

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION**

FEDERAL TRADE COMMISSION,

Plaintiff,

v.

MAZZONI & SON, INC.,

a Michigan corporation, d/b/a

EDI HEALTHCLAIMS NETWORK,

and d/b/a **CONCEPT TRADING COMPANY,** and

BREEZE FREEZE, INC.,

a Michigan corporation, and

DOLELE & ASSOCIATES, L.L.C.,

a Michigan limited liability company, and

FOUR SEASONS BEVERAGE & EQUIPMENT, INC.,

a Michigan corporation, and

METRO PLYMOUTH BUSINESS PARK, L.L.C.,

a Michigan limited liability company, and

MAZZONI & SONS, L.L.C.,

a Michigan limited liability company, and

CHESTER J. MAZZONI, JR.,

individually and as an officer or principal of
Mazzoni & Son, Inc., EDI Healthclaims Network,
Concept Trading Company, Breeze Freeze, Inc.,
Four Seasons Beverage & Equipment, Inc.,
Mazzoni & Sons, L.L.C., and Metro Plymouth
Business Park, L.L.C., and

CASE NO. 06-15766

JUDGE: Feikens

**SECOND AMENDED
COMPLAINT FOR
INJUNCTIVE AND OTHER
EQUITABLE RELIEF**

LEO DOUGLAS LEPO, a/k/a **DOUGLAS L. LEPO**,
individually and as an officer or principal of
Mazzoni & Son, Inc., EDI Healthclaims Network,
Concept Trading Company, Breeze Freeze, Inc.,
Dolele & Associates, L.L.C., Four Seasons
Beverage & Equipment, Inc., and Metro Plymouth
Business Park, L.L.C.,

Defendants.

**SECOND AMENDED COMPLAINT
FOR INJUNCTIVE AND OTHER EQUITABLE RELIEF**

Plaintiff, the Federal Trade Commission (FTC), for its Second Amended Complaint alleges as follows:

1. Plaintiff brings this action under Sections 13(b) and 19 of the Federal Trade Commission Act (FTC Act), 15 U.S.C. §§ 53(b) and 57b, to secure preliminary and permanent injunctive relief, rescission of contracts, restitution, disgorgement and other equitable relief for Defendants' unfair or deceptive acts or practices in connection with the selling of at-home electronic medical billing business opportunities in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), and the FTC's Trade Regulation Rule entitled "Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures," 16 C.F.R. Part 436 (2006), in effect at the times the violations alleged herein occurred and at the time the original Complaint herein was filed.

JURISDICTION AND VENUE

2. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 1331, 1337(a) and 1345, as well as 15 U.S.C. §§ 53(b) and 57b.

3. Venue in the Eastern District of Michigan is proper under 15 U.S.C. § 53(b) and 28 U.S.C. § 1391(b) and (c).

PLAINTIFF

4. Plaintiff, the FTC, is an independent agency of the United States Government created by statute. 15 U.S.C. § 41. The FTC is charged, *inter alia*, with enforcement of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), which prohibits unfair or deceptive acts or practices in or affecting commerce and the Trade Regulation Rule entitled “Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures” (Franchise Rule), 16 C.F.R. Part 436 (2006), in effect at the times that the violations alleged herein occurred and at the time the original complaint herein was filed. The FTC is authorized to initiate federal district court proceedings to enjoin violations of the FTC Act and the Franchise Rule and to secure equitable relief that is appropriate in each case, including restitution for injured consumers. 15 U.S.C. §§ 53(b) and 57b.

DEFENDANTS

5. Defendant Mazzoni & Son, Inc., d/b/a EDI Healthclaims Network (EDI) and d/b/a Concept Trading Company (Concept) is a Michigan corporation with its principal place of business at 41303 Concept Drive, Plymouth Township, Michigan 48170. EDI has transacted business throughout the United States and in the Eastern District of Michigan.

6. Defendant Breeze Freeze, Inc. (Breeze Freeze) is a Michigan corporation with its principal place of business at 41303 Concept Drive, Plymouth Township, Michigan 48170. Breeze Freeze is a common enterprise with Defendant EDI, as it shares the same ownership, officers, managers, employees and business address, and has been financed with ill-gotten funds from EDI’s fraudulent activities, including those taking place in the Eastern District of Michigan.

7. Defendant Dolele & Associates, L.L.C. (Dolele) is a Michigan limited liability company with its principal place of business at 41303 Concept Drive, Plymouth, Michigan 48170. Dolele is a common enterprise with Defendant EDI, as it shares the same ownership, officers, managers, employees and business address, and has been financed with ill-gotten funds from EDI's fraudulent activities, including those taking place in the Eastern District of Michigan.

8. Defendant Four Seasons Beverage & Equipment, Inc. (Four Seasons) is a Michigan corporation with its principal place of business at 41303 Concept Drive, Plymouth Township, Michigan 48170. Four Seasons is a common enterprise with Defendant EDI, as it shares the same ownership, officers, managers, employees and business address, and has been financed with ill-gotten funds from EDI's fraudulent activities, including those taking place in the Eastern District of Michigan. In addition, in August of 2004, the restated articles of incorporation for Four Seasons stated that the name of the company was "EDI Healthclaims, Inc."

9. Defendant Metro Plymouth Business Park, L.L.C. (Metro) is a limited liability company incorporated in Michigan with its principal place of business at 41303 Concept Drive, Plymouth Township, Michigan 48170. Metro is a common enterprise with Defendant EDI, as it shares the same ownership, officers and business address as EDI. In addition, Metro has received ill-gotten funds from EDI's fraudulent activities, including those taking place in the Eastern District of Michigan.

10. Defendant Mazzoni & Sons, L.L.C. (LLC) is a limited liability company incorporated in Michigan with its principal place of business at 41303 Concept Drive, Plymouth Township, Michigan 48170. LLC is a common enterprise with Defendant EDI, as it shares the same ownership, officers and business address as EDI. LLC is located and transacts business within the Eastern District of Michigan.

11. Defendant Chester J. Mazzoni, Jr. (Mazzoni) is President and Chief Executive Officer of EDI and Concept. In addition, he is President of Breeze Freeze and Four Seasons, and is a principal

of Metro and LLC. At all times material to this Second Amended Complaint, acting alone or in concert with others, Mazzoni has formulated, directed, controlled or participated in the acts and practices of EDI and the other Defendants, including the acts and practices set forth in this Second Amended Complaint. Mazzoni resides in and has transacted business (including transactions which are the subject matter of this Second Amended Complaint) in the Eastern District of Michigan.

12. Defendant Leo Douglas Lepo a/k/a Douglas L. Lepo (Lepo) is Vice President and Chief Financial Officer of EDI. In addition, Lepo is Treasurer, Vice President and Chief Financial Officer of Breeze Freeze, Treasurer and Vice President of Four Seasons and Vice President and Chief Financial Officer of Concept. Lepo also is a principal of Dolele and of Metro. At all times material to this Second Amended Complaint, acting alone or in concert with others, Lepo has formulated, directed, controlled or participated in the acts and practices of EDI and the other Defendants, including the acts and practices set forth in this Second Amended Complaint. Lepo resides in and transacts business (including transactions which are the subject matter of this Second Amended Complaint) in the Eastern District of Michigan

COMMON ENTERPRISE

13. The Defendants Mazzoni & Son, Inc., EDI, Concept, Breeze Freeze, Dolele, Four Seasons, LLC, and Metro have operated together as a common enterprise while engaging in the deceptive acts and practices alleged below, through an interrelated network of companies that have common ownership, officers, managers, employees and/or business functions. Individual Defendants Mazzoni and Lepo have formulated, directed, controlled, had authority to control, or participated in the acts and practices of the Defendants that comprise the common enterprise.

COMMERCE

14. At all times relevant to this Second Amended Complaint, the Defendants have maintained a substantial course of trade in the offering for sale and actual sale of electronic medical billing software and at-home electronic medical billing business opportunities, in or affecting commerce as “commerce” is defined in Section 4 of the FTC Act, 15 U.S.C. § 44.

DEFENDANTS’ COURSE OF CONDUCT

15. Since at least 1997 and continuing thereafter, the Defendants have carried out a scheme to sell EDI’s work-at-home electronic medical billing business opportunity to consumers throughout the United States.

16. As part of the scheme, EDI mass mails letters to consumers throughout the United States, offering them the opportunity to join the “EDI Healthclaims Network.” According to the letter, consumers can work at home and earn a substantial income by electronically processing health care providers’ medical claims for insurance reimbursement.

17. Interested consumers are contacted by EDI recruiters who represent that consumers will be able to find medical billing clients for their at-home business because the majority of health care providers are processing their medical insurance reimbursement claims manually on paper, rather than electronically. Recruiters tell consumers that this situation has created opportunity in the marketplace and that, as a result of legislation, providers are required to process their medical billing claims electronically.

18. Defendants’ representation that large numbers of health care providers are in need of electronic medical claims processing is material to consumers’ decisions to purchase the EDI medical billing business opportunity.

19. EDI's recruiters tell consumers that Defendants know of health care providers in their area who are processing their medical claims manually and are in need of electronic medical claims processing. Consumers are told that EDI will assist them in finding their first medical billing client and will provide them with lead lists of providers in the area.

20. Defendants' representations that EDI will provide consumers with their first medical billing client and/or lead lists are material to consumers' decisions to purchase the EDI medical billing business opportunity.

21. Defendants represent to consumers that by becoming an EDI Healthclaims Partner they can earn a substantial income, \$1200 per month, with one client. Consumers are told that current EDI Healthclaims Partners are earning this much and even more.

22. Defendants' representation that consumers can earn substantial income, at least \$1200 per month, is material to consumers' decisions to purchase the EDI medical billing business opportunity.

23. Defendants promise consumers substantial assistance and support for their medical billing business, including comprehensive software training, review and auditing of all claims processed, ongoing marketing and technical support and software upgrades and enhancements. Consumers are shown sample marketing materials that EDI promises to provide for use in the consumers' businesses. The brochures prominently display the EDI Healthclaims Network logo and identify the consumer's business as "The EDI Healthclaims Partner in your area."

24. Defendants provide consumers with the names and telephone numbers of individuals who Defendants represent to be current EDI Licensees who have agreed to act as references and who will provide reliable descriptions of experiences with EDI.

25. In fact, some of these references are the officers and directors of the Defendants.

26. Based upon Defendants' representations, consumers sign a "Licensee Agreement" with EDI and pay EDI a "licensing fee" that has ranged from \$4985 to \$5985.

27. Defendants never provide consumers with a franchise disclosure statement, an earnings claim document or any other information substantiating their earnings claims.

28. Soon after signing the Licensee Agreement and paying the licensing fee, consumers attend a one-day training session at EDI's headquarters in Michigan. Consumers pay their own airfare and hotel costs for this training.

29. At this training, consumers learn that the representations made by Defendants to convince consumers to join EDI are false. Consumers are told that Defendants will not provide them with their first medical billing client. Consumers are told that Defendants will not provide them with lead lists of local health care providers until after the consumers already have obtained their first medical billing clients on their own. Consumers learn that, in order to find medical billing clients and make any money, they will be required to perform significant cold-calling and personal visits. Very little training is devoted to the software and no hands-on training is provided.

30. Once home, consumers find that other material representations made by Defendants were false as well. Consumers discover that it is extremely difficult, if not impossible, to obtain medical billing clients for their at-home medical billing business because the market is saturated. Consumers find that most, if not all, health care providers in their area already are processing medical claims electronically, either with their own software or through large, third party practice management groups. Those few providers who do process medical claims manually have little or no interest in entrusting their medical billing to someone who is inexperienced and unknown.

31. Even after significant effort and following EDI's recommended marketing plan, few, if any, consumers obtain medical billing clients.

32. As a result, few, if any, consumers who purchase the EDI business opportunity earn or will earn any income.

DEFENDANTS' VIOLATIONS OF SECTION 5 OF THE FTC ACT

33. Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), prohibits unfair and deceptive acts or practices in or affecting commerce.

34. Misrepresentations or omissions of material fact constitute deceptive acts or practices prohibited by Section 5(a) of the FTC Act.

35. As set forth below, Defendants have engaged and continue to engage in violations of Section 5(a) of the FTC Act in connection with the advertising, marketing and sale of a business opportunity.

COUNT I

36. Plaintiff incorporates, as if fully restated herein, the allegations contained in paragraphs 1-35 of the Second Amended Complaint.

37. In numerous instances in the course of offering for sale and selling EDI's electronic medical billing business, Defendants, directly or indirectly, represent, expressly or by implication, that they will provide assistance to consumers that will allow consumers easily to obtain medical billing clients for their at-home electronic medical billing businesses, including but not limited to, providing consumers with their first client, providing lead lists and providing information about potential clients in consumers' areas.

38. In truth and in fact, in numerous instances Defendants do not provide assistance to consumers that allows consumers easily to obtain medical billing clients for their at-home electronic medical billing businesses.

39. Therefore, Defendants' representations set forth in paragraph 37 are false and misleading and constitute deceptive acts or practices in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

COUNT II

40. Plaintiff incorporates, as if fully restated herein, the allegations contained in paragraphs 1-39 of the Second Amended Complaint.

41. In numerous instances in the course of offering for sale and selling their electronic medical billing business, Defendants, directly or indirectly, represent, expressly or by implication, that consumers who purchase Defendants' electronic medical billing business are likely to earn at least \$1200 per month.

42. In truth and in fact, consumers who purchase Defendants' electronic medical billing business are not likely to earn at least \$1200 per month.

43. Therefore, Defendants' representation set forth in paragraph 41 is false and misleading and constitutes a deceptive act or practice in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

COUNT III

44. Plaintiff incorporates, as if fully restated herein, the allegations contained in paragraphs 1-43 of the Second Amended Complaint.

45. In numerous instances, in the course of offering for sale and selling their electronic medical billing business, Defendants, directly or indirectly, represent, expressly or by implication, that certain company-selected references have purchased one of Defendants' electronic medical billing businesses or will provide reliable descriptions of their experience with one of Defendants' electronic medical billing business.

46. In truth and in fact, in numerous instances, Defendants' references have not purchased one of Defendants' electronic medical billing businesses or do not provide reliable descriptions of their experience with one of Defendants' electronic medical billing businesses.

47. Therefore, Defendants' representations as set forth in Paragraph 45 are false and misleading and constitute a deceptive act or practice in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

THE FRANCHISE RULE

48. The business opportunities sold by Defendants are franchises, as "franchise" is defined in Section 436.2(a) of the Franchise Rule, 16 C.F.R. § 436.2(a) (2006). All references herein are to the Franchise Rule as it was in effect at the times the violations herein alleged occurred and at the time the original Complaint herein was filed.

49. The Franchise Rule requires a franchisor to provide prospective franchisees with a complete and accurate basic disclosure statement containing twenty categories of information, including, but not limited to, information about the history of the franchisor, the business experience of each of its officers and directors, the terms and conditions under which a franchise operates, and information about other franchisees. 16 C.F.R. § 436.1(a)(1)-(20). The pre-sale disclosure of this information enables a prospective franchisee to contact prior purchasers and take other steps to assess potential risks involved in the purchase of the franchise.

50. The Franchise Rule additionally requires that a franchisor:

- (a) disclose, in immediate conjunction with any earnings claim it makes, and in a clear and conspicuous manner, that material which constitutes a reasonable basis for the earnings claim is available to prospective franchisees, 16 C.F.R. § 436.1(b) and (c);

- (b) provide, as prescribed by the Rule, an earnings claim document containing information that constitutes a reasonable basis for any earnings claim it makes, 16 C.F.R. § 436.1(b) and (c); and
- (c) clearly and conspicuously disclose, in immediate conjunction with any generally disseminated earnings claim, additional information including the number and percentage of prior purchasers known by the franchisor to have achieved the same or better results, 16 C.F.R. § 436.1(e).

51. Pursuant to Section 18(d)(3) of the FTC Act, 15 U.S.C. § 57a(d)(3), and 16 C.F.R. § 436.1, violations of the Franchise Rule constitute unfair or deceptive acts or practices in or affecting commerce, in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

VIOLATIONS OF THE FRANCHISE RULE

COUNT IV

52. Plaintiff incorporates, as if fully restated herein, the allegations contained in paragraphs 1-51 of the Second Amended Complaint.

53. In numerous instances in connection with the offering of franchises, Defendants have failed to provide prospective franchisees with accurate and complete franchise disclosure statements in the manner and within the time frame required by the Franchise Rule, thereby violating Section 436.1(a) of the Franchise Rule, 16 C.F.R. § 436.1(a), and Section 5 of the FTC Act, 15 U.S.C. § 45.

COUNT V

54. Plaintiff incorporates, as if fully restated herein, the allegations contained in paragraphs 1-53 of the Second Amended Complaint.

55. In numerous instances, in connection with the offering of franchises, Defendants have made earnings claims within the meaning of the Franchise Rule but have failed to offer or provide

prospective franchisees the earnings claims documents required by the Franchise Rule and have failed to disclose the information required by the Franchise Rule in immediate conjunction with any generally disseminated claims, in violation of Section 436.1(b), (c) and (e) of the Franchise Rule, 16 C.F.R. § 436.1(b), (c) and (e), and Section 5 of the FTC Act, 15 U.S.C. § 45.

CONSUMER INJURY

56. Consumers nationwide have suffered or will suffer substantial monetary loss as a result of the Defendants' violations of Section 5(a) of the FTC Act and the Franchise Rule. In addition, Defendants have been unjustly enriched as a result of their unlawful acts and practices. Absent injunctive relief by this Court, the Defendants are likely to continue to injure consumers, reap unjust enrichment and harm the public interest.

THE COURT'S POWER TO GRANT INJUNCTIVE RELIEF

57. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), empowers this Court to grant injunctive and other relief that the Court may deem appropriate to halt and redress violations of the FTC Act and the Franchise Rule. The Court, in the exercise of its equitable jurisdiction, may award other ancillary relief, including but not limited to, rescission of contracts, restitution and the disgorgement of ill-gotten gains, to prevent and remedy injury caused by Defendants' law violations.

58. Section 19 of the FTC Act, 15 U.S.C. § 57b, empowers this Court to grant such relief as the Court finds necessary to redress injury to consumers or other persons resulting from Defendants' violations of the Franchise Rule.

PRAYER FOR RELIEF

WHEREFORE, the Plaintiff, pursuant to Sections 13(b) and 19 of the FTC Act, 15 U.S.C. §§ 53(b) and 57b, and the Court's equitable powers, requests that this Court:

1. Award Plaintiff the preliminary and ancillary relief that is necessary to avert the likelihood of consumer injury during the pendency of this action and to preserve the possibility of effective final relief, including, but not limited to temporary and preliminary injunctions, including an order freezing each Defendant's assets, and the appointment of an equity receiver;

2. Permanently enjoin Defendants from violating Section 5(a) of the FTC Act and the Franchise Rule as alleged herein, including committing those violations in connection with the advertising, offering for sale or other promotion of medical billing businesses;

3. Award such relief as the Court finds necessary to redress injury to consumers resulting from Defendants' violations of Section 5(a) of the FTC Act and the Franchise Rule, including, but not limited to, rescission of contracts, restitution and the disgorgement of ill-gotten gains by the Defendants; and

4. Award Plaintiff the cost of bringing this action, and such other equitable relief as the Court may determine to be just and proper.

Dated: February 25, 2008

Respectfully submitted,

WILLIAM BLUMENTHAL
General Counsel

/s/ Michael Milgrom

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CERTIFICATE OF SERVICE

I hereby certify that on February 25, 2008, I filed the Second Amended Complaint electronically using the ECF system which will send notice to all counsel of record.

There are no counsel who will not receive notice via ECF.

/s/ Michael Milgrom
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