;
- g. Prepare or provide legal pleadings for use by Oregon residents, or provide legal advice for use in Oregon, until such time as Defendants are active members of the Oregon State Bar, employ an active member of the Oregon State Bar, or are in compliance with rules issued by the Supreme Court under ORS 9.241;
  - h. Enter into agreements with Oregon residents to perform legal services for, or provide legal services to, Oregon residents until such time as Defendants are active members of the Oregon State Bar, employ an active member of the Oregon State Bar, or are in compliance with rules issued by the Supreme Court under ORS 9.241;
  - i. Collect any fee, directly or indirectly, from any Oregon resident related to the performance of a legal service until such time as Defendants are active members of the Oregon State Bar, employ an active member of the Oregon State Bar, or are in compliance with rules issued by the Supreme Court under ORS 9.241;
  - j. Transfer, spend, or dispose of any money or funds received, directly or indirectly, from any Oregon resident in connection with Defendants' legal services, except to pay the creditors of Oregon residents or to return funds to Oregon residents, until Defendants are active members of the Oregon State Bar, employ an active member of the Oregon State Bar, or are in compliance with rules issued by the Supreme Court under ORS 9.241;
  - k. Violate the Unlawful Trade Practices Act, ORS 646.605 to 646.656; and
  - l. Violate any provision of ORS 697.602 to 697.842.

34. Notwithstanding the July 2013 preliminary injunction, the Debtor continued to operate unlawfully in Oregon. On March 2, 2015, the Oregon state court held a contested

hearing on Oregon's Second Motion To Show Cause Why Orion Should Not Be Held In Contempt in which the Court heard evidence and argument from Oregon and Orion on Orion's continued business practices within the State. On April 7, 2015, the state court entered its Order Finding Orion Processing, LLC In Contempt,<sup>9</sup> in which the court made the following findings:

- a. Orion Processing, LLC (Orion) registered two Assumed Business Names (ABN) - World Law Debt (April 22, 2011) and World Law Processing (May 7, 2012).
- b. Orion was the sole contact for Oregon consumers who signed contracts with World Law Debt.
- c. Orion never used the business name Orion with consumers, but used only variations of the business name, "World Law." Orion employees answered the phones with the title "World Law," used variations of "World Law" as signature lines in their electronic communications with Oregon consumers, and never made a distinction between their business operations and those of the Swiss Verein, World Law Group. "World Law" was used synonymously with Orion.
- d. Oregon consumers had no knowledge that the Orion employees with whom they interacted claimed to be separate from the law firm with whom Oregon consumers believed they had contracted.
- e. Orion employees who had contact with Oregon consumers held themselves out as "Legal Assistants," and represented that they were speaking on behalf of the consumers' attorneys.
- f. In as much as Orion's communications with Oregon consumers contained legal advice or contained legal documents including pleadings and other filings, Orion provided legal

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C. <sup>9</sup> See Exhibit 5.

services to Oregon consumers.

- g. Orion claims, though it never established, that Orion employees were simply passing on legal advice and legal documents generated by a separate law firm, World Law Group.
- h. The court was presented with no evidence that a licensed attorney played any role in generating legal advice or drafting legal documents for the Oregon consumers with whom Orion communicated. Orion claims to have sent and received emails to and from specific email addresses that it believed belonged to lawyers from World Law Group. However, no Orion representative or employee could name a single lawyer providing legal advice to consumers. In fact, the only lawyer associated with the World Law Group firm is Brad Haskins, who is purported to be the head of the international law firm.
- i. Given the volume of business that Orion conducted, it is not possible, nor did Defendant Orion assert that Brad Haskins provided the legal information, advice, and documents that Orion provided to Oregon consumers.
- j. Further, David Klein testified that Orion's recent bankruptcy filing included a debt owed to a company in India which drafts legal pleadings and other court documents.
- k. The fact that this debt is listed on Orion's bankruptcy filing indicates that Orion and not World Law Group is responsible for providing legal pleadings and other court documents to Oregon consumers.
- l. In August of 2014, Orion learned that Global Client Solutions (GCS), the financial institution that managed Orion consumers' dedicated accounts was terminating its relationship with World Law and/or Orion.
- m. Orion was aware that these consumers would receive refunds from GCS of the funds they had paid to GCS for use by World Law and/or Orion for debt management and legal

- services.
- n. Orion employees set about to retrieve these funds by convincing consumers to voluntarily return the funds to them.
  - o. Orion employees contacted at least 400 Oregon consumers who had contracted with World Law Debt for debt management and legal services and who would receive these refunds.
  - p. Orion employees sent out email messages and made phone calls to Oregon consumers misrepresenting the cause of the refunds and the destination of the consumer's funds if they returned them as requested.
  - q. Orion employees told consumers that the refunds would occur as a result of changes in state and federal law that now required the funds to be transferred to an attorney trust account.
  - r. They further misrepresented that a new Federal Law Mediation Service required that consumer funds be handled through an attorney trust account. Consumers were told to return the funds either by approving an electronic transfer or by writing checks to World Law Debt, an ABN for Orion, and sending them to Orion's office in Texas.
  - s. Orion then scanned and documented the checks and forwarded them to World Law South in North Carolina another affiliate of World Law Group. Orion employees worked for World Law South while simultaneously working for Orion.
  - t. These employees handled the Oregon and North Carolina consumers working from the same desk, simply logging into a different email address.
  - u. Orion engaged in debt management activities after the preliminary injunction was issued because it continued to receive funds from Oregon consumers for the purpose of

distributing the funds among the consumer's creditors in full or partial payment of consumer debts.

- v. Orion modified or offered to modify the terms and conditions of an existing loan or obligation on behalf of Oregon consumers.
- w. Orion also obtained or attempted to obtain a concession from creditors by working as an intermediary on behalf of Oregon consumers.
- x. However, Orion did not receive any fees from GCS after the preliminary injunction was issued. Therefore, plaintiff did not meet its burden of establishing by clear and convincing evidence that Orion engaged in "debt management services" as defined by ORS 697.602(2).
- y. While not a "fee," it is disconcerting that World Law Group is paying for Orion's litigation expenses in the present matter.

35. As a result of its findings, the Oregon state court concluded the following:

- a. Orion violated paragraphs 2.e and 2.j by soliciting, handling, and transferring from Texas to North Carolina, funds from Oregon consumers, in and around August of 2014. These actions constituted transferring funds, received directly or indirectly, in connection with Orion 's debt management activities.
- b. Orion violated paragraph 2.k and 2.1 when it made false or misleading representations concerning the nature of the GCS refunds and when it requested that the funds be returned to World Law and/or Orion to be placed in an "attorney trust account," which constituted a violation of the Unlawful Trade Practices Act (UTPA), ORS 646.608( I )(k).
- c. Orion violated paragraph 2.k by representing that the debt management and legal services that Oregon consumers had contracted for had characteristics or qualities that the services

do not have or that a person has a qualification that the person does not have, namely that local Oregon attorneys were hand ling consumer matters. ORS 646.608(1)(e)

- d. Orion violated paragraph 2.h by providing legal services to Oregon residents including legal advice on arbitrating legal disputes and settlement with creditors although no identified attorney was providing such advice.

36. Based on the foregoing proceeding, Oregon continues to believe that the Debtor is violating state law in Oregon while the Debtor is in Chapter 11, in direct violation of 28 U.S.C. § 959(b). Further, these actions are resulting in the financial abuse of vulnerable persons living in the State of Oregon.

37. In addition to the Debtor's unlawful activities in Oregon, Oregon believes that there is a high likelihood that the Debtor is unlawfully operating in other States. As discussed above and as shown on Exhibit 1, almost all fifty States have debt-management regulations. Additionally, Oregon is aware of the following state court regulatory actions against Oregon:

- a. Colorado – *State of Colorado, et al., v. Orion Processing, et al.*, Case No. 2014-CV-31779, District Court, City And County of Denver, Colorado; *State of Colorado v. Swift Rock Financial, Inc, et al.*, Case No. 14SA282 in the Supreme Court, State of Colorado; *State of Colorado v. Swift Rock Financial, Inc., et al.*, Case No. 15SA48 in the Supreme Court, State of Colorado.
- b. North Carolina – *State of North Carolina ex rel. Roy Cooper, Attorney General, and The North Carolina State Bar v. Orion Processing, LLC, et al.* (Wake County Superior Court), Case No. 13 CVS 7161
- c. Connecticut – *In the Matter of World Law Debt, Inc., et al.*, Administrative action in front of Connecticut Department of Banking.

d. Illinois – *State of Illinois v. Clear Your Debt, et al.*, Seventh Circuit Court of Sangamon County, Illinois, Case No.2010-CH 167.

38. In the Colorado litigation, Colorado is suing the Debtor for violations of the Colorado Uniform Debt-Management Services Act and the Colorado Consumer Protection Act. Colorado is also suing the Debtor to enjoin the Debtor’s unauthorized practice of law in that State in two original proceedings brought directly in the Colorado Supreme Court by the Office of Attorney Regulation Counsel.

39. In one of the unauthorized practice of law lawsuits (14SA282), the Colorado Presiding Disciplinary Judge issued an Order Entering Default Judgment Pursuant to C.R.C.P. 55(b) and Report of Hearing Master, which found that the Debtor and the other respondents did in fact represent to consumers that “[o]ur attorneys and legal assistants have years of experience with positive results in the debt reduction/debt relief field ... Clients work directly with our lawyers and legal assistants.” However, the report found that the Debtor and the other corporate respondents “do not employ lawyers licensed in Colorado or any other state for the purpose of assisting their ‘clients,’” and that “[t]he assertion that customers will be able to ‘work directly’ with lawyers is false since the corporate Respondents do not employ licensed lawyers to assist their ‘clients.’” The Unauthorized Practice Report further found that the Debtor does not employ lawyers licensed in Colorado *or any other state*.

40. On April 27, 2015, the Colorado Supreme Court entered an Order of Injunction. The Order of Injunction permanently enjoined the Debtor and the other respondents from engaging in the unauthorized practice of law in the State of Colorado, and assessed costs, fines, and restitution.

41. In the North Carolina litigation, the complaint states violations of North

Carolina's Debt Adjusting Act, including the charging of illegal advance fees for debt adjusting services; the unauthorized practice of law; and unfair and deceptive practices. A Preliminary Injunction Order was entered against Orion and other defendants on June 4, 2013, prohibiting Orion, the other defendants, and all other persons acting in concert or in participation with them from engaging in debt adjusting activities in North Carolina or engaging in the unauthorized practice of law. Following the conduct of initial discovery indicating that Orion and the other defendants were violating the terms of the Preliminary Injunction Order, the State Bar moved for civil contempt on December 6, 2014. The Attorney General joined and supplemented that motion on January 7, 2015. After Orion filed for bankruptcy, the plaintiffs moved the state court for an order regarding the applicability of the automatic stay. The court ruled that the stay did not apply. A new scheduling order has been entered, and a hearing on the plaintiffs' contempt motion has been set for September 23, 2015.

42. In the Connecticut administrative action, the Banking Commissioner issued a cease and desist order and order for restitution against Orion and the other World Law entities alleging that the Debtor engaged in debt negotiation services in the State of Connecticut without the required licenses. The Banking Commissioner then issued a final decision against Orion, finding specifically that Orion violated the debt negotiation statutes. The Commissioner's decision and findings are now final, binding, and not subject to review. The Commissioner also concluded that Orion performed debt negotiation services in Connecticut without a license and found that the respondents in the administrative action (including Orion) harmed Connecticut residents by charging fees in excess of what is permitted under state law. Finally, Orion has subsequently violated the Commissioner's order by continuing to operate unlawfully in Connecticut, which resulted in the present action in Connecticut state court.

43. In the Illinois state court litigation, the court issued a preliminary injunction against the Debtor from violating the Illinois Debt Settlement Consumer Protection Act and the Illinois Consumer Fraud and Deceptive Business Practices Act for providing unlicensed debt settlement services to consumers. The Illinois Department of Financial and Professional Regulation also issued Cease and Desist Orders against Swift Rock and Orion to cease engaging in debt settlement services without the proper debt settlement license and ordering restitution for consumers.

44. Given that almost all fifty States have debt management and debt servicing provider regulations, including the adoption by seven states of the Uniform Debt-Management Services Act, and given the prohibition against advance fees under federal law (16 C.F.R. 310.4(a)(5)(i))<sup>10</sup>, Oregon submits that, given the known violations of Oregon's statutes both before and after the bankruptcy filing, as well as the Debtor's representative's testimony at the creditors' meeting that Orion continues to do business as usual in all States that have yet to sue Orion and the other actors, the Debtor's operations continue to this day to violate state and federal regulations nationwide. Consequently, the Debtor is in direct violation of 28 U.S.C. §

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<sup>10</sup> **16 C.F.R § 310.4 Abusive telemarketing acts or practices.**

**(a) Abusive conduct generally.** It is an abusive telemarketing act or practice and a violation of this Rule for any seller or telemarketer to engage in the following conduct: ...

**(5) (i)** Requesting or receiving payment of any fee or consideration for any debt relief service until and unless:

**(A)** The seller or telemarketer has renegotiated, settled, reduced, or otherwise altered the terms of at least one debt pursuant to a settlement agreement, debt management plan, or other such valid contractual agreement executed by the customer;

**(B)** The customer has made at least one payment pursuant to that settlement agreement, debt management plan, or other valid contractual agreement between the customer and the creditor or debt collector; and

**(C)** To the extent that debts enrolled in a service are renegotiated, settled, reduced, or otherwise altered individually, the fee or consideration either:

**(1)** Bears the same proportional relationship to the total fee for renegotiating, settling, reducing, or altering the terms of the entire debt balance as the individual debt amount bears to the entire debt amount. The individual debt amount and the entire debt amount are those owed at the time the debt was enrolled in the service; or

**(2)** Is a percentage of the amount saved as a result of the renegotiation, settlement, reduction, or alteration. The percentage charged cannot change from one individual debt to another. The amount saved is the difference between the amount owed at the time the debt was enrolled in the service and the amount actually paid to satisfy the debt.

D.

959(b). Unless and until the Debtor can demonstrate that its operations do not violate applicable law in any and all jurisdictions in which it operates, the Debtor should not be allowed to continue to operate at all, thereby necessitating the conversion of the Debtor's bankruptcy to Chapter 7.

**V. DEBTOR'S FINANCIAL PERFORMANCE WHILE IN CHAPTER 11**

45. A review of the Debtor's prepetition gross revenue demonstrates that the Debtor has lost a substantial amount of revenue over the last twelve months. See Debtor's Statement of Financial Affairs, Question 1. Further, given the filed claims against the Debtor as well as the claims scheduled by the Debtor, the ability of the Debtor to generate sufficient revenue to make any meaningful repayment of debt is highly suspect, especially given the illegality of the Debtor's current operations. See Debtor's filed Monthly Operating Statements to date. Unless and until the Debtor can demonstrate that it can generate sufficient revenue while under the protection of Chapter 11 to make a meaningful distribution to its creditors in a manner that conforms to state regulatory restrictions, the Debtor's chances of rehabilitation are minimal. To date, no proposed restructuring business plan has been provided to any of the States to review and/or analyze. From its point of view, Oregon believes that no proposal can be made by the Debtor that provides any recovery by the creditors without the Debtor continuing to operating unlawfully at least somewhere in the United States. At this juncture, five months since the petition date and with exclusivity having passed, the burden should be placed squarely on the Debtor to demonstrate any financial viability going forward, with a demonstration as to how the Debtor's services will operate correctly and legally in all jurisdictions. If no showing can be made, the Debtor's case should be converted to Chapter 7.

**VI. THE KNOWN INSIDER AND AVOIDANCE ACTIONS DICTATE A NEUTRAL TRUSTEE**

46. The Debtor's schedules and statement of financial affairs are breathtaking in the

magnitude of insider transactions and potential avoidance actions. For example, \$323,000.00 is owed to the Debtor by World Law Group America, a d/b/a previously used by the Debtor, and also an entity owned by Haskins. The Debtor has no known plans to collect the receivable. The listed creditors include only those States that have active litigation against Orion, as well as law firms and an Indian legal services outsourcing company. The Debtor's landlord – 9011 Mountain Ridge Drive LLC – is not registered to do business in Texas. The statement of financial affairs show over \$2,944,940 in payments to Derin Scott's family over the last year, including his minor children and his father. Family Capital Investment & Management, LLC, a company controlled by Derin Scott and the employer of the Debtor's manager David Klein, has a potentially avoidable transfer of \$477,000.00. The Debtor has provided no plan on who or what will investigate these transfers for the benefit of creditors.

#### **VII. LACK OF NOTICE TO ALL FIFTY STATES AND ALL CUSTOMERS**

47. Another deficiency in the Debtor's bankruptcy is the lack of notice to either the States that have not sued Orion yet or to the thousands of customers that have used Orion's services. Such notice is required by the Bankruptcy Code. Without such notice, the true extent of claims can never be known. This is not a hypothetical problem. A review of the claims register demonstrates that there exist individuals in the United States that believe Orion owes them a debt. As shown by the recent adversary filing, a class action comprised of injured consumers is attempting to form. While the lack of notice violates the core requirements of bankruptcy, the failure to give such notice is also indicative of the Debtor's inability to operate lawfully. To give the required notice will most likely cause those States and customers to investigate their own involvement with Orion. Such investigations can only lead to two reactions: claims filed against Orion for its past involvement with the customers and a loss of future business once the customers discover the true nature of Orion's business. To survive,

Orion cannot give such notice. That by itself should necessitate conversion of this case.

WHEREFORE, the State of Oregon, Oregon Department of Justice, respectfully requests that this Court convert its Chapter 11 bankruptcy case to a Chapter 7 case for each of the foregoing reasons, and grant such other and further relief as is just and equitable.

Dated: July 20, 2015

Respectfully Submitted,

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**ATTORNEYS FOR STATE OF OREGON,  
OREGON DEPARTMENT OF JUSTICE**

**CERTIFICATE OF SERVICE**

This will certify that on July 20, 2015, a true and correct copy of the foregoing pleading was served via this Court's CM/ECF notification system to the parties registered for such service and upon the attached matrix.

/s/ Lynn Hamilton Butler

Lynn Hamilton Butler

**15-10279-tmd Notice will be electronically mailed to:**

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