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FEDERAL TRADE COMMISSION

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

FEDERAL TRADE COMMISSION,

Plaintiff,

vs.

AH MEDIA GROUP, LLC, a Delaware Limited
Liability Company,

HENRY BLOCK, individually, and as an officer
of AH MEDIA GROUP, LLC,

ALAN SCHILL, individually, and as an owner
and officer of AH MEDIA GROUP, LLC and
ZANELO, LLC,

and

ZANELO, LLC, a Puerto Rico Limited Liability
Company,

Defendants.

Case No. 19-cv-04022-JD

**FIRST AMENDED COMPLAINT
FOR PERMANENT INJUNCTION
AND OTHER EQUITABLE
RELIEF**

1 Plaintiff, the Federal Trade Commission (“FTC”), for its Complaint alleges:

2 1. The FTC brings this action under Sections 13(b) and 19 of the Federal Trade
3 Commission Act (“FTC Act”), 15 U.S.C. §§ 53(b) and 57b, Section 5 of the Restore Online
4 Shoppers’ Confidence Act (“ROSCA”), 15 U.S.C. § 8404, and Section 918(c) of the Electronic
5 Fund Transfer Act (“EFTA”), 15 U.S.C. § 1693o(c), to obtain preliminary and permanent
6 injunctive relief, rescission or reformation of contracts, restitution, the refund of monies paid,
7 disgorgement of ill-gotten monies, and other equitable relief for Defendants’ acts or practices in
8 violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), Section 4 of ROSCA, 15 U.S.C.
9 § 8403, Section 907(a) of EFTA, 15 U.S.C. § 1693e(a), and Section 1005.10(b) of Regulation E,
10 12 C.F.R. § 1005.10(b).

11 **JURISDICTION, VENUE, AND INTRADISTRICT ASSIGNMENT**

12 2. This Court has subject matter jurisdiction pursuant to 28 U.S.C. §§ 1331, 1337(a),
13 and 1345.

14 3. Venue is proper in this District under 28 U.S.C. §§ 1391(b)(2), (c)(2), and (d), and
15 15 U.S.C. §§ 53(b) and 57b.

16 4. Assignment to the San Francisco Division is proper because Defendants have
17 advertised and sold their products in San Francisco County to numerous consumers who reside in
18 the county.

19 **PLAINTIFF**

20 5. The FTC is an independent agency of the United States Government created by
21 statute. 15 U.S.C. §§ 41-58. The FTC enforces Section 5(a) of the FTC Act, 15 U.S.C. § 45(a),
22 which prohibits unfair or deceptive acts or practices in or affecting commerce. The FTC also
23 enforces ROSCA, 15 U.S.C. §§ 8401-8405, which prohibits merchants from selling goods or
24 services on the Internet through negative option marketing without meeting certain requirements
25 to protect consumers. A negative option is an offer in which the seller treats a consumer’s
26 silence as consent to be charged for goods or services. Additionally, the FTC enforces EFTA, 15
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1 U.S.C. § 1693-1693r, which regulates the rights, liabilities, and responsibilities of participants in
2 electronic fund transfer systems.

3 6. The FTC is authorized to initiate federal district court proceedings by its own
4 attorneys, to enjoin violations of the FTC Act, ROSCA, and EFTA, and to secure such equitable
5 relief as may be appropriate in each case, including rescission or reformation of contracts,
6 restitution, the refund of monies paid, and the disgorgement of ill-gotten monies. 15 U.S.C.
7 §§ 53(b), 57b, 8404 and 1693o(c).

8 DEFENDANTS

9 7. Defendant **AH Media Group, LLC** (“AH Media”) is a Delaware limited liability
10 company that has held itself out as doing business at 5455 Landmark Place, #809, Greenwood
11 Village, Colorado 80111. At all times material to this Complaint, acting alone or in concert with
12 others, AH Media has advertised, marketed, distributed, or sold personal care products and
13 dietary supplements to consumers throughout the United States. AH Media transacts or has
14 transacted business in this District, including by advertising and selling products to consumers in
15 this District, and throughout the United States.

16 8. Defendant **Zanelo, LLC** (“Zanelo”) is a Puerto Rico limited liability company
17 that has held itself out as doing business at 7 Calle Manuel Rodriguez Sierra, Apartment 6, San
18 Juan, Puerto Rico 00907. At times material to this Complaint, acting alone or in concert with
19 others, Zanelo has advertised, marketed, distributed, or sold personal care products and dietary
20 supplements to consumers throughout the United States. Zanelo transacts or has transacted
21 business in this District, including by advertising and selling products to consumers in this
22 District, and throughout the United States. Zanelo also has received substantial funds from AH
23 Media.

24 9. Defendant **Henry Block** (“Block”) is the Manager of and Registered Agent for
25 AH Media, as well as the authorized signer on AH Media’s bank account. Block is also the
26 Managing Member of H Block Investments, LLC (“HBI”), a Colorado limited liability company
27 which is a Member of and holds a 50% ownership interest in AH Media. Block signed AH
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1 Media's Operating Agreement on behalf of HBI and is also the authorized signer for HBI's bank
2 account.

3 10. At all times material to this Complaint, acting alone or in concert with others,
4 Block has formulated, directed, controlled, had the authority to control, or participated in the acts
5 and practices of AH Media, including the acts and practices set forth in this Complaint. Among
6 other things, Block has had the authority to control the advertising, marketing, promotion,
7 offering for sale, or sale of AH Media's products, including the registering of websites; the
8 processing of consumers' payments; and the handling of consumer complaints. Block also has
9 recruited individuals to act as straw owners for shell companies to process payments for Zanelo,
10 and maintained a Zanelo corporate email address. In connection with the matters alleged herein,
11 Block transacts or has transacted business in this District, including by advertising and selling
12 products to consumers in this District, and throughout the United States.

13 11. Defendant **Alan Schill** ("Schill") is one of two signatories on AH Media's
14 Operating Agreement. Schill signed the agreement on behalf of XI Family, LP ("XI Family"), a
15 Delaware Limited Partnership, which is a Member of and holds a 50% ownership interest in AH
16 Media. Schill is the Managing Member of XI Management, LLC, a Delaware limited liability
17 company, which is the General Partner of XI Family. Schill is the sole owner of Zanelo.

18 12. At all times material to this Complaint, acting alone or in concert with others,
19 Schill has formulated, directed, controlled, had the authority to control, or participated in the acts
20 and practices of AH Media, including the acts and practices set forth in this Complaint. Among
21 other things, Schill has had the authority to control AH Media through XI Family's 50%
22 ownership stake, and has participated directly in Defendants' responses to consumer complaints.
23 Schill also has formulated, directed, controlled, had the authority to control, or participated in the
24 acts and practices of Zanelo. As sole owner of Zanelo, Schill has had the authority to control the
25 advertising, marketing, promotion, offering for sale, or sale of Zanelo's products, and he has
26 participated in an array of Zanelo's practices, including branding, recruiting shell owners, and
27 payment processing. In connection with the matters alleged herein, Schill transacts or has
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1 transacted business in this District, including by advertising and selling products to consumers in
2 this District, and throughout the United States.

3 COMMERCE

4 13. At all times material to this Complaint, Defendants have maintained a substantial
5 course of trade in or affecting commerce, as “commerce” is defined in Section 4 of the FTC Act,
6 15 U.S.C. § 44.

7 DEFENDANTS’ DECEPTIVE BUSINESS PRACTICES

8 14. Since at least April 2016 and through the present, Defendants have operated an
9 online subscription scam, involving online marketing and sales of at least eight different product
10 lines. Defendants sell mainly personal care products and dietary supplements, including
11 Amabella Allure, Adelina, Parisian Glow, and Tone Fire Garcinia, which allegedly promote
12 youthful skin and weight loss. Defendants offer low-cost “trials” of their products for just the
13 cost of shipping and handling, typically \$4.99 or less. When consumers order these trial
14 products, however, Defendants enroll consumers into a continuity plan without their knowledge
15 or consent. After an initial two-week trial period, Defendants automatically charge consumers
16 the full price for the product—approximately \$90. Defendants continue to charge consumers the
17 product’s full price, plus an additional shipping and handling fee, each month until consumers
18 cancel their continuity plan. Additionally, Defendants frequently charge consumers for
19 additional products and enroll consumers in continuity programs related to these additional
20 products, all without consumers’ knowledge or consent. As a result of their deceptive, unfair,
21 and unlawful conduct, Defendants have taken more than \$59 million from consumers across the
22 United States.

23 15. Defendants have furthered their scheme by using a network of shell companies
24 and straw owners to process consumer payments. Defendants formed, or caused to be formed,
25 over 90 limited liability companies between April 2016 and the present (“the Associated LLCs”).
26 Defendants process payments through the Associated LLCs, hiding behind purportedly
27 independent entities to circumvent credit card associations’ monitoring programs, avoid
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1 detection by consumers and law enforcement, and contest consumer disputes using fraudulent
2 documentation.

3 16. Most of the scheme's business activities have been conducted through AH Media
4 or Zanelo. Block directs much of the day-to-day work of AH Media, including working with the
5 product fulfillment center, coordinating domain registration for Defendants' websites, and
6 serving as the bank account signatory for AH Media and the Associated LLCs. Block controls
7 AH Media through HBI, which is an owner of AH Media. Block has received millions of dollars
8 funds from the scheme described herein through HBI.

9 17. Schill is involved in the regular affairs of the business (e.g., receiving consumer
10 complaints, maintaining an AH Media Group email account). Schill controls AH Media through
11 XI Management and XI Family, the latter of which is also an owner of AH Media. Schill has
12 received more than \$3 million from AH Media, including over a million dollars transferred from
13 AH Media to Zanelo.

14 18. In early to mid-2019, Defendants began winding down AH Media—although it
15 continued to collect payments from consumer victims—and transitioned the scheme to Zanelo.

16 19. Block continued to be involved in the regular affairs of the business, continuing to
17 receive payments through AH Media and recruiting individuals to act as straw owners of shell
18 companies created to process payments for Zanelo.

19 20. Schill has been the exclusive owner and Authorized Person for Zanelo, and is the
20 sole signatory on the company's bank account. Schill also has been heavily involved in the day-
21 to-day operation of Zanelo, including the recruitment of shell owners and opening merchant
22 accounts.

23 **Defendants' Deceptive Trial Offers**

24 21. Defendants engage third-party affiliate marketers to advertise Defendants'
25 products online. The affiliate marketers do so through various internet marketing and social
26 media channels. These advertisements often state that consumers can receive a "trial" of one of
27 Defendants' products for just the cost of shipping and handling. Some of these advertisements
28 also falsely state that a celebrity has endorsed the product.

1 26. Defendants request that consumers who are interested in the trial offer provide
2 their name and contact information. After consumers do so, Defendants direct consumers to a
3 payment page, as described below.

4 27. Defendants' landing pages do not include clear or conspicuous disclosures
5 explaining the terms of the trial offer. The landing pages do not include any visible statements
6 about the terms and conditions of the trial offer, such as (1) that Defendants will charge
7 consumers the full cost of the product if they do not cancel the trial offer within a short period of
8 time; (2) the cost of the product; (3) that Defendants will enroll consumers automatically in a
9 continuity plan, pursuant to which Defendants will send them additional products each month
10 and will charge them accordingly until they successfully cancel the continuity plan; or (4) that
11 the trial offer includes restrictive cancellation and refund policies.

12 28. On some of Defendants' websites, at the very bottom on the landing page, there is
13 a small link leading to the terms and conditions. In sharp contrast to the prominent and vibrantly
14 colored statements concerning the trial offer, the terms and conditions link appears in small, grey
15 font. To find the terms and conditions link, consumers would have to scroll down several page
16 lengths, to the very bottom of the landing page. Only by clicking on the link may consumers
17 view information (buried under other details and requiring the consumer to scroll down)
18 regarding their enrollment in a continuity plan with recurring monthly charges.

19 29. For example, Figure 1 shows Defendants' Adelina Skin Cream landing page. On
20 this page, a bright green button stating "RUSH MY TRIAL" urges consumers to provide their
21 contact information and request a trial of Defendants' product.

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Figure 1 (portion of a landing page for Adelina Skin Cream).

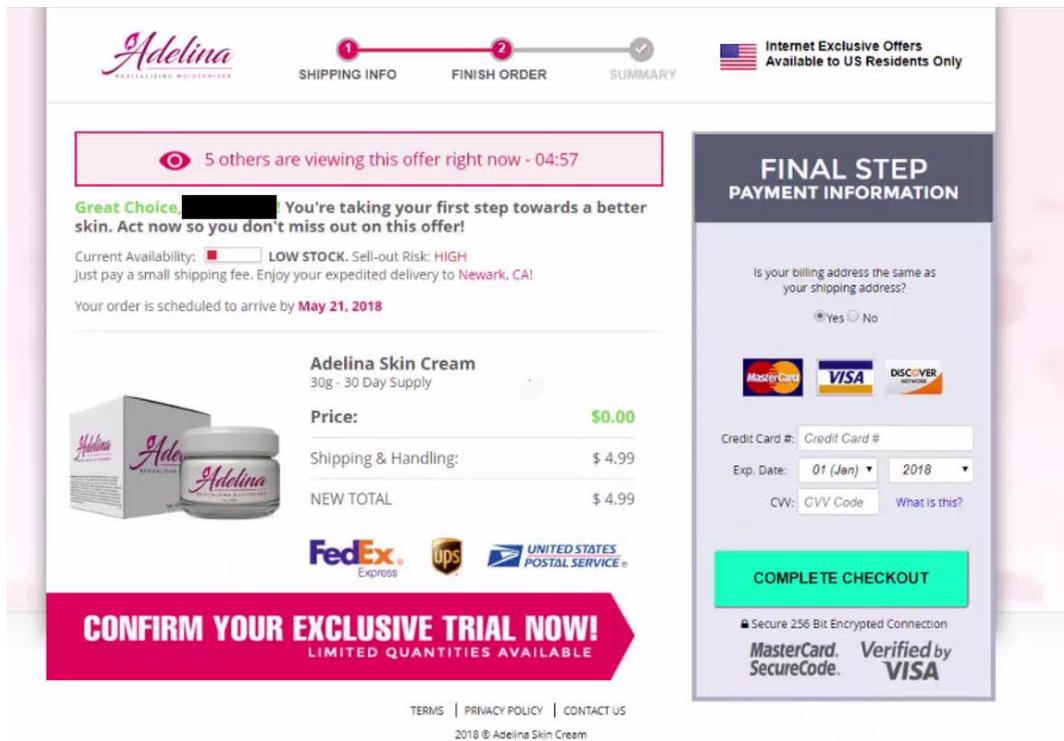
Defendants' Payment Pages

30. On the payment pages of their websites, Defendants request consumers' credit or debit card information and state that consumers need to pay only a shipping and handling fee, generally \$4.99 or less, to receive a trial of Defendants' product.

31. The payment pages prominently state that the total cost of the product is equal to the cost of the shipping and handling fee. Thus, the payment pages reiterate the message from Defendants' landing pages that, other than the obligation to pay shipping and handling, the trial product is free.

32. Defendants' payment pages routinely lack any visible statements regarding the terms of the trial offer. Consumers usually can learn about the short trial period, the fact that they will be charged the full cost of the product at the end of the trial period, and that ordering the trial will enroll them in a continuity plan, only by clicking a small terms and conditions link (and then combing through dense text).

1 33. For example, as shown in Figure 2, Defendants' payment page for Adelina Skin
2 Cream states, "Just pay a small shipping fee," and lists the "NEW TOTAL" as \$4.99, equivalent
3 to the cost of the shipping and handling fee. The "Terms" link is in small print toward the
4 bottom of the webpage, away from the bright green "COMPLETE CHECKOUT" button, and
5 overshadowed by brighter, larger text and graphics on the page.

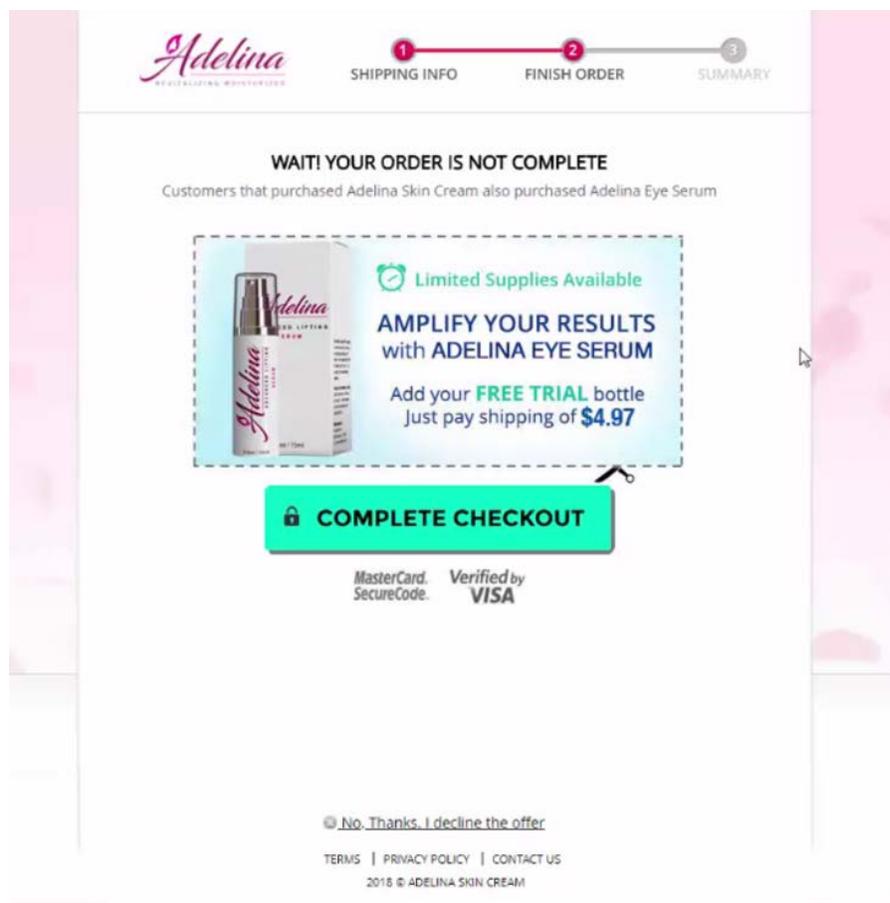


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19 **Figure 2** (excerpt of payment page for Adelina Skin Cream).

20 Defendants' Order Completion Pages

21 34. After consumers enter their credit or debit card information and submit their
22 requests for trials of Defendants' products, and before they reach the final order summary page,
23 Defendants often direct consumers to webpages that invite them to sign up for additional trial
24 offers, allegedly for related products.

1 35. For example, consumers who click “COMPLETE CHECKOUT” on the payment
 2 page for Defendants’ Adelina Skin Cream (see Figure 2 above) are taken to an order completion
 3 page, reproduced as Figure 3 below. The order completion page displays an Adelina banner at
 4 the top. The page states in large, bold text “WAIT! YOUR ORDER IS NOT COMPLETE.”
 5 The page then offers a “FREE TRIAL” of the product Adelina Eye Serum, which will
 6 purportedly “amplify your results.” To get the “FREE TRIAL” of the eye serum, the text clearly
 7 states, “Just pay shipping of \$4.97.” This page does not state that there is any additional cost
 8 associated with the eye serum or any additional terms or conditions of the eye serum trial offer.



24 **Figure 3** (excerpt of order completion page for Adelina Eye Serum).

25 36. As noted in Figure 3, Defendants’ webpage indicates that consumers have not
 26 completed their order of the initial product until they click the bright, prominent “COMPLETE
 27 CHECKOUT” button, located under the advertisement for the second product. This webpage
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1 does not state that, by clicking “COMPLETE CHECKOUT,” Defendants will add another item
2 to the consumers’ orders. However, when consumers do click the “COMPLETE CHECKOUT”
3 button, Defendants enroll the consumers in an additional continuity plan for the second product.

4 37. In contrast to the prominent “COMPLETE CHECKOUT” buttons, the websites’
5 order completion pages also contain a small link at the bottom that, if clicked, allows consumers
6 to complete their transaction without agreeing to another trial offer.

7 38. For example, Figure 3 includes a small, gray link that says “No, Thanks. I decline
8 the offer.” This link appears well below the bright green “COMPLETE CHECKOUT” button
9 and does not specify whether, by clicking the link, the consumer is declining the initial trial offer
10 or the trial offer for the second product.

11 39. As with the initial trial offer, the order completion pages also fail to disclose
12 important terms and conditions of the offer. Defendants represent that the additional product is
13 free with payment of only a small shipping fee. However, in fact, Defendants charge consumers
14 the full price of the additional product approximately 14 days after they request the trial product.
15 Defendants also enroll consumers who click the “COMPLETE CHECKOUT” button in an
16 additional continuity plan for the additional product, meaning that Defendants will charge
17 consumers monthly for the full price of both the original product and the additional product until
18 consumers cancel the continuity plan. Consumers can see statements about the terms and
19 conditions of the trial offer only by clicking the small terms and conditions link at the bottom of
20 the page.

21 40. Regardless of whether consumers click on the “COMPLETE CHECKOUT”
22 button or click on the link to decline the additional trial offer, Defendants often redirect them to
23 another page with additional offers. Consumers must decline those offers as well to move to the
24 final order summary page described below.

25 Defendants’ Order Summary Pages

26 41. After navigating through one or more order completion pages, consumers finally
27 arrive at an order summary page on Defendants’ websites. The order summary pages
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1 prominently list the products ordered and give a total cost reflecting only the cost of the shipping
2 and handling fee. Some order pages contain a small statement toward the bottom of the
3 webpage, which describes some terms regarding the order. Some order pages contain no such
4 statement at all.

5 42. For example, in Defendants' order summary page for Adelina, reproduced as
6 Figure 4 below, the page lists the "Items Ordered." Under the "Items Ordered" heading,
7 Defendants provide a cost breakdown and "Grand Total" showing only the shipping and
8 handling fee. The page also restates the consumer's billing and shipping information. Under
9 these details, and below the page break on the computer screen, there is a statement in light grey
10 font, which provides some limited information about the continuity plan, the product price, and
11 terms for cancellation. The statement is significantly smaller and lighter than other text on the
12 page. Given the small font size and light-colored text used in Defendants' statement, it is largely
13 unreadable; for this reason, Figure 4 includes an added red callout box that enlarges the text of
14 the statement. Consumers visiting this website would not have the benefit of the callout box.

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Adelina
REAL SKINCARE WORKS

1 SHIPPING INFO 2 FINISH ORDER 3 SUMMARY

THANK YOU FOR YOUR PURCHASE
We hope you enjoy the benefits of Adelina Skin Cream
Your order is scheduled to arrive by **May 21, 2018**

Items Ordered

Product	Price	Qty.	Amount
Adelina Skin Cream	\$0.00	1	\$0.00
			Sub Total: \$0.00
			S & H: \$4.99
			Grand Total: \$4.99

Billing Information

Shipping Information

*A confirmation email has been sent to [redacted]
Magazine Customer Support. (888) 582-5130

By submitting, you consent to having read and agreed to our Terms & Conditions and after your 14 day trial period has expired, being enrolled in our membership program is \$89.92 plus shipping per month. You can cancel any time by calling 877-202-7581

TERMS | PRIVACY POLICY | CONTACT US
2018 © Adelina Skin Cream

19 **Figure 4** (excerpt of order summary page for Adelina Skin Cream; red graphics and callout box
20 added to highlight and make more prominent the text of the statement).

21 43. These statements displayed on Defendants' order summary pages, when they are
22 present, are neither clear nor conspicuous, and are provided only after consumers have already
23 completed the order for the trial product and therefore have already been enrolled in one or more
24 continuity plans.

25 44. After consumers request a trial of Defendants' products, Defendants often fail to
26 send any confirmation email whatsoever. When Defendants do send consumers a confirmation
27 email, it lists only the shipping and handling fee as the "Grand Total" of the order. The
28 confirmation emails do not provide information about the continuity plan, additional payments,

1 or cancellation procedures. The confirmation emails thus reinforce the false impression from the
2 websites that, other than the obligation to pay the shipping and handling fee, the trial product is
3 free.

4 45. Consumers often learn that the trial is not free and that they have been enrolled in
5 a continuity plan only when they see Defendants' monthly charges on their credit card or bank
6 statements or receive unexpected products.

7 **Defendants' Restrictive Cancellation and Refund Practices**

8 46. After consumers discover that Defendants are charging them on a monthly basis
9 for one or more of Defendants' products, many attempt to cancel their enrollment in the
10 continuity plan and to obtain a refund of Defendants' unauthorized charges.

11 47. Defendants require that consumers call a customer service phone number to
12 cancel their enrollment. Consumers cannot cancel their continuity plan enrollment online. Some
13 consumers have difficulty locating a working phone number to reach a customer service
14 representative. Consumers who call Defendants' customer service phone number often have
15 difficulty reaching Defendants' customer service representatives, despite calling numerous times.
16 In some instances, consumers have been left on hold with customer service for long periods.
17 Even after consumers request that Defendants cancel their enrollment, some consumers report
18 that Defendants have continued charging them for monthly product shipments.

19 48. Many consumers who manage to reach a customer service representative also
20 encounter a range of difficulties in obtaining refunds from Defendants for the unauthorized
21 charges. Defendants, or their agents, refuse some consumers refunds because the requests were
22 untimely: customer service representatives tell consumers that the products' terms and conditions
23 require refund requests to be made within 30 days of ordering. When this purported refund
24 period has not lapsed, Defendants' customer service representatives tell some consumers that
25 they can receive a refund only if the trial product is returned unopened and at the consumer's
26 expense. Defendants still refuse refunds to some consumers who attempt to return products by
27 claiming that the company never received the products.

1 49. In many instances, consumers attempt to get their money back by initiating
2 chargebacks with their credit card companies. As described below, Defendants use fraudulent
3 versions of their websites to dispute consumers' chargeback requests.

4 50. In other instances, consumers receive refunds directly from Defendants only after
5 consumers complain to the Better Business Bureau or a state regulatory agency. Even in those
6 instances, however, Defendants have not always issued full refunds.

7 **Defendants Further the Fraud Through Shell Companies With Fake Websites, Which**
8 **Defendants Use to Launder Credit Card Payments and Contest Chargebacks**

9 Background on Merchant Accounts and Credit Card Laundering

10 51. To accept credit card payments from consumers, a merchant must establish a
11 merchant account with a merchant acquiring bank ("acquirer"). A merchant account is a type of
12 account that allows businesses to process consumer purchases made using credit or debit cards.

13 52. Acquirers enter into contracts with payment processors, which manage the bank's
14 merchant processing program. Payment processors in turn frequently enter contracts with
15 multiple "independent sales organizations" ("ISOs") that sign up merchants for merchant
16 accounts with the acquirer.

17 53. The acquirer has access to the credit card associations ("card networks"), such as
18 MasterCard and VISA. The card networks require all participants in their networks, including
19 the acquirers and their registered ISOs, to comply with detailed rules governing the use of the
20 card networks. These rules include screening processes and underwriting standards for
21 merchants, to ensure that they are legitimate, bona fide businesses, and to screen out merchants
22 engaged in potentially fraudulent or illegal practices. The rules also prohibit credit card
23 laundering, which is the practice of processing credit card transactions through another
24 company's merchant account.

25 54. To detect and prevent illegal, fraudulent, or unauthorized merchant activity, the
26 card networks operate various chargeback monitoring and fraud monitoring programs. A
27 "chargeback" is when a consumer disputes a credit card charge by contacting the bank that
28 issued the credit or debit card; when a chargeback is successful, the consumer recovers the

1 disputed funds from the acquirer, which in turn collects the amount from the merchant. If a
2 merchant generates excessive levels of chargebacks that exceed the thresholds set under a card
3 network's chargeback monitoring program, the merchant is subject to additional monitoring
4 requirements and, in some cases, penalties and termination.

5 55. Credit card laundering is commonly used by fraudulent merchants who cannot
6 meet a bank's underwriting criteria or who cannot obtain merchant accounts under their own
7 names (whether because of excessive chargebacks, complaints, or other signs of illegal activity).

8 56. Even when fraudulent merchants can qualify for a merchant account, they may
9 engage in laundering as a way to conceal their true identities from consumers, the card networks,
10 and law enforcement agencies.

11 57. To conceal their identities, fraudulent merchants often create shell companies to
12 act as fronts, and apply for merchant accounts under these shell companies. Once the merchant
13 accounts are approved, the fraudulent merchant then launders its own transactions through the
14 shell company's merchant accounts.

15 58. Using multiple merchant accounts allows fraudulent merchants to go undetected
16 and maintain continued access to the card networks. The fraudulent merchant may use each
17 merchant account for only a short period in order to go unnoticed. With multiple merchant
18 accounts, the fraudulent merchant can also manage chargeback rates: when one merchant
19 account receives too many chargebacks, the fraudulent merchant can switch to a new merchant
20 account. Using multiple merchant accounts also may allow the merchant to maintain continued
21 access to the card networks in the event any of the merchant's accounts are terminated.

22 Defendants Launder Transactions Through Dozens of Shell Companies

23 59. As noted above, Defendants created, or caused to be created, over 90 Associated
24 LLCs that acted as shell companies for AH Media or Zanelo. The Associated LLCs include
25 those listed in **Exhibit B** to this Complaint. Defendants further their fraud through the
26 Associated LLCs in two main ways.

1 60. First, Defendants use the Associated LLCs to engage in credit card laundering.
2 Defendants obtain merchant accounts through the shell companies, hiding behind these entities
3 to evade underwriting standards that target fraudulent and high-risk businesses. Defendants use
4 the shell companies' merchant accounts to process, or launder, consumer payments made
5 through Defendants' websites.

6 61. The purported directors of the Associated LLCs are all straw owners, some of
7 whom appear to be relatives or friends of Block or Schill. The straw owners are listed on the
8 corporate documents and are held out as signatories in merchant account applications, but do not
9 otherwise appear to engage in any business functions on behalf of the Associated LLCs.

10 62. The Associated LLCs do not appear to have any employees or to conduct any
11 business other than debiting consumers' credit cards and financial accounts.

12 63. Defendants appear to have sole control over many of the Associated LLCs. Block
13 has directly controlled the business bank accounts of Associated LLCs that processed payments
14 for AH Media.

15 64. With respect to the Associated LLCs that processed payments for Zanelo,
16 Defendants had the straw LLC owners open bank accounts, and then provide the login
17 credentials for online banking to Zanelo so that Zanelo could control and manage the accounts.

18 65. Defendants applied for numerous merchant accounts in the name of shell
19 companies, through which they launder charges to consumers' credit or debit cards. From April
20 2016 to the present, Defendants, directly or through agents acting on their behalf and for their
21 benefit, submitted over a hundred deceptive merchant applications in the name of numerous shell
22 companies to ISOs.

23 66. Multiple ISOs approved the merchant account applications, set up merchant
24 accounts for the Associated LLCs, and began processing payments through acquiring banks.

25 67. From April 2016 to the present, the Defendants have used merchant accounts in
26 the name of certain Associated LLCs to process consumers' payments for purported skin care
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1 and weight loss products under brand names such as Amabella Allure, Adelina, AmbroSina,
2 Parisian Glow, TrimOrganix Garcinia, and Tone Fire Garcinia.

3 68. When payments for Defendants' products are processed through the merchant
4 accounts that Defendants secured in the names of the Associated LLCs, the sales revenues are
5 automatically transferred into the corresponding Associated LLCs' bank accounts. From there,
6 the Associated LLCs transfer consumers' money, directly or through intermediary accounts, into
7 one of two centralized accounts held by AH Media at First National Bank (the "AH Media FNB
8 Account") and Zanelo at Banco Popular. The AH Media FNB Account has paid expenses for
9 Defendants' operation and also distributes funds to HBI, Schill, and Zanelo.

10 69. Even though Defendants spread their transactions across multiple accounts to help
11 manage chargeback levels, a number of merchant accounts held in the name of the Associated
12 LLCs were closed due to excessive chargeback levels.

13 Defendants Use Dummy Websites to

14 Obtain Merchant Accounts and Dispute Chargeback Requests

15 70. Defendants also further their fraud by using the Associated LLCs to establish
16 "dummy" websites that they use in contesting chargebacks.

17 71. Underwriters for payment processors and banks (who decide whether a processor
18 or bank should open an account for a merchant) may look at a merchant account applicant's
19 websites to learn about the applicant, including whether the applicant's business practices might
20 expose the processor to risk.

21 72. To evade this scrutiny, Defendants create dummy underwriting websites to show
22 payment processors when they seek new merchant accounts. Defendants' dummy websites
23 differ significantly from the websites that actually generate Defendants' sales.

24 73. Defendants' dummy websites have more prominent disclosures about the terms of
25 the trial offers, including information about the continuity plan and how to avoid incurring
26 further charges. These dummy websites explain, in text directly below the contact information
27 fields, that consumers have the option to cancel within a short period at no cost, or to be charged
28

1 the full price of the trial product and enrolled in a monthly subscription program with monthly
 2 charges. The landing pages for the dummy websites also include a box for consumers to check
 3 stating that they had agreed to the terms of the offer.

4 74. For example, Figure 5 is a reproduction of the dummy website landing page that
 5 associated shell company Peeps Investments LLC submitted in support of a merchant account
 6 application.

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23 **Figure 5** (excerpt of landing page for Peeps Eye Serum submitted in merchant application).

24 75. Defendants do not appear to use these dummy websites to sell products. Unlike
 25 Defendants' consumer-facing websites (where Defendants actually sell products to consumers),
 26 the dummy sites do not have the security protocol typically used by merchants to accept
 27 payments through websites. Moreover, it appears that Defendants do not sell the products
 28 identified on the dummy sites.

1 76. As described above in Paragraphs 24 through 45, Defendants process their actual
2 sales from consumer-facing websites, which lack clear and conspicuous disclosures about the
3 trial offers. In sharp contrast to the dummy websites, the consumer-facing websites that
4 Defendants use to sell their products fail to make any statements directly under the contact
5 information fields. Instead, Defendants bury information about the continuity plans on the
6 consumer-facing websites in small terms and conditions links, and in statements displayed in
7 small font size and light-colored text that appear only after a consumer orders a product. In
8 addition, Defendants' consumer-facing websites do not have a checkbox that consumers click on
9 to agree to the terms of the order.

10 77. Defendants use the dummy websites to fraudulently challenge consumers'
11 chargeback requests. When consumers dispute Defendants' charges, Defendants submit copies
12 of their dummy websites to consumers' credit card companies. In some instances, Defendants
13 provide the credit card companies with copies of the dummy websites that include annotations.
14 As demonstrated in one such annotated copy, reproduced below as Figure 6, these annotations
15 include callouts to, and comments about, the disclosures on the dummy website as reasons
16 consumers should not receive a chargeback.



Figure 6 (excerpt of Defendants' submission to a credit card company to dispute a chargeback).

78. Credit card companies sometimes relied on Defendants' fraudulent submission of dummy website images as a reason to refuse consumers' requests for chargebacks.

79. Based on the facts and violations of law alleged in this Complaint, the FTC has reason to believe that Defendants are violating or are about to violate laws enforced by the Commission.

VIOLATIONS OF THE FTC ACT

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

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

1 unable to prevent them. Defendants often refused to refund consumers the full amount of the
2 unauthorized charges.

3 93. Defendants' actions cause or are likely to cause substantial injury to consumers
4 that consumers cannot reasonably avoid themselves and that is not outweighed by countervailing
5 benefits to consumers or competition.

6 94. Therefore, Defendants' acts or practices as described in Paragraph 92 constitute
7 unfair acts or practices in violation of Section 5 of the FTC Act, 15 U.S.C. § 45(a), (n).

8 **Count V**

9 **Unfairly Injuring Consumers by Engaging in Credit Card Laundering**

10 95. In numerous instances, in connection with submitting applications to open
11 merchant accounts to further Defendants' online subscription scam, Defendants have engaged in
12 credit card laundering by:

- 13 a) Falsely representing, directly or through agents acting on their behalf and for
14 their benefit, that the shell companies listed as the applicants on the merchant
15 applications were the actual merchants who were applying for merchant
16 accounts; or
17 b) Falsely representing, directly or through agents acting on their behalf and for
18 their benefit, that the individual signors listed as the principal owners on the
19 merchant applications were the bona fide principal owners applying for
20 merchant accounts.

21 96. The Defendants' actions cause or are likely to cause substantial injury to
22 consumers that was not reasonably avoidable by consumers themselves and that is not
23 outweighed by countervailing benefits to consumers or competition.

24 97. Therefore, Defendants' acts or practices as described in Paragraph 95 constitute
25 unfair acts or practices in violation of Section 5 of the FTC Act, 15 U.S.C. § 45(a), (n).

1 **Count VI**

2 **Unfairly Injuring Consumers by Submitting Fraudulent Chargeback Documentation**

3 98. In numerous instances, in connection with responding to consumer chargeback
4 requests, Defendants have submitted fraudulent documentation. To dispute consumer
5 chargeback requests, Defendants provided credit card companies with copies of websites, which
6 were not in fact the actual websites from which the consumer completed the transaction in
7 dispute.

8 99. Due to Defendants' actions, some consumers were unable to obtain a refund of
9 the cost of the disputed transaction. Defendants' actions cause or are likely to cause substantial
10 injury to consumers that consumers cannot reasonably avoid themselves and that is not
11 outweighed by countervailing benefits to consumers or competition.

12 100. Therefore, Defendants' acts or practices as described in Paragraph 98 constitute
13 unfair acts or practices in violation of Section 5 of the FTC Act, 15 U.S.C. § 45(a), (n).

14 **VIOLATIONS OF THE RESTORE ONLINE SHOPPERS' CONFIDENCE ACT**

15 101. In 2010, Congress passed the Restore Online Shoppers' Confidence Act, 15
16 U.S.C. §§ 8401-8405, which became effective on December 29, 2010. Congress passed ROSCA
17 because "[c]onsumer confidence is essential to the growth of online commerce. To continue its
18 development as a marketplace, the Internet must provide consumers with clear, accurate
19 information and give sellers an opportunity to fairly compete with one another for consumers'
20 business." 15 U.S.C. § 8401(2).

21 102. Section 4 of ROSCA, 15 U.S.C. § 8403, generally prohibits charging consumers
22 for goods or services sold in transactions effected on the Internet through a negative option
23 feature, as that term is defined in the Commission's Telemarketing Sales Rule ("TSR"), 16
24 C.F.R. § 310.2(w), unless the seller: (a) clearly and conspicuously discloses all material terms of
25 the transaction before obtaining the consumer's billing information; (b) obtains the consumer's
26 express informed consent before making the charge; and (c) provides a simple mechanism to
27 stop recurring charges. *See* 15 U.S.C. § 8403.

VIOLATIONS OF THE ELECTRONIC FUND TRANSFER ACT AND REGULATION E

108. Section 907(a) of EFTA, 15 U.S.C. § 1693e(a), provides that a “preauthorized” electronic fund transfer from a consumer’s account may be “authorized by the consumer only in writing, and a copy of such authorization shall be provided to the consumer when made.”

109. Section 903(10) of EFTA, 15 U.S.C. § 1693a(10), provides that the term “preauthorized electronic fund transfer” means “an electronic fund transfer authorized in advance to recur at substantially regular intervals.”

110. Section 1005.10(b) of Regulation E, 12 C.F.R. § 1005.10(b), provides that “[p]reauthorized electronic fund transfers from a consumer’s account may be authorized only by a writing signed or similarly authenticated by the consumer. The person that obtains the authorization shall provide a copy to the consumer.”

111. Section 1005.10 of the Consumer Financial Protection Bureau’s Official Staff Commentary to Regulation E, 12 C.F.R. § 1005.10(b), cmt. 5, Supp. I, provides that “[t]he authorization process should evidence the consumer’s identity and assent to the authorization.” The Official Staff Commentary to Regulation E further provides that “[a]n authorization is valid if it is readily identifiable as such and the terms of the preauthorized transfer are clear and readily understandable.” 12 C.F.R. § 1005.10(b), cmt. 6, Supp. I.

Count VIII**Unauthorized Debiting from Consumers’ Accounts**

112. In numerous instances, Defendants debit consumers’ bank accounts on a recurring basis without obtaining a written authorization signed or similarly authenticated from consumers for preauthorized electronic fund transfers from their accounts, thereby violating Section 907(a) of EFTA, 15 U.S.C. § 1693e(a), and Section 1005.10(b) of Regulation E, 12 C.F.R. § 1005.10(b).

113. Further, in numerous instances, Defendants debit consumers’ bank accounts on a recurring basis without providing a copy of written authorization signed or similarly authenticated by the consumer for preauthorized electronic fund transfers from the consumer’s

1 account, thereby violating Section 907(a) of EFTA, 15 U.S.C. § 1693e(a), and Section
2 1005.10(b) of Regulation E, 12 C.F.R. § 1005.10(b).

3 114. Under Section 918(c) of EFTA, 15 U.S.C. § 1693o(c), a violation of EFTA and
4 Regulation E constitutes a violation of the FTC Act.

5 115. Accordingly, by engaging in violations of EFTA and Regulation E as alleged in
6 Paragraphs 112 through 113 of this Complaint, Defendants have engaged in violations of the
7 FTC Act. 15 U.S.C. § 1693o(c).

8 **CONSUMER INJURY**

9 116. Consumers are suffering, have suffered, and will continue to suffer substantial
10 injury as a result of Defendants' violations of the FTC Act, ROSCA, and EFTA. In addition,
11 Defendants have been unjustly enriched as a result of their unlawful acts or practices. Absent
12 injunctive relief by this Court, Defendants are likely to continue to injure consumers, reap unjust
13 enrichment, and harm the public interest.

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

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

21 118. Section 19 of the FTC Act, 15 U.S.C. § 57b, Section 5 of ROSCA, 15 U.S.C.
22 § 8404, and Section 917(c) of EFTA, 15 U.S.C. § 1693o(c), authorize this Court to grant such
23 relief as the Court finds necessary to redress injury to consumers resulting from Defendants'
24 violations of the FTC Act, ROSCA, and EFTA, including the rescission or reformation of
25 contracts and the refund of money.

PRAYER FOR RELIEF

Wherefore, Plaintiff FTC, pursuant to Sections 13(b) and 19 of the FTC Act, 15 U.S.C. § 53(b) and 57b, Section 5 of ROSCA, 15 U.S.C. § 8404, Section 917 of EFTA, 15 U.S.C. § 1693o(c), and the Court’s own equitable powers, requests that the Court:

A. Award Plaintiff such temporary and preliminary injunctive and ancillary relief as may be 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, an order freezing assets, and appointment of a receiver;

B. Enter a permanent injunction to prevent future violations of the FTC Act, ROSCA, and EFTA by Defendants;

C. Award such relief as the Court finds necessary to redress injury to consumers resulting from Defendants’ violations of the FTC Act, ROSCA, and EFTA, including but not limited to, rescission or reformation of contracts, restitution, the refund of monies paid, and the disgorgement of ill-gotten monies; and

D. Award Plaintiff the costs of bringing this action, as well as such other and additional relief as the Court may determine to be just and proper.

Dated: October 23, 2019

Respectfully submitted,

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FEDERAL TRADE COMMISSION