UNITED STATES DISTRICT COURT WESTERN DISTRICT OF NEW YORK

FEDERAL TRADE COMMISSION,

Plaintiff,

v.

No. 1025798 ONTARIO, INC. d/b/a The Fulfillment Solutions Advantage, Inc., The FSA Group, International Access, Beauty Visions Worldwide, Slimshop, Hydro-Gel Slim Patch, and Slenderstrip,

ROBERT VAN VELZEN,

KINGSTOWN ASSOCIATES LTD. and BVW ASSOCIATES, INC. d/b/a Beauty Visions Worldwide and Slimshop;

GARY RICHARD BUSH; DAVID JAMES VARLEY; and LAURENCE ANTHONY WHITE,

Defendants.

Civil Action No. 03-CV-0910A(SC)

(PROPOSED) STIPULATED FINAL ORDER FOR PERMANENT INJUNCTION AND SETTLEMENT OF CLAIMS FOR MONETARY RELIEF AGAINST KINGSTOWN ASSOCIATES, LTD., BVW ASSOCIATES, INC., GARY <u>RICHARD BUSH, DAVID JAMES VARLEY, AND LAURENCE ANTHONY WHITE</u>

Plaintiff, the Federal Trade Commission ("FTC" or "Commission"), filed a Complaint for

Permanent Injunction and Other Equitable Relief against defendants No. 1025798 Ontario, Inc.

and Robert Van Velzen, pursuant to Section 13(b) of the Federal Trade Commission Act ("FTC

Act"), 15 U.S.C. § 53(b). The Commission filed a First Amended Complaint for Permanent

Injunction and Other Equitable Relief ("Complaint") adding as defendants Kingstown

Associates, Ltd., BVW Associates, Inc., Gary Richard Bush, David James Varley, and Laurence Anthony White ("Kingstown defendants"). The Kingstown defendants deny the allegations in the Complaint, except jurisdictional facts, and dispute the legal basis for the relief requested, but are willing to agree to the entry of the following Stipulated Final Order for Permanent Injunction and Settlement of Claims for Monetary Relief ("Order"), without adjudication of any issues of fact or law and without defendants' admitting liability for any of the matters alleged in the Complaint.

The Commission and the Kingstown defendants have agreed to the entry of the following Stipulated Final Order for Permanent Injunction and Settlement of Claims for Monetary Relief ("Order") in settlement of the Commission's Complaint against them. The Court, being advised in the premises, finds:

FINDINGS

- 1. This Court has jurisdiction over the subject matter of this case and jurisdiction over all parties. Venue in the Western District of New York is proper.
- 2. The Complaint states a claim upon which relief can be granted, and the Commission has the authority to seek the relief it has requested.
- The acts and practices of the Kingstown defendants were and are in or affecting commerce, as defined in Section 4 of the FTC Act, 15 U.S.C. § 44.
- 4. The parties waive all rights to seek judicial review or otherwise challenge or contest the validity of this Order. The Kingstown defendants also waive any claims that they may have held under the Equal Access to Justice Act, 28 U.S.C. § 2412, concerning the prosecution of this action to the date of this Order.

- The action and the relief awarded herein are in addition to, and not in lieu of, other remedies as may be provided by law.
- 6. Each party shall bear its own costs and attorneys' fees.
- 7. Entry of this Order is in the public interest.
- 8. Pursuant to Federal Rule of Civil Procedure 65(d), the provisions of this Order are binding upon the Kingstown defendants, and their officers, agents, servants, representatives, employees, and all other persons or entities in active concert or participation with them, who receive actual notice of this Order by personal service or otherwise.
- 9. This Order resolves only claims against the Kingstown defendants and does not preclude the Commission from initiating further action or seeking any remedy against any other persons or entities, including without limitation persons or entities who may be subject to portions of this Order by virtue of actions taken in concert or participation with the Kingstown defendants, and persons or entities in any type of indemnification or contractual relationship with the Kingstown defendants.
- 10. This Order resolves all claims that arose prior to the date of entry of this Order against the Kingstown defendants with respect to any allegation that such defendant(s) violated the Federal Trade Commission Act and the regulations promulgated thereunder.
- The Kingstown defendants' stipulation is for settlement purposes only and does not constitute an admission of facts, other than jurisdictional facts, or violations of

law as alleged in the First Amended Complaint and in fact defendants deny same. It may not be used against defendants in any other proceeding, except in such proceedings as may be necessary to enforce the provisions of this Order.

<u>ORDER</u>

DEFINITIONS

For purposes of this order, the following definitions shall apply:

- 1. Unless otherwise specified, "defendants" shall mean the Kingstown defendants:
 - A. Kingstown Associates, Ltd. ("Kingstown"), a limited liability company, its divisions and subsidiaries, its successors and assigns;
 - B. BVW Associates, Inc., a corporation, its divisions and subsidiaries, its successors and assigns;
 - C. Gary Richard Bush ("Bush"), individually and in his capacity as a director, officer, or manager of Kingstown and/or BVW;
 - D. David James Varley ("Varley"), individually and in his capacity as a director, officer, or manager of Kingstown and/or BVW; and
 - E. Laurence Anthony White ("White"), individually and in his capacity as a director, officer, or manager of Kingstown and/or BVW.
- 2. "Competent and reliable scientific evidence" shall mean tests, analyses, research, studies, or other evidence based on the expertise of professionals in the relevant area, that has been conducted and evaluated in an objective manner by persons qualified to do so, using procedures generally accepted in the profession to yield accurate and reliable results.

- 3. "Weight-loss product" shall mean any product, program, or service designed, used, or purported to produce weight loss, reduction or elimination of fat, slimming, or caloric deficit in a user of the product, program, or service, including, but not limited to, "Hydro-Gel Slim Patch," "Slenderstrip," or any other substantially similar product.
- 4. "Food," "drug," and "device" shall mean as "food," "drug," and "device" are defined in Section 15 of the Federal Trade Commission Act, 15 U.S.C. § 55.
- "Covered product or service" shall mean any health-related service or program, dietary supplement, food, drug, device, or weight loss product.
- "Commerce" shall mean as defined in Section 4 of the Federal Trade Commission Act, 15 U.S.C. § 44.
- "Affiliate" shall mean any person, other than defendants, who promotes or sells any weight-loss product sold by defendants.
- 8. "Endorsement" shall mean as defined in 16 C.F.R. § 255.0(b).
- 9. The term "including" in this Order shall mean "without limitation."
- 10. The terms "and" and "or" in this Order shall be construed conjunctively or disjunctively as necessary, to make the applicable phrase or sentence inclusive rather than exclusive.

CONDUCT PROHIBITIONS

I. PROHIBITED ACTS AND PRACTICES

IT IS HEREBY ORDERED that defendants, directly or through any corporation, partnership, subsidiary, division, trade name, or other device, and their officers, agents, servants,

representatives, employees, and all persons or entities in active concert or participation with them who receive actual notice of this Order, by personal service or otherwise, are hereby permanently restrained and enjoined from the manufacturing, labeling, advertising, promotion, offering for sale, sale, or distribution of Hydro-Gel Slim Patch, Slenderstrip, or any dietary supplement, food, drug, or weight loss product, in commerce, and from assisting others in such acts or practices. As used in this Paragraph, "assisting others" means knowingly providing any of the following services to any person or entity: (a) performing customer service functions for any person or entity, including, but not limited to, outbound or inbound telemarketing, upselling, cross-selling, handling customer complaints (other than returns), credit card or debit account processing, refund processing, web design and marketing, continuity program development or implementation, or designing or preparing or assisting in the preparation of product labeling or packaging; (b) formulating or providing, or arranging for the formulation or provision of, any sales script or any other advertising or marketing material for any person or entity; (c) leasing, renting, selling, or servicing customer lists, or (d) performing advertising or marketing services or consulting services of any kind for any person or entity.

II. COVERED PRODUCT OR SERVICE CLAIMS

IT IS FURTHER ORDERED that, subject to the provisions of Paragraph I, defendants, directly or through any corporation, partnership, subsidiary, division, trade name, or other device, and their officers, agents, servants, representatives, employees, and all persons or entities in active concert or participation with them who receive actual notice of this Order, by personal service or otherwise, in connection with the manufacturing, labeling, advertising, promotion, offering for sale, distribution, or sale of any covered product or service, in commerce, are hereby permanently restrained and enjoined from making or assisting others in making any representation, in any manner, expressly or by implication, including through the use of a trade name or endorsements, about the comparative or absolute health benefits, or the performance or efficacy, of such product or service unless, at the time of making such representation, defendants possess and rely upon competent and reliable scientific evidence that substantiates the representation.

III. CONSUMER LIST

IT IS FURTHER ORDERED that defendants shall, within seven (7) days after service of this Order upon defendants, deliver to the Commission a list, in the form of a sworn affidavit, of all consumers who purchased Hydro-Gel Slim Patch, Slenderstrip, or any other weight-loss product through the date of entry of this Order, directly from defendants or indirectly through one of defendants' affiliates. Such list shall include each consumer's name and address, the product(s) purchased, the quantity and the amount paid, including shipping and handling charges, and if available, the consumer's telephone number and email address.

IV. NON-DISCLOSURE OF MAILING LISTS

IT IS FURTHER ORDERED that defendants, and their officers, agents, servants, employees, and attorneys, and all other persons or entities in active concert or participation with them who receive actual notice of this Order by personal service or otherwise, are permanently restrained and enjoined from selling, renting, leasing, transferring, or otherwise disclosing the name, address, telephone number, credit card number, bank account number, email address, or other identifying information of any person who paid any money to any defendant for Hydro-Gel Slim Patch or Slenderstrip, or shipping and handling therefor, at any time prior to entry of this Order. *Provided*, however, that defendants may disclose such identifying information to a law enforcement agency or as required by any law, regulation, or court order.

V. MONETARY JUDGMENT AND CONSUMER REDRESS

IT IS FURTHER ORDERED that judgment in the amount of One Hundred Fifty Thousand Dollars (\$150,000.00) is hereby entered against defendants Kingstown Associates, Ltd., BVW Associates, Inc., Gary Richard Bush, David James Varley, and Laurence Anthony White, jointly and severally, which shall be paid to the Federal Trade Commission as follows:

- A. One Hundred Fifty Thousand Dollars (\$150,000.00) has been placed into a trust account at the law firm of defendant's counsel, The Lustigman Firm, PC, which shall be held by defendant's counsel in such trust account and transferred within three days after entry of this Order by wire transfer into an account to be designated by the Commission in accord with directions provided by the Commission.
- B. All funds paid pursuant to this Order shall be deposited into an account administered by the Commission or its agent to be used for equitable relief, including but not limited to consumer redress, and any attendant expenses for the administration of such equitable relief. In the event that direct redress to consumers is wholly or partially impracticable or funds remain after redress is completed, the Commission may apply any remaining funds for such other equitable relief (including consumer information remedies) as it determines to be reasonably related to the defendants' practices alleged in the Complaint. Any funds not used for such equitable relief shall be deposited to the United States

Treasury as disgorgement. Defendants shall have no right to challenge the Commission's choice of remedies under this Paragraph. Defendants shall have no right to contest the manner of distribution chosen by the Commission. No portion of any payments under the judgment herein shall be deemed a payment of any fine, penalty, or punitive assessment.

- C. Defendants relinquish all dominion, control and title to the funds paid into the account established pursuant to this Order, and all legal and equitable title to the funds shall vest in the Treasurer of the United States unless and until such funds are disbursed to consumers. Defendants shall make no claim to or demand for the return of the funds, directly or indirectly, through counsel or otherwise; and in the event of bankruptcy of any defendant, defendants acknowledge that the funds are not part of the debtor's estate, nor does the estate have any claim or interest therein.
- D. In accordance with 31 U.S.C. § 7701, defendants are hereby required, unless they have done so already, to furnish to the Commission their taxpayer identifying numbers and/or social security numbers, which may be used for purposes of collecting and reporting on any delinquent amount arising out of defendants' relationship with the government.
- E. Proceedings instituted under this Part are in addition to, and not in lieu of, any other civil or criminal remedies that may be provided by law, including any other proceedings the Commission may initiate to enforce this Order.

VI. RIGHT TO REOPEN

- A. The Commission's agreement to this Order is expressly premised upon defendants' representation of the net profits derived from the sale of Hydro-Gel Slim Patch and Slenderstrip in submissions provided to the Commission on April 11, 2005 (entitled "Kingstown Associates Limited, USA Division Results," Schedules 1 -5) and May 25, 2005 (entitled "FTC Queries on the Financial Information Supplied"). These financial statements and supporting documents contain material information upon which the Commission relied in negotiating and agreeing to the terms of this Order.
- B. If, upon motion by the Commission, a Court should determine that the defendants made a material misrepresentation or omitted material information concerning the their representation of the net profits derived from the sale of Hydro-Gel Slim Patch and Slenderstrip, then the Court shall enter judgment against the defendant to the Commission, in favor of the Commission, in the amount of Five Million, Three Hundred Thousand Dollars (\$5,300,000.00), which amount shall become immediately due and payable by defendant, and interest computed at the rate prescribed under 28 U.S.C. § 1961, as amended, shall immediately begin to accrue on the unpaid balance; *provided, however, that* in all other respects this Final Judgment shall remain in full force and effect unless otherwise ordered by the Court; and, *provided further, that* proceedings instituted under this provision would be in addition to, and not in lieu of, any other civil or criminal remedies as may be provided by law, including but not limited to contempt proceedings, or

any other proceedings that the Commission or the United States may initiate to enforce this Final Judgment. For purposes of this Paragraph, and any subsequent proceedings to enforce payment, including but not limited to a nondischargeability complaint filed in a bankruptcy proceeding, defendant agrees not to contest any of the allegations in the Commission's Complaint.

VII. ACKNOWLEDGMENT OF RECEIPT OF ORDER BY DEFENDANTS

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

VIII. DISTRIBUTION OF ORDER BY DEFENDANTS

IT IS FURTHER ORDERED that, for a period of five (5) years from the date of entry of this Order, defendants shall deliver copies of the Order as directed below:

- Corporate Defendants: Defendants Kingstown and BVW must deliver a copy of this Order to all principals, officers, directors, and managers. These corporate defendants also must deliver copies of this Order to all of their employees, agents, representatives, consultants, independent contractors, or other persons who engage in conduct related to the subject matter of this Order. For current personnel, delivery shall be within five (5) days of service of this Order upon defendant. For new personnel, delivery shall occur prior to them assuming their responsibilities.
- B. Individual Defendants as Control Person: For any business that defendants
 Bush, Varley, and/or White controls, directly or indirectly, or in which such
 defendant has a majority ownership interest, the defendant must deliver a copy of

this Order to all principals, officers, directors, and managers of that business to the extent the corporate defendants have not already done so. Defendants Bush, Varley, and White must also deliver copies of this Order to all employees, agents, and representatives of that business who engage in conduct related to the subject matter of this Order. For current personnel, delivery shall be within five (5) days of service of this Order upon defendant. For new personnel, delivery shall occur prior to them assuming their responsibilities.

- C. Individual Defendants as Employee or Non-Control Person: For any business where defendants Bush, Varley, or White is not a controlling person of the business but otherwise engages in conduct related to the subject matter of this Order, such defendant must deliver a copy of this Order to all principals and managers of such business before engaging in such conduct.
- D. Defendants must secure a signed and dated statement acknowledging receipt of the Order, within thirty (30) days of delivery, from all persons receiving a copy of the Order pursuant to this Part.

IX. COMPLIANCE REPORTING BY DEFENDANTS

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

- A. For a period of five (5) years from the date of entry of this Order,
 - Individual defendants Bush, Varley, and White each shall notify the Commission of the following:
 - a. Any changes in his residence, mailing addresses, and telephone

numbers of the individual defendant, within ten (10) days of the date of such change;

- b. Any changes in employment status (including self-employment) of the individual defendant, and any change in the individual defendant's ownership of any business entity, within ten (10) days of such change. Such notice shall include the name and address of each business that the individual defendant is affiliated with, employed by, creates or forms, or performs services for; a statement of the nature of the business; and a statement of the individual defendant's duties and responsibilities in connection with the business or employment; and
- c. Any changes in the individual defendant's name or use of any aliases or fictitious names; and
- 2. Individual defendants Bush, Varley, and White, and corporate defendants Kingstown and BVW shall notify the Commission of any changes in the corporate structure of the corporate defendant(s) or any business entity that an individual defendant(s) directly or indirectly control(s), or has an ownership interest in, that may affect compliance obligations arising under this Order, including but not limited to a 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 corporation about which the defendant(s) learns less than thirty (30) days prior to the date such action is to take place, the defendant(s) shall notify the Commission as soon as is practicable after obtaining such knowledge.

- B. Sixty (60) days after the date of entry of this Order, Defendants Kingstown, BVW,
 Bush, Varley, and White each shall provide a written report to the Commission,
 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. For each individual defendant:
 - a. The then-current residence addresses, mailing addresses, and telephone numbers of the individual defendant;
 - The then-current employment and business addresses and telephone numbers of the individual defendant; a description of the business activities of each such employer or business, and the title and responsibilities of the individual defendant, for each such employer or business; and
 - Any other changes required to be reported under Subparagraph A of this Part.
 - 2. For all defendants:

- A copy of each acknowledgment of receipt of this Order obtained pursuant to Part VIII;
- A statement describing the manner in which defendant has complied and is complying with Paragraphs I through III and V through VIII; and
- c. Any other changes required to be reported under Subparagraph A of this Part.
- C. For the purposes of this Order, defendants shall, unless otherwise directed by the
 Commission's authorized representatives, mail all written notifications to the
 Commission to:

Associate Director for Advertising Practices Federal Trade Commission 600 Pennsylvania Ave., NW, Washington, D.C. 20580 Attn: *FTC v. No. 1025798 Ontario, et al.*, 03-CV-0910A(SC) (W.D.N.Y.)

D. For purposes of the compliance reporting and monitoring required by this Order,the Commission is authorized to communicate directly with defendants.

X. 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 Kingstown, BVW, Bush, Varley, and White 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;

- B. In addition, the Commission is authorized to monitor compliance with this Orderby all other lawful means, including but not limited to the following:
 - Obtaining discovery from any person, without further leave of court, using the procedures prescribed by Fed. R. Civ. P. 30, 31, 33, 34, 36, and 45; and
 - Posing as consumers and suppliers to defendants Kingstown, BVW, Bush, Varley, and White, their employees, or any other entity managed or controlled in whole or in part by defendants Kingstown, BVW, Bush, Varley, and White, without the necessity of identification or prior notice; and
- C. Defendants Kingstown, BVW, Bush, Varley, and White shall permit representatives of the Commission to interview any employer, consultant, independent contractor, representative, agent, or employee who has agreed to such an interview, relating in any way to any conduct subject to this Order. The person interviewed may have counsel present.

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

XI. RECORD KEEPING PROVISIONS

IT IS FURTHER ORDERED that, for a period of eight (8) years from the date of entry of this Order, in connection with any business involved in the advertising, marketing, promotion, offer for sale, distribution, or sale of any covered product or service, operated by any defendant, or where any defendant is a majority owner of the business or directly or indirectly manages or controls such a business, defendants and their agents, employees, officers, corporations, successors, and assigns, and those persons in active concert or participation with them who receive actual notice of this Order by personal service or otherwise, are hereby restrained and enjoined from failing to create and retain the following records:

- A. Accounting records that reflect the cost of goods or services sold, revenues generated, and the disbursement of such revenues;
- B. Personnel records accurately reflecting: the name, address, and telephone number of each person employed in any capacity by such business, including as an independent contractor; that person's job title or position; the date upon which the person commenced work; and the date and reason for the person's termination, if applicable;
- C. Customer files containing the names, addresses, phone numbers, dollar amounts paid, quantity of items or services purchased, and description of items or services purchased, to the extent such information is obtained in the ordinary course of business;
- D. Complaints and refund requests (whether received directly, indirectly or through any third party), including but not limited to reports of adverse incidents claimed

to be associated with the use of a product or service, and any responses to those complaints or requests;

- E. Copies of all advertisements, promotional materials, sales scripts, training materials, websites, or other marketing materials utilized in the advertising, marketing, promotion, offering for sale, distribution of sale of any covered product or service;
- F. All materials that were relied upon in making any representations contained in the materials identified in Subparagraph E of this Part, including all documents evidencing or referring to the accuracy of any claim therein or to the efficacy of any covered product or service, including, but not limited to, all tests, reports, studies, demonstrations, or other evidence that confirm, contradict, qualify, or call into question the accuracy or efficacy of each such product or service;
- G. Records accurately reflecting the name, address, and telephone number of each manufacturer or laboratory engaged in the development or creation of any testing obtained for the purpose of manufacturing, labeling, advertising, marketing, promoting, offering for sale, selling, or distributing any covered product or service;
- H. Copies of all contracts concerning the manufacturing, labeling, advertising, marketing, promotion, offering for sale, sale, or distribution of any covered product or service; and
- I. All records and documents necessary to demonstrate full compliance with each provision of this Order, including but not limited to, copies of acknowledgments

of receipt of this Order and all reports submitted to the FTC pursuant to this

Order.

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XII. RETENTION OF JURISDICTION

IT IS FURTHER ORDERED that this Court shall retain jurisdiction of this matter for

purposes of construction, modification, and enforcement of this Order.

SO STIPULATED:

DAVID K. KOEHLER KAREN M. MUOIO FEDERAL TRADE COMMISSION Bureau of Consumer Protection Division of Advertising Practices 601 New Jersey Avenue, N.W. Washington, D.C. 20001 (202) 326-3627, -2491 (202) 326-3259 (FAX) Attorneys for Plaintiff

KINGSTOWN ASSOCIATES, LTD. By: Gary Richard Bush, CEO

CRB SAL

BVW ASSOCIATES, INC. By: Gary Richard Bush, CEO

GARY RICHARD BUSH, individually and as an officer or director of the above companies

D.J. Vauley

DAVID JAMES VARLEY, individually and as an officer or director of the above companies

LAURENCE ANTHONY WHITE, individually and as an officer or director of the above companies

SHELDON S. LUSTIGMAN SCOTT A. SHAFFER The Lustigman Firm, P.C. 149 Madison Ave., Suite 805 New York, NY 10016 (212) 683-9180 Attorneys for Defendants

SO ORDERED:

DATED:

RICHARD J. ARCARA UNITED STATES DISTRICT JUDGE

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CERTIFICATE OF SERVICE

I hereby certify that on September 2, 2005, I electronically filed the foregoing (PROPOSED) STIPULATED FINAL ORDER FOR PERMANENT INJUNCTION AND SETTLEMENT OF CLAIMS FOR MONETARY RELIEF AGAINST KINGSTOWN ASSOCIATES, LTD., BVW ASSOCIATES, INC., GARY_RICHARD BUSH, DAVID JAMES VARLEY, AND LAURENCE ANTHONY WHITE with the Clerk of the District Court using its CM/ECF system, which would then electronically notify the following CM/ECF participant in this case:

> Sheldon S. Lustigman, Esq. 149 Madison Avenue, Suite 805 New York, NY 10016 shelly@lustigmanfirm.com

> > s/David K. Koehler DAVID K. KOEHLER Federal Trade Commission 601 New Jersey Avenue, N.W., NJ-3212 Washington, D.C. 20001 TEL: (202) 326-3627 FAX: (202) 326-3259 dkoehler@ftc.gov