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CLERK, U.S. DISTRICT COURT
JAN 27 2004
CENTRAL DISTRICT OF CALIFORNIA
DEPUTY
BY *[Signature]*

1 WILLIAM E. KOVACIC
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2 Federal Trade Commission
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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

FEDERAL TRADE COMMISSION,
Plaintiff,
v.
MALL VENTURES, INC., a
California corporation doing
business as 2by2.net, JEFFREY P.
MORGAN, and DENNIS WONG,
Defendants.

CV04-0463 FMC PLA

~~FILED~~
STIPULATED FINAL JUDGMENT
AND ORDER FOR PERMANENT
INJUNCTION AND OTHER
EQUITABLE RELIEF

ENTERED
CLERK, U.S. DISTRICT COURT
JAN 29 2004
CENTRAL DISTRICT OF CALIFORNIA
DEPUTY
BY *[Signature]*

20 Plaintiff Federal Trade Commission ("FTC" or "Commission")
21 has filed a Complaint for permanent injunction and other
22 equitable relief against Defendants Mall Ventures, Inc., Jeffrey
23 P. Morgan, and Dennis Wong, pursuant to Section 13(b) of the
24 Federal Trade Commission Act, as amended ("FTC Act"), 15 U.S.C.
25 § 53(b). The FTC's complaint charges Defendants with violations
26 of Section 5 of the FTC Act, 15 U.S.C. § 45.

27 Plaintiff FTC and Defendants, advised by counsel, have
28 agreed to the entry of this Stipulated Final Judgment and Order

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1 for Permanent Injunction and Other Equitable Relief ("Order") by
2 this Court to resolve all matters in dispute in this action
3 without trial. Defendants waive service of the Summons and
4 Complaint in this action.

5 **FINDINGS**

6 1. This Court has jurisdiction over the subject matter of
7 this case and all parties hereto. Venue in this district is
8 proper under 28 U.S.C. § 1391(b) and (c) and 15 U.S.C. § 53(b).

9 2. The alleged activities of Defendants are in or
10 affecting commerce, as defined in Section 4 of the FTC Act, 15
11 U.S.C. § 44.

12 3. The Complaint states a claim upon which relief can be
13 granted against Defendants under Sections 5 and 13(b) of the FTC
14 Act, 15 U.S.C. § 45 and 53(b).

15 4. Plaintiff Commission has authority under Section 13(b)
16 of the FTC Act, 15 U.S.C. § 53(b), to seek the relief it has
17 requested.

18 5. Defendants enter into this Order freely and without
19 coercion regarding the allegations or charges made in the
20 Commission's complaint, and acknowledge that they understand the
21 provisions of this Order and are prepared to abide by them.

22 6. Defendants waive all claims under the Equal Access to
23 Justice Act, 28 U.S.C. § 2412, and all rights to seek judicial
24 review or otherwise challenge the validity of this Order.

25 7. Entry of this Order is in the public interest.

26 8. Defendants enter into this Order without admitting the
27 allegations of the Complaint and entry of this Order shall not be
28 deemed an admission of liability on behalf of any Defendant.

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DEFINITIONS

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1
2 For the purposes of this Order, the following definitions
3 shall apply:

4 1. "Mall Ventures, Inc." refers to Mall Ventures, Inc. dba
5 2by2.net, all other fictitious names under which it does or may
6 do business, and its successors, assigns, subsidiaries or
7 affiliates.

8 2. "Jeffrey P. Morgan" refers to Jeffrey P. Morgan
9 individually and as an officer of Mall Ventures, Inc.

10 3. "Dennis Wong" refers to Dennis Wong individually.

11 4. "Defendants" collectively refers to Mall Ventures,
12 Inc., Jeffrey P. Morgan, and Dennis Wong.

13 5. "Business venture" means any written or oral business
14 arrangement, however denominated, whether or not covered by
15 16 C.F.R. Part 436, that consists of the payment of any
16 consideration for: (1) the right or means to offer, sell, or
17 distribute goods or services (whether or not identified by a
18 trademark, service mark, trade name, advertising, or other
19 commercial symbol); and (2) more than nominal assistance to any
20 person in connection with or incidental to the establishment,
21 maintenance, or operation of a new business, or the entry by an
22 existing business into a new line or type of business. For the
23 purposes of this Order, the term "business venture" includes
24 multi-level marketing programs.

25 6. "CIP" refers to the "Complete Internet Package" offered
26 by Defendants for sale to consumers.

27 7. "Member" refers to Independent Representatives,
28 eCommerce Consultants, and any other distributors of Mall

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1 Ventures, Inc.

2 8. "Prohibited marketing scheme" means a pyramid sales
3 scheme, Ponzi scheme, chain marketing scheme, or other marketing
4 plan or program in which a person participates under a condition
5 that he or she make a payment, directly or indirectly, to receive
6 the right, license or opportunity to derive income as a
7 participant primarily from: (1) the recruitment of additional
8 recruits by the participant, program promoter or others; or (2)
9 non-retail sales made to or by such recruits or participants.

10 9. "Retail Sales" means sales of products, services or
11 Business Ventures by Defendants, their successors, assigns,
12 agents, servants, employees, and those persons in active concert
13 or participation with them to third-party end users. Retail
14 Sales does not include sales made by a participant in a multi-
15 level marketing program to other participants, recruits, or the
16 participant's own account.

17 10. "Multi-level marketing program" means any marketing
18 program in which participants pay money to the program promoter
19 in return for which the participants obtain the right to: (1)
20 recruit additional participants, or have additional participants
21 placed by the promoter or any other person into the program
22 participant's downline, tree, cooperative, income center, or
23 other similar program grouping; (2) sell goods or services; and
24 (3) receive payment or other compensation, in whole or in part,
25 based upon the sales of those in the participant's downline,
26 tree, cooperative, income center or similar program grouping.

27 11. "Commerce" is as defined in Section 4 of the Federal
28 Trade Commission Act, 15 U.S.C. § 44.

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1 12. "Person" means a natural person, organization or other
2 legal entity, including a partnership, corporation,
3 proprietorship, association, cooperative, or any other group
4 acting together as an entity.

5 13. "Document(s)" or "record(s)" refers to:

6 a. The original or a true copy of any written, typed,
7 printed, electronically stored, transcribed, taped, recorded,
8 filmed, punched, or graphic matter or other data compilations of
9 any kind, including, but not limited to, letters, e-mail or other
10 correspondence, messages, memoranda, interoffice communications,
11 notes, reports, summaries, manuals, magnetic tapes or discs,
12 tabulations, books, records, checks, invoices, work papers,
13 journals, ledgers, statements, returns, reports, schedules, or
14 files; and

15 b. Any information stored on any desktop personal
16 computer and workstations, laptops, notebooks, or other portable
17 computers; and home computers used for work-related purposes;
18 backup disks and tapes, archive disks and tapes, and other forms
19 of offline storage, whether stored onsite with the computer used
20 to generate them, stored offsite in another company facility or
21 stored offsite by a third-party, such as in a disaster recovery
22 center; and computers and related offline storage used by
23 Defendants' participating associates, which may include persons
24 who are not employees of the company or who do not work on
25 company premises.

26 14. The terms "and" and "or" in this Order shall be
27 construed conjunctively or disjunctively as necessary, to make
28 the applicable sentence or phrase inclusive rather than

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1 exclusive.

2 15. "Assisting others" means knowingly providing any of the
3 following goods or services to another entity: (a) performing
4 customer service functions, including, but not limited to,
5 receiving or responding to consumer complaints; (b) formulating
6 or providing, or arranging for the formulation or provision of,
7 any marketing material; (c) providing names of, or assisting in
8 the generation of, potential customers; (d) hiring, recruiting or
9 training personnel; (e) advising or consulting others on the
10 commencement or management of a business venture; or
11 (f) performing marketing services of any kind.

12 **ORDER**

13 **I.**

14 **Prohibition Against Participation**
15 **in Prohibited Marketing Schemes**

16 IT IS THEREFORE ORDERED that Defendants, their successors,
17 assigns, officers, directors, servants, agents, attorneys,
18 employees and those persons in active concert or participation
19 with any of the Defendants, who receive actual notice of this
20 Order by personal service or otherwise, whether acting directly
21 or through any trust, corporation, subsidiary, division, or other
22 device, in connection with the advertising, promoting, offering
23 for sale, sale, or distribution of any business venture, are
24 hereby permanently restrained and enjoined from engaging,
25 participating, or assisting others in any manner or capacity
26 whatsoever, directly, or in concert with others, or through any
27 business entity or other device, in any prohibited marketing
28 scheme.

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1 II.

2 **Prohibited Representations**

3 IT IS FURTHER ORDERED that Defendants, their successors,
4 assigns, officers, directors, servants, agents, attorneys,
5 employees and those persons in active concert or participation
6 with any of the Defendants, who receive actual notice of this
7 Order by personal service or otherwise, whether acting directly
8 or through any trust, corporation, subsidiary, division, or other
9 device, in connection with the advertising, promoting, offering
10 for sale, sale, or distribution of any business venture, are
11 hereby permanently restrained and enjoined from the following:

12 1. Misrepresenting, expressly or by implication, or
13 assisting others in misrepresenting, expressly or by
14 implication:

15 a. the potential or likely earnings or income
16 derived from a business venture;

17 b. the benefits any person participating in a
18 business venture actually can receive from such
19 activity;

20 c. the amount of sales a person actually made or
21 can likely make through a business venture;

22 d. the existence of salaried or hourly positions
23 in order to recruit distributors or participants for
24 any business venture; and

25 e. the sales volume, revenues, debt, investment
26 backing, or other indicia of the financial condition of
27 any of the Defendants or any business venture;

28 2. Making, expressly or by implication, directly or

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1 indirectly, orally or in writing, any false or misleading
2 statement or misrepresentation of material fact;

3 3. Assisting others in the making, expressly or by
4 implication, orally or in writing, any false or misleading
5 representation or omission of material fact;

6 4. Imposing unreasonable refund conditions on
7 consumers, including Mall Ventures, Inc. members. For
8 purposes of this Order, unreasonable conditions include but
9 are not limited to the following: requiring the consumer to
10 have his or her refund request letter notarized; requiring
11 the consumer to submit photocopies of his or her driver's
12 license, bank statements, and/or credit card where such
13 documentation was not required in order for the consumer to
14 join the business venture; imposing refund or processing
15 fees which are disproportionately high to the amount of the
16 refund (for purposes of this Order, such fees shall be
17 considered "disproportionately high" if they exceed 5% of
18 the refund amount); or requiring the consumer to sign a non-
19 disclosure agreement in order to receive the refund;

20 5. Threatening consumers who complain to government
21 or consumer agencies (including any Better Business Bureau).
22 For the purposes of this Order, prohibited threats include
23 but are not limited to threatening a consumer with legal
24 action for defamation, libel or slander, and demanding that
25 the consumer withdraw his or her complaint to the agency,
26 whether the threats are made directly by a Defendant or by
27 another person at a Defendant's direction; and

28 6. Providing to others, or assisting others who

1 provide, the means and instrumentalities with which to make,
2 expressly or by implication, orally or in writing, any false
3 or misleading statement or omission of fact; and

4 B. IT IS FURTHER ORDERED that the Defendants, their
5 successors, assigns, officers, directors, servants, agents,
6 attorneys, employees and those persons in active concert or
7 participation with any of the Defendants, who receive actual
8 notice of this Order by personal service or otherwise, whether
9 acting directly or through any trust, corporation, subsidiary,
10 division, or other device, in connection with the advertising,
11 promoting, offering for sale, sale, or distribution of any
12 business venture, are hereby permanently restrained and enjoined
13 from misrepresenting, expressly or by implication, or assisting
14 others in misrepresenting, expressly or by implication, any other
15 fact likely to affect a consumer's decision to purchase any good
16 or service from the Defendants.

17 **III.**

18 **Prohibition Against Material Omissions**

19 IT IS FURTHER ORDERED that each of the individual
20 Defendants, and the agents, servants, employees, and attorneys of
21 any of them, and all persons or entities directly or indirectly
22 under the control of any of them, and all other persons or
23 entities in active concert or participation with any of them who
24 receive actual notice of this Order by personal service or
25 otherwise, and each such person, whether acting directly or
26 through any corporation, subsidiary, division, or other device,
27 in connection with the offering or sale of the right to
28 participate in any business venture, are hereby prohibited from:

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1 A. Failing to disclose, clearly and conspicuously, before
2 any consumer becomes a business venture participant, all
3 information material to a consumer's decision to participate in
4 the business venture, including but not limited to the following,
5 which shall be updated at least quarterly:

6 1. The number and percentage of current business
7 venture participants who have not received any commissions,
8 bonuses or overrides;

9 2. The median amount of commissions, bonuses and
10 overrides received by all participants in the business
11 venture, together with a true statement setting forth the
12 percentage of participants who have received less than that
13 amount, and the percentage who have received more; and

14 3. The average amount of commissions, bonuses and
15 overrides that have been received by all participants in the
16 business venture;

17 B. Failing to obtain from each prospective
18 participant, before such person becomes a participant,
19 either (1) a signed and dated statement, on a separate sheet
20 of paper, acknowledging that the person has received a
21 written disclosure statement, on a separate sheet of paper,
22 making the specific disclosures enumerated above, with a
23 copy of such statement attached to the statement; or (2) in
24 the event the prospective participant becomes a participant
25 through on-line registration, a clear and conspicuous on-
26 line acknowledgment that the participant has reviewed the
27 on-line disclosure statement, which shall include the
28 specific disclosures enumerated above; and

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1 C. Failing to send, via mail or e-mail in the manner
2 consistent with the method in which the prospective participant
3 became a participant, promptly upon the participant's enrollment
4 in the program, a letter which:

5 1. includes a written disclosure statement setting
6 forth the specific disclosures enumerated above; and

7 2. advises the participant that he or she may rescind
8 any agreement relating to the participant's right to
9 participate in the program, and receive a full refund of any
10 money paid to the company or its representatives, including
11 money paid for the purchase of product, by mailing or e-
12 mailing a notice to the company or by calling a toll-free
13 telephone number established specifically for such purpose,
14 within three business days of receipt of the letter.

15 IV.

16 **Monetary Relief**

17 A. IT IS FURTHER ORDERED that judgment in the amount of
18 ten million four hundred thousand dollars (\$10,400,000) is hereby
19 entered against the Defendants jointly and severally; *provided,*
20 however, that this judgment shall be suspended upon payment to
21 the Commission of four hundred thousand dollars (\$400,000) in the
22 following manner:

23 1. Within five (5) days after entry of this Order,
24 Defendants shall pay one hundred thousand dollars (\$100,000) by
25 certified or cashier's check made payable to the Federal Trade
26 Commission. Such payment shall be remitted to the Federal Trade
27 Commission, Western Region, 10877 Wilshire Boulevard, Suite 700,
28 Los Angeles, California 90024;

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1 2. By the fifth (5th) day of each of the subsequent twenty
 2 four (24) months, Defendants shall make payments of twelve
 3 thousand five hundred dollars (\$12,500) by certified or cashier's
 4 check made payable to the Federal Trade Commission. Such
 5 payments shall be remitted to the Federal Trade Commission,
 6 Western Region, 10877 Wilshire Boulevard, Suite 700, Los Angeles,
 7 California 90024; and

8 3. The four hundred thousand dollar (\$400,000) payment
 9 shall be secured by Deeds of Trust on the homes owned by,
 10 respectively, individual Defendants Jeffrey P. Morgan and Dennis
 11 Wong. In the event that the Commission has not received
 12 the four hundred thousand dollar (\$400,000) payment according to
 13 the timetable stated above, the judgment shall not be suspended
 14 and the full judgment amount of ten million four hundred thousand
 15 dollars (\$10,400,000), less any amounts already paid, shall be
 16 immediately due and payable; *provided* however, that said
 17 suspension shall be subject to the conditions set forth in
 18 Paragraph V (Reliance on Disclosures) of this Order; *provided*
 19 further, that Defendants may cure a late payment by delivering
 20 such payment to the Commission within five (5) days of the
 21 original payment date;

22 B. Defendants shall provide the Commission, or its agent,
 23 on a computer disk or other electronic medium, within thirty (30)
 24 days of such a request, the following data concerning each and
 25 every past and present Mall Ventures, Inc., member: name, last
 26 known mailing address, last known electronic mail address,
 27 telephone number, all amounts paid to Mall Ventures, Inc.
 28 (whether to purchase a CIP, to pay for the Independent

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1 Representative fee, to pay for annual renewal fees, to purchase
2 training materials, or otherwise), the date(s) of purchase, the
3 amount of any commissions, bonuses, refunds, or other monies paid
4 by Mall Ventures, Inc. to the member, and the complete file
5 record, including computer records and correspondence, for each
6 customer who paid Defendants money to become a Mall Ventures,
7 Inc. member between April 1, 2000 and the date this Order is
8 entered, as well as any further information the Commission deems
9 necessary to effectuate a customer redress program;

10 C. All funds paid pursuant to this Paragraph shall be
11 deposited into a fund administered by the Commission or its agent
12 to be used for equitable relief, including but not limited to
13 consumer redress and any attendant expenses for the
14 administration of any redress fund. In the event that direct
15 redress to consumers is wholly or partially impracticable or
16 funds remain after redress is completed, the Commission may apply
17 any remaining funds for such other equitable relief (including
18 consumer information remedies) as it determines to be reasonably
19 related to Defendants' practices alleged in the complaint. Any
20 funds not used for such equitable relief shall be deposited to
21 the Treasury as disgorgement. Defendants shall have no right to
22 challenge the Commission's choice of remedies under this
23 Paragraph; and

24 D. Any redress administrator shall destroy all records
25 relating to this matter six (6) years after the transfer of any
26 remaining redress funds to the FTC Treasury account or the
27 closing of the account from which such funds were disbursed,
28 whichever is earlier, provided that no records shall be destroyed

1 unless and until a representative of the Commission has received
2 and approved the administrator's final accounting report.
3 Records shall be destroyed in accordance with disposal methods
4 and procedures to be specified by the Commission. The Commission
5 may, in its sole discretion, require that such records, in whole
6 or in part, be transferred, in lieu of destruction, to the
7 Commission.

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8
9 **V.**

10 **Reliance on Disclosures**

11 IT IS FURTHER ORDERED that the Commission's agreement to
12 this Order is expressly premised upon the truthfulness, accuracy
13 and completeness of: (a) the 16-page financial statement dated 5-
14 12-03, as well as all attachments, that Defendant Mall Ventures,
15 Inc. has submitted to the Commission; (b) the 16-page financial
16 statement dated 5-12-03, as well as all attachments, that
17 Defendant Jeffrey P. Morgan has submitted to the Commission; (c)
18 the 15-page financial statement dated 5-12-03, as well as all
19 attachments, that Defendant Dennis Wong has submitted to the
20 Commission; and (d) the sworn testimony that Defendant Jeffrey P.
21 Morgan provided to the Commission on November 13 and 14, 2002.
22 Said financial statements and testimony contain material
23 information upon which the Commission has relied in negotiating
24 and agreeing to the terms of this Order. If, upon motion by the
25 Commission to the Court, the Court finds that any of the
26 Defendants failed to disclose any asset with a value exceeding
27 \$1,000, or materially misrepresented the value of any asset, or
28 made any other material misrepresentation in or omission from
said financial statements or testimony, the Court shall enter

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1 judgment against the Defendant(s) in favor of the Commission in
2 the amount of ten million four hundred thousand dollars
3 (\$10,400,000), which shall be immediately due and payable, less
4 any amounts that Defendants have previously paid to the
5 Commission. For purposes of this Paragraph, and any subsequent
6 proceedings to enforce payment, including but not limited to a
7 non-dischargeability complaint filed in a bankruptcy proceeding,
8 Defendants stipulate to all of the allegations in the
9 Commission's Complaint.

10 **VI.**

11 **Distribution of Order by Defendants**

12 IT IS FURTHER ORDERED that, for a period of five (5) years
13 from the date of entry of this Order,

14 A. Defendant Mall Ventures, Inc. shall promptly deliver a
15 copy of this Order to its principals, officers, directors, and
16 managers. In addition, Mall Ventures, Inc. shall also promptly
17 deliver a copy of this Order to its employees, agents, and
18 representatives who are engaged in recruiting, hiring, or
19 employing individuals into a business venture to be resellers, or
20 who respond to complaints lodged by consumers, prospective
21 participants, current participants, or former participants of
22 Mall Ventures, Inc. Defendant Mall Ventures, Inc. shall secure a
23 signed and dated statement acknowledging receipt of the Order
24 from current personnel within thirty (30) days after service of
25 the Order upon Defendant Mall Ventures, Inc., and from new
26 personnel within thirty (30) days of the commencement of the
27 employment relationship;

28 B. Defendants shall promptly deliver a copy of this Order

1 to all current and future Mall Ventures, Inc. members;
2 C. For a period of one (1) year from the date of entry of
3 this Order, Defendant Mall Ventures, Inc., its successors, and
4 assigns, will post, clearly and conspicuously and visible without
5 scrolling, on the home page of any websites through which it
6 advertises, promotes, offers for sale, sells, or distributes any
7 business venture and on the business web pages of all Mall
8 Ventures, Inc. members, a direct link - titled "Important
9 Information - Settlement with the Federal Trade Commission" - to
10 this Order; and

11 D. Defendants Jeffrey P. Morgan and Dennis Wong shall
12 promptly deliver a copy of this Order to the principals,
13 officers, directors, and managers under such Defendant's control,
14 for any business that advertises, promotes, offers for sale,
15 sells, or distributes business ventures. In addition, Defendants
16 Jeffrey P. Morgan and Dennis Wong shall also promptly deliver a
17 copy of this Order to all employees, agents, and representatives
18 under such Defendant's control who are engaged in recruiting,
19 hiring, or employing individuals into a business venture to be
20 resellers. Such Defendant shall secure a signed and dated
21 statement acknowledging receipt of the Order from current
22 personnel within thirty (30) days after service of the Order upon
23 such Defendant, and from new personnel within thirty (30) days of
24 the commencement of the employment relationship.

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VII.

Monitoring Compliance of Personnel

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IT IS FURTHER ORDERED that each Defendant, in connection with any business where

(1) the Defendant is the majority owner of the business or directly or indirectly manages or controls the business, and where

(2) the business is engaged in the advertising, promoting, offering for sale, sale, or distribution of any business venture, or assisting others in any such activity,

is hereby permanently restrained and enjoined from:

A. Failing to take reasonable steps sufficient to monitor and ensure that all Defendants' agents, representatives, employees, independent contractors, or distributors comply with Paragraphs I (Permanent Injunction), II (Prohibited Representations), and III (Prohibition Against Material Omissions) of this Order. Reasonable steps shall include, at a minimum,

1. Establishing and maintaining a compliance program which includes random, undisclosed monitoring of the oral representations made by any distributor; spot checking of consumers to ensure that misrepresentations are not being made and have not been made; and ascertaining the number and nature of any consumer complaints;

2. Spot checking of oral representations made by Defendants' distributors to ensure that misrepresentations are not being made and have not been made; and

1 3. Where the business has provided websites for
2 purposes of marketing the business, random monitoring of
3 those websites;

4 B. Failing to promptly and fully investigate any consumer
5 complaint received by any business to which this Paragraph
6 applies; and

7 C. Failing to take corrective action (including, where
8 appropriate, training, disciplining, and/or terminating such
9 person) with respect to any person to whom this Order applies and
10 whom the Defendant determines is not complying with this Order.

11 **VIII.**

12 **Compliance Reporting by Defendant**

13 IT IS FURTHER ORDERED that, in order that compliance with
14 the provisions of this Order may be monitored:

15 A. For a period of five (5) years from the date of entry
16 of this Order:

17 1. Jeffrey P. Morgan and Dennis Wong shall notify the
18 Commission of the following:

19 a. Any changes in such Defendant's residence,
20 mailing address, and telephone numbers, within ten (10)
21 days of the date of such change;

22 b. Any changes in such Defendant's employment
23 status (including self-employment) within ten (10) days
24 of such change. Such notice shall include the name and
25 address of each business that the Defendant is
26 affiliated with, employed by, or performs services for;
27 a statement of the nature of the business; and a
28 statement of the Defendant's duties and

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responsibilities in connection with the business; and

c. Any changes in such Defendant's name or use of any aliases or fictitious names; and

2. Mall Ventures, Inc., Jeffrey P. Morgan, and Dennis Wong shall notify the Commission of any changes in corporate structure that may affect compliance obligations arising under this Order, including but not limited to dissolution, assignment, sale, merger, or other action that would result in the emergence of a successor entity; the creation or dissolution of a subsidiary, parent, or affiliate that engages in any acts or practices subject to this Order; the filing of a bankruptcy petition; or a change in the corporate name or address, at least thirty (30) days prior to such change, provided that, with respect to any proposed change in the entity about which the Defendant learns less than thirty (30) days prior to the date such action is to take place, such Defendant shall notify the Commission as soon as is practicable after obtaining such knowledge;

B. One hundred eighty (180) days after the date of entry of this Order, Mall Ventures, Inc., Jeffrey P. Morgan, and Dennis Wong shall each provide a written report to the FTC, sworn to under penalty of perjury, setting forth in detail the manner and form in which they have complied and are complying with this Order. This report shall include, but not be limited to:

1. Any changes required to be reported pursuant to Subparagraph (A) above;

2. A copy of each acknowledgment of receipt of this Order obtained by Defendant pursuant to Paragraph VI

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(Distribution of Order by Defendants) of this Order;

C. For the purposes of this Order, Mall Ventures, Inc., Jeffrey P. Morgan, and Dennis Wong shall, unless otherwise stated or directed by the Commission's authorized representatives, mail all written notifications to the Commission to:

Assistant Regional Director
Western Region - Los Angeles
Federal Trade Commission
10877 Wilshire Blvd., Suite 700
Los Angeles, California 90024

Re: FTC v. Mall Ventures, Inc., et al.
(Matter No. 0223000)

D. For purposes of the compliance reporting required by this Paragraph, the Commission is authorized to communicate solely with the undersigned counsel for Defendants, or such other counsel as Defendants, or the undersigned counsel, may designate in writing to the Commission.

IX.

Compliance Monitoring

IT IS FURTHER ORDERED that, for the purpose of monitoring and investigating compliance with any provision of this Order,

A. Within ten (10) days of receipt of written notice from a representative of the Commission, Defendants each shall submit additional written reports, sworn to under penalty of perjury; produce documents for inspection and copying; appear for deposition; and/or provide entry during normal business hours to any business location in such Defendant's possession or direct or indirect control to inspect the business operation;

1 B. In addition, the Commission is authorized to monitor
2 compliance with this Order by all other lawful means, including
3 but not limited to the following:

4 1. obtaining discovery from any person, without
5 further leave of court, using the procedures prescribed by
6 Fed. R. Civ. P. 30, 31, 33, 34, 36, and 45;

7 2. posing as consumers and suppliers to: any of the
8 Defendants, such Defendant's employees, or any other entity
9 managed or controlled in whole or in part by any of the
10 Defendants, without the necessity of identification or prior
11 notice;

12 *Provided* that nothing in this Order shall limit the Commission's
13 lawful use of compulsory process, pursuant to Sections 9 and 20
14 of the FTC Act, 15 U.S.C. §§ 49, 57b-1, to obtain any documentary
15 material, tangible things, testimony, or information relevant to
16 unfair or deceptive acts or practices in or affecting commerce
17 (within the meaning of 15 U.S.C. § 45(a)(1)); and

18 C. Defendants shall permit representatives of the
19 Commission to interview any employer, consultant, independent
20 contractor, representative, agent, or employee who has agreed to
21 such an interview, relating in any way to any conduct subject to
22 this Order. The person interviewed may have counsel present.

23 X.

24 **Record Keeping**

25 IT IS FURTHER ORDERED that, for a period of eight (8) years
26 from the date of entry of this Order, each of the Defendants, in
27 connection with any business (a) in which any Defendant is the
28 majority owner or directly or indirectly controls the business,

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1 and (b) which advertises, promotes, offers for sale, sells, or
2 distributes any business venture, and his agents, employees,
3 officers, corporations, successors, and assigns, and those
4 persons in active concert or participation with him who receive
5 actual notice of this Order by personal service or otherwise, are
6 hereby restrained and enjoined from failing to create and retain
7 the following records:

8 A. Accounting records that reflect the cost of goods or
9 services sold, revenues generated, and the disbursement of such
10 revenues;

11 B. Personnel records accurately reflecting: the name,
12 address, and telephone number of each person employed in any
13 capacity by such business, including as an independent
14 contractor; that person's job title or position; the date upon
15 which the person commenced work; and the date and reason for the
16 person's termination, if applicable;

17 C. Customer files containing the names, addresses, phone
18 numbers, electronic contact information, dollar amounts paid,
19 quantity of items or services purchased, and description of items
20 or services purchased, to the extent such information is obtained
21 in the ordinary course of business;

22 D. Computer records containing the name, address, and
23 phone number of each participant in the business venture (however
24 denominated, including without limitation sales representatives,
25 distributors, or independent business owners), as well as (a) the
26 dollar amounts paid by the participant to the business or any
27 affiliate for any purpose, and the date of each payment; and (b)
28 all commissions or other pecuniary benefit paid to the

1 participant, and the date of each payment;
2 E. Computer records reflecting information that must be
3 provided to prospective participants pursuant to Paragraph III
4 (Prohibition Against Material Omissions) of this Order, including
5 records readily susceptible to sorting that reflect (a) the
6 amount of commissions or other pecuniary benefits ever paid to
7 each participant in the business venture, such that the number
8 and percentage of current participants who have not received any
9 commissions or other pecuniary benefit, and the average and
10 median amount of commissions or other pecuniary benefit paid, can
11 be easily determined; and (b) for each level or rank within the
12 pay plan or compensation structure of the business venture, the
13 number and percentage of current participants who have reached
14 that level or rank, and the average length of time it took to
15 reach that level;

16 F. Each version of the disclosure statement provided
17 pursuant to Paragraph III (Prohibition Against Material
18 Omissions) of this Order;

19 G. Each signed and dated statement required to be obtained
20 pursuant to Paragraph III.B. (Prohibition Against Material
21 Omissions) of this Order;

22 H. Each signed and dated statement required to be obtained
23 pursuant to Paragraph VI (Distribution of Order by Defendants) of
24 this Order;

25 I. Complaint and refund request files (whether the
26 complaints and refund requests are received directly, indirectly,
27 or through any third party) and any responses to those complaints
28 or requests;

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1 J. Copies of all sales scripts, training materials,
2 advertisements, or other marketing materials; and

3 K. Copies of all contracts or agreements entered into
4 between any multi-level marketing program and the participants in
5 the multi-level marketing program.

6 **XI.**

7 **Acknowledgment of Receipt of Order by Defendants**

8 IT IS FURTHER ORDERED that each Defendant, within five (5)
9 business days of receipt of this Order as entered by the Court,
10 must submit to the Commission a truthful sworn statement
11 acknowledging receipt of this Order.

12 **XII.**

13 **Independence of Obligations**

14 IT IS FURTHER ORDERED that each of the obligations imposed
15 by this Order is independent of all other obligations under the
16 Order, and that the expiration of any requirement imposed by this
17 Order shall not affect any other obligation arising under this
18 Order.

19 **XIII.**

20 **Costs and Attorneys Fees**

21 IT IS FURTHER ORDERED that each party to this Order shall
22 bear its own costs and attorneys' fees in connection with this
23 action.

24 **XIV.**

25 **Retention of Jurisdiction**

26 IT IS FURTHER ORDERED that this Court shall retain
27 jurisdiction of this matter for purposes of construction,
28 modification, and enforcement of this Order.

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xv.

Entry by Clerk

There being no just reason for delay, the Clerk of the Court is hereby directed to enter this Order.

SO STIPULATED.

Dated: 1-24-04

FEDERAL TRADE COMMISSION

[Signature]
Faye Chen Barnouw
John D. Jacobs
Attorneys for Plaintiff
Federal Trade Commission

Dated: 8-12-03

Defendant MAIL VENTURES, INC.

By: *[Signature]*
Jeffrey P. Morgan
President and Chief
Executive Officer

Dated: 8-12-03

Defendant Jeffrey P. Morgan

Dated: 8-12-03

[Signature]
Defendant Dennis Wong

Dated: 8-12-03

COUNSEL FOR ALL DEFENDANTS

[Signature]
Scott R. Warren
Wellman & Warren LLP
2411 Ridge Route, Suite 200
Laguna Hills, CA 902653

IT IS SO ORDERED.

Dated: 1/27/04

[Signature]
UNITED STATES DISTRICT COURT

RECORDED