

**Oral Argument Requested by Appellant  
Ten (10) Minutes  
By Richard Sax**

**STATE OF NEW YORK  
COURT OF APPEALS**

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**FAST TRACK INVESTMENT COMPANY, LLC,  
a Delaware limited liability company,  
*Plaintiff/Respondent,***

v.

**RICHARD PHILIP SAX, individually and as principal for  
The Law Offices of Richard Sax;  
LAW OFFICES OF RICHARD SAX,  
a sole proprietorship,  
*Defendants/Appellants.***

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**New York Court of Appeals Case No. CTQ-2020-00006  
United States Court of Appeals for the Ninth Circuit Case No. 18-17270  
United States District Court, Northern District of California  
Case No. 4:17-cv-00257-KAW  
The Honorable Kandis A. Westmore, Presiding Magistrate Judge**

**APPELLANTS' OPENING BRIEF  
*Original Brief***

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**RICHARD SAX  
California State Bar No. 80632  
LAW OFFICE OF RICHARD SAX  
P.O. Box 1236  
Santa Rosa, CA 95402  
Telephone: 707-525-1824  
Attorney for Defendants/Appellants,  
RICHARD PHILIP SAX, et al.**

## **DISCLOSURE STATEMENT**

No parents, subsidiaries or affiliates exist relating to The Law Offices of Richard Sax, a sole proprietorship.

Dated: September 11, 2020

/S/ Richard Sax  
Richard Sax, Attorney for  
Defendants/Appellants,  
Richard Sax, et al.

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## **I. INTRODUCTION**

### **A. The New York Court of Appeals Has Jurisdiction Over This Case, Which Involves an Unanswered Question of New York Usury Law**

This action was initially brought in the District Court of the Northern District of California by plaintiff Fast Track Investment Company, LLC, a Delaware limited liability company (“Respondent” or “Fast Trak”), against defendants Richard P. Sax, individually and as principal for The Law Offices of Richard Sax, and The Law Offices of Richard Sax, as sole proprietorship (“Appellant” or “Sax”). (See Defendants’ First Amended Answer to Complaint, Appellants’ Appendix, Vol. VI pp. 545-550 [AA VI:545-550].)

This opening brief relies heavily upon the well-reasoned Certification Order to the New York Court of Appeals (AA IX:710-734), which was accepted by this Court on June 23, 2020.

In the Certification Order, the United States Court of Appeals for the Ninth Circuit asks this reviewing court to determine whether a litigation funding agreement, such as the instant agreement promulgated by Fast Trak, violates the usury laws of the State of New York.

The Ninth Circuit Court of Appeals certified to the New York Court of Appeals the following questions:

Whether a litigation financing agreement may qualify as a “loan” or a “cover for usury” where the obligation of repayment arises not only upon and from the client’s recovery of proceeds from such litigation but also upon and from the attorney’s fees the client’s lawyer may recover in unrelated litigation?

*And, if so*, what are the appropriate consequences, if any, for the obligor to the party who financed the litigation, under agreements that are so qualified?

(AA IX: 711, 733.)

Sax and Fast Trak entered a series of contracts in which Fast Trak agreed to fund lawsuits Sax brought as the attorney of record, in exchange for his and his clients’ pledges of proceeds from those cases, as well as Sax’s pledges of his attorney fees in unrelated cases.

After Sax obtained proceeds or attorney fees in some of those cases but did not pay them to Fast Trak as purportedly required by the agreements, Fast Trak sued Sax for, among other things, breach of contract and breach of fiduciary duty.

Below and on appeal, Sax argued that the contracts are unenforceable because they are champertous and usurious loans. The district court rejected both arguments and granted Fast Trak’s summary judgment motion, holding

that the agreements were enforceable under New York law (which the parties had contractually selected). The court subsequently awarded Fast Trak \$323,611.11 in damages, which Sax does not appeal.

To resolve Sax’s purported usury defense requires this Court to address what appears to be an unanswered question of New York usury law. In New York, usury laws typically apply *only* to agreements that constitute a “loan.” *See Seidel v. 18 E. 17th St. Owners, Inc.*, 79 N.Y.2d 735, 744 (1992) (“If the transaction is not a loan, ‘there can be no usury, however unconscionable the contract may be.’”) (quoting *Orvis v Curtiss*, 157 N.Y. 657, 661 (1899)).

On the other hand, the New York Court of Appeals has long held that a device to cover a usurious loan, even if not technically a loan, will permit a defense of usury to claims of breach. *See, e.g., Orvis*, 157 N.Y. at 660–61. And at least one lower court in New York has found a non-recourse litigation financing agreement to qualify as a “loan” that violates usury laws. *Echeverria v. Estate of Lindner*, 801 N.Y.S.2d 233, 2005 WL 1083704, at \*8 (Sup. Ct.), *judgment entered sub nom. Echeverria v. Lindner* (N.Y. Sup. Ct. 2005).

Sax contends that his agreements with Fast Trak predictably and effectively guaranteed repayment to Fast Trak from clients’ and Sax’s

assets, at interest rates that are usurious. As such, they constitute usurious loans under New York law, or are at least a device by Fast Trak to cover a usurious loan, and are thus unenforceable. Therefore, the district court erred in granting Fast Trak’s motion for summary judgment. (AA I:19-29.)

If this Court of Appeals were to hold that the increase in payments over time constitutes “interest” on a “loan,” the effective interest rates in all of the agreements between Fast Trak and Sax would exceed the maximum statutory interest rate for both civil and criminal usury.

**B. Sax’s Obligation to Make Payments Was Sufficiently Guaranteed by the Terms of the Agreements, Which Were Mere Devices to Conceal Loans of Money, and Should Be Treated Like Loans for the Purposes of New York Usury Law**

The second and more colorable argument against Fast Trak’s characterization of the agreements addresses the “real character” of the agreements. *See Ujueta*, 814 N.Y.S.2d at 552. The Court of Appeals has repeatedly endorsed the principle that if an “agreement was not intended for the purpose indicated upon its face, but as a *mere device or subterfuge to conceal a loan of money*[,] . . . . it is quite possible that the defense of usury could be sustained.” *Orvis*, 157 N.Y. at 660–61 (emphasis added).

This rule has some appeal, especially to payors: “[I]f the form of the contract were to be controlling, the statute against usury would be

substantially unenforcible [sic], and thus it was made the duty of the court in each case presented to examine into the substance of the transaction between the parties and determine whether the intent which pervaded it was one which violated the statute.” *Hartley v. Eagle Ins. Co. of London, Eng.*, 222 N.Y. 178, 185 (2018) (quoting *Hall v. Eagle Ins. Co.*, 151 A.D. 815, 826 (New York App. Div. 1912).

New York courts have affirmed this principle numerous times, usually in the mortgage context. *See* 72 N.Y. Jur. 2d Interest and Usury § 87; *Equity Serv. Corp. v. Agull*, 250 A.D. 96, 98 (N.Y. App. Div. 1937); *Hartley*, 222 N.Y. at 184-85; *Meaker v. Fiero*, 145 N.Y. 165, 169-170 (1895). However, no New York appellate or high court has addressed a defense of usury in cases involving litigation financing agreements where, similar to those here, the purported lender’s risk of non-payment is arguably miniscule.

If the transaction’s character is in fact the lending of money at a usurious rate, a defense of usury may be sustained even if the transaction fails to meet the legal requirements of a “loan” under section 5-501. *See Meaker*, 145 N.Y. at 170 (stating that “no matter what the disguise, if the court can see that the real transaction was the loan or forbearance of money at usurious interest, its plain and imperative duty is to so declare, and to hold the security void.”).

The Ninth Circuit Court of Appeal held that there is a nonfrivolous argument that the “real purpose” of these transactions is a loan rather than the purchase of contingent assets: Fast Trak wired funds to Sax; Fast Trak secured future payment by Sax with the potential proceeds in a large number of Sax’s cases, thereby making Sax’s obligation to pay Fast Trak arguably likely. (Cite)

The record of this case is sufficiently established such that the outcome to the above legal question will determine the case’s result. The New York Court of Appeals has held that whether a transaction constitutes a cover for usury “raise[s] a triable issue of fact” precluding summary judgment. *Hammelburger v. Foursome Inn Corp.*, 54 N.Y.2d 580, 594 (1981); *see also Ujueta*, 814 N.Y.S.2d at 552. These cases typically involved mortgages, and the triable issue was whether a broker’s commission should be included in the interest rate calculation. *See, e.g., ids.* Here, there is no question that the Pay-Off Amounts in the Secondary Contracts, if triggered, would exceed the maximum statutory rate.

The relevant factual issue on remand would be whether the occurrence of the triggering condition (i.e., Sax’s success in his cases) was sufficiently certain so as to constitute a “loan” or a “cover for usury.”

Sax averred that “Plaintiff’s loan was secured by other cases, so that unless I lost each and every case, Plaintiff still had the right to collect from the ‘Secondary Cases.’ To lose each and every case would be highly unlikely.”

Accordingly, if the New York Court of Appeals holds that the agreements can indeed constitute a “loan” or a “cover for usury” such that Sax may assert a usury defense under New York law, the United States Court of Appeals for the Ninth Circuit will reverse the district court’s grant of summary judgment to Fast Trak and remand for further proceedings consistent with the answer to the certified question.

On the other hand, if the Court of Appeals holds that such agreements do not constitute a “loan” or a “cover for usury,” these facts are irrelevant (that is, not “material” for the purposes of a summary judgment motion). In that case, the Court of Appeals for the Ninth Circuit will affirm the district court’s grant of summary judgment for Fast Trak.

**C. If the Contracts Constitute Loans, They Are Usurious and Void, and Interest and Principal Are Cancelled**

Finally, there also exists some confusion regarding the consequences of a successful usury defense under New York law. The Court of Appeals has previously held that “[t]he consequences to the lender of a usurious



transaction can be harsh: the borrower is relieved of all further payment—not only interest but also outstanding principal, and any mortgages securing payment are cancelled. In effect, the borrower can simply keep the borrowed funds and walk away from the agreement.” *Seidel*, 79 N.Y.2d at 740.

If the contracts do in fact constitute “loans” under section 5-501, they are usurious and, under the terms of section 5-501, void.

However, the *Echeverria* court enforced the agreement in that case, limiting interest to the maximum statutory rate. 801 N.Y.S.2d at \*8. Given this uncertainty, the Ninth Circuit also certified the question of the appropriate consequence to the Court of Appeals, as proposed below.

## **II. STATEMENT OF ISSUES**

1. Whether a litigation financing agreement may qualify as a “loan” or a “cover for usury” where the obligation of repayment arises not only upon and from the client’s recovery of proceeds from such litigation but also upon and from the attorney’s fees the client’s lawyer may recover in unrelated litigation?
2. *And, if so*, what are the appropriate consequences, if any, for the obligor to the party who financed the litigation, under agreements that are so qualified?

3, Whether the District Court erred in granting Fast Track’s motion for summary judgment, because there are genuine disputes of material facts and inherently factual inquires in this matter, as to whether the subject transactions were usurious.

### III. STATEMENT OF FACTS

#### **A. The Payment Schedules of the Primary and Secondary Contracts Show that the Effective Interest Rates on All of the Agreements Between Fast Trak and Sax Far Exceed the New York Maximum Statutory Interest Rates for Both Civil and Criminal Usury**

Fast Trak, a Delaware LLC with its principal place of business currently in New Jersey, is in the litigation finance business. Sax is a personal injury lawyer whose residence and principal place of business is in California. Fast Trak entered a series of agreements with Sax and Sax’s clients in the spring of 2013, each of which contained a New York choice-of-law clause. These agreements can be divided into two categories, “Primary Contracts” and “Secondary Contracts.” (AA II:61-153.)

Primary Contracts are those between Fast Trak and one of Sax’s *clients*, in which Fast Trak agreed to provide funds directly to the client, who in turn pledged to Fast Trak a portion of the future proceeds, if any, from his or her litigation (in which Sax acted as the client’s attorney). Most payments by Fast Trak to Sax’s clients ranged from \$3,000 to \$15,000. One client

received a total of \$96,000 from Fast Trak as memorialized in four agreements. Even though the Primary Contracts state that Fast Trak provides the funds directly to the client (the “Seller” under each agreement), the funds appear to have been wired directly from Fast Trak to Sax in most cases. The exact amount that Fast Trak transferred to Sax and/or his clients is disputed, with Sax arguing that it is \$125,000 and Fast Trak claiming it was “at least” \$132,000.

Rather than entitling Fast Trak to receive a *percentage* of any damages award, the Primary Contracts each contain a “Payment Schedule.” Each Payment Schedule outlines the minimum *amount* that the client counterparty must pay to Fast Trak, at a given time, from any received proceeds from the client’s litigation. The minimum payment amounts increase in six-month increments from the date of executing the agreement. The Payment Schedule functions such that the longer it takes the client to receive proceeds from his or her litigation, the more the client will pay to Fast Trak (if the client receives any such proceeds at all). For example, Fast Trak’s Primary Contract to transfer \$3,000 to Sax’s client, Roger Gadow, contains the following payment schedule:

A. Property to be purchased from the Seller under the agreement:	\$3,000.00
B. Payment Schedule:	
Total Pay-Off Amount to be paid by the Seller to FAST TRAK:	
Minimum amount due on or before the first six (6) month Anniversary:	\$4,716.51
After Six (6) month Anniversary, but on or before One Year Anniversary:	\$5,631.76
After One Year Anniversary, but on or before 18 month Anniversary:	\$6,724.61
After 18 month Anniversary, but on or before Two Year Anniversary:	\$8,029.54
After Two Year Anniversary, but on or before 30 month Anniversary:	\$9,587.69
After 30 month Anniversary, but on or before Three Year Anniversary:	\$11,448.20
<b>After the Three-Year Anniversary, the total pay- off amount shall continue to increase in a Similar fashion by \$450.00 for each additional six-month period.</b>	

In other words, if Gadow receives sufficient proceeds from his litigation the day after executing the Primary Contract, he must pay Fast Trak \$4,716.51 (providing Fast Trak a 57.2 % return on investment or “ROI”). Or if Gadow receives sufficient proceeds from his litigation, say, twenty months after executing the Primary Contract, Gadow must pay Fast Trak \$8,029.54 (a 167.7% ROI for Fast Trak). (AA II:61-65.)

If this Court of Appeals were to hold that the increase in payments

over time constitutes “interest” on a “loan,” the effective interest rates in all of the agreements between Fast Trak and Sax would exceed the maximum statutory interest rate for both civil and criminal usury. (Cite)

However, the agreements are clear that if the client does not obtain proceeds from his or her litigation sufficient to make the scheduled payments, the client has *no personal obligation* to pay Fast Trak out of his or her own pocket or estate: most Primary Contracts state in bold that “[t]his is a nonrecourse purchase agreement. There is no obligation for seller to make payment except from the proceeds of the matter/litigation.” The limited nature of this obligation, though, appears to be why Fast Trak and Sax entered the Secondary Contracts: to “induce” Fast Trak to invest in Sax.

The Secondary Contracts were signed only by Fast Trak and Sax (and not Sax’s clients). After referencing a specific underlying Primary Contract, each Secondary Contract states that it was executed “[i]n order to induce Fast Trak to enter” such corresponding Primary Contract. For example, for the \$3,000 Gadow contract, Sax signed a Secondary Contract with Fast Trak to induce Fast Trak to enter that Primary Contract with Gadow. Sax gets no additional funds for signing the Secondary Contract. Instead, Sax provides a list of his cases (deemed the “Secondary” cases) that are unrelated to Gadow’s case (the “Primary” case), and promises that:

If there has not been a monetary recovery in the “Primary” case great enough to pay the entire balance due pursuant to [the Payment Schedule of this Agreement] at the time when the first (first means “earliest to occur”) “Secondary” case yields any monetary recovery by settlement, judgment or otherwise; SAX shall then pay to FAST TRAK an amount equal to the entire remaining balance then due as per [the Payment Schedule] of this agreement.

In other words, if Gadow’s case loses (or wins but does not obtain sufficient proceeds to satisfy the Payment Schedule), the corresponding Secondary Contract functions as Sax’s agreement to cover the difference by paying Fast Trak from his receipts of attorney fees in unrelated cases.

For each Secondary Contract, Sax pledged his attorney’s fee in about five to ten unrelated cases. In other words, each Primary and Secondary Contract pair is self-described as a non-recourse “purchase” of future proceeds, which does not obligate repayment to Fast Trak from a client or from Sax’s personal credit or estates. But because Sax pledged his attorney fees in so many other unrelated cases (such that he states it would be enough to bankrupt his firm), the result of this arrangement is, according to Sax, that payment to Fast Trak by Sax is all but guaranteed.

Additionally, the Primary Contracts each include an exhibit containing “Irrevocable Instructions to Counsel” in which the client directs Sax (or any

successor attorney) to pay any received proceeds from the litigation to Fast Trak before paying them to the client. Sax also signed an “Acknowledgement by Counsel” exhibit for each Primary Contract, in which he promised to:

“honor the assignment by [his client] to [Fast Trak] . . . including without limitation:

- (a) holding, *as fiduciary for [Fast Trak]*, any Proceeds (as defined in the Agreement), together with any permitted fees and costs as set forth in the Agreement; (b) promptly notifying [Fast Trak] that I [Sax] have become possessed of any Proceeds and
- (c) providing information to [Fast Trak] about the Claims and any related litigation.”

In the Primary Contracts, each client represents that he or she “intends this transaction to be and agrees that this transaction is a purchase and sale and is not a loan,” and acknowledges that Fast Trak has “no influence, power or control over any matter relating to the Litigation.” Further, both the Primary and Secondary Contracts contain clauses by which Sax and his clients agreed to “waive[] any and all defenses to the enforcement of this Agreement . . . and specifically and unconditionally waive[] any claims that . . . any . . . provision of this Agreement . . . is invalid or unenforceable in any respect.”

**B. On Appeal, Sax Argued that His Agreements With Fast Trak Predictably and Effectively Guaranteed Repayment to Fast Trak at Usurious Interest Rates, Constituting Loans Under New York Law or at Least a Device by Fast Trak to Cover Usurious Loans, and Are Thus Unenforceable**

Fast Trak ultimately sued Sax for breach of contract and breach of fiduciary duty.<sup>4</sup> In response to Fast Trak’s motion for summary judgment, Sax’s primary arguments were that the contracts are not enforceable because they are usurious and because they violate laws against champerty. The district court rejected both arguments and entered summary judgment on both claims for Fast Trak. The district court requested supplemental briefing on the amount of damages, and, in response to Fast Trak’s briefing, Sax stated he took “no position regarding the damages claimed by Plaintiff.” The district court reviewed Fast Trak’s calculations and awarded it \$323,611.21 in damages.

The district court granted summary judgment to Fast Trak on the grounds that “[u]nder New York law, ‘if the transaction is not a loan, there can be no usury, however unconscionable the contract may be.’” *Fast Trak Inv. Co. v. Sax*, No. 4:17-CV-00257-KAW, 2018 WL 2183237, at \*6 (N.D. Cal. 2018) (citing *NY Capital Asset Corp. v. F & B Fuel Oil Co.*, 98 N.Y.S.3d 501, 2018 WL 1310218, at \*6 (N.Y. Sup. Ct. 2018)).



On appeal, Sax argued that his agreements with Fast Trak “were illegal, usurious, and champertous recourse loans,” but provided little detail that would directly or obviously support this argument. Instead, he simply argued that “[t]he subject transactions were usurious” and “[t]he parties intended the subject transactions to be recourse loans.” He also described the terms of the agreements, and stated that “Fast Track [sic] would thus recover unless Sax lost each and every case that was pledged in its entirety,” and that Fast Trak’s assertions to the contrary were “misleading” and “illusory.” Finally, he stated that “even if the ‘Primary Cases’ did not deliver adequate returns, Fast Track [sic] would not lose its investment, because it had demanded the right to collect the ‘entirety’ of Sax’s attorney fees from a string of secondary cases in his law firm, by way of an ambiguous, even incomprehensible, contract of adhesion.”

Thus, Sax has made out the following argument: his agreements with Fast Trak predictably and effectively guaranteed repayment to Fast Trak from clients’ and Sax’s assets, at interest rates that are usurious. As such, they constitute usurious loans under New York law, or are at least a device by Fast Trak to cover a usurious loan, and are thus unenforceable. Therefore, the district court erred in granting Fast Trak’s motion for summary judgment. For the reasons discussed below, the Ninth Circuit

Court of Appeals certified the above question to the New York Court of Appeals.

#### **IV. LEGAL ARGUMENT AND LAW OF THE CASE**

##### **A. New York’s Civil Usury Statute Provides That Any Loan Contract That Charges an Effective Annual Interest Exceeding 16% is Void; the Primary and Secondary Contracts in this Case Far Exceed the Statutory Maximum**

New York’s usury statute provides, in relevant part:

1. The rate of interest, as computed pursuant to this title, upon the *loan* or forbearance of any money, goods, or things in action, . . . shall be six per centum per annum unless a different rate is prescribed in section fourteen-a of the banking law.

2. No person or corporation shall, directly or indirectly, charge, take or receive any money, goods or things in action as interest on the loan or forbearance of any money, goods or things in action at a rate exceeding the rate above prescribed. The amount charged, taken or received as interest *shall include any and all amounts paid or payable, directly or indirectly, by any person, to or for the account of the lender in consideration for making the loan or forbearance . . . .*

N.Y. Gen. Oblig. Law § 5-501 (McKinney) (emphases added).

In turn, section 14-a of the banking law provides that the maximum rate of interest provided for in section 5- 501 is a 16% simple interest rate per year. N.Y. Banking Law § 14-a(1) (McKinney). New York courts have

interpreted section 5-501(2) literally, and included in the calculation of interest *all payments or amounts owed* to the lender “in consideration of the making of a loan or forbearance of money.” *Feldman v. Kings Highway Sav. Bank*, 102 N.Y.S.2d 306, 307 (App. Div.), *aff’d*, 303 N.Y. 675 (1951); *see also Band Realty Co. v. N. Brewster, Inc.*, 37 N.Y.2d 460, 464–66 (1975). Finally, section 5-511 of that chapter states that any contract under which a “greater value, for the loan or forbearance of any money than is prescribed in section 5-501, *shall be void. . .*” N.Y. Gen. Oblig. Law § 5-511 (McKinney) (emphasis added).

New York also has a *criminal* usury statute, which was “designed to prohibit ‘loansharking.’” Practice Commentary to N.Y. Penal Law § 190.40 (McKinney). The criminal usury statute provides for a higher statutory rate of 25% simple interest annually. N.Y. Penal Law § 190.40 (McKinney). Further, the same 25% annual rate constitutes “[c]riminal usury in the first degree” if “the actor’s conduct was part of a scheme or business of making or collecting usurious loans.”<sup>6</sup> *Id.* § 190.42.

In New York, although corporations cannot bring a usury defense in civil actions, N.Y. Gen. Oblig. Law § 5-521(1), (3) (McKinney), this prohibition does not apply to Richard Sax, a natural person, and his law firm, a sole proprietorship.

**B. The Primary and Secondary Contracts Constitute “Loans” Under § 5-501, and are Thus Usurious and Void**

Put simply, sections 5-501 and 5-511 make any contract “void” that provides for (1) a “loan” (2) that charges an effective annual interest that exceeds 16% (i.e., that includes any and all amounts payable under the contract). As explained below, element (2) is easily satisfied in this case. Accordingly, because the case depends on whether the financial agreement qualifies as a loan, the answer to the certified question would resolve this issue.

All of the Primary and Secondary Contracts charge effective annual interest rates that—if the Contracts constitute loans—*far exceed* the statutory maximum of 16% annually. (Emphasis added.)

By way of example, the Gadow Primary Contract, described above, as well as the Secondary Contract between Sax and Fast Trak, contain the below Payment Schedule (the exorbitant, usurious interest calculations in the far right column *do not appear in the contracts themselves*). (Emphasis added.)

		<b>Annually Compounded Interest<sup>7</sup></b>
A. Property to be purchased from the Seller under the agreement:	\$3,000.00	

B. Payment Schedule:		
Total Pay-Off Amount to be paid by the Seller to FAST TRAK:		
Minimum amount due on or before the first six (6) month Anniversary:	4,716.51	
After Six (6) month Anniversary, but on or before One Year Anniversary:	5,631.76	<b>87.7%</b>
After One Year Anniversary, but on or before 18 month Anniversary:	6,724.61	
After 18 month Anniversary, but on or before Two Year Anniversary:	8,029.54	<b>42.6%</b>
After Two Year Anniversary, but on or before 30 month Anniversary:	9,587.69	
After 30 month Anniversary, but on or before Three Year Anniversary:	11,448.20	<b>42.6%</b>

These interest rates were not calculated by Sax or included in the record that Sax filed in the Ninth Circuit. The Ninth Circuit calculated the interest rates by “the traditional method of computing interest” endorsed by the New York Court of Appeals. *Band Realty Co.*, 37 N.Y.2d at 466.

As shown in the table, the conditional payment obligations that the Contracts impose upon Gadow and/or Sax would, if they constitute loans, well exceed the civil statutory maximum interest rate of 16% per annum (compounded annually), as well as the criminal statutory maximum of 25% per annum (compounded annually). The same is true for all the Primary and Secondary Contracts under which Fast Trak is suing Sax: the amounts of payment which they conditionally obligate Sax and his clients to pay exceed the statutory rate for criminal usury.

In other words, if the contracts do in fact constitute “loans” under section 5-501, they are usurious and, under the terms of section 5-501, void.

To begin with, New York law is clear that “[w]hen determining whether a transaction constitutes a usurious loan it must be ‘considered in its totality and judged by its real character, rather than by the name, color, or form which the parties have seen fit to give it.’” *Ujueta v. Euro-Quest Corp.*, 814 N.Y.S.2d 551, 552 (App. Div. 2006) (quoting *Lester v. Levick*, 376 N.Y.S.2d 619 (App. Div. 1975) (Christ, J., dissenting), *rev’d. on dissenting opn.* 41 N.Y.2d 940 (N.Y. 1977)). Thus, that the agreements are described by their language as “Purchase Agreement[s]” and not as loans is not dispositive; it is their “real character,” when they are “considered in [their] totality,” that matters here. *Id.*

Nonetheless, according to the New York Court of Appeals, “[i]f the transaction is not a loan, ‘there can be no usury, however unconscionable the contract may be.’ *Seidel*, 79 N.Y.2d at 744 (quoting *Orvis*, 157 N.Y. at 661). New York appellate courts have held that “[i]n order for a transaction to constitute a loan, there must be a borrower and a lender; and it must appear that the real purpose of the transaction was, on the one side, to lend money at usurious interest reserved in some form by the contract and, on the other side, to borrow upon the usurious terms dictated by the lender.” *Donatelli v. Siskind*, 565 N.Y.S.2d 224, 226 (App. Div. 1991). Further, “[f]or a true loan it is essential to provide for repayment absolutely and at all events or that the principal in some way be secured as distinguished from being put in hazard.” *Rubenstein v. Small*, 273 A.D. 102, 104 (N.Y. App. Div. 1947); *see also Cash4Cases, Inc. v. Brunetti*, 167 A.D.3d 448 (N.Y. App. Div. 2018). Put simply, to constitute a “loan” under the usury statute, the purported lender must have the right to collect from the purported borrower in absolute terms—that is, a right not dependent on the occurrence of any condition precedent. Because Fast Trak has the right to collect from Sax *only if* he or his clients obtain sufficient proceeds, Fast Trak argues, the transactions cannot constitute a “loan.”

**C. Sax’s Obligation to Make Payments is Sufficiently “Guaranteed” by the Terms of the Agreements, So What May Appear to Not Be a “Loan” Should Be Nonetheless Treated Like One for the Purposes of New York Usury Law**

Two arguments push in the other direction. First is the possibility that Sax’s obligation to make payments is sufficiently “guaranteed” by the terms of the agreement, such that what appears not to be a “loan” is nonetheless treated like one for the purposes of New York usury law. While the Court of Appeals has not addressed this possibility in the realm of litigation finance, at least one New York state trial court has held that a similar purported non-recourse litigation financing arrangement was a “loan” (and thus subject to usury laws) because the recovery of the underlying plaintiff—and therefore the financier’s payment—was “almost guaranteed.” *Echeverria*, 801 N.Y.S.2d 233, 2005 WL 1083704 at \*8. In *Echeverria*, the plaintiff Echeverria received a \$25,000 “advance” from a company called LawCash to pursue his personal injury case, which he agreed to repay “at an interest rate of 3.85% compounded monthly to LawCash from any judgment awarded,” *id.* at \*4, which the court noted was “an obviously usurious rate,” *id.* at \*1. In finding that the finance agreement constituted a loan, the court concluded that:



[T]here was a very low probability that judgment would not be in favor of the plaintiff. It is a strict liability labor law case where the plaintiff is almost guaranteed to recover. There is low, if any risk. This is troubling considering the enormous profits that will be made from the rapidly accruing, extremely high interest rates they are charging.

*Id.* at \*8. The court also noted that, just like a bank making a loan, LawCash was able to demand its rate of return. *Id.* at \*5 n.1. The court then found that because the investment was a “sure thing,” “it is a loan, not an investment with great risk. If it is a loan, then the interest rate charged is usurious and the court could vitiate the agreement.” *Id.* at \*8. Instead, because the law was uncertain, the court enforced the agreement at maximum statutory rate of 16% annual interest. *Id.*

Given that Fast Trak’s realization of payment depends entirely on a condition—the receipts of either litigation proceeds by the client or attorney fees by Sax—Sax’s argument that these agreements strictly qualify as “loan[s]” under New York law is questionable. Nonetheless, with the Primary and Secondary contracts, the risk of non-payment might be so low that the financial agreement qualifies as a loan under New York law. However, even if the transactions are not “loan[s]” under section 5-501,

New York law still seems to permit a defense of usury in certain circumstances.

The second and more colorable argument against Fast Trak’s characterization of the agreements addresses the “real character” of the agreements. *See Ujueta*, 814 N.Y.S.2d at 552. The Court of Appeals has repeatedly endorsed the principle that if an “agreement was not intended for the purpose indicated upon its face, but as a *mere device or subterfuge to conceal a loan of money*[,] . . . . it is quite possible that the defense of usury could be sustained.” *Orvis*, 157 N.Y. at 660–61 (emphasis added). This rule has some appeal, especially to payors: “[I]f the form of the contract were to be controlling, the statute against usury would be substantially unenforcible [sic], and thus it was made the duty of the court in each case presented to examine into the substance of the transaction between the parties and determine whether the intent which pervaded it was one which violated the statute.” *Hartley v. Eagle Ins. Co. of London, Eng.*, 222 N.Y. 178, 185 (1918) (quoting *Hall v. Eagle Ins. Co.*, 151 A.D. 815, 826 (N.Y. App. Div. 1912)).

Thus, New York courts have affirmed this principle numerous times, usually in the mortgage context. *See, e.g.*, 72 N.Y. Jur. 2d Interest and Usury § 87; *Equity Serv. Corp. v. Agull*, 250 A.D. 96, 98 (N.Y. App. Div.

1937); *Hartley*, 222 N.Y. at 184–85; *Meaker v. Fiero*, 145 N.Y. 165, 169–170 (1895).

However, no New York appellate or high court has addressed a defense of usury in cases involving litigation financing agreements where, similar to those here, the purported lender’s risk of non-payment is arguably miniscule.

At oral argument before the Ninth Circuit court, Fast Trak argued that *Cash4Cases*, an intermediate appellate decision, is “the controlling law in New York.” Oral Argument at 16:57, *Fast Trak Invest. Co. v. Sax*, No. 18-17270 (Feb. 3, 2020), <https://youtu.be/6C1qJ9Bt1ws>.

It is true that this decision cannot be “disregarded” by this court. *Estrella*, 682 F.2d at 817.

However, while *Cash4Cases* presents some facial similarity to this one, given its evaluation of a litigation finance agreement, it is easily distinguishable. In *Cash4Cases*, the challenged agreement appears to have been contingent upon “successful recovery of proceeds” from “defendant’s [single] pending personal injury litigation.” 167 A.D.3d at 448–49. Here, in sharp contrast, Fast Trak advanced money to Sax, the repayment of which was secured in each instance with his future attorney fees in about five to ten unrelated cases. Even the *Cash4Cases* court recognized that an

agreement can constitute a loan if “the principal [is] in some way . . . secured as distinguished from being put in hazard.” *Id.* at 449 (citing *Rubenstein*, 273 A.D. at 104).

To put it another way, if this case’s facts aligned with those in *Cash4Cases*, such that Fast Trak was suing Sax for proceeds he purportedly owed it related to a single case, we might be inclined to agree that *Cash4Cases* would foreclose Sax’s usury defense. As Fast Trak would have it, as long as there is *some* possibility that the assets listed in the agreements will not yield full payment to Fast Trak, the transaction cannot qualify as a “loan” and Sax may not sustain a usury defense.

But unlike *Cash4Cases*, Sax has made a colorable argument that repayment to Fast Trak is all but guaranteed.

In summary, we are bound by New York law to analyze the transaction and determine its “real character.” If the transaction’s character is in fact the lending of money at a usurious rate, a defense of usury may be sustained even if the transaction fails to meet the legal requirements of a “loan” under section 5-501. *See Meaker*, 145 N.Y. at 170 (stating that “no matter what the disguise, if the court can see that the real transaction was the loan or forbearance of money at usurious interest, its plain and imperative duty is to so declare, and to hold the security void.”).

As we see it, there is a nonfrivolous argument that the “real purpose” of these transactions is a loan rather than the purchase of contingent assets: Fast Trak wired funds to Sax, and Fast Trak secured future payment by Sax with the potential proceeds in a large number of Sax’s cases, thereby making Sax’s obligation to pay Fast Trak arguably likely.

Furthermore, the record of this case is sufficiently established such that the outcome to the above legal question will determine the case’s result. The New York Court of Appeals has held that whether a transaction constitutes a cover for usury “raise[s] a triable issue of fact” precluding summary judgment. *Hammelburger v. Foursome Inn Corp.*, 54 N.Y.2d 580, 594 (1981); *see also Ujueta*, 814 N.Y.S.2d at 552. These cases typically involved mortgages, and the triable issue was whether a broker’s commission should be included in the interest rate calculation. *See, e.g., ids.* Here, there is no question that the Pay-Off Amounts in the Secondary Contracts, if triggered, would exceed the maximum statutory rate. However, the relevant factual issue on remand would be whether the occurrence of the triggering condition (i.e., Sax’s success in his cases) was sufficiently certain so as to constitute a “loan” or a “cover for usury.”

Sax averred that “Plaintiff’s loan was secured by other cases, so that unless I lost each and every case, Plaintiff still had the right to collect from

the ‘Secondary Cases.’ To lose each and every case would be highly unlikely.” Sax’s declaration also includes several statements to the effect that the cases with which he secured Fast Trak’s advances make up most or all of his firm’s resources. He stated that four of the securing cases “that resulted in adverse defense verdicts drained my law firm, which was still struggling as a result of the ‘Great Recession,’” that paying Fast Trak the amount it claims would put him “out of business” and “drive[] [him] into bankruptcy.” Further, though, the record shows that Fast Trak’s advances to Sax were secured by a total of at least eighteen cases.

Accordingly, if the New York Court of Appeals holds that the agreements can indeed constitute a “loan” or a “cover for usury” such that Sax may assert a usury defense under New York law, we will reverse the district court’s grant of summary judgment to Fast Trak and remand for further proceedings consistent with the answer to the certified question.

On the other hand, if the Court of Appeals holds that such agreements do not constitute a “loan” or a “cover for usury,” these facts are irrelevant (that is, not “material” for the purposes of a summary judgment motion). In this case, we will affirm the district court’s grant of summary judgment for Fast Trak.

Finally, there also exists some confusion regarding the consequences of a successful usury defense under New York law. The Court of Appeals has previously held that “[t]he consequences to the lender of a usurious transaction can be harsh: the borrower is relieved of all further payment—not only interest but also outstanding principal, and any mortgages securing payment are cancelled. In effect, the borrower can simply keep the borrowed funds and walk away from the agreement.” *Seidel*, 79 N.Y.2d at 740. However, the *Echeverria* court enforced the agreement, limiting interest to the maximum statutory rate. 801 N.Y.S.2d at \*8. Given this uncertainty, we also certify the question of the appropriate consequence to the New York State Court of Appeals.

Applying these state-law doctrines to a novel type of contract—secured financing agreements like the ones in this case—is a job most suitable for the highest court of the state whose law is in question. This is particularly the case when, as here, the result is likely to have wide-reaching implications. Litigation financing is a rapidly growing industry. N.Y. Bar Opinion, 2011 WL 6958790 at \*1.

## **D. Other States That Have Addressed Whether Similar Agreements Violate Usury Laws Have Reached Conflicting Results**

Other states that have addressed whether similar agreements violate usury laws have reached conflicting results. Given the importance of the issue, it is preferable for the New York Court of Appeals to address this issue in the first instance.

Compare *Oasis Legal Fin. Grp., LLC v. Coffman*, 361 P.3d 400, 410 (Col. 2015), with *Anglo-Dutch Petroleum Int'l, Inc. v. Smith*, 243 S.W.3d 776, 782 (Tex. App. 2007).

### **1. *Oasis Legal Fin. Grp., LLC v. Coffman* Holds That Litigation Finance Companies That Agree to Advance Money to Tort Plaintiffs in Exchange For Future Litigation Proceeds Are Making “Loans,” Even If the Plaintiffs Do Not Have an Obligation to Repay Any Deficiency**

*Oasis Legal Fin. Grp., LLC* holds:

“...that litigation finance companies that agree to advance money to tort plaintiffs in exchange for future litigation proceeds are making ‘loans’ subject to Colorado’s [Uniform Consumer Credit Code] even if the plaintiffs do not have an obligation to repay any deficiency if the litigation proceeds are ultimately less than the amount due. These transactions create debt, or an obligation to repay, that grows with the passage of time.”

Conversely, *Anglo-Dutch Petroleum Int'l, Inc. v. Smith*, 243 S.W.3d 776, 782 (Tex. App. 2007) holds that litigation funding agreements entered



into by investor and petroleum companies, under which an investor provided funds to finance companies' lawsuit against a multinational corporation in return for portion of the companies' recovery in the lawsuit, were not usurious transactions, as they did not meet the definition of a "loan". § 500.27(a).

**E. Whether New York Law Permits a Defense of Usury in The Circumstances of this Case is a Question for Which No Controlling Precedent Exists**

As explained above, whether New York law permits a defense of usury in these circumstances is a question for which no controlling precedent of the Court of Appeals exists. The resolution of this question will determine the result of this case.

Accordingly, as stated above, the following questions are before the New York Court of Appeals:

1. Whether a litigation financing agreement may qualify as a "loan" or a "cover for usury" where the obligation of repayment arises not only upon and from the client's recovery of proceeds from such litigation but also upon and from the attorney's fees the client's lawyer may recover in unrelated litigation?

2. *And, if so*, what are the appropriate consequences, if any, for the obligor to the party who financed the litigation, under agreements that are so qualified?

## **V. CONCLUSION**

Based upon the foregoing facts and law, it is respectfully submitted that the New York Court of Appeals hold that the instant agreements constitute a “loan” or a “cover for usury,” Sax may assert a usury defense under New York law, and the United States Court of Appeals for the Ninth Circuit will reverse the district court’s grant of summary judgment to Fast Trak and remand this matter for further proceedings in the District Court.

In the district court, the following will be overturned:

1. The Motion Granting Plaintiff’s Motion for Summary Judgment filed on May 11, 2018;
2. The Order Awarding Damages dated August 21, 2018; and,
3. The Judgment dated October 26, 2018.

Dated: September 11, 2020

/S/ Richard Sax  
Richard Sax, Attorney for  
Defendant/Appellant,  
Richard Sax, et al.

## STATEMENT OF RELATED CASES

There are no related bases pending in this Court.

Dated: September 11, 2020

/S/ Richard Sax  
Richard Sax, Attorney for  
Defendants/Appellants,  
Richard Sax, et al.



**DECLARATION OF RICHARD SAX AND CERTIFICATE OF COMPLIANCE**

I, Richard Sax, hereby declare as follows:

1. I am the attorney for Defendant/Appellant Richard Sax, et al., in the above-entitled matter.
2. I have utilized the software program entitled Microsoft Word to determine the word count of Appellant's Opening Brief.
3. This brief complies with the type and word limits of NYCRR Part 1250 and NYCRR Part 500.13 because the word count of Appellant's Opening Brief is 7075 words, excluding the parts of the brief exempted.
4. This brief complies with the typeface requirements because this brief has been prepared in a proportionately-spaced typeface, using Microsoft Office, Times New Roman 14-point font.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was signed on September 11, 2020, in Santa Rosa, California.

By: /S/ Richard Sax

Richard Sax, Attorney for  
Defendant/Appellant,  
Richard Sax, et al.

**CERTIFICATE OF SERVICE**

I declare that: I am employed in the County of Sonoma, California. I am over the age of eighteen (18) years and not a party to the within case; my business address is P.O. Box 1236, Santa Rosa, CA 95402. My facsimile number is 707-525-8119, and my electronic mail address is [Diane@rsaxlaw.com](mailto:Diane@rsaxlaw.com). On September 12, 2020, I served **Appellants' Opening Brief** on the interested party or parties in said cause, addressed as follows:

Kira Ann Schlesinger  
SCHLESINGER CONRAD LAW FIRM  
3936 E. Desert Cove Avenue, 1<sup>st</sup> Floor  
Phoenix, AZ 85028  
Email: [kira@schlesingerconrad.com](mailto:kira@schlesingerconrad.com)

(XX) BY U.S. MAIL, PURSUANT TO Code of Civil Procedure § 1013(a): I placed said document in a sealed envelope, with postage thereon fully prepaid for first class mail, for collection and mailing at Santa Rosa, California, following ordinary business practices. I am readily familiar with the practice of The Law Offices of Richard Sax for the processing of correspondence, said practice being that in the ordinary course of business, correspondence is deposited with the United States Postal Service the same day as it is placed for processing.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed at Santa Rosa, California, on September 12, 2020.

/S/ Diane Brooks  
Diane Brooks

## **CERTIFICATE OF SERVICE**

I declare that: I am employed in the County of Sonoma, California. I am over the age of eighteen (18) years and not a party to the within case; my business address is 448 Sebastopol Ave, Santa Rosa, CA 95401. My facsimile number is 707-525-8119, and my electronic mail address is [Richard@rsaxlaw.com](mailto:Richard@rsaxlaw.com). On September 14, 2020, I served **APPELLANTS' OPENING BRIEF** on the interested party or parties in said cause. Participants in the case who are registered CM/ECF users will be served by the appellate CM/ECF system.

### **SERVICE LIST**

Kira Ann Schlesinger  
SCHLESINGER CONRAD LAW FIRM  
3936 E. Desert Cove Avenue, 1<sup>st</sup> Floor  
Phoenix, AZ 85028  
Email: [kira@schlesingerconrad.com](mailto:kira@schlesingerconrad.com)  
Attorney for Plaintiff/Appellee,  
FAST TRACK INVESTMENT COMPANY, LLC

(XX) ELECTRONIC SERVICE VIA CM/ECF SYSTEM: In accordance with the electronic filing procedures of this Court, service has been effected on the parties above, whose counsel of record is a registered participant of CM/ECF, via electronic service through the CM/ECF system. A copy of the "Filing Receipt" page will be maintained with the original document in our office.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed at Santa Rosa, California, on September 14, 2020.

/S/ Richard Sax  
Richard Sax,  
Attorney for  
Defendant/Appellant,  
Richard Sax, et al.