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**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ARIZONA**

Federal Trade Commission; and the States of
Alabama; Alaska; Arizona; Arkansas;
California; Colorado; Connecticut; Delaware;
Florida; Georgia; Hawaii; Idaho; Illinois;
Indiana; Iowa; Kansas; Kentucky; Louisiana;
Maine; Maryland; Massachusetts; Michigan;
Minnesota; Mississippi; Missouri; Montana;
Nebraska; Nevada; New Hampshire; New
Jersey; New Mexico; New York; North
Carolina; North Dakota; Ohio; Oklahoma;
Oregon; Pennsylvania; Rhode Island; South
Carolina; South Dakota; Tennessee; Texas;
Utah; Vermont; Virginia; Washington; West
Virginia; Wisconsin; and Wyoming; and the
District of Columbia;

Plaintiffs;

vs.

Cancer Fund of America, Inc., also d/b/a
Breast Cancer Financial Assistance Fund, a
Delaware corporation; Cancer Support
Services, Inc., a District of Columbia
corporation; Children's Cancer Fund of
America, Inc., an Arizona corporation; The
Breast Cancer Society, Inc., also d/b/a The
Breast Cancer Society of America, a
Delaware corporation; James Reynolds, Sr.,
individually and in his capacity as an officer
or director of Cancer Fund of America, Inc.;
Kyle Effler, individually and in his capacities
as an officer or director of Cancer Fund of
America, Inc., and Cancer Support Services,
Inc.; Rose Perkins, individually and in her
capacity as an officer or director of Children's
Cancer Fund of America, Inc.; and James
Reynolds, II, a/k/a James Reynolds, Jr.,
individually and in his capacity as an officer
or director of The Breast Cancer Society, Inc.;

Defendants.

CASE NO.

COMPLAINT

1 **COMPLAINT**

2 Plaintiffs, the Federal Trade Commission (“FTC”) and the states of Alabama,
3 Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida,
4 Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine,
5 Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana,
6 Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North
7 Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South
8 Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West
9 Virginia, Wisconsin, and Wyoming, and the District of Columbia (collectively
10 “Plaintiffs”), for their complaint against Defendants Cancer Fund of America, Inc., also
11 d/b/a Breast Cancer Financial Assistance Fund (“CFA”); Cancer Support Services, Inc.
12 (“CSS”); Children’s Cancer Fund of America, Inc. (“CCFOA”); The Breast Cancer
13 Society, Inc., also d/b/a The Breast Cancer Society of America (“BCS”); James
14 Reynolds, Sr.; Kyle Effler; Rose Perkins; and James Reynolds, II, a/k/a James Reynolds,
15 Jr. (collectively “Defendants”) allege:

16 **SUMMARY OF THE CASE**

17 1. Defendants, four sham charities and the individuals who run them, have
18 engaged in a massive, nationwide fraud, telling generous Americans that their
19 contributions will help people suffering from cancer, but instead, spending the
20 overwhelming majority of donated funds supporting the Individual Defendants, their
21 families and friends, and their fundraisers. Collectively, between 2008 and 2012,
22 Defendants raised more than \$187 million from donors in the United States. This case is
23 about those sham charities, the individuals who ran them, and the false and deceptive
24 claims they made while raising these enormous sums from an unsuspecting public.

25 2. In telemarketing calls, direct mail solicitations, websites, regulatory filings,
26 financial documents, and Combined Federal Campaign materials, Defendants have
27 portrayed themselves as legitimate charities with substantial nationwide programs whose
28

1 primary purposes were to provide direct support to cancer patients, children with cancer,
2 and breast cancer patients in the United States. They also have described specific
3 programs that donors' contributions supposedly would support, including, e.g., stating
4 that donations would be used to provide pain medication to children suffering from
5 cancer, transport cancer patients to chemotherapy appointments, or pay for hospice care
6 for cancer patients. These were lies. Not one of the Defendants has operated a program
7 that provides cancer patients with pain medication to alleviate their suffering, transports
8 cancer patients to chemotherapy appointments, or pays for hospice care. Moreover, the
9 vast majority of donors' contributions have not directly assisted cancer patients in the
10 United States or otherwise benefitted any charitable purpose. Rather, donations have
11 enriched a small group of individuals related by familial and financial interests and the
12 for-profit fundraisers they hired. This diversion of charitable funds has deceived donors
13 and wasted millions of dollars that could have been spent as donors intended, to help
14 Americans suffering from cancer.

15 3. Defendants have hidden their high fundraising and administrative costs
16 from donors by using an accounting scheme involving the shipment of pharmaceuticals
17 and other goods (known as gifts-in-kind or "GIK") to developing countries. Through this
18 scheme, collectively from 2008 through 2012, Defendants improperly reported over \$223
19 million in revenue and program spending in their financial statements. This had the
20 effect of making Defendants appear to be larger and more efficient with donors' dollars
21 than they actually were, deceiving the donating public.

22 4. Defendants' deceptive conduct has violated Section 5 of the Federal Trade
23 Commission Act ("FTC Act"), 15 U.S.C. § 45(a), and the Telemarketing Sales Rule
24 ("TSR"), 16 C.F.R. Part 310, as well as state statutes regarding charitable solicitations
25 and prohibiting deceptive and unfair trade practices.

26 5. The FTC brings this action under Sections 13(b) and 19 of the FTC Act, 15
27 U.S.C. §§ 53(b) and 57b, and the Telemarketing and Consumer Fraud and Abuse
28 Prevention Act ("Telemarketing Act"), 15 U.S.C. §§ 6101-6108, to obtain temporary,

1 preliminary, and permanent injunctive relief, rescission or reformation of contracts,
2 restitution, the refund of monies paid, disgorgement of ill-gotten monies, and other
3 equitable relief for Defendants' violations of Section 5(a) of the FTC Act, 15 U.S.C.
4 § 45(a), and the TSR, 16 C.F.R. Part 310.

5 6. This action is also brought, in their representative and individual capacities
6 as provided by state law, by the attorneys general of Alabama, Alaska, Arizona,
7 Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho,
8 Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts,
9 Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, New
10 Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma,
11 Oregon, Pennsylvania, Rhode Island, South Dakota, Texas, Utah,¹ Vermont, Virginia,
12 Washington, West Virginia, Wisconsin, and Wyoming (collectively the "Attorneys
13 General") and the secretaries of state of Colorado, Georgia, Maryland, North Carolina,
14 South Carolina, Tennessee, Mississippi, and West Virginia (collectively the "Secretaries
15 of State"). The plaintiffs identified in this paragraph are referred to collectively as the
16 "Plaintiff States."

17 7. The Plaintiff States bring this action pursuant to consumer protection,
18 business regulation, charitable solicitation, and/or charitable trust enforcement authority
19 conferred on their attorneys general, secretaries of state, and/or state agencies by state
20 law and/or pursuant to *parens patriae* and/or common law authority. These state laws
21 authorize the Plaintiff States to seek temporary, preliminary, and permanent injunctive
22 relief, rescission or reformation of contracts, restitution, the refund of monies paid,
23 disgorgement of ill-gotten monies, and other equitable relief, to prevent the waste,
24 dissipation, and loss of charitable assets, and/or to stop ongoing donor deception caused
25 by Defendants' violations of state law. These state laws also authorize the Plaintiff States
26 to obtain civil penalties, attorneys' fees, expenses, and costs.

27
28 ¹ As used here, the attorney general of Utah refers to the Utah Attorney General as counsel to the Division of
Consumer Protection, and in his capacity to enforce the TSR pursuant to the Telemarketing Act.

1 to enjoin violations of the FTC Act and the TSR and to secure such other equitable relief
 2 as may be appropriate in each case, including rescission or reformation of contracts,
 3 restitution, the refund of monies paid, and the disgorgement of ill-gotten monies. 15
 4 U.S.C. §§ 53(b), 56(a)(2)(A), 56(a)(2)(B), 57b, 6102(c), and 6105(b).

5 13. The Attorneys General are the chief legal officers for their respective states
 6 and commonwealths. The Secretaries of State are the chief regulators of charities and
 7 charitable solicitations for their respective states, and are authorized to enforce their
 8 states' laws regarding the solicitation of charitable donations. The Rhode Island
 9 Department of Business Regulation is the chief regulator of charities and charitable
 10 solicitations for the State of Rhode Island. The Utah Division of Consumer Protection is
 11 the chief regulator of charities and charitable solicitations for the State of Utah. The
 12 Plaintiff States bring this action pursuant to consumer protection, business regulation,
 13 charitable solicitation, and/or charitable trust enforcement authority conferred on them by
 14 the following statutes and/or pursuant to *parens patriae* and/or common law authority:

| | | |
|----|--------------|--|
| 15 | Alabama: | ALA. CODE §§ 8-19-1 through -15; and §§ 13A-9-70 through 76. |
| 16 | Alaska: | ALASKA STAT. §§ 45.50.471 through 45.50.561; and §§ 45.68.010 through 45.68.900. |
| 17 | Arizona: | ARIZ. REV. STAT. ANN. §§ 44-1521 through 44-1534; and §§ 44-6551 through 44-6561. |
| 18 | Arkansas: | ARK. CODE ANN. §§ 4-28-401 through 4-28-416; and §§ 4-88-101 through 4-88-115. |
| 19 | California: | CAL. GOV. CODE §§ 12580 through 12599.6; CAL. BUS. & PROF. CODE §§ 17200 through 17206; and §§ 17510 through 17510.95. |
| 20 | Colorado: | COLO. REV. STAT. §§ 6-1-101 through 115; and §§ 6-16-101 through 114. |
| 21 | Connecticut: | CONN. GEN. STAT. §§ 21a-175 through 21a-190l; and §§ 42-110a through 42-110q. |
| 22 | Florida: | FLA. STAT. ch. 501, Part II; and ch. 496 (2013). |
| 23 | Georgia: | GA. CODE ANN. §§ 43-17-1 through 43-17-23 (2011). |
| 24 | Hawaii: | HAW. REV. STAT. § 28-5.2; §§ 467B-9.6, 467B-9.7(d), 467B-10.5; and § 480-15. |
| 25 | Idaho: | IDAHO CODE ANN. §§ 48-601 through 619; and §§ 48-1201 through 1206. |
| 26 | Illinois: | 225 ILL. COMP. STAT. §§ 460/0.01 through 460/23. |
| 27 | Indiana: | IND. CODE §§ 23-7-8-1 through -9; and §§ 24-5-0.5-1 through -12. |
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| 1 | Iowa: | IOWA CODE § 714.16. |
| 2 | Kansas: | KAN. STAT. ANN. §§ 17-1759 through 17-1776. |
| 3 | Kentucky: | KY. REV. STAT. ANN. §§ 367.110 through 367.300. |
| 4 | Louisiana: | LA. REV. STAT. ANN. §§ 51:1401 through 1427; and §§ 51:1901 through 1909.1. |
| 5 | Maine: | ME. REV. STAT. ANN. tit. 5, §§ 205-A through 214. |
| 6 | Maryland: | MD. CODE ANN., BUS. REG. §§ 6-101 through 6-701 (2010 Repl. Vol.) (2014 Suppl.). |
| 7 | Massachusetts: | MASS. GEN. LAWS ch. 12 §§ 8 through 8M, 10; ch. 68 §§ 18 through 35; and ch. 93A §§ 1 through 11. |
| 8 | Michigan: | MICH. COMP. LAWS §§ 400.271 through 400.294. |
| 9 | Minnesota: | MINN. STAT. ch. 309. |
| 10 | Mississippi: | MISS. CODE ANN. §§ 79-11-501 through 79-11-529. |
| 11 | Missouri: | MO. REV. STAT. ch. 407. |
| 12 | Montana: | MONT. CODE ANN. §§ 30-14-103 and 30-14-111. |
| 13 | Nebraska: | NEB. REV. STAT. §§ 21-1901 through 21-19,177; §§ 59-1601 through 59-1622; and §§ 87-301 through 87-306. |
| 14 | Nevada: | NEV. REV. STAT. §§ 598.1305, 598.0915(15), 598.096, and 598.0963. |
| 15 | New Hampshire: | N.H. REV. STAT. ANN. §§ 7:19; 7:20; 7:21; 7:24; 7:28; 7:28-c; 7:28-f; and 641:8. |
| 16 | New Jersey: | N.J. STAT. ANN. §§ 45:17A-18 through 45:17A-32(c); §§ 56:8-1 through 56:8-20; and N.J. ADMIN. CODE §§ 13:48-1.1 through 13:48-15.1. |
| 17 | New Mexico: | N.M. STAT. §§ 57-12-1 through 57-12-22; and §§ 57-22-1 through 57-22-11 (1978). |
| 18 | New York: | N.Y. EXEC. LAW §§ 63(12) and 171-a through 175; N.Y. GEN. BUS. LAW § 349; and N.Y. NOT-FOR-PROFIT CORP. LAW § 112. |
| 19 | North Carolina: | N.C. GEN. STAT. §§ 75-1.1 and 131F-23 and -24. |
| 20 | North Dakota: | N.D. CENT. CODE §§ 50-22-01 through 50-22-07; and §§ 51-15-01 through 51-15-11. |
| 21 | Ohio: | OHIO REV. CODE ANN. § 1716. |
| 22 | Oklahoma: | OKLA. STAT. ANN. tit. 18 §§ 552.1 through 552.22. |
| 23 | Oregon: | OR. REV. STAT. §§ 128.886; and §§ 646.605 through 646.636. |
| 24 | Pennsylvania: | 10 PA. CONS. STAT. §§ 162.1 through 162.23 (1990). |
| 25 | Rhode Island: | R.I. GEN. LAWS §§ 5-53.1-1 through 5-53.1-18. |
| 26 | South Carolina: | S.C. CODE ANN. §§ 33-56-10 through 33-56-200. |
| 27 | South Dakota: | S.D. CODIFIED LAWS §§ 37-30-17 through 37-30-21; and §§ 21-34-1 through 21-34-14. |
| 28 | Tennessee: | TENN. CODE ANN. §§ 48-101-501 through 48-101-522. |
| | Texas: | TEX. BUS. & COM. CODE ANN. §§ 17.41 through 17.63. |
| | Utah: | UTAH CODE ANN. §§ 13-22-1 through 13-22-23; 13-26-1 through 13-26-11; and 13-11 through 13-11-23. |

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| 1 Vermont: | VT. STAT. ANN. tit. 9 §§ 2453 through 2461; and §§ 2471 through 2479. |
| 2 Virginia: | VA. CODE ANN. §§ 57-48 through 57-69. |
| 3 Washington: | WASH. REV. CODE § 19.86 and §19.09. |
| 4 West Virginia: | W.VA. CODE §§ 29-19-1 -15b; and §§ 46A-1-101 through 46a-6-110. |
| 5 Wisconsin: | WIS. STAT. §§ 202.11-202.18. |
| 6 Wyoming: | WYO. STAT. ANN. §§ 40-12-101 through 114. |

7 14. Pursuant to authority found in 15 U.S.C. § 6103(a), the Attorneys General
8 of the Plaintiff States and the District of Columbia are also authorized to initiate federal
9 district court proceedings to enjoin telemarketing activities that violate the TSR, and in
10 each such case, to obtain damages, restitution, and other compensation on behalf of their
11 residents, or to obtain such further and other relief as the court may deem appropriate.

12 DEFENDANTS

13 15. Defendant Cancer Fund of America, Inc. (“CFA”), also d/b/a Breast Cancer
14 Financial Assistance Fund, is a Delaware corporation headquartered in Knoxville,
15 Tennessee. CFA also maintained administrative offices in Mesa, Arizona from 2002
16 through 2007, and had employees working in Arizona as recently as 2009. CFA’s
17 articles of incorporation represent that it is organized and will operate as a nonprofit
18 corporation. CFA has received an exemption from federal income tax from the Internal
19 Revenue Service (“IRS”) pursuant to Section 501(c)(3) of the Internal Revenue Code, 26
20 U.S.C § 501(c)(3). Notwithstanding this, CFA is organized to carry on business for its
21 own profit or the profit of its members within the meaning of Section 4 of the FTC Act.
22 In 2012, CFA began using the name “Breast Cancer Financial Assistance Fund” in some
23 of its charitable solicitations. In the past, several states have brought legal actions against
24 CFA for, among other things, inadequate board governance, improperly valuing gift-in-
25 kind contributions, and making misrepresentations about its charitable programs. Such
26 actions include those brought by Connecticut (Connecticut by Riddle v. Cancer Fund of
27 America, Inc., CV-89-0361764 (Superior Ct.) (stipulated order entered in 1991));
28 Pennsylvania (Com., by Preate v. Cancer Fund of America, Inc., 277 M.D. 1992

1 (Commonwealth Ct.) (stipulated order entered in 1995)); New York (State by Vacco v.
2 Cancer Fund of America, Inc., No. 95 Civ. 402993 (N.Y. Sup. Ct.) (stipulated order
3 entered in 1996)); Vermont (State of Vermont v. Civic Dev. Group, et al., No. 863-98
4 (Superior Ct.) (stipulated order entered in 2001)); Massachusetts (Com. of Massachusetts
5 v. Chenevert, 99-0405 (Superior Ct.) (stipulated order entered in 2005)); and Georgia
6 (Doyle v. Cancer Fund of America, Inc., 2007 CV 131522 (Superior Ct.) (complaint filed
7 in 2007 and resulting in settlement)). Defendant James Reynolds, Sr. heads CFA. Acting
8 alone or in concert with others, directly or indirectly, by telemarketing and other means,
9 CFA has made misrepresentations to donors regarding its purported charitable programs.
10 CFA transacts or has transacted business in the District of Arizona and throughout the
11 United States.

12 16. Defendant Cancer Support Services, Inc. (“CSS”), also d/b/a Cancer Fund
13 of America Support Services, is incorporated in the District of Columbia as a nonprofit
14 corporation whose purpose is to support the activities of CFA. CSS’s articles of
15 incorporation represent that it is organized and will operate as a nonprofit corporation.
16 Notwithstanding this, CSS is organized to carry on business for its own profit or the
17 profit of its members within the meaning of Section 4 of the FTC Act. CSS sought and
18 received recognition of tax exemption from the IRS as a Type III Functionally Integrated
19 Section 509(a)(3) supporting organization, as defined by the Internal Revenue Code, 26
20 U.S.C § 509(a)(3). The IRS requires that substantially all of such a supporting
21 organization’s activities be in direct furtherance of the supported organization’s mission,
22 and specifically advises that fundraising is not a direct furtherance activity. CSS’s sole
23 activity is to operate a fundraising call center in Dearborn, Michigan that solicits the
24 public for donations. After expenses, CSS gives virtually all funds it has raised to CFA
25 as “grants.” CSS entered into an Assurance of Voluntary Compliance with the state of
26 Oregon in 2008 to resolve allegations that it had made misrepresentations in charitable
27 solicitations, In the Matter of Cancer Fund of America Support Services, No. 0808-
28 11372 (Multnomah Cnty. Circuit Ct., Aug. 11, 2008). Acting alone or in concert with

1 others, directly or indirectly, by telemarketing and other means, CSS has made
2 misrepresentations to donors regarding its purported charitable programs. CSS transacts
3 or has transacted business in the District of Arizona and throughout the United States.

4 17. CSS operates and has operated as a common enterprise with CFA. From
5 2008 through September 2013, Defendant Kyle Effler (“Effler”) served as the president
6 and chief financial officer of CSS. Effler, who was also the chief financial officer of
7 CFA, operated CSS from his CFA office in Knoxville, Tennessee. CSS did not pay
8 Effler a salary; managing CSS was one of his job duties at CFA. Other CFA employees
9 assisted Effler with operating CSS in the course of their employment with CFA. CFA
10 has maintained CSS’s books and records on its computers and has issued CFA credit
11 cards to CSS employees for business use. In addition, auditors conducted only single
12 reviews of the consolidated financial records of CFA and CSS. CFA and CSS have filed
13 such audits with state regulators. CFA employees have served as board members of CSS,
14 undertaking CSS-related functions during CFA work hours. CFA board members have
15 also served as CSS board members. CFA board meeting minutes explained that the
16 arrangement with CSS “allows CFA to receive funds in the form of grants, without the
17 accompanying costs of fundraising. This will greatly improve the efficiency of
18 operations of CFA, and present to the public an organization that manages its resources
19 with greater efficiency.” Defendant James Reynolds, Sr. became interim president
20 following Effler’s resignation.

21 18. Defendant Children’s Cancer Fund of America, Inc. (“CCFOA”) is an
22 Arizona nonprofit corporation currently headquartered in Powell, Tennessee. CCFOA
23 was headquartered in Mesa, Arizona from its inception in 2004 to 2006, and it continues
24 to station one employee in Arizona. CCFOA’s articles of incorporation represent that it
25 is organized and will operate exclusively as a nonprofit corporation. CCFOA has
26 received an exemption from federal income tax from the IRS pursuant to Section
27 501(c)(3) of the Internal Revenue Code, 26 U.S.C. § 501(c)(3). Notwithstanding this,
28 CCFOA is organized to carry on business for its own profit or that of its members within

1 the meaning of Section 4 of the FTC Act. Defendant Rose Perkins heads CCFOA.
2 Acting alone or in concert with others, directly or indirectly, by telemarketing and other
3 means, CCFOA has made misrepresentations to donors regarding its purported charitable
4 programs. CCFOA transacts or has transacted business in the District of Arizona and
5 throughout the United States.

6 19. Defendant The Breast Cancer Society, Inc. (“BCS”), also d/b/a The Breast
7 Cancer Society of America, is a Delaware corporation headquartered in Mesa, Arizona.
8 BCS’s articles of incorporation represent that it is organized and will operate as a
9 nonprofit corporation. BCS has received an exemption from federal income tax from the
10 IRS pursuant to Section 501(c)(3) of the Internal Revenue Code, 26 U.S.C § 501(c)(3).
11 Notwithstanding this, BCS is organized to carry on business for its own profit or that of
12 its members within the meaning of Section 4 of the FTC Act. Defendant James
13 Reynolds, II heads BCS. Acting alone or in concert with others, directly or indirectly, by
14 telemarketing and other means, BCS has made misrepresentations to donors regarding its
15 purported charitable programs. BCS transacts or has transacted business in the District of
16 Arizona and throughout the United States.

17 20. Defendant James Reynolds, Sr. (“Reynolds, Sr.”), an individual, is the
18 executive director of CFA and president of its board of directors. He has held these
19 positions since 1987. He is also the interim president of CSS. Individually and in
20 concert with others, he has formulated, directed, controlled, or participated in the acts and
21 practices of CFA and CSS as set forth herein. Reynolds, Sr. has the authority to control
22 and has controlled the conduct of CFA. Among other things, he has hired employees,
23 signed contracts, hired fundraisers, approved telemarketing scripts and other solicitation
24 materials, recruited board members, and overseen the financial affairs of CFA. Reynolds,
25 Sr. also has the authority to control and has controlled the conduct of CSS. For example,
26 on behalf of CSS, Reynolds, Sr. has recruited board members, negotiated contracts,
27 approved telemarketing scripts and other solicitation materials, approved loans,
28 terminated existing business relationships, and initiated new business relationships. In

1 addition, Effler routinely consulted with Reynolds, Sr. about the management of CSS.
2 Reynolds, Sr. has personally profited from the deception alleged herein. He transacts or
3 has transacted business in this District.

4 21. Defendant Kyle Effler (“Effler”), an individual, was the president of CSS
5 from mid-2008 through September 2013. He was also employed at CFA from 1990 to
6 October 2014, first as an accountant and later as chief financial officer. Individually and
7 in concert with others, he formulated, directed, controlled, or participated in the acts and
8 practices of CFA and CSS as set forth herein. Among other things, Effler hired
9 employees, signed contracts, approved telemarketing scripts and other fundraising
10 materials, recruited board members, and oversaw the financial affairs of CSS and CFA.
11 Effler has personally profited from the deception alleged herein. He transacts or has
12 transacted business in this District.

13 22. Defendant Rose Perkins (“Perkins”), an individual, is the former wife of
14 Defendant Reynolds, Sr. She is the president of CCFOA’s board of directors and also its
15 executive director. Perkins has held these positions since 2005. From 1987 to 2005, she
16 was employed as vice president of CFA. Individually and in concert with others, she has
17 formulated, directed, controlled, or participated in the acts and practices of CCFOA as set
18 forth herein. Among other things, she has hired employees, signed contracts, hired
19 fundraisers, approved telemarketing scripts and other solicitation materials, recruited
20 board members, and overseen the financial affairs of CCFOA. Perkins has personally
21 profited from the deception alleged herein. She transacts or has transacted business in
22 this District.

23 23. Defendant James Reynolds, II, a/k/a James Reynolds, Jr. (“Reynolds, II”),
24 an individual, is the son of Reynolds, Sr. He is the chief executive officer of BCS and,
25 until September 2013, was also president of its board of directors. He has held these
26 positions since BCS’s inception in 2007. From 1992 through the end of 2008, he was
27 employed by CFA in various positions, most recently as vice president of fundraising.
28 Reynolds, II also was a founding board member of CSS and served as president of the

1 CSS board of directors until October 2008. In addition, he incorporated CCFOA in 2004
2 and served as its president until turning the position over to his then-step-mother, Rose
3 Perkins. Individually and in concert with others, he has formulated, directed, controlled,
4 or participated in the acts and practices of BCS as set forth herein. Among other things,
5 he has signed contracts, hired fundraisers, approved telemarketing scripts and other
6 solicitation materials, recruited board members, overseen the financial affairs of BCS,
7 and hired employees, including his current wife, Kristina Reynolds. Reynolds, II has
8 personally profited from the deception alleged herein. He transacts or has transacted
9 business in this District.

10 24. Hereafter, CFA, CSS, CCFOA, and BCS are referred to collectively as the
11 “Corporate Defendants,” and Reynolds, Sr., Effler, Perkins, and Reynolds, II are referred
12 to collectively as the “Individual Defendants.” The Corporate Defendants and Individual
13 Defendants are referred to collectively as “Defendants.”

14 **DEFENDANTS’ BUSINESS PRACTICES**

15 *A Profitable Endeavor*

16 25. The Corporate Defendants are sham charities created and controlled by
17 Defendant Reynolds, Sr. and his extended family and friends for their personal profit.
18 Since at least 2008, and continuing to the present, Defendants have collected tens of
19 millions of dollars in contributions from unwitting, generous, donors by claiming to help
20 people suffering from cancer. Defendants have deceived donors into believing that their
21 contributions support bona fide charities that use contributions primarily to provide cash
22 grants and material supplies directly to cancer patients, children with cancer, and
23 individuals with breast cancer in the United States.

24 26. In reality, the Corporate Defendants do not operate as bona fide charities.
25 Instead of operating for the benefit of cancer patients or otherwise serving legitimate,
26 mission-related purposes, Corporate Defendants primarily support private interests.
27 From 2008 through 2012, the Corporate Defendants collectively spent 87.9% of
28 contributions from individual donors paying for-profit fundraisers and other fundraising

1 costs and compensating the Individual Defendants, related persons, and other employees.
2 In contrast, Defendants collectively spent less than 3% of donors' contributions on the
3 cash and goods sent to cancer patients in the United States.

4 27. In addition, charitable contributions have financed personal loans to
5 Individual Defendants, employees, and other insiders, and paid for trips for the Individual
6 Defendants, their families, and friends to Las Vegas, New York, Disney World, and other
7 locations. Funds donated to help cancer patients have also paid for goods and services
8 used primarily for the private benefit of Individual Defendants, employees, and other
9 insiders. For example, donated funds were used to pay for vehicles, personal consumer
10 goods, college tuition, gym memberships, Jet Ski outings, dating website subscriptions,
11 luxury cruises, and tickets to concerts and professional sporting events.

12 28. Defendants' advertised charitable causes were simply the mechanisms
13 through which they created employment opportunities for themselves, their friends, and
14 their family members, and funded other private benefits. The Corporate Defendants
15 operated as personal fiefdoms characterized by rampant nepotism, flagrant conflicts of
16 interest, and excessive insider compensation, with none of the financial and governance
17 controls that any bona fide charity would have adopted.

18 *A Shared History*

19 29. Family members – Defendants Reynolds, Sr., Perkins, Reynolds, II – and
20 long-time associate Effler control the Corporate Defendants. In addition to these
21 individuals, an inter-related group of their family members, friends, and fellow church
22 members have worked as employees and served as board members of the Corporate
23 Defendants.

24 30. Reynolds, Sr., who spawned the deceptive fundraising scheme in 1987, has
25 been in control of CFA for more than two decades. He has described CSS and CCFOA
26 as “spin-offs” of CFA, and explained that setting up CCFOA and BCS helped CFA
27 because CFA was “really top heavy” with executives. Reynolds, Sr. started CSS in 2002
28 to help raise funds for CFA. He and Effler have directed the operations of CSS from

1 CFA's headquarters. Reynolds, II and Eric Fransen ("Fransen"), the former BCS board
2 chairman and current BCS vice president, have both served on the CSS board of
3 directors.

4 31. CCFOA started as a special project of CFA. It split off from CFA in late
5 2004. Reynolds, II served as its initial president while also employed at CFA. Fransen
6 also served with Reynolds, II on the CCFOA Board. They turned CCFOA over to
7 Perkins, who left CFA to run CCFOA. Five other CFA employees joined Perkins at
8 CCFOA, and two individuals left the CFA board to serve on the CCFOA board. In 2010,
9 at Reynolds, Sr.'s direction, CFA gave CCFOA a grant of \$50,000.

10 32. Reynolds, II, who began working at CFA when he was 16, learned the
11 cancer business from his father. Before starting BCS, while at CFA, Reynolds, II tested
12 fundraising specifically for breast cancer patients, setting up a separate fundraising
13 campaign with CFA's main telemarketer, Associated Community Services. Donations
14 for this campaign were deposited into CFA accounts until Reynolds, II established BCS
15 and signed a separate fundraising contract with Associated Community Services. In
16 2008, at Reynolds, Sr.'s direction, CFA provided BCS a grant of \$50,000.

17 33. With the formation of each different corporate entity, the Individual
18 Defendants created new opportunities to solicit charitable contributions and new sources
19 of cash to fund their personal lifestyles. With each different corporate entity, the
20 Individual Defendants also created new opportunities to employ or otherwise provide
21 cash compensation to family members, friends, and fellow church members.

22 34. Consistent with their common roots, the Corporate Defendants have
23 operated in a substantially similar manner. They have hired many of the same
24 fundraisers, contracted with many of the same vendors, accountants, and attorneys, and
25 used similar fundraising materials. The Corporate Defendants also have engaged in
26 substantially similar international GIK transactions, and have used the same improper
27 methods to claim, value, and classify those transactions. Because of these similarities,
28 they have deceived the public in similar ways.

Rampant Nepotism

1
2 35. From 2008 through at least 2012, the Corporate Defendants failed to
3 observe rudimentary corporate governance practices commonly followed by legitimate
4 charities. Among other things, CFA, CCFOA, and BCS have served as sources of
5 employment for the Individual Defendants’ extended family and friends, without regard
6 for their qualifications. This has resulted in Defendants hiring and retaining unqualified
7 employees, creating and staffing unnecessary jobs, and authorizing unnecessary
8 employee expenses. It also has affected programming decisions. Collectively and
9 individually, between 2008 and 2012, the Corporate Defendants spent more cash
10 compensating the Individual Defendants and their friends and family members than on
11 the cash and goods provided to cancer patients in the United States.

12 36. At CFA, Reynolds, Sr. employs or has employed: his two sons, Defendant
13 Reynolds, II and Michael Reynolds; his former stepson Lance Connatser (“Connatser”),
14 Connatser’s wife, Julaporn Connatser, and Connatser’s sister-in-law, Sakulrat “Ootz”
15 Perkins; his former stepdaughter, Michelle Morse, her husband, Brian Morse, and her
16 brother-in-law, Eugene Morse; two former sons-in-law, Josh Loveless and James Tyler
17 Smith; and daughters Dawn Reynolds and Lindsay Reynolds (now deceased). CFA also
18 employs Kyle Effler’s son, Brandon Effler. Reynolds, Sr. has continued to employ
19 family members regardless of where in the country they live. When Michael Reynolds
20 and Josh Loveless moved to Montana, Reynolds, Sr. had CFA open a “chapter” in
21 Montana – the only such chapter in the country – to keep them on the payroll. The
22 chapter was not successful and has been closed.

23 37. Between 2008 and 2012, CFA paid its employees substantially more than it
24 spent on the cash and goods it provided to cancer patients in the United States. As the
25 executive director of CFA, Reynolds, Sr. has hired employees, set their salaries,
26 authorized employee benefits, determined bonuses and raises, authorized loans of charity
27 funds to employees, and made promotion decisions – including for his relatives.
28 Reynolds, Sr. has made these decisions on his own, with little or no input or supervision

1 from the CFA board of directors. As president of the CFA board, Reynolds, Sr. has voted
2 on annual employee bonuses awarded by the board – including his own.

3 38. At CCFOA, Perkins has followed a similar path. She employs or has
4 employed: her sister, Claudette Sparks; her two daughters, Michelle Morse and Lindsay
5 Reynolds; her son-in-law, Brian Morse; her former son-in-law James Tyler Smith; her
6 daughter-in-law, Julaporn Connatser; her grandson, Hunter Morse; her long-time friend,
7 Peggy Farvin; her stepdaughter's sister-in-law, Tara Loveless Howard; and her
8 daughter's sister-in-law, Lynda Morse. CCFOA has also compensated Perkins's step-
9 nephew, Darby Sparks, as an independent contractor.

10 39. Between 2008 and 2012, CCFOA paid these employees more than twice
11 the amount it provided in financial assistance to children with cancer in the United States
12 – CCFOA's stated mission. As the executive director of CCFOA, Perkins has hired these
13 friends and family members, set their salaries, determined their benefits, approved
14 bonuses and raises, and made promotion decisions. Perkins has handed out across-the-
15 board employee bonuses of up to 10% of salary twice yearly. She has set bonus amounts
16 based on the cash available in CCFOA's checking account, without regard for budget,
17 spending on program services or other expenses, or employee performance. As an
18 employee, Perkins has received the same perks and bonuses as other employees, so in
19 effect she has been determining her own benefits and bonuses. Perkins has made these
20 decisions on her own, with no input or supervision from the CCFOA board of directors
21 and despite the obvious conflicts of interest.

22 40. At BCS, Reynolds, II has operated similarly. After becoming romantically
23 involved with his now-current wife, Kristina Reynolds, he promoted her to be his
24 "Operations and Public Relations Manager" – a newly created, second-in-command
25 position at a significantly higher pay scale, and for which he neither advertised nor
26 interviewed other candidates. He also hired (or authorized her to hire): Kristina
27 Reynolds's two sisters, Liana Lopez and Tracy Wilson; Kristina Reynolds's son, Chester
28 Cawood; her step-nephew, Jeffrey Westerman; and her mother, Diana Tenney. None of

1 these employees was qualified for their respective positions. For example, Ms. Tenney,
2 who was previously a caterer, was hired to write grants. Reynolds, II also hired then-
3 chairman of the BCS board, Eric Fransen, to operate a BCS satellite location – which
4 BCS decided to place in Edgemont, Pennsylvania, conveniently near Fransen’s home.
5 (With Reynolds, II’s approval, Fransen then hired his wife and mother-in-law to work
6 there.)

7 41. Between 2008 and 2012, BCS paid these employees considerably more
8 than the amount it provided in financial assistance to individuals with breast cancer in the
9 United States – its stated primary purpose. As the chief executive officer of BCS,
10 Reynolds, II has hired employees, set their salaries, approved a full-time work week of 35
11 hours, authorized employee benefits (which he took advantage of as well), determined
12 bonuses and raises, authorized loans to employees, and made promotion decisions –
13 including, in each case, for his relatives. Reynolds, II has made these decisions on his
14 own, with little or no input or supervision from the BCS board of directors and despite
15 the obvious conflicts of interest. When he was president of the BCS board, Reynolds, II
16 voted on annual employee bonuses awarded by the board. Although he did not vote on
17 his own bonus, he voted on Fransen’s bonus and Fransen voted on Reynolds, II’s bonus.

18 42. In each instance, rather than hiring employees, setting salaries or approving
19 employee benefits with the goal of promoting genuine charitable purposes, the Individual
20 Defendants have furthered their own private interests – and the corporations’ boards have
21 done nothing to stop them. Bona fide charities do not engage in such conduct.

22 *Personal Use of Charitable Assets*

23 43. In addition to providing the Individual Defendants, their friends, and their
24 family members with steady, lucrative employment, each Corporate Defendant has spent
25 significant amounts of money on goods, services, and travel purchased for the use and
26 enjoyment of private individuals. These actions, too, demonstrate that the Corporate
27 Defendants operated primarily for the profit of the individuals who ran them.

1 44. At CFA, until recently the organization paid for cars for nine individuals
2 and still provides a car for Reynolds, Sr., despite no apparent need for business travel. In
3 the past, CFA has also made a short-term, interest free loan, approved by Reynolds, Sr.,
4 to Michael Reynolds, and paid college tuition for Reynolds, II, Connatser, Josh Loveless,
5 and Effler. Until recently, CFA provided employees with company credit cards, but had
6 no written policies about personal use of such cards. Reimbursement for personal
7 charges on company cards was not required until the end of each year, so in effect CFA
8 was floating short-term, interest-free loans to its employees. Some personal charges were
9 not repaid at all. Purchases of gas, car washes, meals at Hooters and other restaurants,
10 cell phone apps and games, and movie tickets were all bought with CFA credit cards and
11 ultimately paid for by donors. In addition, on one occasion, CFA paid for its board
12 members and employees (and their spouses) to go on a Carnival cruise in the Caribbean,
13 ostensibly for board training purposes. CFA has funded other such “board training” trips
14 for board members, employees, and their families at other luxury destinations.

15 45. CCFOA has operated in a similar manner. It too provided cars to
16 employees in the past, and continues to provide a car to Perkins, despite no apparent need
17 for business travel. Likewise, it paid college tuition for Perkins’s daughter-in-law,
18 Julaporn Connatser. CCFOA has also allowed employees to use company credit cards
19 for personal expenses. Employees were not required to repay CCFOA for these personal
20 expenditures until the end of each calendar year, and thus effectively received interest-
21 free loans from CCFOA. Perkins has routinely used her CCFOA credit card for personal
22 expenditures, and no one at CCFOA has reviewed her card use to ensure that she has
23 identified and repaid all such personal expenses. Corporate credit cards have also been
24 used for personal expenses that have not been repaid, including numerous purchases of
25 gas and food, movie tickets, and online purchases from vendors like iTunes. CCFOA has
26 also paid for extravagant “training” trips for board members, employees, and their
27 families, including on two occasions, all-expense paid trips to Disney World. CCFOA
28 even paid a babysitter to accompany them.

1 corporations' missions or in nonprofit management, and lack the qualifications required
2 for oversight of these multimillion-dollar enterprises.

3 49. These boards have failed to observe even routine corporate governance
4 procedures practiced by legitimate charities. Board members (other than the Individual
5 Defendants) have not regularly reviewed financial expenditures by the organizations, and
6 not even the board treasurers have engaged in financial oversight or analysis. CFA and
7 CSS have not used board-approved budgets at all. At CCFOA and BCS, board members
8 have not participated in creating annual budgets and have approved them without
9 question. After budgets were approved, the BCS and CCFOA boards did not engage in
10 any ongoing review of expenses or program accomplishments against the budgeted
11 numbers. Any such review would have revealed to each of the boards the disparity
12 between cash expended on fulfilling the charitable mission and cash expended on
13 corporate insiders, along with other budget issues. For example, the CCFOA board
14 approved a salary increase for Perkins at a time when CCFOA was scaling back its sole
15 program due to lack of funds. At BCS, Reynolds, II's salary increased in 2010 from
16 \$257,642 to \$370,951, but that same year net donations decreased, as did the amount of
17 direct cash aid the organization provided to individuals with breast cancer, its much-
18 touted primary program. The CFA board was equally oblivious. Having not reviewed
19 corporate expenses, it authorized increases to staff bonuses and salaries in 2012, at a time
20 when fundraising costs were up and CFA had suspended its main charitable program,
21 supposedly due to lack of funds.

22 50. The boards have not set mission-related goals, and have not engaged in
23 strategic or financial planning related to programming. The boards have not conducted
24 annual elections of officers or board members and have had no term limits for board
25 service. Nor have they held senior management accountable for hiring unqualified
26 personnel, maintaining inappropriate staff levels, improperly reviewing employee
27 performance, or failing to implement financial controls. They also failed to limit
28 extravagant and unnecessary employee benefits.

1 CFA, Reynolds, Sr. recommended his own salary increases to the board for approval. At
2 BCS, the board approved a salary range and annual increases for Reynolds, II, but
3 allowed him to set his own salary and annual increases within that range without review.
4 Also at BCS, when Fransen was simultaneously chairman of the board and an employee,
5 he was supervised nominally by Reynolds, II, while also ostensibly supervising
6 Reynolds, II.

7 54. The CFA, CCFOA, and BCS boards did not have established compensation
8 committees and approved CEO compensation without independently evaluating the
9 appropriate salary ranges for similarly qualified CEOs or executive directors of
10 comparably sized organizations with similar programs. Instead, these boards have
11 routinely approved salaries in ranges suggested to them by Reynolds, Sr., Perkins, and
12 Reynolds, II, based on information (also provided to them by these individuals) about
13 salaries at other, supposedly comparable organizations. These “comparable”
14 organizations were chosen based in part on annual gross revenues, which for CFA,
15 CCFOA, and BCS included tens of millions of dollars in GIK revenue, not cash income,
16 and did not accurately reflect the size or complexity of their business operations. Boards
17 of directors of bona fide charities do not operate in this manner.

18 ***Telemarketing Contracts Confer Private Benefit on Third Party Fundraisers***

19 55. In addition to benefits privately inuring to the Individual Defendants, their
20 families, and their friends, CFA, CCFOA, and BCS have significantly benefitted the
21 private interests of for-profit fundraisers who have solicited in their names, including, for
22 example, Associated Community Services. Contracts with such fundraisers typically
23 have specified that the fundraisers would be paid 80% or more – sometimes as much as
24 95% – of each dollar raised. As a result, between 2008 and through 2012, CFA, CCFOA,
25 and BCS reported fundraising costs of more than \$120 million. (This does not include
26 amounts paid by CSS to its employee-fundraisers.)

27 56. Fundraisers have also benefitted from unrestricted access to the lead lists of
28 CFA, CCFOA, and BCS. In numerous instances, fundraising contracts signed by

1 Reynolds, Sr., Perkins, and Reynolds, II have provided for-profit fundraisers unrestricted
2 use of the donor list developed by that fundraiser, and limited the current and future use
3 of such lists by CFA, CCFOA, and BCS. Access to these lists has significantly benefited
4 fundraisers, because donors who answer the phone and contribute to one cause are more
5 likely to respond to solicitations for other causes. Access to names of donors who
6 contributed to CFA, CCFOA, or BCS lowers the cost to fundraisers of acquiring lead lists
7 and increases their response rate when soliciting for other organizations.

8 57. For some charities, high fundraising costs can be attributed to start-up
9 expenses or seeking support for unpopular causes. That is not the case here. CFA and
10 CCFOA have been in existence for years, and seeking support for cancer-related causes is
11 neither unpopular nor controversial. Moreover, because it is usually cheaper and easier
12 to obtain contributions from past donors, typically fundraising expenses decline as
13 organizations develop a database of loyal donors. Yet, by allowing fundraisers unfettered
14 use of their donor lists, CFA, CCFOA, and BCS have never benefitted from the reduced
15 costs associated with soliciting past donors, and have continued to pay even long-term
16 fundraisers the same high rates. Indeed, in 2011, instead of decreasing the amount paid
17 for fundraising, the largest fundraiser for CFA and CCFOA, Associated Community
18 Services, *increased* its contractually required payment from 80% to 85% of all funds
19 raised for CFA and CCFOA. Reynolds, Sr., Perkins, and Reynolds, II have routinely
20 approved these fundraising contracts, and the boards of directors of CFA, CCFOA, and
21 BCS have remained silent, tacitly ratifying their use.

22 58. CFA, CCFOA, and BCS have also failed to police the activities of their
23 fundraisers. After providing fundraisers with approved scripts and other solicitation
24 materials, CFA, CCFOA, and BCS have engaged in no further oversight. Defendants
25 have done nothing even after a state takes legal action against a fundraiser for making
26 misrepresentations, as, for example, did Michigan in 2013, against Associated
27 Community Services. In the Matter of Associated Community Services, Inc., File No.
28 2013-0039412-A (Cease and Desist Order and Notice of Intended Action), available at

1 [http://www.michigan.gov/documents/ag/05.28.13 Notice of Intended Action with exhibits 422463 7.pdf](http://www.michigan.gov/documents/ag/05.28.13_Notice_of_Intended_Action_with_exhibits_422463_7.pdf). Indeed, other than cashing the checks, Defendants have done little
2 more than sign the fundraising contracts.
3

4 59. Bona fide charities protect important assets like donor lists. They also seek
5 to protect their reputations by monitoring their fundraisers and the representations they
6 make to the public. These Defendants did neither.

7 **Donor Deception**

8 60. Through telemarketing, direct mail, websites, social media and other online
9 forums, and in publicly filed documents, Corporate Defendants have represented and
10 continue to represent that contributions to them go to support legitimate charities that
11 primarily focus on directly assisting individuals suffering from cancer in the United
12 States. In addition, in numerous instances, Corporate Defendants have represented that
13 donations funded programs that provided pain medication to cancer patients,
14 transportation to chemotherapy appointments, or paid for hospice care. As described
15 below, these representations were false. Relying on those claims, generous Americans
16 opened their pocketbooks and contributed tens of millions of dollars to aid cancer
17 patients. Defendants exploited this generosity. Had donors known how their
18 contributions actually would be spent, they would not have contributed.

19 ***Misrepresentations that contributions will go to legitimate charities***

20 61. Corporate Defendants raised more than \$187 million from donors across
21 the country between 2008 and 2012. Central to the success of their solicitations was the
22 overarching claim, direct or implied, that contributed funds would support bona fide
23 charities whose primary purposes were charitable. Defendants have made this claim in
24 solicitation materials and telemarketing scripts, including, e.g., claims that:

- 25
- CFA is “a national nonprofit charity”; “a national health agency”; “on the
26 forefront of the fight against cancer” or “on the front lines for the fight
27 against cancer”;
- 28

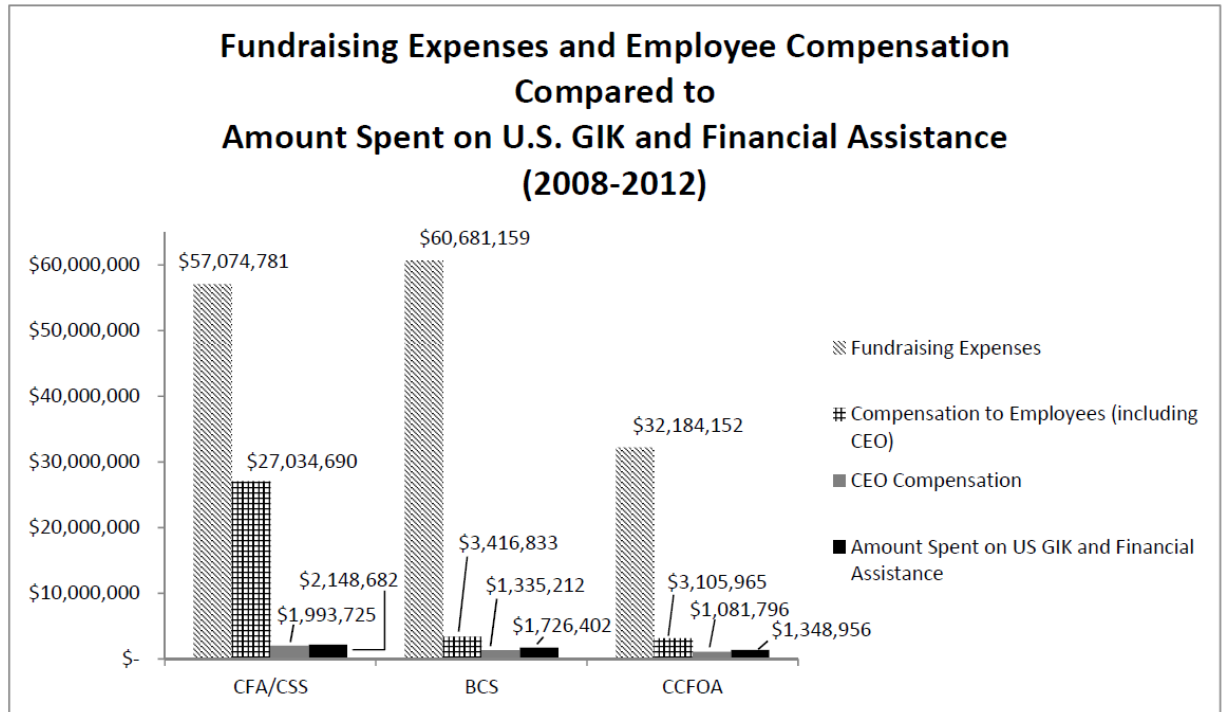
- 1 • CSS is “a nationwide charity just like the Red Cross and the Salvation
2 Army”;
- 3 • CCFOA “operates exclusively as a charitable organization”; is “a national
4 nonprofit charity”; or “is on the forefront of actually helping needy children
5 with cancer”; and
- 6 • BCS is a “national breast cancer charity.”

7 Implicit in every request for a “contribution” and every claim to be a “nonprofit” or a
8 “charity” was the promise that the Corporate Defendants were legitimate charities serving
9 charitable purposes.

10 62. In fact, the Corporate Defendants operated primarily for the benefit of
11 private interests. Their priorities were reflected not just in how they operated, as
12 described in Paragraphs 25 – 59, above, but also in how they spent donors’ money. The
13 bulk of contributed funds went first to the for-profit fundraising companies who solicited
14 the contributions. The remaining funds were then used primarily for salaries and other
15 benefits enjoyed by the Individual Defendants and their friends and families. Thus,
16 between 2008 and 2012, CFA and CSS spent 86.4% of donors’ contributions paying
17 compensation and fundraising costs. (CFA and CSS figures are reported together
18 because they operated as a common enterprise and contributions to CSS supported the
19 operations of CFA). In contrast, CFA and CSS spent 2.8% of donors’ contributions on
20 cash and goods provided to cancer patients and nonprofits in the United States. In the
21 same time period, CCFOA spent 88.8%, of donors’ contributions on compensation and
22 fundraising. In contrast, CCFOA spent 3.4% of donated funds on the cash and goods it
23 provided to families of children with cancer in the United States. Also between 2008 and
24 2012, BCS spent 89% of donors’ contributions on compensation and fundraising costs.
25 In contrast, BCS spent 2.4% of donors’ contributions on the cash, goods, and other
26 services it provided to breast cancer causes in the United States.

27 63. Under these circumstances, it was deceptive to claim that Corporate
28 Defendants were bona fide charities or that contributions would be used primarily for

1 charitable purposes. Donors expected that their contributions would be spent primarily
 2 on charitable purposes, and likely would have made different donating decisions if they
 3 had known the truth.



17
18 64. In telemarketing calls, direct mail, websites, social media, and in publicly
 19 filed documents, Corporate Defendants described to donors numerous worthwhile
 20 programs that contributions would supposedly fund. These programs included, for
 21 example, providing cash grants directly to indigent cancer patients and their families,
 22 supplying needy cancer patients directly with medicine and medical supplies, including
 23 pain medication, providing transportation to chemotherapy appointments, paying for
 24 emergency groceries and utilities, offering treatment counseling, and providing needed
 25 goods and supplies to hospices across the country. These programs supposedly all
 26 focused on aiding indigent cancer patients in the United States. Donors relied on these
 27 representations and contributed to support these causes.

- 1 • CFA helps “by providing direct services and assistance to financially needy
- 2 cancer patients and their families, such as the loan of equipment and
- 3 various supplies, etc.”;
- 4 • CFA “works to provide aid to indigent patients of this devastating disease”;
- 5 • CFA is “providing support, products, supplies and services to financially
- 6 indigent patients”;
- 7 • CFA is “a Tennessee-based national non-profit organization whose mission
- 8 is to provide direct support and services to financially indigent patients....”;
- 9 • CFA “helps tens of thousands of cancer victims and hundreds of hospice
- 10 organizations on a yearly basis”

11 69. In fact, CFA’s “direct patient aid” program consisted of sending individuals
12 with cancer boxes of seemingly random items. Such noncash donations are referred to as
13 “gifts-in-kind” (“GIK”). These GIK packages typically included a small quantity of
14 Carnation Instant Breakfast drink, adult briefs and bed pads, and a large assortment of
15 what CFA euphemistically described as “comfort items.” In the past, boxes have
16 included things like sample-size soaps, shampoos, and other toiletries, over-the-counter
17 medications, Little Debbie Snack Cakes, toys, disposable plates and plastic cutlery,
18 scarves, batteries, women’s makeup, family-themed DVDs, adult-sized clothing, iPod
19 Nano covers, gift wrap, blank seasonal greeting cards, candy, and/or children’s coloring
20 books. CFA employees and volunteers pre-packed boxes with an assortment of identical
21 items, until supplies of any given item ran out. Thus, every individual received the same
22 items, regardless of age, gender, clothing size, or personal preference. Individual
23 recipients could also request latex exam gloves, and, on some occasions, box fans and
24 blankets.

25 70. CFA did not consult with medical professionals about the relative need or
26 usefulness to cancer patients of any of the items it provided to individuals. It had no
27 health care professionals or cancer specialists on its staff. Reynolds’ explanation for
28 buying Little Debbie Snack Cakes for cancer patients was because “they make people

1 happy.” He justified a switch to purchasing Moon Pies because they “make you
2 happier.”

3 71. CFA did not require recipients to demonstrate financial hardship. To
4 receive “direct patient aid,” individuals submitted an application to CFA, signed by a
5 medical professional verifying a cancer diagnosis. There were no other qualifications
6 and no means testing. Once an individual was accepted, CFA would ship boxes of
7 assorted items to that person every other month for up to two years (except for the
8 months when CFA suspended its shipping due to lack of funds). After receiving the first
9 package, individuals were required to call CFA to request additional shipments. In 2012,
10 CFA shipped boxes to 4,378 individuals. In lieu of shipping boxes to Alaska and Hawaii,
11 CFA provided individuals in those states with cash assistance, sending them checks for
12 \$50. Only 113 individuals received direct financial assistance from CFA from 2008
13 through 2012.

14 72. CFA made the same goods it shipped to individuals available to nonprofits
15 in the United States. Hospices, health care providers, and other nonprofits could order up
16 to four boxes of Carnation Instant Breakfast, and, when available, slightly larger
17 quantities of adult diapers, bed pads, and exam gloves. They could also receive boxes of
18 items like those provided to individuals, but in quantities sufficient for five to twenty
19 people.

20 73. On some occasions, due to a claimed lack of funds, CFA suspended its
21 program and stopped shipping products to individuals and nonprofits. For example, it
22 made no shipments from September 2012 to February 2013. On other occasions, CFA
23 suspended or limited the number of new applicants to whom it would start sending
24 packages.

25 74. CFA purchased some of the products it sent to individuals and nonprofits.
26 For example, it routinely bought Carnation Instant Breakfast or other liquid supplement
27 drinks, adult diapers, bed pads, exam gloves, and Little Debbie Snack Cakes.
28 Occasionally it also purchased air freshener, blankets, box fans, and jewelry.

1 75. CFA obtained most of the items it sent to individuals and nonprofits – the
2 program described to donors – from procurement agents. Such agents gather and make
3 available to nonprofits overstocked, out of season, or discontinued merchandise. To
4 acquire these goods, CFA paid procurement agents between 2% and 5% of the goods’
5 retail value. Despite paying this relatively small percentage of the goods’ retail value,
6 CFA claimed the original retail value of its GIK distributions when reporting its program
7 expenses, rather than reporting the actual amount CFA paid to obtain the goods. For
8 example, in 2012, CFA reported program expenditures that included donations of GIK
9 goods valued at \$2.65 million to individuals and nonprofits in the United States, but only
10 spent \$314,000 to acquire these goods. This actual expenditure amounts to less than
11 2.3% of donors’ contributions to CFA and CSS in 2012. Almost none of donors’
12 contributions were spent on the actual goods and financial assistance provided to patients,
13 CFA’s stated “number one priority.”

14 76. Moreover, even though CFA claimed that its primary purpose was to
15 provide direct aid to cancer patients or assistance to hospices and other health care
16 providers on a national basis, a significant portion of CFA’s U.S. “program” has
17 consisted of donating goods to nonprofits with purposes wholly unrelated to assisting
18 cancer patients. Many of these organizations were located in and around Knoxville,
19 Tennessee. For example, CFA contributed merchandise it valued at \$688,476 to a
20 Knoxville food bank. Other contributions went to the Knoxville Toys for Tots drive, a
21 Knoxville Firefighters Association, a Knoxville-area youth soccer program, and a
22 Knoxville nonprofit dedicated to enriching the lives of the disabled through dance.
23 Senior centers, churches, and schools in the Knoxville area also benefitted. In 2012, CFA
24 contributed fewer goods to nonprofits with missions related to cancer and health care
25 than it contributed to other kinds of nonprofits. Donors choosing to support a “national”
26 program of direct aid to cancer patients, or assistance to hospices and other health care
27 providers, reasonably would have expected their contributions to be spent supporting
28

1 such programs and not spent supporting food banks, senior centers, and churches in and
2 around Knoxville, Tennessee.

3 77. In light of its actual program expenditures, CFA was not, in fact, a
4 “national health agency” and its “number one priority” was not “patient care.” It did not
5 directly help “tens of thousands of Americans,” and its resources were not devoted
6 “primarily to direct patient aid.” These claims were deceptive and misled donors to
7 believe that CFA was a large organization that assisted many individuals with cancer in a
8 profound way.

9 78. In addition, in numerous instances, CFA, directly or through its
10 telemarketing agents, made misrepresentations about specific programs, including, but
11 not limited to claims that:

- 12 • CFA helps supply emergency items such as oxygen, transportation to
13 chemotherapy treatment, and medications, and loans equipment to
14 individual cancer patients;
- 15 • CFA provides life-saving items to cancer patients;
- 16 • CFA provides medical equipment and supplies to cancer patients or “helps
17 provide medical support and services”;
- 18 • CFA helps cancer patients financially; and
- 19 • CFA helps provide cancer patients with pain medications.

20 79. Most of these claims were simply false. CFA had no program that supplied
21 cancer patients with emergency items such as oxygen, provided transportation to
22 chemotherapy appointments, or loaned equipment to cancer patients. Nor did it provide
23 meaningful “life-saving items,” “pain medication,” or “medical support and services” to
24 cancer patients.

25 80. CFA’s claim to provide cancer patients with “medical supplies” was also
26 deceptive. Even if adult diapers, bed pads, and vinyl gloves might be construed by
27 donors as “medical supplies,” so little of CFA’s program expenditures was devoted to
28

1 purchasing such items that any claims that donations would be used for such purposes
2 were inherently misleading.

3 81. Similarly, claims that CFA helped cancer patients financially implied the
4 existence of a substantial charitable program to do so, and did not accurately represent
5 the extraordinarily limited nature of the financial assistance actually provided by CFA to
6 individuals. In 2012, the amount of direct cash aid that CFA provided to individuals was
7 just 0.15% of donations to CFA and CSS. From 2008 through 2012, CFA provided
8 \$61,614 in direct cash aid to 113 individuals – 0.1% of the \$75.8 million CFA and CSS
9 received in donations. Under these circumstances, it was deceptive for CFA to claim to
10 engage in a program that provided direct financial aid to cancer patients.

11 82. Whether scripted or unscripted, telemarketers' descriptions about the
12 services CFA provided were intended to tug at donors' heartstrings and open their
13 wallets, with little regard for accuracy. One telemarketing script approved by CFA in
14 2008 even directed telemarketers trying to convince reluctant donors to say: "I
15 understand [your hesitation to give]; however we never want to have to tell a family that
16 is stretching their finances to the breaking point that 'We're sorry but the CANCER
17 FUND has fallen short of its fundraising goal, so we won't be able to provide you with a
18 wig for your child to cover the hair loss due to chemotherapy!'" In fact, at that time CFA
19 did not maintain a program to provide wigs for children in chemotherapy.

20 *Misrepresentations by CSS*

21 83. CFA has made additional misrepresentations to donors through its so-called
22 "supporting organization," CSS. As discussed above, CFA controls the conduct of CSS
23 and together the two corporations have operated as a common enterprise. The sole
24 mission of CSS is to raise funds for CFA. Like other professional fundraisers, CSS has
25 spent a significant amount of funds paying for telemarketers, technology, and overhead –
26 at least 73% of every dollar donated. Unlike other charities, CSS itself has not engaged
27 in the charitable programs it describes to donors. Instead, it has told donors about
28 charitable programs supposedly engaged in by CFA.

1 84. In solicitation materials such as direct mail pieces and telemarketing
2 scripts, on its website, and in other public statements, CSS has claimed that it directly
3 provides aid to cancer patients, hospices, and nonprofit health care organizations. CSS
4 does none of these things. In response to such claims, generous Americans gave \$8.2
5 million to CSS in 2012. Between 2008 and 2012, donors gave CSS over \$41.15 million.

6 85. CSS has made these misrepresentations in numerous instances, including,
7 but not limited to, statements like:

- 8 • “[W]e want to let you know that we are continuing our cancer aid program
9 this year, we are the ones that provide the free supplies & dietary
10 supplements directly to the families that are fighting cancer and also to over
11 600 hospices and other health care providers. . .”;
- 12 • “[W]e are NOT about research, we give direct aid to those that already have
13 cancer and are in need”;
- 14 • “Cancer Support Services is hard at work helping struggling cancer patients
15 get their daily items”;
- 16 • “Cancer Support Services is diligently working on helping cancer patients
17 in need, we do this by providing cancer patients with the support they need,
18 like dietary supplements, medical supplies, and other items”;
- 19 • “Cancer Support Services differs greatly from other cancer groups in that
20 its number one priority is funding patient aid rather than research”;
- 21 • “We help cancer patients anywhere in the United States. Men, women,
22 children, um, with over two hundred forty types of cancer”;
- 23 • “[T]ens of thousands of cancer patients contact us for help”;

24 86. In fact, CSS has never directly provided aid to cancer patients, hospices, or
25 nonprofit health care organizations in the United States. Instead, it has provided cash
26 grants to CFA. Claims that CSS engaged in any direct patient aid were false.

1 87. In numerous instances, CSS telemarketers have made additional
2 misrepresentations about programs CSS supposedly conducted. These have included, but
3 are not limited to, statements that CSS itself provides hospice care, as in the following:

- 4 • “We also do the hospice care for the terminally ill and we supply over 600
5 hospice offices with medical supplies all over the United States”;
- 6 • “We just want you to know that your generous contribution went a long
7 way to help cancer patients out directly with their hospice care and their
8 medical supplies”;
- 9 • “We also do the hospice care for the terminally ill ...”;
- 10 • “We’re the hospice care. We provide those medical supplies and items for
11 men, women, and children with, with a four-stage cancer”;
- 12 • “So we’re just trying to keep the doors [open for] hospice care, you know
13 that’s kind of touch and go you never know ...”;
- 14 • “We’re the ones that do the hospice care for the cancer patients afflicted
15 with cancer from infants to adults”; and
- 16 • “One hundred percent of our proceeds go to hospice care.”

17 88. In fact, CSS does not provide hospice care, does not fund hospices, and
18 100% of donations do not go to hospice care. CFA also has not provided hospice care to
19 cancer patients. Such representations were completely fabricated. Even assuming that
20 CSS telemarketers were describing CFA’s programs, the number of hospices in the
21 United States to which CFA has provided any assistance was grossly inflated. CFA has
22 sent its care packages to some nonprofit health care organizations, including a handful of
23 hospices, but it has not supplied 600 hospices, much less provided them with meaningful
24 amounts of medical supplies. Donors who relied on these representations and contributed
25 money to CSS were deceived, and legitimate hospice providers deprived of support that
26 might otherwise have gone to them.

1 *Misrepresentations by CFA and CSS about fundraising costs*

2 89. CSS also has used its nonprofit status to mislead donors about the cost of
3 fundraising and to vastly overstate its efficiency in using their contributions. For
4 example, in numerous instances, CSS has made statements in telemarketing calls
5 including, but not limited to:

- 6 • “I’m not a telemarketer so I work directly for the charity...”;
- 7 • “[T]he great thing about it, us, is that we, I’m not a telemarketer. We,
8 100% of the money that we raise goes directly to the charity. We do not
9 have a professional fundraising company that we have to share your
10 contribution with. We are the charity calling you directly”;
- 11 • “One hundred percent of your contribution goes directly to the charity. I’m
12 not doing a fundraiser and I’m not calling with um, with a telemarketing
13 firm ... I’m calling you directly from the charity”;
- 14 • “We’re a nationwide charity just like the Red Cross and the Salvation
15 Army”; and
- 16 • “One hundred percent of your contribution goes into the fund where we
17 purchase medical supplies for these cancer patients.”

18 90. In fact, although CSS is organized as a nonprofit, it operates solely as a
19 telemarketer for CFA. Despite its (false) assertions, 100% of donors’ contributions did
20 not go to support the charitable programs described to them. Instead, funds donated to
21 CSS first were used to pay CSS’s significant fundraising costs and compensation – about
22 73% of each donation. After this first cut, most of the remaining funds were sent to CFA.

23 91. In its financial statements, CFA reported the revenue it received from CSS
24 but no concomitant costs. This made it appear that CFA spent donors’ money more
25 efficiently than it actually did. CSS gave CFA \$7.96 million between 2008 and 2012,
26 which CFA reported as contributed revenue. This additional amount caused CFA’s ratio
27 of fundraising cost to donations to diminish from 82.9% to 67.4%, making CFA appear
28 more efficient to donors. In fact, because CFA controlled CSS and CSS engaged in no

1 programming itself, an accurate representation of the administrative and overhead costs
2 by CFA would have included both the revenue generated by CSS and its expenses.
3 CFA's practice of reporting only the revenue from CSS's operations deceived donors.

4 92. Donors have a right to know how their contributions are being spent – and
5 by whom. Interposing additional entities between the contribution and the charitable
6 program increases costs and dilutes the impact and efficiency of donors' contributions. If
7 donors had known the truth about CSS's "programs," and not been deceived, they likely
8 would have chosen to avoid such costs and contributed directly to an entity that truly
9 engaged in charitable programs.

10 *Misrepresentations by CCFOA*

11 93. CCFOA, in numerous instances, has represented that it engages in a
12 substantial charitable program dedicated to providing financial assistance to the families
13 of children suffering from cancer. CCFOA has made these claims in solicitation
14 materials, such as direct mail pieces and telemarketing scripts that CCFOA approved for
15 use by its telemarketers, on its website, and in other public statements.

16 94. In response to such claims, generous Americans contributed \$6.36 million
17 to CCFOA in 2012. Between 2008 and 2012, donors gave CCFOA \$39.5 million.

18 95. CCFOA's misrepresentations about its programs have included, for
19 example:

- 20 • "Finding tangible help when a child is stricken with cancer is both
21 frustrating and difficult to obtain. We alleviate much of that burden so the
22 family can get on with the business of loving and caring";
- 23 • "The Children's Cancer Fund of America is, with your help, assisting
24 children and their parents cope with the daily struggles of cancer by
25 providing direct financial aid to pay for expenses not covered by
26 insurance";

- 1 • “The Children’s Cancer Fund of America provides financial assistance to
- 2 medically indigent families having a child with cancer. Monthly checks
- 3 sent to family to help defray daily living cost”;
- 4 • “The Children’s Cancer Fund of America, Inc., operates exclusively as a
- 5 charitable organization dedicated to assistance and support of children
- 6 suffering from cancer and their families through financial aid”;
- 7 • Donations to CCFOA will go to “many families facing financial
- 8 devastation in their children’s struggle with cancer. . .”;
- 9 • “We have a combined work experience of nearly 50 years helping cancer
- 10 patients of all ages, arming us with the knowledge of how to target the most
- 11 pressing of financial needs, and then rallying to the cause with direct aid”;
- 12 • “Children’s Cancer Fund of America is in the forefront of actually helping
- 13 needy children with cancer by providing public education and financial
- 14 assistance to help pay for expenses”; and
- 15 • “CCFOA programs fight the ravages of childhood cancer in the following
- 16 ways: Financial Assistance: Immediate assistance cuts through the red tape
- 17 to help with immediate needs and expenses not covered by insurance.”

18 96. Despite CCFOA’s representations about its claimed largesse, and the
19 millions of dollars it collected, CCFOA has done almost nothing for children with cancer.
20 For example, in 2012 CCFOA provided \$45,026 in financial assistance to 723 recipients
21 – 0.71% of donations. That same year CCFOA paid Perkins a salary of \$231,672.

22 97. To receive aid, a family needed to call CCFOA to request an application,
23 and then complete and return the original application form with the signature of a medical
24 professional confirming a child’s cancer diagnosis. CCFOA imposed no financial
25 qualifications and families received the same monthly amount – between \$25 and \$100 –
26 for up to 24 months. The amount of the checks sent depended on funds available to
27 CCFOA after paying telemarketers, Perkins’s and other staff salaries, and other expenses.

1 For a time CCFOA issued such checks monthly, but by 2012 the program had been
2 scaled back and checks were issued every other month to enrolled families.

3 98. CCFOA started a “Patient Perk Pack” program in August 2012. On months
4 when checks were not provided, it sent families pre-packaged boxes containing a random
5 assortment of items including, for example, backpacks, school supplies, children’s
6 hygiene products, children’s coats, religious-themed DVDs, and candy. Like CFA,
7 CCFOA obtained these items from procurement agents that gather and make available to
8 nonprofits overstocked, out of season, or discontinued merchandise in exchange for a
9 handling fee that is a fraction of the retail value of the items. CCFOA reported that it
10 provided goods valued at \$139,373 to families of children with cancer in 2012, but paid
11 only a fraction of that amount to obtain these goods. Donors were not told that their
12 contributions would support this program.

13 99. Including both its cash assistance and the reported value of the contributed
14 goods given away in “Patient Perk Packs,” CCFOA provided aid to individuals in the
15 United States valued at just \$184,399 in 2012. This amounted to 2.9% of the \$6.36
16 million donors contributed, and just 1.2% of CCFOA’s reported total contributions
17 (individual donors’ contributions plus GIK). Under these circumstances, CCFOA did not
18 operate a substantial charitable program dedicated to providing financial support to the
19 families of children with cancer, and donors’ money was not used for the purposes
20 described to them.

21 100. In addition to misrepresentations about its financial assistance program, in
22 numerous instances, CCFOA, directly or through its fundraisers, has made
23 misrepresentations about specific programs including, but not limited, to claims that
24 CCFOA helps children with cancer with “hospice needs,” “medical supplies,” and “pain
25 medication.” For example, one telemarketing script, authorized by Perkins and used by
26 CCFOA’s largest commercial fundraiser, Associated Community Services, claimed that
27 “We [CCFOA] are working to provide pain medication, medical supplies and hospice
28 care when families cannot afford them to battle cancer with no financial worries.” These

1 claims evoked images of cancer-stricken children suffering untreated pain, waiting for
2 medication that donations to CCFOA could help provide. While heart-wrenching, the
3 claims were completely false. CCFOA has never provided pain medication, medical
4 supplies, or hospice care to children with cancer.

5 *Misrepresentations by BCS*

6 101. BCS, in numerous instances, has made misrepresentations about the
7 purpose, size, and scope of its programs. BCS made these claims in solicitation
8 materials, such as direct mail pieces and telemarketing scripts approved by BCS for use
9 by its telemarketers, on the BCS website, in statements to the Combined Federal
10 Campaign, and in other public statements. In response to such claims, generous
11 Americans contributed \$15.1 million to BCS in 2012. From 2008 through 2012, donors
12 contributed \$71.7 million to BCS.

13 102. Misrepresentations by BCS have included, in numerous instances, claims
14 that providing breast cancer patients in the United States with direct financial assistance
15 is the primary purpose of BCS, and that it has helped thousands of individuals in this
16 way. Such representations have included, but were not limited to:

- 17 • “The Breast Cancer Society is one of the few national breast cancer
18 charities in the United States with a primary focus on providing direct help
19 and assistance to those suffering from breast cancer”;
- 20 • “The Breast Cancer Society is one of the few national breast cancer
21 charities in the U.S. providing direct help and financial aid to those
22 suffering from breast cancer today! TBCS is able to assist families in need
23 of assistance with direct financial assistance”;
- 24 • “Your support provides necessary aid and funding for medical expenses,
25 nutritional, personal care, transportation, utilities, groceries, and much more
26 to breast cancer patients undergoing desperate financial circumstances due
27 to breast cancer”;

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- “Your pledge to The Breast Cancer Society ensures that individuals will be helped and comforted through this challenging time of their lives; that those we aid will be provided critical assistance to help pay for the necessary supplies and personal care items insurance companies rarely pay for. The Breast Cancer Society is providing direct HELP to individuals and families”;
- “It is the primary mission of TBCS to provide direct aid to those who are suffering from the effects of breast cancer. We have extensive programs in place that allow both financial and material items to be granted to those in need. Your generous support makes a difference in thousands of women’s lives who are facing breast cancer”;
- “Your donation(s) are appreciated, but more importantly they are desperately needed. [BCS] provides direct support, services, [and] supplies to patients in need and to their care providers. We seek out countless breast cancer victims that could not otherwise afford proper care”;
- “We’re back to work ... [providing] direct financial assistance to women in the U.S. battling breast cancer”;
- “The Breast Cancer Society has been able to provide direct assistance to many thousands of breast cancer patients and their families through our partnership with Associated Community Services”;
- “[T]hanks to you and so many other Partners of TBCS, thousands of patients are able to receive financial, medical, and emotional aid”;
- “A unique mission. Direct and immediate financial assistance to victims battling breast cancer so they may meet the challenges of the illness and become survivors.”

103. Despite these claims, providing direct financial assistance to breast cancer patients has not been the primary focus or mission of BCS. Indeed, BCS has not operated a substantial bona fide program providing direct financial assistance to financially needy

1 individuals with breast cancer at all. BCS has provided individuals enrolled in its
2 program with \$100 each month, for up to six months. BCS has limited the number of
3 patients to whom it would provide direct financial assistance to no more than 250
4 individuals per month. It had no financial eligibility requirements for receiving aid,
5 limiting the program only by requiring recipients to be in active treatment for breast
6 cancer.

7 104. In 2012, BCS provided 496 people with a total of \$279,432 in cash
8 assistance – 1.8% of individual donors’ contributions. In contrast, in 2012, BCS paid
9 Reynolds, II a salary of \$286,901. Between 2008 and 2012, the amount BCS gave in
10 direct financial assistance to individuals with breast cancer was just 0.68% of its reported
11 total contributions (individual donations plus GIK).

12 105. Under these circumstances, BCS has not existed primarily to provide
13 financial assistance directly to financially needy individuals with breast cancer, and it has
14 not helped “thousands” of women annually. It has provided a relatively small number of
15 individuals with some money. The level of “direct financial assistance” that BCS
16 provided was so small that it was false and misleading to describe this as BCS’s
17 “primary” mission or otherwise represent that BCS engaged in a substantial program
18 financially aiding breast cancer patients.

19 106. In numerous instances, BCS, has also made representations about the
20 geographic availability, size, and scope of its Hope Supply Program, including, but not
21 limited to, statements like:

- 22 • “The Hope Supply Program is now serving the east and west coasts. This
23 program offers contributed items that cancer patients can ‘shop’ for at no
24 cost to them”; and
- 25 • “Because of incredibly generous and committed friends like you we are: . . .
26 providing thousands of people access to our local warehouses which are
27 part of the Hope Supply Project.”

1 107. Through 2012, BCS's Hope Supply Program consisted of two "stores," one
2 in Mesa, Arizona and another in Edgemont, Pennsylvania (near Philadelphia). BCS
3 opened a third "store" in Bentonville, Arkansas in 2014. BCS has stocked these "stores"
4 with random merchandise contributed by local retailers, including, e.g., Bed, Bath &
5 Beyond, Babies"R"Us, and The Disney Store. Like CFA and CCFOA, it has also
6 obtained goods from procurement agents that gather and make available to nonprofits
7 overstocked, out of season, or discontinued merchandise. Items available at these
8 locations in the past have included baby clothes, children's toys, gift wrap, office
9 supplies, housewares, bedding, women's and children's apparel, shampoo, lotion and
10 other toiletries, over-the-counter medication, and vitamins. Also like CFA and CCFOA,
11 BCS has spent just a fraction of the goods' reported value to obtain them. From 2009,
12 when the Mesa "store" opened, through 2012, BCS paid \$182,499 for goods that it
13 reported as having a value of \$3.6 million.

14 108. BCS has made the Hope Supply Program available to anyone who has had
15 breast cancer, whether in active treatment, remission, or cancer free, and imposed no
16 financial eligibility requirements. Program participants can visit the Hope Supply stores
17 monthly. There has been no cap on the total number of visits or duration of eligibility.
18 Participants "shopped" at the store for free, taking whatever they liked, without constraint
19 on quantities or value. Available "shopping" appointments have been restricted – the
20 "stores" typically have been open only for limited hours, each "shopping" visit lasts up to
21 an hour, and no more than one or two individuals have been allowed to "shop" at any
22 given time. In 2012, a total of 272 individuals "shopped" at the two BCS locations – 182
23 in Mesa and 90 in Edgemont. From 2009 through 2012, fewer than 500 individuals
24 "shopped" at these stores.

25 109. Claims that the Hope Supply Program has served "the east and west coasts"
26 were exaggerated. Practicality limits program participants to those within driving
27 distance of the two stores who have transportation available. In addition, representations
28 that the program has helped thousands of women were simply not true.

1 110. In numerous instances, BCS has also misrepresented that it directly
2 provides breast cancer victims throughout the United States with specific assistance such
3 as medical supplies, health supplies, and treatment including, but not limited to, in
4 statements such as:

- 5 • “Last thing we want to do is put you in a bind, but these breast cancer
6 patients rely on us every month for their basic medications”;
- 7 • “[T]he Breast Cancer Society of America wants to be there to help women
8 in need with direct financial aid, health supplies and commodities,
9 treatment counseling; and countless other levels of support to help them
10 defeat this terrible disease. This special project of the Breast Cancer
11 Society helps thousands of women in need”;
- 12 • “We’re back to work ... [p]roviding emergency groceries and utilities for
13 women suffering from breast cancer”;
- 14 • “The organization’s services are available to those in your community.
15 Help is available both nationally and internationally”; and
- 16 • “We are working with the breast cancer aide program. We provide
17 medical, nutritional, personal care supplies, as well as direct financial
18 assistance to women who suffer from this horrible disease.”

19 111. Additionally, in numerous instances, through its telemarketing agents, BCS
20 has misrepresented that contributions will provide individual breast cancer patients with
21 the following benefits:

- 22 • “medical supplies”;
- 23 • “insurance”;
- 24 • “help the ladies with pain meds”;
- 25 • pay for “medical, nutritional, personal care supplies”; and
- 26 • “pay for treatment when patients are short on funds; pre-diagnosis exams,
27 and prescriptions....”

1 112. These claims were false. BCS has not engaged in a substantial program
2 directly helping individuals with breast cancer throughout the United States to receive
3 medical supplies, commodities, or health or personal care supplies. It does not have a
4 national program that routinely provides breast cancer patients with emergency groceries
5 or pays for utilities, treatment, or pre-diagnosis exams. Nor does it supply individuals
6 with pain medication or pay for insurance. While some goods that might be described as
7 medical supplies, health supplies, or personal care items have been available at the two
8 Hope Supply locations, these goods were not available to breast cancer patients
9 throughout the United States, and BCS has not maintained a substantial program making
10 such goods widely available.

11 ***Misrepresentations about Charitable Efficiency:***
12 ***Improperly Reported GIK Used to Disguise Low Charitable Program Expenditures and***
13 ***Minimize High Administrative and Fundraising Costs***

14 113. The actual amount spent by CFA, CCFOA, and BCS on the cash and goods
15 provided to cancer patients has been so small because of their high fundraising costs and
16 their use of donated funds for salaries, perks, and other benefits to the extended Reynolds
17 clan. To mask these high administrative and fundraising costs, which the donating public
18 views unfavorably, Corporate Defendants embarked on an extensive scheme involving
19 shipping GIK goods internationally. The vast majority of the goods shipped were
20 prescription pharmaceuticals that, in numerous instances, could not be distributed or sold
21 in the United States. Corporate Defendants' participation in this scheme was limited to
22 paying shipping costs and broker's fees to ship containers of goods to organizations in
23 developing countries – but they reported the full value of the shipments as if the
24 prescription medicine and other goods had been donated to, and distributed by, them.

25 114. Corporate Defendants used this scheme to create the bookkeeping illusion
26 that they received millions of dollars in contributed revenue and spent millions of dollars
27 on charitable programs (“program spending”) with low administrative and fundraising
28 costs. Through this scheme, between 2008 and 2012, Corporate Defendants collectively

1 increased their total reported contributed revenue by over \$223 million. Simultaneously,
2 in the same five-year period they also increased their reported program spending by over
3 \$223 million. This more than doubled their apparent efficiency (the ratio of money spent
4 on program expenses as compared to money spent on total expenses) from 20.7% to
5 61.5%. In fact, Corporate Defendants should have reported neither this contributed
6 revenue nor the program expenses associated with these international GIK transactions.

7 115. Reynolds, II introduced the international GIK shipping scheme to the CFA
8 board in 2008, while he was still CFA's vice-president. According to board meeting
9 minutes, "by agreeing to accept goods and cover the shipping costs, CFA can credit these
10 shipments toward patient services with a substantial offset to our fundraising costs." A
11 PowerPoint presentation to the CFA board by Effler confirmed that effect, observing,
12 "our international shipping component has become very beneficial to boost CFA's
13 program service percentages." CCFOA began its own shipments in 2009, after Reynolds,
14 Sr. referred the broker CFA used, a company named Charity Services International
15 ("CSI"), to Perkins. When BCS was formed by Reynolds, II in 2008, it immediately
16 embraced an international GIK shipping scheme. CSS also reported a handful of
17 shipments.

18 116. Corporate Defendants each used CSI, a for-profit entity, to facilitate their
19 GIK transactions. CSI advertised that participants in its GIK program could help
20 "[r]educe fundraising percentages by booking large gift values." To accomplish this, CSI
21 provided Corporate Defendants with a turn-key operation that located donors ("upstream
22 donors") with GIK goods that those upstream donors wanted to give to downstream
23 recipients in foreign countries. These upstream donors – the same two or three
24 organizations were involved in almost all of the Corporate Defendants' international GIK
25 transactions – were nonprofits who had themselves received the goods from some other
26 party, often yet another nonprofit. CSI itself did not possess or hold title to any of the
27 goods reported as GIK revenue by the Corporate Defendants.

1 117. CSI provided Corporate Defendants with information about “available”
2 shipments that upstream donors wanted to ship to pre-selected foreign recipients. The
3 information CSI provided included shipping costs, the fees charged by CSI, the estimated
4 value of the shipment, the goods in the shipment, and the destination and recipient of the
5 shipment. If a Corporate Defendant agreed to accept the so-called “donation
6 opportunity,” CSI would arrange to ship the goods and provide the Corporate Defendant
7 with paperwork supposedly documenting Defendant’s receipt of the donated GIK goods
8 from the upstream donor, the value of the donated goods, and Defendant’s distribution of
9 the goods to the downstream foreign recipient. CSI created most of these documents,
10 which in numerous instances were virtually identical form letters, and were often back-
11 dated. They included documents purporting to transfer title to the donated goods from
12 the upstream donor to Corporate Defendants, documents purporting to provide values for
13 the goods, documents purporting to verify receipt of the goods by downstream recipients,
14 and documents discussing the downstream recipient’s purported further distribution of
15 the goods.

16 *Defendants Improperly Reported Receipt and Distribution*
17 *of GIK They Did Not Own*

18 118. Under applicable accounting rules, in numerous instances Corporate
19 Defendants did not have legal ownership of the GIK goods that they claimed to have
20 received. As a result, they should not have reported the goods’ value as contributed
21 revenue or program expense. Among other things, Corporate Defendants could not
22 permissibly claim ownership of the donated GIK because, in numerous instances, they
23 had neither physical nor constructive possession of the goods, and did not assume the
24 risks and rewards of ownership.

25 119. Other than paying CSI’s fee, Corporate Defendants, in numerous instances,
26 did nothing to solicit, locate, or facilitate the contributions they supposedly received from
27 upstream donors, which were themselves nonprofits that had received the goods from yet
28 other upstream donors. Corporate Defendants did not know the identity of the
pharmaceuticals’ manufacturers or the origin of the goods, and they had no direct contact

1 with the upstream donor. They did nothing to verify that the supposed donor actually
2 possessed the right to transfer title of the goods, or to determine whether use of the goods
3 had been restricted in any way. For example, in numerous instances, Corporate
4 Defendants reported receiving donations from an upstream donor, World Help, when
5 World Help did not have title to the goods it supposedly donated to Corporate
6 Defendants. Corporate Defendants could not legitimately claim to own such goods.

7 120. Corporate Defendants also could not permissibly claim ownership of the
8 donated GIK because, in numerous instances, they had no discretion in choosing the
9 beneficiary of the goods. Other than paying CSI's fee, in numerous instances, Corporate
10 Defendants did nothing to locate or research the foreign beneficiary or facilitate its
11 receipt of the donated goods. CSI's communications about "donation opportunities"
12 routinely listed the planned destination and foreign recipient for available shipments.
13 Corporate Defendants could accept or reject the opportunity to participate in any given
14 transaction, but could not change the shipment's destination or beneficiary. In numerous
15 instances, prior to accepting CSI's advertised shipment opportunity, Corporate
16 Defendants had had no prior contact with the foreign recipients. Corporate Defendants
17 did not typically communicate directly with the foreign recipients at all. Instead, in
18 numerous instances, such communications were handled by the upstream donors or by
19 CSI. Corporate Defendants did not verify the recipients' needs for, or potential uses of,
20 the goods, did not restrict such uses, and received little documentation regarding the end
21 uses of the goods, which were often redistributed by the foreign recipients to other
22 organizations.

23 121. Corporate Defendants also, in numerous instances, lacked documents
24 related to these GIK transactions that owners of GIK goods are expected to maintain.
25 Without such documentation, Corporate Defendants could not claim the GIK as
26 contributed revenue. What documentation that Corporate Defendants did have had come
27 from CSI and did not adequately substantiate Corporate Defendants' claimed receipt,
28 possession, and subsequent distribution of the goods. Among other things, documents

1 from CSI included thank you letters and distribution reports supposedly sent by foreign
2 recipients to Corporate Defendants but that were instead manufactured by CSI using form
3 letters, letterhead, and digital signatures on file in CSI's computers. In numerous
4 instances, such documents were backdated. In other instances, documents described GIK
5 transactions that were literally impossible. For example, in some instances, the upstream
6 donors purported to transfer title of goods to Corporate Defendants after the shipment had
7 been received by the foreign recipient.

8 122. Under these circumstances, Corporate Defendants did not own the GIK
9 goods; they were simply acting as "pass-through" agents between the upstream donors
10 and end recipients. Such intermediaries may not report the value of goods passing
11 through their hands as contributed revenue or as program service expense in their
12 financial statements.

13 *Corporate Defendants Improperly Reported the Value of GIK*

14 123. Even assuming, *arguendo*, that in some instances Corporate Defendants
15 could have properly claimed the GIK goods' value as contributed revenue or reported it
16 as program expense, in numerous instances, Corporate Defendants used improper
17 valuation methods to inflate the reported values of donated goods. Corporate Defendants
18 also failed to retain appropriate documentation of those valuations.

19 124. Corporate Defendants relied almost exclusively on CSI for valuation
20 information. In numerous instances, CSI valued pharmaceuticals using the average
21 wholesale price in the United States as listed in the "Red Book: Pharmacy's Fundamental
22 Reference." That valuation method failed to consider numerous factors including the
23 relevant market for the goods (i.e., whether they could be sold in the United States), the
24 goods' physical condition (including the expiration dates of pharmaceuticals), current
25 market conditions, and the legally permissible uses for the donated goods. CSI's
26 methods, in numerous instances, resulted in inflated and unsubstantiated claims of value.
27 For example, in numerous instances, CSI valued particular drugs at U.S. wholesale prices
28 even when there was no U.S. market for the drugs because an upstream donor had

1 restricted their use to a particular foreign country or because the drugs had expired. U.S.
2 wholesale drug prices, in numerous instances, are much higher than prices in other
3 markets, so assigning a value based on sale in a U.S. market results in a higher value
4 than, for example, assigning a value based on a market in Africa or Central America.

5 125. Corporate Defendants were ultimately responsible for the valuations they
6 reported in financial documents. In numerous instances, however, they did nothing to
7 oversee, monitor, audit, or otherwise check CSI's processes and procedures for such
8 valuations. They did not ascertain that the contents of the shipments were as described in
9 the inventory lists they received from CSI. Nor did they make sure that donated
10 pharmaceuticals were not expired or were in otherwise useable condition. In numerous
11 instances, inventory lists provided by CSI to Corporate Defendants did not specify the
12 drugs' expiration dates. In other instances, when expiration dates were provided, some of
13 the listed drugs had expired or were very close to expiring. (A drug's expiration date
14 affects its monetary value as well as its efficacy.)

15 126. Corporate Defendants also failed to maintain records supporting the
16 valuations provided by CSI, including, for example, documents related to CSI's
17 qualifications for conducting appraisals of value, documents detailing the specific
18 valuation method(s) used by CSI, the assumptions made by CSI in determining appraised
19 values, and records of CSI's conclusions of fair value.

20 *Deceptive Impact of Reporting GIK Transactions*

21 127. The increased contributed revenue and program spending Corporate
22 Defendants reported – collectively over \$223 million – had the effect of diminishing the
23 reported percentage of revenue they spent on fundraising and administrative costs and
24 increasing the proportion of reported expenses they spent on program services, making
25 Corporate Defendants appear more efficient to donors than they actually were. Thus, the
26 reported international GIK revenue for the five years from 2008 through 2012 resulted in
27 CFA's reported fundraising expenses being 25.4% of total contributions. In reality,
28 67.4% of consumers' donations (including revenue from CSS), or 82.9% without

1 counting CSS's "contributions" to CFA, were spent on fundraising. For the same period,
2 CCFOA used its international GIK revenue to report fundraising expenses of 47% of total
3 contributions. In reality, 81.5% of consumers' donations were spent on fundraising.
4 Similarly, BCS reported fundraising expenses of 29% of total contributions, while in
5 reality 84.6% of consumers' donations were spent on fundraising. Corporate Defendants
6 also used the inflated contributed revenue amounts when choosing purported
7 "comparable organizations" for setting their executives' pay, thus improperly increasing
8 the Individual Defendants' salaries.

9 128. Corporate Defendants obtained the paperwork they used to claim these
10 figures for just the cost of the payment to CSI (which included both CSI's fees and
11 shipping costs). For example, in connection with a 2011 shipment to Guatemala, CFA
12 reported contributed revenue and corresponding program expense of over \$8 million, but
13 only paid CSI a fee of \$50,550. For one 2010 shipment to Ghana for which CCFOA
14 reported contributed revenue and program expense of over \$3.8 million, CCFOA paid
15 CSI just \$39,960. In addition, for a 2011 shipment to Honduras for which BCS reported
16 contributed revenue and program expense of at least \$3.8 million, BCS paid CSI just
17 \$28,120. Although Corporate Defendants used such transactions to add hundreds of
18 millions of dollars in program expenses to their financial reports, these "programs"
19 existed entirely on paper. Corporate Defendants did not possess the goods and played no
20 role in their overseas distribution. They hired no additional staff to manage these
21 multimillion-dollar international GIK programs and in most instances spent virtually no
22 staff time on them. In addition, the very high dollar values associated with these
23 transactions largely resulted from overvalued pharmaceuticals.

24 129. Corporate Defendants claimed these illusory numbers in financial reporting
25 documents like informational tax returns filed with the IRS, commonly known as Forms
26 990, and in documents filed with numerous state regulators. In connection with such
27 filings, Corporate Defendants certified that the information contained therein was "true,
28 accurate, and complete," sometimes under penalty of perjury. States often make such

1 documents publicly available so that prospective donors may research charities before
2 making donation decisions. The public, together with state charities regulators, relied on
3 this information in evaluating the performance and effectiveness of the Corporate
4 Defendants. Charity watchdog groups that provide consumers with information about
5 charities also considered Corporate Defendants' reported contributed revenue, program
6 spending, and fundraising and administrative costs when evaluating them. Such financial
7 information was also reported to federal employee donors in Combined Federal
8 Campaign materials.

9 130. By reporting these GIK transactions as contributed revenue and program
10 expenses, at inflated values, Corporate Defendants represented themselves to be both
11 larger and more efficient than they actually were. They obscured the high percentage of
12 donated funds spent on, among other things, for-profit fundraisers, executive salaries, and
13 employee perks, and concealed the very small amounts spent on the charitable purposes
14 described to donors. As a result, the Forms 990 and other documents filed by Corporate
15 Defendants with the IRS and state regulators, and made publicly available to consumers,
16 were false and misleading.

17 *Misrepresentations Related to CFA's Inflated GIK Reporting*

18 131. From 2008 through 2012, CFA improperly reported over \$58.5 million in
19 international GIK contributed revenue and commensurate program expenditures
20 associated with its international GIK transactions. CFA used these numbers when
21 publicly touting its size and efficiency, including in newsletters and representations on
22 the Internet. In numerous instances, state regulators relied on CFA's reported numbers to
23 inform their citizens about CFA's efficiency with donor dollars. These numbers were
24 also used by the Combined Federal Campaign to report CFA's alleged fundraising
25 expenses relative to total contributions to prospective donors.

26 132. As a result of its reporting of these international GIK transactions, CFA
27 deceived donors about its overall size, the resources it devoted to its programs, and how
28 efficiently it used donors' contributions. For example, it increased its apparent efficiency

1 (the ratio of program expenses to total expenses) by almost 30 percentage points. CFA
2 also disguised the high percentage of donated funds it spent on, among other things, for-
3 profit fundraisers, executive salaries, and employee perks instead of the charitable
4 purposes described to donors. For example, in 2012, CFA reported fundraising costs
5 relative to total contributions (including international GIK income) as 19%. In contrast,
6 70% of donors' contributions were spent on fundraising.

7 133. In addition, with these reported international GIK transactions, CFA
8 deceived donors about its primary charitable activities and the focus of its programs. As
9 described above, CFA has represented to donors that its mission is "direct patient aid" for
10 Americans with cancer. CFA has emphasized this purported mission in solicitation
11 materials with claims that it is a "national" health agency, that "CFA is making a
12 difference in the lives of tens of thousands of Americans," that CFA is helping people on
13 a "national basis," and by the very nature of its name, *Cancer Fund of America*.

14 134. In fact, using CFA's valuations, in 2012 the international GIK accounted
15 for 87.8% of the value of all aid CFA claimed to provide (international and domestic).
16 The international GIK did not assist people with cancer or health-related nonprofits in the
17 United States, and it did not provide direct aid to cancer patients anywhere. Moreover, in
18 numerous instances, the pharmaceuticals involved in these shipments had little to do with
19 treating cancer. For example, the prescription medication lamotrigine, which constituted
20 a significant percentage of the value of shipments claimed by CFA in 2010, 2011, and
21 2012, is commonly used to treat epilepsy and bipolar disorder, and not to treat cancer.
22 Other medications and medical supplies, like antibiotics and syringes, might have been
23 used in connection with treating cancer patients, but were just as likely to have been used
24 by hospitals and medical clinics to treat other medical conditions.

25 135. In numerous instances, CFA's claimed shipments went to foreign recipients
26 who then re-distributed the goods to other organizations. CFA had no way of verifying
27 how those organizations used the goods. Moreover, in numerous instances, distribution
28 reports received by CFA explicitly documented that many contributed goods were widely

1 distributed to the general populace and were not used specifically to assist cancer
2 patients. For example, one 2011 shipment to Liberia included medicine and medical
3 supplies contributed to clinics and hospitals for general use, as well as products that
4 “helped the Liberian people such as orphans, mothers, children and young adults.” While
5 these were worthy causes, they were not causes that donors were told their contributions
6 would support.

7 136. Under these circumstances, CFA’s representations to donors about the
8 focus of its programs were deceptive – most of the aid CFA claimed to provide had
9 nothing to do with directly helping cancer patients in the United States and often had
10 nothing at all to do with helping people suffering from cancer.

11 *Misrepresentations Related to CCFOA’s Inflated GIK Reporting*

12 137. From 2008 through 2012, CCFOA improperly reported over \$29 million in
13 GIK revenue and commensurate program expenditures associated with its international
14 GIK transactions. CCFOA used these numbers when publicly touting its size and
15 efficiency. For example, the Combined Federal Campaign used these numbers to inform
16 prospective donors about CCFOA’s alleged fundraising expenses relative to total
17 contributions. Before CCFOA started its international GIK shipping program, the 2009
18 Combined Federal Campaign reported CCFOA’s fundraising expenses relative to total
19 contributions as 84.8% (based on 2008 numbers). In the 2013 campaign, the Combined
20 Federal Campaign reported CCFOA’s fundraising costs relative to total contributions as
21 38% (based on 2012 numbers). In reality, in 2012, CCFOA spent 85% of consumers’
22 donations on fundraising expenses. In numerous instances, state regulators relied on
23 CCFOA’s claimed revenue and program expenses to inform their citizens about
24 CCFOA’s efficiency.

25 138. As a result of its reporting of the international GIK transactions, CCFOA
26 deceived donors about both its overall size and how efficiently it used their contributions.
27 For example, in 2012, its reported efficiency (the ratio of program expenses to total
28 expenses) more than quadrupled, increasing from 13% to 63%. CCFOA also obscured

1 the high percentage of donated funds it spent on, among other things, for-profit
2 fundraisers, executive salaries, and employee perks instead of on the charitable purposes
3 it described to donors.

4 139. Through these reported international GIK transactions, CCFOA also
5 deceived donors about its primary charitable activities and the focus of its programs. In
6 solicitation materials and elsewhere, CCFOA has represented to donors that its mission is
7 to provide financial help to the families of American children with cancer. This has
8 included solicitation materials that focus on claims that CCFOA provides direct financial
9 assistance to pediatric cancer patients and even by the very nature of its name, *Children's*
10 *Cancer Fund of America*.

11 140. Using CCFOA's valuations, in 2012, the international GIK it reported
12 accounted for 98% of the value of all aid CCFOA claimed to provide (international and
13 domestic). The international GIK shipments, however, had nothing to do with providing
14 financial aid to families of children with cancer in the United States, and often had little
15 to do with cancer – or children – at all. For example, some shipments contained goods
16 such as deep fat fryers, bread machines, electronic equipment, and adult men's
17 undershirts. In many instances, the pharmaceuticals involved – which comprised the bulk
18 of the value of the shipments – were not related to treating cancer, much less pediatric
19 cancer. For example, some medications such as the antibiotic ciprofloxacin, which
20 constituted a large percentage of the value of a 2010 shipment to Guatemala, are
21 expressly contraindicated for use in treatment of children. In another shipment, the three
22 medications with the highest claimed value were Mirapex, Terbinafine HCL, and
23 Atrovent, which are used to treat Parkinson's disease, skin fungus (jock itch), and mild
24 cold symptoms, respectively. In numerous instances other medications, medical supplies,
25 and goods that were shipped might have been provided to children with cancer but were
26 just as likely to have been used to treat adults and other medical conditions.

27 141. In numerous instances, CCFOA's claimed shipments went to foreign
28 recipients who then re-distributed the goods and pharmaceuticals to other organizations.

1 CCFOA failed to verify how, or even if, those organizations used the goods. In some
2 instances, distribution reports received by CCFOA explicitly documented that many
3 contributed goods were widely distributed and their use unrestricted to pediatric cancer
4 patients. For example, the majority of one 2011 shipment to Guatemala consisted of
5 medicine and medical supplies that were distributed to rural clinics and hospitals
6 throughout the country for general use. While assisting health care providers in
7 Guatemala was a worthy cause, it was not the cause that donors were told their
8 contributions would support.

9 142. Under these circumstances, CCFOA's representations to donors about the
10 focus of its programs were deceptive – most of the aid CCFOA claimed to provide was
11 not financial assistance to families of children with cancer in the United States, and often
12 had nothing at all to do with children or cancer.

13 *Misrepresentations Related to BCS's Inflated GIK Reporting*

14 143. From 2008 through 2012, BCS improperly reported over \$131.9 million in
15 GIK contributed revenue and commensurate program expenditures associated with
16 international GIK transactions. BCS used these international GIK numbers when
17 publicly touting its efficiency, including in statements to reporters and on its website. For
18 example, BCS made statements such as: "We are working hard to reduce our fundraising
19 costs and any additional overhead expenses to maximize what we can do with each and
20 every dollar entrusted to us. For example, we spend only 2% of our revenue on
21 administrative costs, an important step that few national charities with our reach can
22 boast of." BCS's inflated numbers were also used by the Combined Federal Campaign to
23 inform prospective donors about BCS's alleged fundraising expenses relative to total
24 revenue. In addition, in numerous instances, state regulators relied on inflated numbers
25 to inform their citizens about BCS's efficiency.

26 144. As a result of its reporting of the international GIK transactions, BCS
27 deceived donors about its overall size and how efficiently it used their contributions. For
28 example, in 2012, its reported international GIK program expenses caused its apparent

1 efficiency (the ratio of program expense to total expenses) to more than triple, increasing
2 from 22% without the reported GIK expenses, to 75% with them. Also obscured was the
3 high percentage of donated funds relative to total contributions that BCS spent on, among
4 other things, for-profit fundraisers, executive salaries, and employee perks instead of the
5 charitable purposes it described to donors. For example, in 2012, BCS reported
6 fundraising costs relative to total contributions (including international GIK income) as
7 24%. In contrast, 83% of donors' contributions were spent on fundraising.

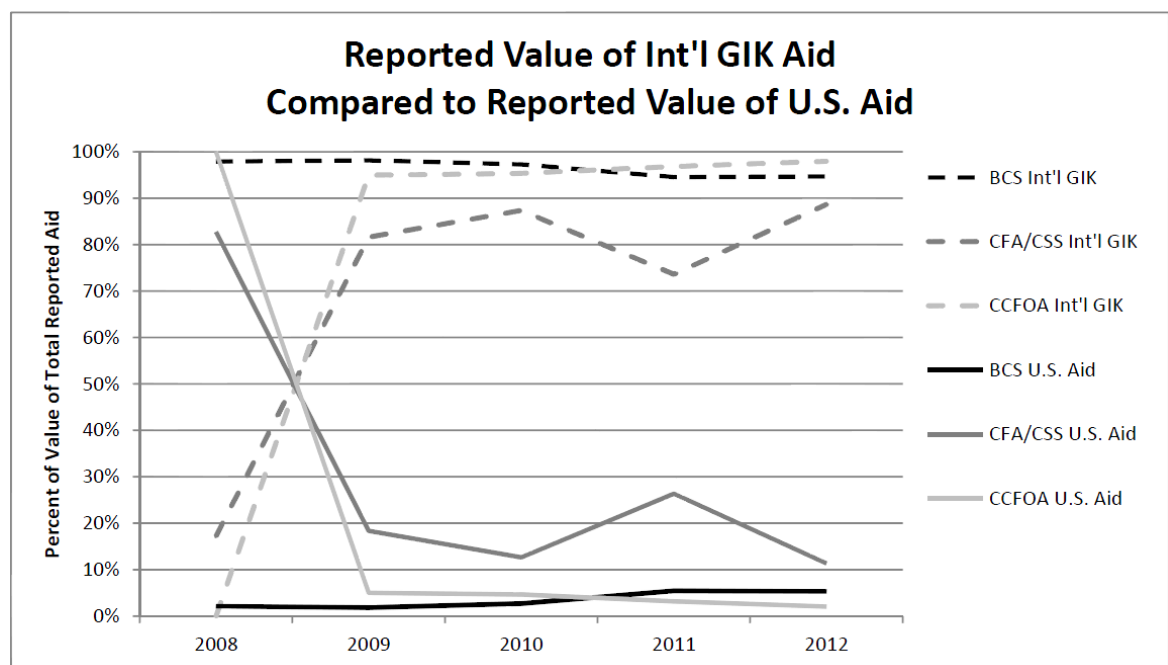
8 145. Using these reported international GIK transactions, BCS also deceived
9 donors about its primary charitable activities and the focus of its programs. BCS has
10 represented to donors that its mission is to directly help Americans with breast cancer.
11 Not only did it assume the d/b/a "The Breast Cancer Society of America" for use in some
12 telemarketing solicitations, its solicitation materials focus on claims about BCS's
13 program of "direct" aid to U.S. breast cancer patients, including specific descriptions of
14 financial assistance to women in the United States, and references to the U.S.-based Hope
15 Supply Program.

16 146. In fact, using BCS's valuations, between 2008 and 2012 the GIK BCS
17 claimed to ship internationally accounted for 96.2% of the value of all aid reported by
18 BCS (international and domestic). The international GIK had nothing to do with
19 providing direct assistance to individuals with breast cancer in the United States. In
20 numerous instances, the pharmaceuticals, medical supplies, and other goods included in
21 BCS's claimed GIK shipments had little, if anything, to do with treating breast cancer.
22 For example, a 2012 shipment to the Dominican Republic included lamotrigine (used to
23 treat epilepsy and bipolar disorder), ropinirole hydrochloride (used to treat Parkinson's
24 disease and restless leg syndrome), alendronate sodium (used to treat osteoporosis),
25 levocetirizine (an antihistamine), quinine sulfate (an antimalarial drug), and PSE Brom
26 DM (cold medicine). These drugs are not typically used for the treatment of breast
27 cancer and, in some instances, are not recommended for use by persons who have had
28 cancer. Some have even been associated with an increased risk of cancer. In another

1 example, in 2010, BCS reported shipping over \$6 million worth of mebendazole
 2 (deworming pills) to Africa and Central America – again, not cancer-related.

3 147. In numerous instances, BCS's claimed shipments went to foreign recipients
 4 who then re-distributed the goods and pharmaceuticals to other organizations. BCS
 5 failed to verify how, or even if, those organizations used the goods. Moreover, in
 6 numerous instances, distribution reports received by BCS explicitly documented that
 7 contributed goods were widely distributed and their use was not restricted to assisting
 8 breast cancer patients. For example, a distribution report for a 2009 shipment to
 9 Guatemala made no mention of assisting breast cancer patients. Similarly, a distribution
 10 report for a 2009 shipment to the Philippines that BCS valued at \$8.84 million made no
 11 mention of assisting breast cancer patients, the cause that donors were told their
 12 contributions would support.

13 148. Under these circumstances, BCS's representations to donors about the
 14 focus of its programs were deceptive – most of the aid BCS claimed to provide was not in
 15 the form of financial assistance to individuals with breast cancer in the United States, and
 16 often it had nothing at all to do with cancer.



Defendants Ignored IRS Rules:

“Direct Aid” Distributions Fail to Meet Charitable Program Standards

1
2
3 149. Defendants’ administration of the scant charitable programs they did
4 provide failed to meet the IRS’s bare minimum definition of program services. Most of
5 those purported charitable programs have involved aid to individuals with cancer. For
6 example, CCFOA has sent funds to some parents with children diagnosed with cancer,
7 CFA has sent some packages of goods to people diagnosed with cancer, and BCS has
8 provided some individuals in active treatment for breast cancer with cash assistance. To
9 receive such benefits – when new patient applications were being accepted – CFA,
10 CCFOA, and BCS have required only the submission of a completed application with the
11 signature of any medical professional attesting to a cancer diagnosis. They did not
12 restrict eligibility to those in financial need. Further, they did not verify the accuracy of
13 information reported on the applications. Each recipient was given roughly the same aid,
14 without regard to financial need, type of diagnosis, or other material criteria.

15 150. Under these circumstances, the distributions to individuals by CFA,
16 CCFOA, and BCS do not meet the definition of charitable contributions set forth in 26
17 U.S.C. § 170 and in IRS regulations. Charities operating programs that provide funds
18 and goods directly to individuals must satisfy four criteria to report that expenses
19 associated with such programs are charitable. First, the charity’s program must serve a
20 general charitable class of individuals. This can include those suffering financial
21 hardship from an unexpected event, such as terrorism or a cancer diagnosis. Second, the
22 charity must establish criteria for determining which members of the charitable class will
23 receive aid. Third, the charity must have a standing committee to review applications,
24 apply the criteria, and decide who will receive funds or goods. Fourth, and most
25 importantly, the charity must verify financial need for the program. Membership in a
26 charitable class is not sufficient to establish the requisite financial need; there must be
27 documentation of an immediate and significant interruption to a person’s finances.
28

1 Showing additional expenses or a change in lifestyle are insufficient bases to meet this
2 standard.

3 151. CFA, CCFOA, and BCS did not follow these rules. While they purported
4 to serve persons with cancer, and required completion of basic applications to receive aid,
5 they had neither standing committees to review applications nor verification processes to
6 check applicants' financial need. BCS did not even require applicants to have an active
7 diagnosis of breast cancer to participate in its Hope Supply program. As a result, these
8 programs have provided an excessive amount of private benefit that outweighed their
9 public benefit. Thus, none of these distributions to individuals met IRS requirements,
10 and related expenses should not have been reported as charitable program expenses. This
11 failure to follow IRS standards for program distributions, like so many other actions,
12 demonstrates that the Corporate Defendants did not operate as bona fide charities.

13 **Knowing and Willful Misrepresentations**

14 152. Defendants knowingly and willfully misrepresented to donors that CFA,
15 CSS, CCFOA, and BCS were legitimate charities and that donations to their
16 organizations would benefit cancer victims. In reality, and as Defendants knew, most of
17 the cash collected on behalf of the Corporate Defendants was used to benefit private
18 interests; the so-called "charitable" programs provided little or no assistance to people
19 with cancer.

20 153. Defendants also knowingly and willfully made specific false claims to
21 donors. The Individual Defendants authorized telemarketing scripts and solicitation
22 materials that contained false claims, and tolerated unscripted misrepresentations by
23 telemarketers that they learned about from consumer complaints and law enforcement
24 actions. In connection with international GIK transactions, Corporate Defendants also
25 knowingly and willfully falsely reported contributed revenue, expenses, and values of
26 GIK goods knowing that such reporting misrepresented the size and the efficiency of
27 their charitable programs and the costs to operate them. The Individual Defendants knew
28

1 that the GIK program expenses associated with these international transactions did not
2 represent actual charitable programs engaged in by the Corporate Defendants. In
3 addition, the Individual Defendants knew that the validity of reporting GIK transactions
4 as they were doing had been increasingly questioned by the media, the public, regulators,
5 and accounting experts.

6 154. Such misrepresentations have persisted throughout CFA's existence. In the
7 past, it has settled state lawsuits alleging, among other things, that CFA had improperly
8 valued gifts-in-kind and made misrepresentations about its charitable programs – and
9 promised not to repeat such conduct. Both Reynolds, II and Perkins worked at CFA
10 when such lawsuits were filed, and thus were on notice of the allegations. Despite these
11 state actions, the deceptive practices have continued – often without modification. For
12 example, Vermont's 1998 action alleged that CFA misrepresented that donations would
13 be used to provide pain medication to cancer-stricken individuals. CFA telemarketers
14 have continued to make that claim, as have telemarketers for CCFOA and BCS, even
15 though none of the Corporate Defendants has engaged in any such program. Similarly,
16 CSS has continued to make the same misrepresentations to donors that triggered a 2008
17 action by Oregon.

18 155. Under these circumstances, Defendants knowingly and willfully engaged in
19 deceptive solicitation and reporting practices and used charitable contributions contrary
20 to the intent of donors.

21 *Harm to Donors*

22 156. Generous donors contributed more than \$187 million to Defendants from
23 2008 through 2012, believing that their money was going to support legitimate charitable
24 organizations that provided direct aid to cancer patients in the United States. In fact, the
25 vast majority of contributed funds supported the private interests of for-profit
26 telemarketers or inured to the personal benefit of the Individual Defendants and their
27 family and friends. Only an insignificant amount of money was actually spent on aid
28 provided to U.S. cancer patients. Under these circumstances, individual donors were

1 deceived, and their charitable contributions largely wasted. In addition, donors had less
2 money available to support the many legitimate charitable organizations operating real
3 programs that help individuals with cancer.

DEFENDANTS' LAW VIOLATIONS

Count I

Misrepresentations that Contributions Were for Charitable Purposes (By the FTC and the Plaintiff States)

157. Plaintiffs incorporate by reference all the foregoing paragraphs.

158. In numerous instances, in connection with soliciting charitable contributions from donors, Defendants, directly or indirectly, expressly or by implication, have represented that donors' contributions would go to legitimate charitable organizations and be used primarily for charitable programs.

159. In truth and in fact, donors' contributions have not gone to legitimate charitable organizations and were not used primarily for charitable purposes. Instead, the contributions have gone to corporate entities controlled by private persons for their individual pecuniary gain and to the for-profit telemarketers they hired, and contributions were not used primarily for charitable programs.

160. Therefore, the representations described in Paragraph 158 were false and misleading and constituted deceptive practices in violation of Section 5 of the FTC Act, 15 U.S.C. § 45(a).

161. The foregoing practices also violate the laws of each Plaintiff State as follows:

| | |
|--------------|--|
| Alabama: | ALA. CODE §§ 13A-9-76(a)(1), (3) and 8-19-5(27). |
| Alaska: | ALASKA STAT. §§ 45.68.050(1) and 45.50.471. |
| Arizona: | ARIZ. REV. STAT. ANN. §§ 44-1522(A) and 44-6561(A)(3). |
| Arkansas: | ARK. CODE ANN. §§ 4-28-412(1) and 4-88-107(a)(7). |
| California: | CAL. BUS. & PROF. CODE §§ 17200 through 17206; § 17510.2; § 17510.8; CAL. GOV. CODE §§ 12581 through 12582.1; and § 12599.6. |
| Colorado: | COLO. REV. STAT. § 6-1-105(1)(hh); and §§ 6-16-111(1)(g) and (i). |
| Connecticut: | CONN. GEN. STAT. §§ 21a-190h and 42-110b(a). |

| | | |
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| 1 | Delaware: | DEL. CODE ANN. tit. 6, §§ 2513(a), 2532(a)(12), and 2595(a), (b)(4) and (6). |
| 2 | Florida: | FLA. STAT. §§ 496.415(7), 496.415(16), 496.416, and 501.204(1) (2013). |
| 3 | Georgia: | GA. CODE ANN. § 43-17-12(d) (2011). |
| 4 | Hawaii: | HAW. REV. STAT. §§ 467B-2.1, 467B-9, and 467B-10.5. |
| 5 | Idaho: | IDAHO CODE ANN. § 48-1203(1). |
| 6 | Illinois: | 225 ILL. COMP. STAT. §§ 460/15(a); 460/15(b)(6); 460/18(b); and 460/9(c). |
| 7 | Indiana: | IND. CODE §§ 23-7-8-7(a)(4); and §§ 24-5-0.5-3(b)(1) and (7). |
| 8 | Iowa: | IOWA CODE § 714.16. |
| 9 | Kansas: | KAN. STAT. ANN. §§ 17-1769(b), (h), and (i). |
| 10 | Kentucky: | KY. REV. STAT. ANN. § 367.170(1). |
| 11 | Louisiana: | LA. REV. STAT. ANN. §§ 51:1405 and 51:1905. |
| 12 | Maine: | ME. REV. STAT. ANN. tit. 5 § 207. |
| 13 | Maryland: | MD. CODE ANN., BUS. REG. §§ 6-608, 6-610 (2010 Repl. Vol.) (2014 Suppl.). |
| 14 | Massachusetts: | MASS. GEN. LAWS. ch. 68 § 32 and ch. 93A § 2. |
| 15 | Michigan: | MICH. COMP. LAWS § 400.288(f). |
| 16 | Minnesota: | MINN. STAT. § 309.55, subd. 5. |
| 17 | Mississippi: | MISS. CODE ANN. § 79-11-519(3)(a) and (h). |
| 18 | Missouri: | MO. REV. STAT. § 407.020. |
| 19 | Montana: | MONT. CODE ANN. § 30-14-103. |
| 20 | Nebraska: | NEB. REV. STAT. §§ 59-1602, 87-302(15), and 87-303.01. |
| 21 | Nevada: | NEV. REV. STAT. §§ 598.1305 and 598.0915(15). |
| 22 | New Hampshire: | N.H. REV. STAT. ANN. §§ 7:28-f, I(a), (b), (e). |
| 23 | New Jersey: | N.J. STAT. ANN. §§ 45:17A-32(a) and (c); § 56:8-2.7; and N.J. ADMIN. CODE § 13:48-13.2(a). |
| 24 | New Mexico: | N.M. STAT. §§ 57-22-6.3(A)(1), (3) and 57-12-3 (1978). |
| 25 | New York: | N.Y. EXEC. LAW §§ 63(12) and 172-d.2-4; N.Y. GEN. BUS. LAW § 349; and N.Y. NOT-FOR-PROFIT CORP. LAW § 719. |
| 26 | North Carolina: | N.C. GEN. STAT. § 75-1.1; §§ 131F-20(9), (15), and (18); and § 131F-21. |
| 27 | North Dakota: | N.D. CENT. CODE §§ 50-22-04.3 and 51-15-02. |
| 28 | Ohio: | OHIO REV. CODE ANN. § 1716.14(A). |
| | Oklahoma: | OKLA. STAT. ANN. tit. 18 § 552.14a(A)(5). |
| | Oregon: | OR. REV. STAT. §§ 128.886 and 646.608(1)(dd). |
| | Pennsylvania: | 10 PA. CONS. STAT. § 162.15(a)(2). |
| | Rhode Island: | R.I. GEN. LAWS § 5-53.1-7(2). |
| | South Carolina: | S.C. CODE ANN. §§ 33-56-120(A) and 33-56-140(C). |

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| 1 | South Dakota: | S.D. CODIFIED LAWS §§ 37-30-17 through 37-30-21. |
| 2 | Tennessee: | TENN. CODE ANN. §§ 48-101-513(a), (b), and (d). |
| 3 | Texas: | TEX. BUS. & COM. CODE ANN. §§ 17.46(a), (b)(5), and (b)(24) (West 2014). |
| 4 | Utah: | UTAH CODE ANN. §§ 13-11-1 through 13-11-23; §§ 13-22-1 through 13-22-23; and §§ 13-26-1 through 13-26-11. |
| 5 | Vermont: | VT. STAT. ANN. tit. 9 §§ 2453 and 2475. |
| 6 | Virginia: | VA. CODE ANN. §§ 57-48 and 57-57(L). |
| 7 | Washington: | WASH. REV. CODE §§ 19.86.020, 19.09.100(15), and 19.09.340. |
| 8 | West Virginia: | W.VA. CODE § 46A-6-101 <i>et seq.</i> ; W.VA. CODE §§ 29-19-8, -13. |
| 9 | Wisconsin: | WIS. STAT. § 202.16(1)(a), formerly § 440.46(1)(a). |
| 10 | Wyoming: | WYO. STAT. ANN. §§ 40-12-105(a)(i), (ii), (iii), and (xv). |

Count II
Misrepresentations about Program Benefits
(By the FTC and the Plaintiff States)

12 162. Plaintiffs incorporate by reference all the foregoing paragraphs.

13 163. In connection with soliciting charitable contributions from donors, directly
14 or indirectly, expressly or by implication, Defendants have represented that donors'
15 contributions would be used to fund particular charitable programs. Such representations
16 have included, but are not limited to, claims that contributed funds would be used to:

17 a. Help CFA operate a specific substantial charitable program run by a
18 “national health agency,” “on the forefront of the fight against cancer,” whose
19 resources are devoted “primarily to direct patient aid” that (1) provides direct
20 assistance to individuals with cancer in the United States and through which it has
21 helped tens of thousands of individuals; and (2) routinely provides pain
22 medications, medical support and services, medical supplies, financial assistance,
23 life-saving items, oxygen, transportation to chemotherapy treatments, medications,
24 and loaned equipment to individuals suffering from cancer and to hospices and
25 other health care nonprofit organizations serving cancer patients;

26 b. Help CSS operate a specific substantial charitable program in the
27 United States through which it directly provides aid to cancer patients, hospices,
28 and nonprofit health care organizations, provides hospice care for cancer patients,

1 and that donations to CSS will be used more efficiently because CSS is a charity
2 and does not use for-profit fundraisers;

3 c. Help CCFOA operate a specific substantial charitable program in the
4 United States through which it provides financial assistance to the families of
5 children with cancer, helps children suffering from cancer with hospice needs, and
6 provides them with medical supplies and pain medication; and

7 d. Help BCS operate specific substantial charitable programs in the
8 United States that (1) provide financial assistance and other direct aid to thousands
9 of individuals suffering from breast cancer; (2) provide individuals suffering from
10 breast cancer with medical supplies, insurance, pain medication, and pay for other
11 specific items; and (3) provide individuals suffering from breast cancer with
12 widely available access to “shopping” experiences through which they can obtain
13 free goods.

14 164. In truth and in fact, little or none of the donors’ contributions have funded
15 the particular charitable aid described to them, and in numerous instances the donors’
16 contributions were not meaningfully used to:

17 a. Help CFA operate specific substantial charitable programs run by a
18 “national health agency,” “on the forefront of the fight against cancer,” whose
19 resources were devoted “primarily to direct patient aid” that (1) provided direct
20 assistance to individuals suffering from cancer in the United States and through
21 which it has directly assisted tens of thousands of individuals; and (2) routinely
22 provide pain medications, medical support and services, medical supplies,
23 financial assistance, life-saving items, oxygen, transportation to chemotherapy
24 treatments, medications, and loaned equipment to individuals suffering from
25 cancer and to hospices and other health care nonprofit organizations serving
26 cancer patients;

27 b. Help CSS operate a specific substantial charitable program in the
28 United States through which it has directly provided aid to cancer patients,

1 hospices, and nonprofit health care organizations, provided hospice care for cancer
2 patients, or used donors' contributions more efficiently because it is a charity;

3 c. Help CCFOA operate a specific substantial charitable program in the
4 United States through which it has provided financial assistance to the families of
5 children suffering from cancer, helped children suffering from cancer with hospice
6 needs, and provided them with medical supplies and pain medication;

7 d. Help BCS operate specific substantial charitable programs in the
8 United States that (1) provided financial assistance and other direct aid to
9 thousands of individuals suffering from breast cancer; (2) provided individuals
10 suffering from breast cancer with medical supplies, insurance, pain medication,
11 and paid for other specific items; and (3) provided individuals suffering from
12 breast cancer with widely available access to "shopping" experiences through
13 which they obtained free goods.

14 165. Therefore, the representations described in Paragraph 163 are false and
15 misleading and constitute deceptive practices in violation of Section 5 of the FTC Act, 15
16 U.S.C. § 45(a).

17 166. The foregoing practices also violate the laws of each Plaintiff State as
18 follows:

| | |
|-----------------|---|
| 19 Alabama: | ALA. CODE §§ 13A-9-76(a)(1), (3) and 8-19-5(27). |
| 20 Alaska: | ALASKA STAT. §§ 45.68.050(1) and 45.50.471. |
| 21 Arizona: | ARIZ. REV. STAT. ANN. § 44-1522(A) and 44-6561(A)(3). |
| 22 Arkansas: | ARK. CODE ANN. §§ 4-28-412(1) and 4-88-107(a)(7). |
| 23 California: | CAL. BUS. & PROF. CODE §§ 17200 through 17206; §§ 17510.2 and 17510.8; CAL. GOV. CODE §§ 12581 through 12582.1; § 12599.6. |
| 24 Colorado: | COLO. REV. STAT. § 6-1-105(1)(hh); and §§ 6-16-111(1)(g) and (i). |
| 25 Connecticut: | CONN. GEN. STAT. §§ 21a-190h and 42-110b(a). |
| 26 Delaware: | DEL. CODE ANN. tit. 6, §§ 2513(a), 2532(a)(12), and 2595(a), (b)(4) and (6). |
| 27 Florida: | FLA. STAT. §§ 496.415(7), 496.415(16), 496.416, and 501.204(1) (2013). |
| 28 Georgia: | GA. CODE ANN. § 43-17-12(d) (2011). |
| Hawaii: | HAW. REV. STAT. §§ 467B-2.1, 467B-6.5, 467B-9, and 467B-10.5. |

| | | |
|----|-----------------|---|
| 1 | Idaho: | IDAHO CODE ANN. § 48-1203(1). |
| 2 | Illinois: | 225 ILL. COMP. STAT. §§ 460/15(a); 460/15(b)(6); 460/18(b); and 460/9(c). |
| 3 | Indiana: | IND. CODE §§ 23-7-8-7(a)(4); and §§ 24-5-0.5-3(b)(1) and (7). |
| 4 | Iowa: | IOWA CODE § 714.16. |
| 5 | Kansas: | KAN. STAT. ANN. §§ 17-1769(b), (h), and (i). |
| 6 | Kentucky: | KY. REV. STAT. ANN. § 367.170(1). |
| 7 | Louisiana: | LA. REV. STAT. ANN. §§ 51:1405 and 51:1905. |
| 8 | Maine: | ME. REV. STAT. ANN. tit. 5 § 207. |
| 9 | Maryland: | MD. CODE ANN., BUS. REG. §§ 6-608, 6-610 (2010 Repl. Vol.) (2014 Suppl.). |
| 10 | Massachusetts: | MASS. GEN. LAWS ch. 68 § 32 and ch. 93A § 2. |
| 11 | Michigan: | MICH. COMP. LAWS §§ 400.288(j) and (o). |
| 12 | Minnesota: | MINN. STAT. § 309.55, subd. 5. |
| 13 | Mississippi: | MISS. CODE ANN. §§ 79-11-519(3)(a) and (h). |
| 14 | Missouri: | MO. REV. STAT. § 407.020. |
| 15 | Montana: | MONT. CODE ANN. § 30-14-103. |
| 16 | Nebraska: | NEB. REV. STAT. §§ 59-1602, 87-302(15), and 87-303.01. |
| 17 | Nevada: | NEV. REV. STAT. §§ 598.1305 and 598.0915(15). |
| 18 | New Hampshire: | N.H. REV. STAT. ANN. §§ 7:28-f, I(a), (b), (e). |
| 19 | New Jersey: | N.J. STAT. ANN. §§ 45:17A-32(a), 45:17A-32 (c), 56:8-2.7; and N.J. ADMIN. CODE § 13:48-13.2(a). |
| 20 | New Mexico: | N.M. STAT. §§ 57-22-6.3(A)(1), (3) and 57-12-3 (1978). |
| 21 | New York: | N.Y. EXEC. L. § 63(12); § 172-d.2-4; and N.Y. GEN. BUS. L. § 349. |
| 22 | North Carolina: | N.C. GEN. STAT. §§ 75-1.1; 131F-20(9), (15), and (18); and § 131F-21. |
| 23 | North Dakota: | N.D. CENT. CODE §§ 50-22-04.3 and 51-15-02. |
| 24 | Ohio: | OHIO REV. CODE ANN. § 1716.14(A). |
| 25 | Oklahoma: | OKLA. STAT. ANN. tit. 18 § 552.14a(A)(5). |
| 26 | Oregon: | OR. REV. STAT. §§ 128.886 and 646.608(1)(dd). |
| 27 | Pennsylvania: | 10 PA. CONS. STAT. § 162.15(a)(2). |
| 28 | Rhode Island: | R.I. GEN. LAWS § 5-53.1-7(2). |
| | South Carolina: | S.C. CODE ANN. §§ 33-56-120(A) and 33-56-140(C). |
| | South Dakota: | S.D. CODIFIED LAWS §§ 37-30-17 through 37-30-21. |
| | Tennessee: | TENN. CODE ANN. §§ 48-101-513(a), (b) and (d). |
| | Texas: | TEX. BUS. & COM. CODE ANN. §§ 17.46(a), (b)(5), and (b)(24) (West 2014). |
| | Utah: | UTAH CODE ANN. §§ 13-22-1 through 13-22-23; 13-26-1 through 13-26-11; and 13-11-1 through 13-11-23. |
| | Vermont: | VT. STAT. ANN. tit. 9 §§ 2453 and 2475. |
| | Virginia: | VA. CODE ANN. §§ 57-48 and 57-57(L). |

c. the reported values of the GIK goods did not accurately reflect the fair value of the goods measured under appropriate applicable accounting standards.

Defendants used these misrepresentations to appear larger, more charitable, and more efficient with donors' contributions than the Defendants actually were, misleading donors, regulators, and others.

170. Therefore, the acts and practices described in Paragraph 168 constitute deceptive practices in violation of Section 5 of the FTC Act, 15 U.S.C. § 45(a).

171. The foregoing practices also violate the laws of each Plaintiff State as follows:

| | |
|----------------|--|
| Alabama: | ALA. CODE §§ 13A-9-76(a)(3-4). |
| Alaska: | ALASKA STAT. § 45.68.010(g). |
| Arizona: | ARIZ. REV. STAT. ANN. § 44-1522(A). |
| Arkansas: | ARK. CODE ANN. §§ 4-28-412(1), 4-28-412(2), 4-28-412(8), and 4-88-107(a)(7). |
| California: | CAL. BUS. & PROF. CODE §§ 17200 through 17206; CAL. GOV. CODE §§ 12581 through 12582.1; § 12599.6. |
| Colorado: | COLO. REV. STAT. § 6-1-105(1)(hh); §§ 6-16-111(1)(f) and(g). |
| Connecticut: | CONN. GEN. STAT. §§ 21a-190h and 42-110b(a). |
| Delaware: | DEL. CODE ANN. tit. 6, §§ 2513(a) and 2532(a)(12). |
| Florida: | FLA. STAT. §§ 496.415(2), 496.416, and 501.204(1) (2013). |
| Georgia: | GA. CODE ANN. § 43-17-12(b) (2011). |
| Hawaii: | HAW. REV. STAT. §§ 467B-2.1, 467B-6.5, 467B-9, and 467B-10.5. |
| Idaho: | IDAHO CODE ANN. § 48-1203(1). |
| Illinois: | 225 ILL. COMP. STAT. §§ 460/15(a); 460/15(b)(6); 460/18(b); and 460/9(c). |
| Indiana: | IND. CODE § 24-5-0.5-3(b)(1). |
| Iowa: | IOWA CODE § 714.16. |
| Kansas: | KAN. STAT. ANN. §§ 17-1769(b) and (h). |
| Kentucky: | KY. REV. STAT. ANN. § 367.170(1). |
| Louisiana: | LA. REV. STAT. ANN. §§ 51:1405 and 51:1905. |
| Maine: | ME. REV. STAT. ANN. tit. 5 § 207. |
| Maryland: | MD. CODE ANN., BUS. REG. §§ 6-608, 6-613 (2010 Repl. Vol.) (2014 Suppl.). |
| Massachusetts: | MASS. GEN. LAWS ch. 12 § 8F; ch. 68 §§ 19, 32; and ch. 93A § 2. |
| Michigan: | MICH. COMP. LAWS § 400.288(u)(ii). |

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| 1 | Minnesota: | MINN. STAT. § 309.53, subd. 3 and § 309.55, subd. 5. |
| 2 | Mississippi | MISS. CODE ANN. § 79-11-519(3)(d). |
| 3 | Missouri: | MO. REV. STAT. § 407.020. |
| 4 | Montana: | MONT. CODE ANN. § 30-14-103. |
| 5 | Nebraska: | NEB. REV. STAT. §§ 59-1602, 87-302(15), and 87-303.01. |
| 6 | Nevada: | NEV. REV. STAT. §§ 598.1305 and 598.0915(15). |
| 7 | New Hampshire: | N.H. REV. STAT. ANN. §§ 7:28-f, I (a), (b), (e). |
| 8 | New Jersey: | N.J. STAT. ANN. § 45:17A-33(b)(1); § 56:8-2.7; and N.J. ADMIN CODE §§ 13:48-13.3(a)(1). |
| 9 | New Mexico: | N.M. STAT. §§ 57-22-6.3(A)(1) and (3); and § 57-12-3 (1978). |
| 10 | New York: | N.Y. EXEC. L. §§ 63(12) and 172-d.1-4; and N.Y. GEN. BUS. L. § 349. |
| 11 | North Carolina: | N.C. GEN. STAT. § 75-1.1; §§ 131F-20 (9), (15), and (18); and § 131F-21. |
| 12 | North Dakota: | N.D. CENT. CODE §§ 51-15-02 and 50-22-04.3. |
| 13 | Ohio: | OHIO REV. CODE ANN. § 1716.14(A). |
| 14 | Oklahoma: | OKLA. STAT. ANN. tit. 18 § 552.14a(A)(1) and (5). |
| 15 | Oregon: | OR. REV. STAT. §§ 128.886 and 646.608(1)(dd). |
| 16 | Pennsylvania: | 10 PA. CONS. STAT. § 162.15(a)(2). |
| 17 | Rhode Island: | R.I. GEN. LAWS § 5-53.1-7(2). |
| 18 | South Carolina: | S.C. CODE ANN. §§ 33-56-120(A) and 33-56-140(C). |
| 19 | South Dakota: | S.D. CODIFIED LAWS §§ 37-30-17 through 37-30-21. |
| 20 | Tennessee: | TENN. CODE ANN. §§ 48-101-504(a), 48-101-509(a)(1), and 48-101-513(b). |
| 21 | Texas: | TEX. BUS. & COM. CODE ANN. §§ 17.46(a), (b)(1), (b)(5), and (b)(24) (West 2014). |
| 22 | Utah: | UTAH CODE ANN. § 13-22-15; <i>see also</i> UTAH ADMIN. CODE R152-22-4; <i>accord</i> UTAH CODE ANN. § 13-22-1(b)(ix). |
| 23 | Vermont: | VT. STAT. ANN. tit. 9 § 2453 and 2475. |
| 24 | Virginia: | VA. CODE ANN. §§ 57-48 and 57-57(L). |
| 25 | Washington: | WASH. REV. CODE §§ 19.86.020, 19.09.100(15), and 19.09.340. |
| 26 | West Virginia: | W.VA. CODE § 46A-6-101 <i>et seq.</i> ; W.VA. CODE §§ 29-19-8, -13. |
| 27 | Wisconsin: | WIS. STAT. § 202.16(1)(a), formerly § 440.46(1)(a). |
| 28 | Wyoming: | WYO. STAT. ANN. §§ 40-12-105(a)(iii) and (xv). |

Count IV
Misrepresentations about Programs Related to International GIK
(By the FTC and the Plaintiff States)

172. Plaintiffs incorporate by reference all the foregoing paragraphs.

173. In numerous instances, in connection with soliciting charitable contributions from donors, Defendants have represented, directly or through telemarketers, expressly or by implication, that the primary focus of their charitable programs was to provide direct assistance within the United States to individuals with cancer, children with cancer, or individuals with breast cancer.

174. In truth and in fact, using Corporate Defendants' reported valuations, the vast majority of the aid that Corporate Defendants claimed to provide was related to the shipment of GIK goods to organizations in developing countries whose use of the goods was not restricted to assisting individuals with cancer and who did not in fact use the goods primarily to assist individuals with cancer.

175. Therefore, the acts and practices described in Paragraph 173 constitute deceptive practices in violation of Section 5 of the FTC Act, 15 U.S.C. § 45(a).

176. The foregoing practices also violate the laws of the Plaintiff States as follows:

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| Alabama: | ALA. CODE §§13A-9-76(a)(3-4). |
| Alaska: | ALASKA STAT. §§ 45.68.050(1) and 45.50.471. |
| Arizona: | ARIZ. REV. STAT. ANN. § 44-1522(A). |
| Arkansas: | ARK. CODE ANN. §§ 4-28-412(1) and 4-88-107(a)(7). |
| California: | CAL. BUS. & PROF. CODE §§ 17200 through 17206; CAL. GOV. CODE §§ 12581 through 12582.1; § 12599.6. |
| Colorado: | COLO. REV. STAT. § 6-1-105(1)(hh); and §§ 6-16-111(1)(g) and (i). |
| Connecticut: | CONN. GEN. STAT. §§ 21a-190h and 42-110b(a). |
| Delaware: | DEL. CODE ANN. tit. 6, §§ 2513(a), 2532(a)(12), and 2595(a), (b)(4) and (6). |
| Florida: | FLA. STAT. §§ 496.415(7), 496.416, and 501.204(1) (2013). |
| Georgia: | GA. CODE ANN. § 43-17-12(d) (2011). |

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| 1 | Hawaii: | HAW. REV. STAT. §§ 467B-2.1, 467B-6.5, 467B-9, and 467B-10.5. |
| 2 | Idaho: | IDAHO CODE ANN. § 48-1203(1). |
| 3 | Illinois: | 225 ILL. COMP. STAT. §§ 460/15(a); 460/15(b)(6); 460/18(b); and 460/9(c). |
| 4 | Indiana: | IND. CODE §§ 23-7-8-7(a)(4); and §§ 24-5-0.5-3(b)(1) and (7). |
| 5 | Iowa: | IOWA CODE § 714.16. |
| 6 | Kansas: | KAN. STAT. ANN. §§ 17-1769(b) and (h). |
| 7 | Kentucky: | KY. REV. STAT. ANN. § 367.170(1). |
| 8 | Louisiana: | LA. REV. STAT. ANN. §§ 51:1405 and 51:1905. |
| 9 | Maine: | ME. REV. STAT. ANN. tit. 5 § 207. |
| 10 | Maryland: | MD. CODE ANN., BUS. REG. §§ 6-608, 6-610 (2010 Repl. Vol.) (2014 Suppl.). |
| 11 | Massachusetts: | MASS. GEN. LAWS ch. 68 § 32 and ch. 93A § 2. |
| 12 | Michigan: | MICH. COMP. LAWS § 400.288(n). |
| 13 | Minnesota: | MINN. STAT. § 309.55, subd. 5. |
| 14 | Mississippi: | MISS. CODE ANN. §§79-11-519(3)(a) and (h). |
| 15 | Missouri: | MO. REV. STAT. § 407.020. |
| 16 | Montana: | MONT. CODE ANN. § 30-14-103. |
| 17 | Nebraska: | NEB. REV. STAT. §§ 59-1602, 87-302(15), and 87-303.01. |
| 18 | Nevada: | NEV. REV. STAT. §§ 598.1305; and 598.0915(15). |
| 19 | New Hampshire: | N.H. REV. STAT. ANN. §§ 7:28-f, I(a), (b), (e). |
| 20 | New Jersey: | N.J. STAT. ANN. §§ 45:17A-32(a), 45:17A-32(c), 56:8-2.7; and N.J. ADMIN. CODE § 13:48-13.2(a). |
| 21 | New Mexico: | N.M. Stat. §§ 57-22-6.3(A)(1) and (3); and § 57-12-3 (1978). |
| 22 | New York: | N.Y. EXEC. L. §§ 63(12) and 172-d.2-4; N.Y. GEN. BUS. L. § 349. |
| 23 | North Carolina: | N.C. GEN. STAT. § 75-1.1; §§ 131F-20(9), (15), and (18); and § 131F-21. |
| 24 | North Dakota: | N.D. CENT. CODE §§ 51-15-02 and 50-22-04.3. |
| 25 | Ohio: | OHIO REV. CODE ANN. § 1716.14(A). |
| 26 | Oklahoma: | OKLA. STAT. ANN. tit. 18 § 552.14a(A)(5). |
| 27 | Oregon: | OR. REV. STAT. §§ 128.886 and 646.608(1)(dd). |
| 28 | Pennsylvania: | 10 PA. CONS. STAT. § 162.15(a)(2). |
| | Rhode Island: | R.I. GEN. LAWS § 5-53.1-7(2). |
| | South Carolina: | S.C. CODE ANN. §§ 33-56-120(A) and 33-56-140(C). |
| | South Dakota: | S.D. CODIFIED LAWS §§ 37-30-17 through 37-30-21. |
| | Tennessee: | TENN. CODE ANN. § 48-101-513(b). |
| | Texas: | TEX. BUS. & COM. CODE ANN. §§ 17.46(a), (b)(4), (b)(5), (b)(7), and (b)(24) (West 2014). |
| | Utah: | UTAH CODE ANN. §§ 13-22-12(1)(b)(v), -13(3); 13-26-11(1)(c); 13-11-4(2)(a), (i), (o). |
| | Vermont: | VT. STAT. ANN. tit. 9 § 2453 and 2475. |

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| 1 | Virginia: | VA. CODE ANN. §§ 57-48 and 57-57(L). |
| 2 | Washington: | WASH. REV. CODE §§ 19.86.020, 19.09.100(15), and 19.09.340. |
| 3 | West Virginia: | W.VA. CODE § 46A-6-101 <i>et seq.</i> ; and §§ 29-19-8, -13. |
| 4 | Wisconsin: | WIS. STAT. § 202.16(1)(a), formerly § 440.46(1)(a). |
| 5 | Wyoming: | WYO. STAT. ANN. §§ 40-12-105(a)(i), (ii), (iii), and (xv). |

Count V

False and Misleading Filings with State Charities Regulators

(By the Plaintiff States Alabama, Alaska, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Illinois, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Utah, Virginia, Washington, and West Virginia) (collectively, the “charging Plaintiff States”)

177. Plaintiffs incorporate by reference all the foregoing paragraphs.

178. As required by law, each of the Corporate Defendants filed financial statements, often certified under penalty of perjury, with the charging Plaintiff States. In some instances, to satisfy state law requirements, Defendants filed their Forms 990 together with certain transmittal information; in others, Defendants filed reports cross-referencing to or summarizing the information on their Forms 990; and in other instances, with certain states, Defendants filed full audited financial statements. The charging Plaintiff States disseminated or otherwise made available the financial information contained in those filings to the public. Together with the public, state charities regulators relied on the financial information submitted in evaluating the performance and effectiveness of the Corporate Defendants.

179. For each of the years 2008 through 2012, the financial information filed by each of the Corporate Defendants with the charging Plaintiff States included materially false and misleading information about certain international GIK transactions, including, in numerous instances:

a. the Corporate Defendants’ annual revenues included the value of certain GIK goods that they had received as donations and owned; and

1 b. the Corporate Defendants' annual program expenses included the
2 value of certain GIK goods that the Corporate Defendants distributed to recipients
3 in developing countries.

4 180. In truth and in fact, in numerous instances in connection with certain
5 international GIK transactions:

6 a. the Corporate Defendants did not own the GIK goods they reported
7 receiving as donations and their reported annual revenues should not have
8 included the value of those GIK goods; and

9 b. the Corporate Defendants did not own the GIK goods that they
10 claimed to have distributed to recipients in developing countries and their reported
11 annual program expenses should not have included the value of such GIK goods.

12 Through these false statements, the Corporate Defendants disseminated to the public false
13 and misleading depictions of their operations and their effectiveness.

14 181. The Corporate Defendants certified, in many instances under penalty of
15 perjury, that the financial information they filed was true and accurate. The Individual
16 Defendants, including those who signed certifications attesting to the truth and accuracy
17 of the Corporate Defendants' filings, knew that these filings were false and misleading.

18 182. In filing and causing to be filed false and misleading financial statements,
19 Defendants have violated the laws of the charging Plaintiff States as follows:

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|-----------------------|---|
| 20 Alabama: | ALA. CODE § 13A-9-76(a)(4). |
| 21 Alaska: | ALASKA STAT. §§ 45.68.010(g), 45.68.050(1), and 45.50.471. |
| 22 Arkansas: | ARK. CODE ANN. § 4-28-412(8). |
| 23 California: | CAL. BUS. & PROF. CODE §§ 17200 through 17206; CAL. GOV. CODE §§ 12581 through 12582.1; and § 12599.6. |
| 24 Colorado: | COLO. REV. STAT. § 6-1-105(1)(hh); and §§ 6-16-111(1)(f) and (g). |
| 25 Connecticut: | CONN. GEN. STAT. § 21a-190h. |
| 26 Florida: | FLA. STAT. §§ 496.415(2), 496.416 and 501.204(1) (2013). |
| 27 Georgia: | GA. CODE ANN. § 43-17-12(b) (2011). |
| 28 Hawaii: | Haw. Rev. Stat. §§ 467B-2.1, 467B-6.5, 467B-9, and 467B-10.5. |

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| 1 | Illinois: | 225 ILL. COMP. STAT. §§ 460/15(a); 460/15(b)(6); and 460/9(c). |
| 2 | Kansas: | KAN. STAT. ANN. §§ 17-1769(a), (b), (c). |
| 3 | Kentucky: | KY. REV. STAT. ANN. § 367.170(1). |
| 4 | Louisiana: | LA. REV. STAT. ANN. §§ 51:1405 and 51:1905. |
| 5 | Maryland: | MD. CODE ANN., BUS. REG. §§ 6-608, 6-613 (2010 Repl. Vol.) (2014 Suppl.). |
| 6 | Massachusetts: | MASS. GEN. LAWS ch. 12 § 8F and ch. 68 §§ 19, 32. |
| 7 | Michigan: | MICH. COMP. LAWS § 400.288(y). |
| 8 | Minnesota: | MINN. STAT. §§ 309.53, subd. 3 and 309.55, subd. 5. |
| 9 | Mississippi: | MISS. CODE ANN. § 79-11-519(3)(d). |
| 10 | New Hampshire: | N.H. REV. STAT. ANN. §§ 7:28-f, I(a), (b), and (e); 7:28-f, II(a), (c), (d) and (e); and 641:8. |
| 11 | New Jersey: | N.J. STAT. ANN. §§ 45:17A-33(b)(1) and 56:8-2.7; and N.J. ADMIN. CODE § 13:48-13.3(a)(1). |
| 12 | New Mexico: | N.M. STAT. ANN. §§ 57-22-6.3(A)(1), (3); and § 57-12-3 (1978). |
| 13 | New York: | N.Y. EXEC. L. §§ 63(12), 172-b.2, and 172-d.1-2; N.Y. GEN. BUS. L. § 349. |
| 14 | North Carolina: | N.C. GEN. STAT. § 75-1.1; §§ 131F-20 (9), (15), and (18); and § 131F-21. |
| 15 | North Dakota: | N.D. CENT. CODE §§ 50-22-01 through 50-22-07. |
| 16 | Ohio: | OHIO REV. CODE ANN. § 1716.14(A). |
| 17 | Oklahoma: | OKLA. STAT. ANN. tit. 18 § 552.14a(A)(1). |
| 18 | Oregon: | OR. REV. STAT. § 128.886 and OR. REV. STAT. § 646.608(1)(dd). |
| 19 | Pennsylvania: | 10 PA. CONS. STAT. § 162.15(a)(2). |
| 20 | Rhode Island: | R.I. GEN. LAWS § 5-53.1-7(1). |
| 21 | South Carolina: | S.C. CODE ANN. §§ 33-56-120(A) and 33-56-140(C). |
| 22 | Tennessee: | TENN. CODE ANN. § 48-101-504(a). |
| 23 | Utah: | UTAH CODE ANN. §§ 13-22-12(1)(a), -15. |
| 24 | Virginia: | VA. CODE ANN. § 57-57(O). |
| 25 | Washington: | WASH. REV. CODE §§ 19.86.020, 19.09.071, 19.09.075(h), and 19.09.340 |
| 26 | West Virginia: | W.VA. CODE § 29-19-1 <i>et seq.</i> |

Count VI

Means and Instrumentalities of Deception by CFA, CCFOA, & BCS
(By the Federal Trade Commission and Plaintiff States Alabama, Alaska, California, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Virginia, Washington, and West Virginia) (collectively, the “charging Plaintiff States”)

183. Plaintiffs incorporate by reference all the foregoing paragraphs.

184. In numerous instances, in connection with soliciting charitable contributions from donors, CFA, CCFOA, and BCS, individually or in concert with others, have provided telemarketers with the means and instrumentalities to deceive donors. The means and instrumentalities that CFA, CCFOA, and BCS have provided include, but are not limited to, affiliation with a purported charitable organization in whose name solicitations can be made and telemarketing scripts and other solicitation materials, such as brochures, donor invoices, and thank you letters that make misrepresentations about the purported programs of CFA, CCFOA, and BCS.

185. By providing the means and instrumentalities to others for the commission of deceptive acts and practices as described in Paragraph 184, Defendants have violated Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

186. The foregoing practices also violate the laws of the charging Plaintiff States as follows:

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| Alabama: | ALA. CODE § 8-19-5(27) and § 13A-9-76(a)(3). |
| Alaska: | ALASKA STAT. §§ 45.68.050(1) and 45.50.471. |
| California: | CAL. BUS. & PROF. CODE §§ 17200 through 17206; CAL. GOV. CODE §§ 12581 through 12582.1, 12599.6. |
| Connecticut: | CONN. GEN. STAT. §§ 21a-190h and 42-110b(a). |
| Delaware: | DEL. CODE ANN. tit. 6, §§ 2513(a), 2532(a)(12), and 2595(a), (b)(4) and (6). |
| Florida: | FLA. STAT. § 501.204(1) (2013). |
| Georgia: | GA. CODE ANN. § 10-1-393 (2012). |
| Idaho: | IDAHO CODE § 48-1203(1). |
| Illinois: | 225 ILL. COMP. STAT. § 460/9(c). |

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| 1 | Indiana: | IND. CODE §§ 23-7-8-7(a)(4); and §§ 24-5-0.5-3(b)(1) and (7). |
| 2 | Iowa: | IOWA CODE § 714.16. |
| 3 | Kansas: | KAN. STAT. ANN. §§ 17-1764, 17-1765, 17-1766, and 17-1769(b),(c), and (e). |
| 4 | Kentucky: | KY. REV. STAT. ANN. § 367.170(1). |
| 5 | Louisiana: | LA. REV. STAT. ANN. §§ 51:1405 and 51:1905. |
| 6 | Maryland: | MD. CODE ANN., BUS. REG. §§ 6-607, 6-608 (2010 Repl. Vol.) (2014 Suppl.). |
| 7 | Massachusetts: | MASS. GEN. LAWS. ch. 68 § 32 and ch. 93A § 2. |
| 8 | Michigan: | MICH. COMP. LAWS § 400.288(q). |
| 9 | Minnesota: | MINN. STAT. § 309.55, subd. 5. |
| 10 | Montana: | MONT. CODE ANN. § 30-14-103. |
| 11 | Nebraska: | NEB. REV. STAT. §§ 59-1602, 87-302(15), and 87-303.01. |
| 12 | Nevada: | NEV. REV. STAT. §§ 598.1305 and 598.0915(15). |
| 13 | New Hampshire: | N.H. REV. STAT. ANN. §§ 7:28-f, I(a), (b), (c), and (e). |
| 14 | New Jersey: | N.J. STAT. ANN. §§ 56:8-2.7, 45:17A-32(a), 45:17A-32 (c); and N.J. ADMIN. CODE § 13:48-13.2(a). |
| 15 | New Mexico: | N.M. STAT. §§ 57-22-6.3(A)(1), (3); §§ 57-22-8(A), (B); and § 57-12-3 (1978). |
| 16 | New York: | NY EXEC. L. §§ 63(12) and 172-d.1-3; N.Y. GEN'L BUS. L. § 349. |
| 17 | North Carolina: | N.C. GEN. STAT. § 75-1.1. |
| 18 | North Dakota: | N.D. CENT. CODE §§ 50-22-01 through 50-22-07; and §§ 51-15-01 through 51-15-11. |
| 19 | Ohio: | OHIO REV. CODE ANN. § 1716.14(A). |
| 20 | Pennsylvania: | 10 P.S. § 162.15(a)(2). |
| 21 | South Carolina: | S.C. CODE ANN. §§ 33-56-120(A) and 33-56-140(C). |
| 22 | South Dakota: | S.D. CODIFIED LAWS §§ 37-30-17 through 37-30-21. |
| 23 | Texas: | TEX. BUS. & COM. CODE ANN. § 17.46(a) (WEST 2014). |
| 24 | Utah: | UTAH CODE ANN. § 13-26-3(5); <i>see also</i> UTAH ADMIN. CODE R152-26-5(3)(a). |
| 25 | Virginia: | VA. CODE ANN. §§ 57-48 and 57-57(L). |
| 26 | Washington: | WASH. REV. CODE §§ 19.86.020, 19.09.100(15), and 19.09.340. |
| 27 | West Virginia: | W.VA. CODE § 29-19-13 and § 46A-6-101 <i>et seq.</i> |

VIOLATIONS OF THE TELEMARKETING SALES RULE

187. Congress directed the FTC to prescribe rules prohibiting abusive and deceptive telemarketing acts or practices pursuant to the Telemarketing Act, 15 U.S.C. §§ 6101 - 6108, in 1994. On August 16, 1995, the FTC adopted the Telemarketing Sales Rule (the "Original TSR"), 16 C.F.R. Part 310, which became effective on December 31,

1 1995. On January 29, 2003, the FTC amended the Original TSR by issuing a Statement
2 of Basis and Purpose and the final amended Telemarketing Sales Rule (the “TSR”). 68
3 Fed. Reg. 4580, 4669.

4 188. The Telemarketing Act also authorizes attorneys general to initiate federal
5 district court proceedings to enjoin telemarketing activities that violate the TSR, and in
6 each such case, to obtain damages, restitution and other compensation on behalf of their
7 residents. 15 U.S.C. § 6103(a).

8 189. The TSR defines “charitable contribution” to mean “any contribution or gift
9 of money or any other thing of value.” 16 C.F.R. § 310.2(f).

10 190. The TSR defines “donor” to mean “any person solicited to make a
11 charitable contribution.” 16 C.F.R. § 310.2(m).

12 191. The TSR defines “telemarketer” to mean “any person who, in connection
13 with telemarketing, initiates or receives telephone calls from a customer or donor.”
14 16 C.F.R. § 310.2(bb).

15 192. The TSR defines “telemarketing” to mean “a plan, program, or campaign
16 which is conducted to induce the purchase of goods or services or a charitable
17 contribution, by use of one or more telephones and which involves one or more interstate
18 telephone call.” 16 C.F.R. § 310.2(cc).

19 193. The TSR prohibits any person from providing substantial assistance or
20 support to any seller or telemarketer when that person knows or consciously avoids
21 knowing that the seller or telemarketer is engaged in any practice that violates Sections
22 310.3(a), (c), or (d) or 310.4 of the Rule. 16 C.F.R. § 310.3(b).

23 194. The TSR prohibits telemarketers from making a false or misleading
24 statement to induce a charitable contribution. 16 C.F.R. Part 310.3(a)(4).

25 195. The TSR prohibits, inter alia, telemarketers from misrepresenting, directly
26 or by implication, the nature, purpose, or mission of an entity on behalf of which a
27 charitable contribution is being requested; the purpose for which any charitable
28 contribution will be used; the percentage or amount of any charitable contribution that

1 will go to a charitable organization or any particular charitable program; and a charitable
2 organization's or telemarketer's affiliation with, or endorsement or sponsorship by, any
3 person or government entity. 16 C.F.R. § 310.3(d)(1), (3), (4), and (6).

4 **Count VII**

5 **Assisting & Facilitating Telemarketing Violations by CFA, CCFOA, & BCS**
6 ***(By Plaintiffs Federal Trade Commission and the Attorneys General of the Plaintiff***
7 ***States and the District of Columbia)***

8 196. Plaintiffs incorporate by reference all the foregoing paragraphs.

9 197. In numerous instances, in connection with soliciting charitable
10 contributions by telephone, CFA, CCFOA, and BCS have provided substantial assistance
11 or support to telemarketers while knowing or consciously avoiding knowing that the
12 telemarketers were engaged in acts or practices that violate Sections 310.3(a) (4) and
13 310.3(d)(1), (3), (4), and (6) of the TSR, thereby violating Section 310.3(b) of the TSR.
14 16 C.F.R. § 310.3(b).

15 **Count VIII**

16 **Telemarketing Misrepresentations by Defendant CSS**
17 ***(By Plaintiffs Federal Trade Commission and the Attorneys General of the Plaintiff***
18 ***States and the District of Columbia)***

19 198. Plaintiffs incorporate by reference all the foregoing paragraphs.

20 199. In numerous instances, in connection with soliciting charitable
21 contributions by telephone, CSS has made false or misleading statements to induce a
22 charitable contribution, including:

- 23 a. misrepresenting, directly or by implication, the nature, purpose, or
24 mission of an entity on behalf of which a charitable contribution is being
25 requested;
26 b. the purpose for which any charitable contribution will be used; and
27 c. the percentage or amount of any charitable contribution that will go
28 to a charitable organization or any particular charitable program.

1 CSS has thereby violated Sections 310.3(a)(4) and 310.3(d)(1), (3), and (4) of the TSR.
2 16 C.F.R. § 310.3(a) (4) and 310.3(d) (1), (3), and (4).

3
4 **INJURY**

5 200. Donors have suffered and will continue to suffer substantial injury as a
6 result of Defendants' violations of the FTC Act, the TSR, and state law. In addition,
7 Defendants have been unjustly enriched as a result of their unlawful acts or practices.
8 Absent injunctive relief by this Court, Defendants are likely to continue to injure donors,
9 reap unjust enrichment, and harm the public interest.

10 **THIS COURT'S POWER TO GRANT RELIEF**

11 201. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), empowers this Court to
12 grant injunctive and such other relief as the Court may deem appropriate to halt and
13 redress violations of any provision of law enforced by the FTC. The Court, in the
14 exercise of its equitable jurisdiction, may award ancillary relief, including rescission or
15 reformation of contracts, restitution, the refund of monies paid, and the disgorgement of
16 ill-gotten monies, to prevent and remedy any violation of any provision of law enforced
17 by the FTC.

18 202. Section 19 of the FTC Act, 15 U.S.C. § 57b, and Sections 4(a) and 6(b) of
19 the Telemarketing Act, 15 U.S.C. §§ 6103(a) and 6105(b), authorize this Court to grant
20 such relief as the Court finds necessary to redress injury to consumers resulting from
21 Defendants' violations of the TSR, including the rescission and reformation of contracts,
22 and the refund of money.

23 203. Pursuant to 28 U.S.C. § 1367, this Court has supplemental jurisdiction to
24 allow the Plaintiff States to enforce their state laws against Defendants in this Court and
25 to grant such relief as provided under the following state laws including injunctive relief,
26 rescission or reformation of contracts, restitution, the refund of monies paid, the
27 disgorgement of ill-gotten monies, removal of officers and directors, civil penalties,
28

1 attorneys' fees, expenses, costs, and such other relief to which the Plaintiff States may be
2 entitled:

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| 3 | |
| 4 | Alabama: ALA. CODE §§ 8-19-8 and 13A-9-76(a-b). |
| 5 | Alaska: ALASKA STAT. §§ 45.50.501, 45.50.537, and 45.50.551. |
| 6 | Arizona: ARIZ. REV. STAT. ANN. §§ 44-1528, 44-1531, and 44-1534. |
| 7 | Arkansas: ARK. CODE ANN. §§ 4-28-416 and 4-88-113. |
| 8 | California: CAL. BUS. & PROF. CODE §§ 17200 through 17206; CAL. GOV. CODE §§ 12586.2, 12591, 12591.1, 12597, and 12598. |
| 9 | Colorado: COLO. REV. STAT. §§ 6-1-110, 112 and 113(4); §§ 6-16-111(5) and 6-16-111(6)(c). |
| 10 | Connecticut: CONN. GEN. STAT. §§ 21a-190l and 42-110m(a). |
| 11 | Delaware: DEL. CODE ANN. tit. 6, §§ 2522 through 2526, 2533, and 2597; and tit. 29, §§ 2520 and 2522. |
| 12 | Florida: FLA. STAT. §§ 496.416, 501.207, and 501.2075 (2013). |
| 13 | Georgia: GA. CODE ANN. §§ 43-17-13 through 43-17-14 (2011). |
| 14 | Hawaii: HAW. REV. STAT. § 28-5.2; §§ 467B-9.6, 467B-9.7(d), and 467B-10.5; and § 480-15. |
| 15 | Idaho: IDAHO CODE ANN. §§ 48-606(1), 48-607, and 48-1204. |
| 16 | Illinois: 225 ILL. COMP. STAT. §§ 460/9(f), 9(g), 9(h), and 9(j); 460/15(b)(6) and 15(c); 460/16(a) and 16(b); 460/18(g); and 460/9(c). |
| 17 | Indiana: IND. CODE §§ 23-7-8-8; and 24-5-0.5-4 and -8. |
| 18 | Iowa: IOWA CODE § 714.16. |
| 19 | Kansas: KAN. STAT. ANN. §§ 17-1768, 17-1773(a), and 17-1776. |
| 20 | Kentucky: KY. REV. STAT. ANN. §§ 367.190(1), 367.190(3), 367.200, 367.210, 367.990(2), and 367.665. |
| 21 | Louisiana: LA. REV. STAT. ANN. §§ 51:1403, 51:1407, 51:1408, and 51:1416. |
| 22 | Maine: ME. REV. STAT. ANN. tit. 5 § 209 and tit. 14 § 1522(1)(A); and M.R. Civ. P. 65. |
| 23 | Maryland: MD. CODE ANN., BUS. REG. § 6-205 (2010 Repl. Vol.) (2014 Suppl.). |
| 24 | Massachusetts: MASS. GEN. LAWS ch. 12 § 8F; ch. 68 § 32; and ch. 93A § 4. |
| 25 | Michigan: MICH. COMP. LAWS § 400.290. |
| 26 | Minnesota: MINN. STAT. § 8.31, subds. 1 and 309.57. |
| 27 | Mississippi: MISS. CODE ANN. §§ 79-11-509(4) and (6). |
| 28 | Missouri: MO. REV. STAT. § 407.020. |
| | Montana: MONT. CODE ANN. §§ 30-14-131, 30-14-142, and 30-14-144. |

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|----|-----------------|--|
| 1 | Nebraska: | NEB. REV. STAT. §§ 21-1977, 21-19,142(c), 21-19,143, 59-1608, 59-1609, 59-1614, 87-303, 87-303.05, 87-303.07, and 87-303.11. |
| 2 | Nevada: | NEV. REV. STAT. §§ 598.0999(1) through (4), and (6). |
| 3 | New Hampshire: | N.H. REV. STAT. ANN. §§ 7:28, II(c) through 7:28, II(g). |
| 4 | New Jersey: | N.J. STAT. ANN. §§ 45:17A-33(d-e), 56:8-8, 56:8-9, 56:8-11, 56:8-13, and 56:8-19; and N.J. ADMIN. CODE § 13:48-14.1. |
| 5 | New Mexico: | N.M. STAT. §§ 57-22-9(A), (B); 57-22-9.1(J); 57-12-8; and 57-12-11 (1978). |
| 6 | New York: | N.Y. EXEC. LAW §§ 63(12), 175; and N.Y. NOT-FOR-PROFIT CORP. LAW § 112. |
| 7 | North Carolina: | N.C. GEN. STAT. §§ 75-14 through 75-15.2; §§ 75-16.1; and § 131F-24(a). |
| 8 | North Dakota: | N.D. CENT. CODE §§ 51-15-07, 51-15-08, 51-15-10, 51-15-11, 50-22-05, and 50-22-06. |
| 9 | Ohio: | OHIO REV. CODE ANN. § 1716.16. |
| 10 | Oklahoma: | OKLA. STAT. ANN. tit. 18 § 552.14a(D)(1)-(6), (H), (I). |
| 11 | Oregon: | OR. REV. STAT. §§ 646.632 and 646.636. |
| 12 | Pennsylvania: | 10 PA. CONS. STAT. § 162.19. |
| 13 | Rhode Island: | R.I. GEN. LAWS §§ 5-53.1 through 5-53.1-18. |
| 14 | South Carolina: | S.C. CODE ANN. § 33-56-140(C). |
| 15 | South Dakota: | S.D. CODIFIED LAWS §§ 37-30-17 through 37-30-21; and §§ 21-34-1 through 21-34-14. |
| 16 | Tennessee: | TENN. CODE ANN. §§ 48-101-514(a)(1) and 48-101-514(c). |
| 17 | Texas: | TEX. BUS. & COM. CODE ANN. §§ 17.47(a), (c), and (d) (West 2014); and TEX. GOV'T CODE § 402.006(c) (West 2014). |
| 18 | Utah: | UTAH CODE ANN. § 13-2-5(3); §§ 13-22-3(4)(a), (c) through (g); and §§ 13-11-17, 13-11-17.5, 13-26-8(2), and 13-26-10. |
| 19 | Vermont: | VT. STAT. ANN. tit. 9 §§ 2458, 2459, 2460, 2461, and 2475. |
| 20 | Virginia: | VA. CODE ANN. §§ 57-59(D) and (E). |
| 21 | Washington: | WASH. REV. CODE §§ 19.86.020, 19.86.080, 19.86.140, and 19.09.340. |
| 22 | West Virginia: | W.VA. CODE § 46A-7-101 <i>et seq.</i> ; W.VA. CODE §§ 29-19-15, -15a, and -15b. |
| 23 | Wisconsin: | WIS. STAT. § 202.18(1)(b). |
| 24 | Wyoming: | WYO. STAT. ANN. §§ 40-12-106, 111, and 113. |

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PRAYER FOR RELIEF

WHEREFORE, the FTC, the Plaintiff States, and the District of Columbia respectfully request that the Court:

A. Award Plaintiffs such preliminary injunctive and ancillary relief as may be necessary to avert the likelihood of donor injury during the pendency of this action and to preserve the possibility of effective final relief, including, but not limited to, a preliminary injunction, removal of the corporate officers and directors of each Corporate Defendant, an accounting of assets, and appointment of a receiver;

B. Enter a permanent injunction to prevent Defendants from future violations of the FTC Act, state law, and the TSR;

C. Award such relief as the Court finds necessary to redress injury to donors resulting from Defendants’ violations of the FTC Act, state laws, and the TSR, including, but not limited to, removal of the corporate officers and directors, rescission or reformation of contracts, restitution, the refund of monies paid, and the disgorgement of ill-gotten monies;

D. Award Plaintiffs the costs of bringing this action, attorneys’ fees, and such other and additional relief as the Court may determine to be just and proper; and

E. Award Plaintiff States civil penalties for each violation of their respective state laws, attorneys’ fees, and expenses as provided under state law.

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Respectfully Submitted,

FOR THE FEDERAL TRADE COMMISSION:

Jonathan E. Nuechterlein
General Counsel
CHARLES A HARWOOD
Regional Director

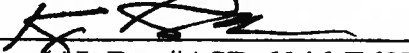
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Attorneys for Plaintiff Federal Trade Commission

Signed May 15, 2015

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FOR THE STATE OF ALABAMA

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*Application for *pro hac vice* pending
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Signed 05/12, 2015

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FOR THE STATE OF ALASKA

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Signed May 11, 2015

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FOR THE STATE OF ARIZONA

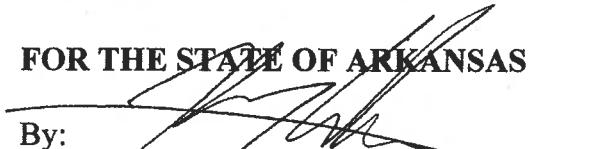
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FOR THE STATE OF CALIFORNIA

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FOR THE COLORADO SECRETARY OF STATE

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Signed May 8, 2015

FOR THE STATE OF COLORADO

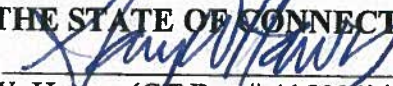
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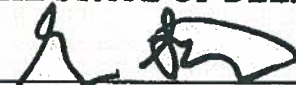
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FOR THE STATE OF CONNECTICUT
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FOR THE STATE OF DELAWARE

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FOR THE STATE OF GEORGIA

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*Attorney for Plaintiff State of Georgia and Plaintiff
Secretary of State for the State of Georgia*

Signed May 8, 2015

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FOR THE STATE OF HAWAII

By: Jodi L. K. Yi
Jodi L. K. Yi HI Bar #6625*
Deputy Attorney General

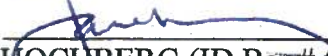
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Signed April 28, 2015

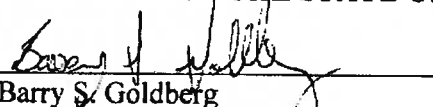
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FOR THE STATE OF IDAHO

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FOR THE STATE OF INDIANA

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Signed April 22, 2015


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Signed , 2015

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FOR THE STATE OF LOUISIANA

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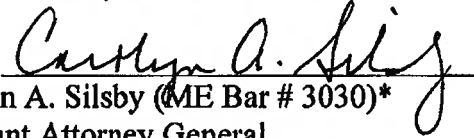
Attorney for Plaintiff State of Louisiana

Signed May 7, 2015

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FOR THE STATE OF MAINE

Janet T. Mills
Maine Attorney General

By: 

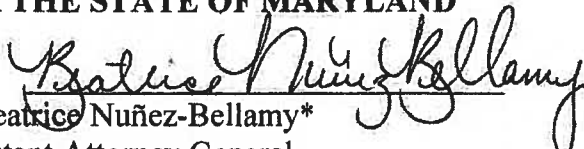
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Attorney for Plaintiff State of Maine

Signed April 22, 2015

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Signed May 14, 2015

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**FOR THE COMMONWEALTH OF
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*Application for *pro hac vice* pending

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Signed May 8, 2015

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Signed May 4, 2015

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FOR THE STATE OF MINNESOTA
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Signed May 11, 2015

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FOR THE STATE OF MONTANA

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Signed May 5, 2015

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FOR THE STATE OF NEBRASKA

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FOR THE STATE OF NEVADA

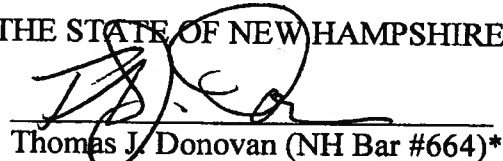
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FOR THE STATE OF NEW JERSEY

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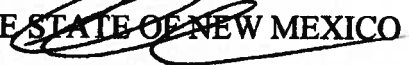
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*Application for *pro hac vice* pending

Attorney for Plaintiff State of New Jersey

Signed May 1, 2015


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FOR THE STATE OF NEW YORK

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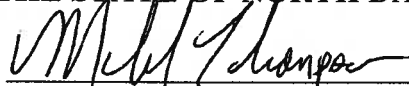
*Application for pro hac vice pending

Attorney for Plaintiff State of North Carolina

Signed May 7, 2015

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FOR THE STATE OF NORTH DAKOTA

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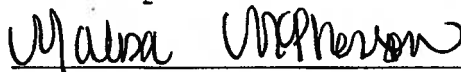
Signed April 23, 2015

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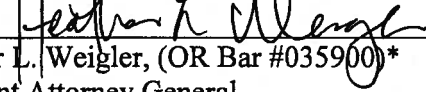
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FOR THE STATE OF SOUTH CAROLINA

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Signed April 29, 2015

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FOR THE STATE OF TENNESSEE

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FOR THE STATE OF TEXAS

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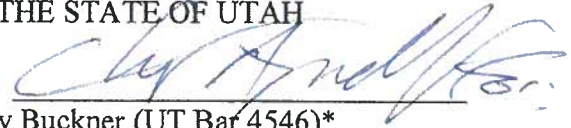
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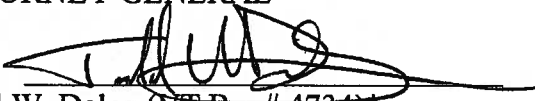
Attorney for Plaintiff State of Utah

Signed May 12, 2015

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FOR THE STATE OF VERMONT

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FOR THE COMMONWEALTH OF VIRGINIA

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FOR THE STATE OF WISCONSIN

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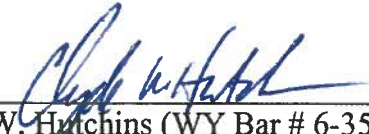
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Attorney for Plaintiff State of Wisconsin

Signed May 4, 2015

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FOR THE DISTRICT OF COLUMBIA

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