

\$9.1M In Fees Requested For Calif. Debt Relief Law Firm Ch. 11

By **Daniel Connolly**

Law360 (September 5, 2024, 4:45 PM EDT) -- Just days after a bankruptcy judge said in court that unsecured creditors in the case of collapsed California debt relief firm Litigation Practice Group will likely receive little to nothing, professionals working on the case filed about \$9.1 million in fee requests — enough to use up most of the available cash.

As of July 31, the bankruptcy estate had about \$12.4 million cash on hand, Chapter 11 trustee Richard Marshack reported.

The combined professional fees and expenses requested in recent days, if approved at a Sept. 24 hearing, would represent about 74% of that.

That doesn't include approved administrative claims, which likewise are paid before any creditors receive money.

More than 2,500 creditors have filed claims worth well over \$400 million. Many of these creditors are ordinary consumers who signed up for a debt relief service that was **secretly run by a disbarred lawyer**. Many others are **investors who put money into the operation**. The payment outlook for most of these creditors is grim.

"In most bankruptcies, in these types of situations, I will give you the bad news right up front, and that is that unsecured creditors will most likely get pennies, if anything, on the dollar," U.S. Bankruptcy Judge Scott Clarkson told one consumer creditor who spoke **at a hearing last week**.

Representatives of the trustee say there's a good chance that adversary proceedings will turn up more money to pay creditors in the case.

However, some critics are speaking out. One of them is attorney Ronald Richards. Until a few days ago, he had been representing a party in the case, Consumer Legal Group, but the client recently switched lawyers. Richards said he's still representing an entity that provided financing to the bankruptcy estate.

Richards, who emphasized that he's speaking for himself, not for any client, called the total amount of fees requested "a staggering number."

"It's almost really hard to believe that this much work has been done on the case, with respect to this case, and whether it was necessary or not," he told Law360.

He pointed to a request from Fox Rothschild LLP, the attorneys for the unsecured creditors committee, **which has asked for about \$1.1 million in fees** and about \$20,000 in expenses.

"So the unsecured creditors are going to get no money in this case," he said. "And this exposes something that's wrong with the bankruptcy system, that all these professionals are getting all this money and it's not going to benefit the creditors."

In its fee application, Fox Rothschild cited the complexity of the case, mentioning a complex sale of client files, assignment of client relationships to a new purchaser and the difficulties involved.

The firm didn't respond to requests for comment from Law360.

Richards said the situation is untenable. "There's something wrong with that process," he said. "Bankruptcy should not be a place where just lawyers get appointed to then get paid from money of the estate, and nobody else gets anything. It just seems like there's something wrong with that kind of outcome."

Another attorney involved in this case, Kathleen P. March, who represents a small group of creditors, has also been raising concerns about fees and other costs in this case for months. Judge Clarkson recently approved a Chapter 11 liquidation plan over objections from March's clients.

The biggest interim fee request filed this week comes from Dinsmore & Shohl LLP, special counsel to the Chapter 11 trustee. Dinsmore is **seeking about \$4.7 million in fees** and about \$57,000 in expenses for work performed between May 8, 2023 through June 30 of this year.

In an exhibit, **Dinsmore listed 55 attorneys and other staffers** who billed a cumulative 9,300 hours on the case at hourly rates ranging from \$100 to \$825.

Dinsmore said it's already included discounts in its request and that its proposed fee has been reviewed by a fee examiner.

Among other work, Dinsmore cited its efforts on multiple adversary proceedings to recover money against various people and companies who allegedly hold money and property that belongs to the bankruptcy estate, and said it plans to file more of these lawsuits.

In an email to Law360, Dinsmore partner Yosina M. Lissebeck said the case is "nowhere close to being done." She acknowledged that if there was no further recovery in these lawsuits, creditors will get a small distribution.

"That is not our expectation or intention, and it will become readily apparent over the next three months or so that we are seeking a very large recovery from all of the wrongdoers!" she wrote.

Marshack, the trustee, **requested about \$501,000 in fees** and about \$1,500 in expenses for work done from May 8, 2023 through July 31.

Marshack wrote that this amount represents a discount from his and his staff's actual time, which totals about \$717,000.

"Before [the hiring of administrative company Omni Agent Solutions Inc.] and the establishment of a dedicated hotline for former clients and other creditors, my staff fielded over a hundred calls per week," he wrote.

"The voicemail for my administrator was consistently full, requiring regular listening, response, and purging. Additionally, a separate email address was set up to handle inquiries, which I am informed received more than a hundred emails daily. These substantial efforts illustrate how my team and I went above and beyond, ensuring comprehensive and attentive management of this complex case despite the overwhelming volume of communications and administrative demands."

He also described complex efforts to locate and protect the Litigation Practice Group client files.

Marshack had also hired his own law firm, Marshack Hays Wood LLP.

The law firm **filed a request for about \$1.3 million in fees** and about \$47,000 in costs from May 8, 2023 through July 31.

The company's rates ranged from \$260 for a paralegal to \$690 for partner Edward Hays. At the start of this year, the firm announced it was raising its rates from \$290 for a paralegal to \$740 for Hays.

Marshack referred Law360's questions to Dinsmore.

Another request comes from administrative company Omni Agent Solutions Inc. which is **seeking**

about \$827,000 in fees and about \$72,000 in expenses.

Omni said its employees had billed nearly 6,000 hours for administrative tasks including running a call center and handling claims, noticing and ballots for thousands of creditors.

Grobstein Teeple LLP, an accounting company working for the Chapter 11 trustee, **requested about \$308,000 in fees** and \$51.03 for expenses for its work from May 12 through June 30. The firm said it will accept a lower amount if a distribution of less than 25% is made to the general unsecured creditors.

Another fee request comes from Force Ten Partners LLC, financial advisor to the official committee of unsecured creditors. The firm seeks about \$188,000 in fees for its work from Sept. 18, 2023 through July 31.

A privacy ombudsman, Lucy L. Thomson, is **requesting compensation of about \$30,000.**

Ethics monitor Nancy Rapoport **requested about \$39,000 in fees and expenses**, not including amounts already paid.

Rapoport was also appointed as fee examiner in August, after this payment period ended.

Forensic analysis firm Robert F. Bicher & Associates **requested about \$35,000 in fees.**

Khang & Khang LLP, which formerly represented Litigation Practice Group during its bankruptcy, **requested a fee of \$82,500.**

Chapter 11 trustee Richard Marshack is represented by Christopher B. Ghio, Christopher Celentino, Yosina M. Lissebeck and Tyler Powell of Dinsmore & Shohl LLP, and by D. Edward Hays of Marshack Hays Wood LLP.

The case is In re: The Litigation Practice Group PC, case number 8:23-bk-10571, in the U.S. Bankruptcy Court for the Central District of California.

--Editing by Alex Hubbard.