

FTC Press Conference on Sham Cancer Charities
May 19, 2015
Transcript

Peter Kaplan

At this time, that's a perfect segue. If you could please turn off your devices or silence them that would be great. Today we're announcing one of the largest enforcement actions to date against charity fraud.

First you're going to hear from Jessica Rich, the head of the FTC's Bureau of Consumer Protection. Then we're going to have remarks by Virginia Attorney General, Mark Herring and South Carolina Secretary of State, Mark Hammond, and H. Art Taylor of the Better Business Bureau. After that we'll take questions from media in the room and then on the phone. With that, I will turn it over to Jessica.

Jessica Rich

Thank you, Peter. Welcome to everybody in the room and on the phones. I'm honored today to be joined by Virginia Attorney General, Mark Herring, South Carolina Secretary of State, Mark Hammond and Art Taylor, President and CEO of the Better Business Bureau's Wise Giving Alliance.

Today the Federal Trade Commission and 58 law enforcement partners representing every state in the District of Columbia are announcing a joint enforcement action against four sham cancer charities and their principals. This is an historic moment, the first time the federal government and all of the state charity regulators have joined together to present a united front against charity fraud.

Named in our complaint are Cancer Fund of America and Cancer Support Services, the president of both organizations, James Reynolds, Sr. and the former chief financial officer for both organizations, Kyle Effler. Also Children's Cancer Fund of America and its president and executive director, Rose Perkins and the Breast Cancer Society and its executive director, James Reynolds, Jr.

American consumers are generous, giving and eager to support a worthy cause. Helping cancer patients is just such a cause. Cancer is a debilitating disease that affects millions of Americans and their families every year. In response to the defendants' request for funds to help cancer patients caring consumers contributed a combined total of more \$187 million to the defendants.

Prospective donors were told that their contributions would directly help cancer patients, including children with cancer and women suffering from breast cancer. Our complaint alleges the defendants falsely portrayed themselves as legitimate charities with substantial programs that provided

direct support to cancer patients throughout the United States and falsely promised to provide patients with pain medication, transportation to chemotherapy and hospice care, among other things.

Defendants solicited contributions through direct mail, websites and in phone calls. We want to play you a clip made from a call made on behalf of defendant Children's Cancer Fund.

[Audio clip plays.]

In case it was hard to hear that, what you just heard is that the donation would be used for hospice support, medical supplies and medications and that it would go straight to the program. Those were outright lies. Donations to Children's Cancer Fund never paid for hospice care for sick children or supplied suffering cancer patients with pain medication.

The company did send a small number of families of children with cancer a small amount of money. In 2012, for example, they spent just 0.71% or \$45,000 of consumer's donations doing that. Children's Cancer Fund paid defendant Rose Perkins over \$231,000 that same year.

Instead of supporting patients battling with the ravages of cancer, the overwhelming majority of donations benefitted the individual defendants, their family and friends and the fund raisers they hired to solicit contributions. Defendants spent consumer donations on cars, on vacations, cruises, college tuition, gym membership, Jet Ski outings, sporting events and concert tickets and dating site memberships among other things.

In addition, the fund raisers they hired typically received 85% or more of every donation. Consequently millions of dollars intended for cancer patients never reached the patients depriving legitimate cancer charities and cancer patients of much needed funds and support.

As if that weren't enough, we allege the defendants concocted more lies to hide their high administrative and fundraising costs. In an accounting ruse they falsely reported receiving and distributing to international recipients more than \$223 million in donated gifts-in-kind. In fact, they did not own or directly distribute these goods, but by claiming the monetary value of international gifts-in-kind programs defendants created the illusion that they were both larger and more efficient with donors' dollars than they actually were.

Defendants conduct triggered the historical law enforcement partnership behind the joint investigation and federal court complaint we are announcing today. This enforcement partnership includes 48 state

attorneys general, eight secretaries of state, the District of Columbia attorney general and the FTC.

In addition to our complaint we have jointly filed proposed court settlements with two of the defendant charities, Children's Cancer Fund and Breast Cancer Society and with Mr. Effler, Ms. Perkins and Mr. Reynolds, Jr. Under these proposed settlements the charities will be dissolved and Effler, Perkins and Reynolds, Jr. are banned from paid charitable fundraising, charity management and oversight of charitable assets.

Not surprisingly, given defendants fundraising costs and pattern of spending, there is little money remaining in the federal defendants' accounts to remedy the alleged misconduct. However, the settlements allow our state partners to distribute the funds we were able to obtain to legitimate charities. Cancer Fund of America, Cancer Support Services and James Reynolds, Sr., are not settling and our case against them will continue in litigation.

Before I turn over the podium to my partners here, I'd like to recognize some other valued partners who are here today, the District of Columbia's Chief Deputy Attorney General, Natalie Ludaway, is sitting right here in the front, and Senior Assistant Attorney General in Virginia, Rich Schweiker.

Why don't we start with Attorney General Herring?

Mark Herring

Good morning. When you find the generosity in your heart to open your wallet to help others the last thing that you should worry about is that a charity is going to rip that money away from those who truly need it. In some instances, instead of providing cancer patients with much needed support, donor's money went to financing the personal lifestyles of those operating the charities, including cars, luxury cruises and tickets to concerts and sporting events.

These sham charities and the people running them have profited off of cancer patients and their families, who pray for a breakthrough or even just a helping hand. Reading from the complaint, "Defendants, four sham charities and the individuals who run them, have engaged in a massive, nationwide fraud, telling generous Americans that their contributions will help people suffering from cancer, but instead spending the overwhelming majority of donated funds on the individual defendants, their family and friends and their fundraisers."

Millions of dollars that could have been used to help Americans suffering from cancer were diverted for private gain. Profiting off of children with

cancer and women fighting breast cancer, if you didn't know better you'd think someone was just making up the most deplorable scam they could imagine. But these allegations are very real, extremely troubling and they cry out for strong enforcement action.

And we're here today to say that we're putting a stop to it. We're shutting down a few particularly bad actors and sending a strong and unmistakable signal to everyone across the country who thinks they can exploit and profit off the generosity and kindness of others. You will be caught and you will be held accountable.

The damage from these kinds of violations goes beyond just the well-intentioned donations that, unfortunately, cannot be recovered. It shakes the confidence of donors and it undermines legitimate charities that are doing great work and depend on the contributions of those who believe in their cause.

We're going to do what we can on the enforcement side to weed out the bad actors. I encourage anyone considering a charitable donation to do their homework. There are great resources available through the Attorney General's Office, the Virginia Office of Charitable and Regulatory Programs, the FTC, the BBB and others that can help you find a charity that will use your contribution wisely.

In law enforcement we often find that illegal activity doesn't respect jurisdictional or geographical boundaries. That is why collaboration, cooperation and communication are so important in cases like this. And I think this particular action shows what we can accomplish when we work together.

This lawsuit and the settlements represent an unprecedented effort between the federal government and the states to protect our citizens, both the generous donors and those in need whom they want to help. It is the first time that the FTC and all 50 states, including Virginia, have partnered to bring a joint enforcement action targeting charities fraud.

While we can hope that it will be the last time that an effort of this level is required, we know that there will always be unscrupulous individuals looking to make a dollar no matter who gets hurt. Those seeking to take advantage of the generosity of Americans should be on notice that we are working together, sharing information, combining our investigative resources and we will continue these partnerships to root out and eliminate sham charities.

I must say a big thank you to the FTC and our state partners, attorneys general, secretaries of state and others from all 50 states and the District of

Columbia, especially the lead states, New Mexico, led by Attorneys General Gary King and Hector Balderas and Missouri, led by my friend and colleague Attorney General Chris Koster.

My office actually became involved in this case in 2010 during my predecessor's administration, and we have continued to play an active role. I've been honored to have members of my team on the executive committee for this joint action, in particular, Senior Assistant Attorney General Rich Schweiker from my Consumer Protection section and I appreciate the opportunity to stand with you here today.

Jessica Rich

Thank you, Attorney General. Next we have Secretary of State Hammond.

Mark Hammond

Thank you, Jessica. Thank you for letting us be a part of this. Good afternoon. My name is Mark Hammond and I'm the secretary of state for South Carolina. And as secretary of state I enforce South Carolina's Solicitation of Charitable Funds Act. I am pleased to be part of this historic effort to shut down the self-serving organizations.

The defendants' activities, as alleged in the complaint, are some of the most disturbing I have seen in my 13 years as secretary of state. Some charities use donations to send children with cancer to Disney World. In this case, the Children's Cancer Fund of America used donations to send themselves to Disney World.

South Carolina is committed to protecting charitable donors. As a state we rank among the top in percentage of income given to charities. I firmly believe that this is because we are a caring state, one that looks after each other, but also a state that understands there has to be transparency and accountability to our donors.

From time to time I'm asked why do we have to register, why do we have to follow those annual reports? We're just trying to help people. And as this action demonstrates, there are people out there who will take advantage of our generosity and serve themselves instead of serving others. When charities mislead donors it is our duty to step in and protect them.

At the same time, however, this case should remind everyone to ask questions and do research when you're giving to a charitable organization. For 19 years we have recognized ten Angel organizations and ten Scrooge organizations with the intent of encouraging our citizens to look closely at any organization asking them for their hard-earned money.

Some organizations make great use of our donations, but unfortunately, others do not. In South Carolina we ask you to research the organizations. We ask you to do some homework. We ask you to ask questions, but most of all, we ask South Carolinians to give from the heart, but to also give smart.

Jessica Rich

Thank you, Secretary Hammond. And now we have the BBB's Art Taylor.

Art Taylor

Good afternoon. I think we owe these attorneys general, the FTC and other regulators a great debt of gratitude today for bringing to us what can only be described as a complaint that is chock full of deception. I commend it to you. I suggest you read it cover-to-cover. In some cases you'll find it amusing. In others, and this is more likely the case, you'll find it sad.

I want to talk about a few of those deceptions in my brief remarks today and try to give donors some encouragement that the world is not full of dark characters like you see today. The first deception goes to our relationship, or lack thereof, with the charities in question. For many years we've been after these organizations to provide basic information that we could use to complete a charity evaluation.

And at least two of them never responded to repeated requests to provide the information we would need to do an evaluation in relation to our holistic standards and to comply with our rigorous evaluation process. And after reading this complaint it's not surprising because when you don't disclose information it's usually because you have something to hide and, clearly, these organizations have a lot to hide.

First of all, they were hiding the true nature of their finances. As has been pointed out they were using in-kind donations, they were inflating the value of these in-kind donations so that they could mask the true cost that they were actually providing to charity. A little amount going to charity, but they had to hide it by these in-kind donations and it enabled them to do that in their financial statements.

The second deception has to do with their extraordinarily high fundraising costs. In order to mask the true nature of their fundraising costs, they set up a shell corporation where all of the fundraising activities occurred, so that the organization that was before the public appeared to be pristine in their fundraising activities. Second deception.

The third deception goes to the quality and truthfulness of the information they were putting out. If you read one of these appeals they would lead you to believe that they were supporting young kids and families and

others who were stricken or affected in some way by cancer. But as we know from reading the complaint precious little of that money went to support these individuals who were stricken with this life threatening disease.

This is particularly troubling to me because we know from our work that most donors will only rely on the information they receive in their appeals. That's all they do. They get an appeal, they read it and they make a decision right there as to whether they're going to support that particular charity and so if that information is full of lies, as it was in this case, you're going to be \$187 million later where people have supported a charity that they would certainly not have supported if they knew better.

The last, and not least, of course, deception has to do with this organization's governing board, or I should say lack thereof. In some cases we come across we say the board was actually asleep at the wheel. But in this case we say that the board was non-existent because it was filled with individuals who were insiders being compensated by the organization for their work, no independent oversight.

They weren't reviewing the performance of the organization or the CEO. They weren't overseeing the finances. Read this complaint. It will astonish you by how little this organization was doing to show that it was actually a performing charity.

I want to conclude by saying it seems like it's a dark day for donors whenever we hear about scams going on at this level, but the vast majority of charities out there do not act like this, but the only way we can know as donors is if we check these groups out. We all have various motivations for giving. It may be religious, humanitarian, maybe it makes us feel good, but we can't close the deal on our motivations to give unless we also check the organizations out.

If you're motivated to give because of any one of those reasons I said, how can you know that you're actually achieving that goal that motivates you if you don't check the organization out. And so there are resources, and beyond the resources, if you see something or hear something or notice something that doesn't make sense, there are places you can go.

You can go to the Better Business Bureau, of course, the Wise Giving Alliance. We would be happy to talk to anyone who comes across an organization that just doesn't seem right. Let us check it out. Or you can go to any one of these regulatory agencies and you will get help so that you can avoid the kind of scams that were perpetrated here. Thank you very much.

Jessica Rich Thank you, Art. Now we would like to take questions from the media. Joining us will be Tracy Thorleifson, FTC attorney from our Seattle regional office. Tracy was the lead attorney for the FTC in this matter and was instrumental, along with much help from her state colleagues in coordinating the law enforcement partnership that investigated and filed today's action.

If you have questions, please raise your hand so somebody can come bring you the microphone. Also, please say your name and the news outlet you're affiliated with.

David David Fitzpatrick, CNN. As you may know, we've reported on these charities for some time. When we went to ask the Reynolds family and Mr. Reynolds, Jr. why, we got kicked out of their offices. We got doors slammed in our faces. In the case of Mr. Reynolds we were given an obscene gesture from him, Mr. Reynolds, Jr., rather than answering questions.

I'm interested from Tracy or from you, in your depositions, in your interviews, can you tell us why? Can you tell us if they gave you an answer about why in the world they did this?

Jessica Rich We do expect to hear more from them in the course of the litigations, the ones we're litigating against. But is there anything, Tracy, that we can share that would be public information that we can share on anything they've said?

Tracy Thorleifson Our interviews and our depositions are non-public, I'm afraid, but really I think the answer lies in the complaint and in the numbers. Why, if you look at how much salary Mr. Reynolds, Jr. paid himself and his wife, to me that would be the answer. I won't put words in his mouth, but just look at the numbers.

Michael I'm Michael Collins with the *Knoxville News Sentinel*. Can you give me some sort of historical perspective? You talked about how all 50 states were involved in this, but this fraud, can you give me some sense of how this compares in terms of other frauds of this nature that you've seen in the past?

Jessica Rich This is really one of the largest, if not the largest, that we've brought action against and, historically, this is the first time that the FTC has worked with all 50 states to bring an action challenging charity fraud and, actually we were just realizing this morning, it's actually the first time that the FTC and all 50 states have filed a complaint, the same complaint together in federal district court and so, that gives you a sense of how important and how seriously we take this.

Is that it for questions in the room? Oh, go ahead.

Michael I've got another one. It's for Mr. Hammond.

Jessica Rich Okay.

Michael Mr. Hammond, as you may know, in terms of gifts-in-kind listed in the complaint, a business in your state, Charity Services International, was listed as the facilitator shipping basically phantom goods charging big fees to these charities and these charities, according to the complaint, never owned the goods in the first place.

I know you can't forecast any future litigation, but what can you say about Charity Services International in your state?

Mark Hammond Well, I can tell you that we have taken a look at them. They are under investigation and we will see if there is action that can be taken, but a lot of these charities want instant credibility now, so they receive these gifts-in-kind that inflate their numbers to make them look like they have a tremendous amount of contributions and it also offsets their expenses so it makes their numbers look much better.

In South Carolina we ask people to check their percentages and see what percentage is actually going to that charitable purpose, so with these gifts-in-kind's, which are inflated and more than the value than they're actually worth it looks like a lot is going to those charitable purposes and very little going to account for expenditures from the organization.

That's something that, again, we need to continue to take a look at and be vigilant at and make sure that it's not another deceptive practice that these organizations are using to mislead our charitable donors.

Jessica Rich Somebody thought of a question while you were talking.

Megan Hi, I'm Megan O'Neil at the *Chronicle of Philanthropy*. I think it was you, Ms. Rich, who mentioned that these four charities had collected \$187 million, but you didn't list the timeframe. Give a number of years on how long these were operating or over what period of time that \$187 million was.

Jessica Rich Well, one of the companies has been in operation since 1987, but the money that we were talking about, the \$187 million, represents 2008 to 2012 monies collected.

Megan Great. And one more question, you mentioned sort of the unprecedented nature of the multi-state action here. Two of the charities that are involved in this case are listed on America's Worst Charity list, but of course, there are many other charities on those lists. Can we expect more from the FTC in the future on this front? Do you guys have any other forthcoming action on dubious charities or charities that Americans should not be donating to?

Jessica Rich This is a very important issue for us and for our partners, however we are not in a position to comment on any non-public investigations that we may have underway.

Craig Hi, Craig Boswell, CBS News. Were there victims in all 50 states and will these victims get any of their money back?

Jessica Rich Yes, there were victims in all 50 states, and that's one of the reasons you've got all 50 states participating here. Unfortunately, the defendants have spent most of the money on all of the items that we talked about and are detailed in the complaint, so we are not in a position to provide donors with their money back.

However, the orders that we've obtained in the settlements do obtain strong relief that will help consumers by putting two of the companies out of business and banning three individuals from operating a charity, managing charitable funds in the future or doing paid fundraising. We believe that is very strong relief that will help consumers, but unfortunately, the money is mostly gone.

Kimberly Good afternoon. Kimberly Suiters with ABC7 News. What question would you all recommend consumers ask to find out if a charity is a sham? We always say do your homework, ask questions. What question would have revealed something to a potential donor that this is a sham charity, any one of them?

Jessica Rich We have a variety of questions listed on our website to ask. Some of them include how much money goes to the charity, the program as opposed to overhead expenses or the paid fundraisers. Now, you're not always going to get an honest answer, but the kind of dissembling that you get when you ask those questions can also be a clue that there is something wrong there.

If consumers don't get a straight answer when they ask basic questions about a charity they should hang up and give to another charity.

Kimberly In Maryland, D.C. and Virginia, did any of the donors or any of the victims come forward to law enforcement?

Jessica Rich I can't comment on non-public information about who are complainants may have been, but I will say this is not an area that consumers typically know, consumers can typically uncover a fraud. They give their money trustingly. They think that it's going to legitimate purposes and they don't have a lot of ability to discern where the money truly went, which is why it's so important that regulators and enforcers be on the lookout to take action when we do uncover problems.

M Hi, a couple more things and you may have mentioned this and if you did and I missed it I apologize, but how much of the money is left and also what is the possibility of criminal charges being filed against any of these folks that are involved in the charities?

Jessica Rich As to how much of the money is left, our settlements, well, we're litigating with a couple of companies, so we will see at the end of that what's left from them. But in terms of the settlement amounts our settlements obtain about a million dollars, but the two companies that are being disbanded will also, as they're wound down, there will be monies that come in for when they sell off the goods, etc., and we'll put all of that money together and the states have the legal authority to distribute it to legitimate charities. Hopefully, they'll be able to do that under the terms of the order.

We, the FTC, don't have criminal authority, but I can't comment on whether there may be criminal investigations underway by others.

If we have no more questions in the room, can the operator please open up questions? Oh, we do have another question in the room.

M I'm just wondering, you mentioned that we can find answers about the goal of this fraud in numbers of salary that Mr. Reynolds paid himself and his wife, but you didn't mention exact numbers. Can you tell us how much they paid themselves?

Tracy Thorleifson I'm not going to remember the number right off the top of my head, but it is in the complaint itself. I think there are some references to Mr. Reynold's salary in 2012 as compared to how much money they spent on providing aid to breast cancer patients, so I would commend that portion of the complaint to you.

Jessica Rich I did give the one example. The salaries are generally in the hundreds of thousands and I did give the one example in my opening remarks that the cancer charity paid about \$45,000 in 2012 to the patients, but Rose Perkins earned well over \$200,000. So, it's quite different.

If there are no more questions in the room, can the operator please open up questions on the phone?

Moderator (Operator instructions.) Our first question comes from the line of Nicole Raz, WNAL Radio. Please go ahead.

Nicole Hi, this is for Attorney General Mark Herring in Virginia. Do you have any idea of how many Virginians are impacted by this consumer fraud and also can you discuss exactly what type of involvement did you have in joining the FTC in this case?

Mark Herring I'm not in a position to talk about complaints that we may have gotten, but what I can say is that our office became involved in 2010 and we have been a part of the executive committee with 13 other states and the FTC as a part of overseeing the investigation. We have played an active role in that, and it's that kind of collaboration that is really important when charities are operating interstate and all across the country and, in a sense, all Virginians, like all Americans, are impacted when charities deceptively use money to line their own pockets rather than get it to the people who need it most.

It hurts not only those who really, truly need the help, but it also undermines people's confidence in their ability to help legitimate charities and get money to those who are most in need.

Nicole Thanks. Can I ask a follow-up?

Mark Herring Okay.

Nicole Great. What does this mean, what is the signal you're hoping this will send to possibly smaller charity programs in Virginia?

Mark Herring Well, it's a message that we are watching, just like our federal partner and other state partners are watching to make sure that where there are a few bad actors out there who are using deception to line their own pockets that we will seek them out and that we will hold them accountable.

Nicole Thanks. You did imply earlier, though, that your office did receive a few complaints from Virginians, right?

Mark Herring Either our office or through the charitable office and the Department of Agriculture and Consumer Affairs that oversees it.

Nicole Thank you very much.

Moderator Our next question comes from the line of Rebecca Ruiz from *The New York Times*. Please go ahead.

Rebecca I'm wondering, when did you first start looking at these charities? How long was your investigation into them?

Jessica Rich The FTC can't comment on its non-public investigation, but you just heard Attorney General Herring say that he started in 2010. Secretary Hammond is there any, 2012. So, we all got involved at different times, but it is in the last couple of years.

Rebecca Okay, great. Thanks.

Moderator And next we have Michelle Singletary with *The Washington Post*.

Michelle As I read through some of the issues, clearly you mentioned that the charities inflated the amount of revenue, which would skew the percentage spent on direct services, so if a donor even looked at the documents or asked a question they would get an answer that might appear as if they were legit. In this case when you find that the alleged charities are lying, what can a donor do if the document support shows that they are okay?

Jessica Rich That's a very good question. We do encourage consumers to do a lot of vetting, including looking at the documents that have been filed and if the documents are filed that makes it very difficult to rely on them. There are a variety of different sources, not just the documents filed with the states, but there are various review sites that consumers can look at and then there are the tips that the FTC has on its website and maybe some of the states also have on theirs and the BBB about what to look for that may be suspicious.

It looks like Mr. Taylor wants to comment on this from the BBB.

Art Taylor This is a great question because it is difficult, especially if a charity is lying to know if they are trustworthy, but there are a couple of things that you can do. The first thing I would suggest is if you come across a charity that you have any question about let us know, even if you haven't heard of it and they are soliciting you, let us know and what we'll do is try to initiate an investigation of the charity, an evaluation.

What we find is, in a lot of cases, charities that are operating way out of bounds, they won't provide us with information and that's a really important signal and so when you come back to our reports and you see a non-disclosure charity with a big red exclamation point next to you that should be an indication that you should run to the next organization. So, that's one thing.

Just as we saw in these cases there were charities here that for years we've been requesting they send us information, and all we could report was a big red exclamation point, but that would have been enough for most people to know that they should go to the next organization without even doing any more research. That's just one little thing.

Michelle

I have just one follow-up question, Mr. Taylor, because you said it in your opening remarks. People get the call, they have a compassion to give and they know that they want to get people in that moment. Is there any code word, anything that we can give to folks to say, you know, sort of stop before you give because most people aren't going to do a lot of the things that you said. Let's just be real. A lot of people are not going to take the time to look. Some will, but many won't.

Art Taylor

There is no code word, unfortunately. Even with financial ratios, organizations may report very good financial ratios. They're spending a small portion of the funds on administration and fundraising. But we will find lots of other areas where they're lacking, and so if you don't do any research you have a good shot at being a victim of some perpetration and you want to stay away from that.

What I would say is if you get a call from an organization that you've not heard of and let's say they're fighting cancer, there are many organizations that are fighting cancer. Come to Give.org and find one that's accredited. Why do you have to give to that particular one, especially if you don't feel that you have the right information to make a decision?

There are probably 1.3 million 501(c)(3) charities out there. You can find some good ones. There are lots of good ones out there. You don't have to rely on the phone call that you get at night. And the impulse to give just because you got a phone call, we have to relax. We have to step back. We have to use our brains sometimes, our mother wits, as my mother would say, and if it doesn't make sense or if they're pressuring you to make an immediate gift, stay away.

Go to an organization that has taken the time to provide information that has been around for a while, that is proving that it's doing good work and give your money to it. That's the message. There is no quick solution. We've got to stop looking for quick solutions. Thank you.

Jessica Rich

And I would add to the pressure point, those are some of the red flags that we talk about at the FTC. If they're using very high pressure tactics, if they're telling you you have to pay that night or they're asking you to wire the money or pay in some unusual way that is urgent, that's a really big red flag and you should just hang up and not do business with that

organization and, of course, if they refuse to answer your questions, your legitimate questions about the charity.

Moderator Our next question comes from the line of William Barrett with Forbes.com. Please go ahead.

William I've had a chance to review your complaint and, frankly, most of it is stuff that's been in the news media for years, so I'm wondering if this is sort of an admission that until very recently governmental regulators have dropped the ball on this.

Jessica Rich That's one of those questions that, I was going to make a joke, but I won't.

William Oh, go ahead.

Jessica Rich I think that we are very grateful to the news media when the news media reports on these events. We do, sometimes, use that and prompt us to look at items, but it is different to bring a federal district court action with 50 states, 58 regulators representing 50 states, and the federal government and we have the ability through this action to put these companies out of business and get permanent bands against the individuals.

That does sometimes take some work to put together, but it's very important and effective relief and we're very pleased to be doing this jointly today.

William Why was it necessary to get all 50 states? While you all were trying to get your coalition together, by your own admission, hundreds of millions of dollars was fleeced out of consumers. Why couldn't the FTC have brought this on their own years ago and saved everybody a lot of money?

Jessica Rich There were consumers in every single state and we think this united action together will send a very, very strong message that this is illegal not just as a federal matter, but in every single state. It violates every single one of the laws that we enforce in every state and D.C. Our D.C. partner is raising her hand and saying do not forget to mention D.C. and I was born in D.C. and I know it's not a state.

William Well, D.C. charitable regulation is pretty bad, I can tell you that. All I am saying is that I'm glad you're coming with this, but I really think you dropped the ball for the longest time.

Jessica Rich Well, we are taking very strong action today.

Moderator Our next question comes from the line of Brandon Shulleeta from *Richmond Times*. Please go ahead.

Brandon A question for Mr. Herring. Can you go into a little bit more detail about what the attorney general's office saw as suspicious back in 2010 and sort of the scope of that investigation and when the FTC became involved?

Mark Herring Well, I can't go into detail about that. I can say that it was started in 2010 under my predecessor's administration and it's something that involves every single state and we take it seriously. When you are motivated to help others by your compassion and you contribute on the basis of representations and believe that your money is going to help others and it's not and it's being diverted to line the pockets of the people who are operating the charities, then we're here to say that we're not going to allow it and we're going to respond to it accordingly and that's what my predecessor had done and we continued those efforts.

Brandon If I could—thank you for your answer—just to narrow down my question a little bit, can you just give us a better sense of when whatever suspicious information you had, whatever information you had that kind of drew a red flag, when that was turned over to the FTC?

Mark Herring Again, we can't comment on the specifics of complaints that our office may have had or the confidential aspects of the investigations, but attorneys general often will work collaboratively with one another on multi-state actions. That's what we did in this case and glad that our federal partner, the FTC, was a participant and we're taking very strong action in a united way.

Brandon If I could ask one last follow-up question. Kind of looking back in hindsight if there was suspicious activity all the way back in 2010, looking back in hindsight, has this been too long of a time lapse before anything concrete has been done, a five-year period before action has been taken with all these people in the meantime continuing to donate to these bad charities?

Mark Herring It's a complex case. It involves a lot of work and a lot of cooperation and we're taking very strong action today. It's also a reminder for the public to ask important questions when they get phone solicitations, to get the name of the charity that they are being solicited to give to, to check with either our office or the Virginia Department of Agriculture and Consumer Services or the Better Business Bureau.

There are a number of sources and if they are a good, legitimate charity they will need to be able to get the contribution directed to the program that they are working on the next day or the next week just as they would be able to if you're on the phone answering the questions.

Moderator Our next question comes from Natasha Lindstrom from *Pittsburgh Tribune*. Please go ahead.

Natasha Thank you. Can you tell me, when it comes to these concerns about inflating the in-kind donations, do you have a sense for how prevalent of a problem this could be in the charitable sector and how to root out other organizations who are doing so? Then the second part of the question was for the defendant who you haven't settled, what are the next steps regarding that defendant and charity?

Jessica Rich In terms of the gift-in-kind, I don't think we at the FTC can talk about the prevalence. It's certainly a disturbing practice. I wonder if the Secretary of State has any sense of the gift-in-kind from South Carolina companies. No. Our BBB friend may have an answer to that and I'll come back to the second part of that question.

Art Taylor It's a good question, too, because we know that there are a number of charities that use gift-in-kind. Many of them do it properly, which is they receive gifts in kind and they record them and distribute them at the values that are by accounting rules required to use. Then there are others that don't and so if you see that a charity is using gifts-in-kind, you probably have to do some checking to really know what's really going on.

I think gifts-in-kind can be a great way for an unscrupulous group to mask certain things going on in the organization, but they can also be a way for organizations to distribute well needed goods and products to people who need them, so it's kind of a mixed bag.

In our case, when we see gifts-in-kind it kind of triggers some activities on our behalf to really make sure we understand what's going on and it should probably do the same thing to those of you in the media.

Jessica Rich Now, remind me what the second part of your question was? Oh, yes. We filed our action yesterday and now we are in court and we will be litigating, we will be proving our case. The defendants will be defending against our case and I encourage everyone to watch what happens.

Moderator We have a question from Zlaty Meyer from the *Detroit Free Press*. Please go ahead.

Zlaty Hi, thanks for taking my question. I wanted to know, obviously, there have been some lessons learned today with \$187 million price tag. I'm wondering what plans, if any, are there to sort of put into place rules, regulations, law to prevent this from happening again, either on the Congressional level, perhaps liaising with the IRS or maybe the two AGs can talk about it on the legislative level?

Jessica Rich Well, there are laws already in place in the states and at the federal level and that's what we are enforcing today. I don't think I can comment on all the considerations that may be going on about any reforms of laws that may be occurring in all 50 states, but there are laws in place and they were violated in this action that we're filing today.

I got a question earlier about who will prosecute. All 58 regulators plus the FTC, I didn't say states, all 58 regulators plus the FTC are going to be in court, in the District Court of Arizona, together prosecuting this case, so it is quite historic and interesting. I'm sure we'll coordinate well, so that it's very smooth and we're all telling one story.

Moderator Our next question comes from the line of Susan Martin with *Tampa Bay Times*. Please go ahead.

Susan Do you have any idea how many individual donors made contributions, 5,000, 10,000, 50,000?

Jessica Rich We don't have an exact number, but we believe it's in the millions because the average donor gave about \$20 and we've got at least \$187 million of donations that weren't used properly, so, yes, millions of consumers.

Moderator We have a question from Laura Thomas, WFTA TV. Please go ahead.

Laura My question is for Secretary of State Mark Hammond from South Carolina. We are trying to figure out what the local tie-in is for South Carolina. What was the specific tie-in to the state? Why was the reasoning for joining the FTC in the case or was our state particularly hit hard with the number of donors or what the tie-in was for that, if you don't mind answering that?

Mark Hammond Well, as I said earlier, we work hard to protect our charitable donors in South Carolina. It's the responsibility of the secretary of state, but, on the other hand, we're a small office. We're not very big. We don't have a lot of resources and I would like to say that three of these organizations in the past in South Carolina have been placed on the Scrooge list, so they have been called out in South Carolina and placed on that Scrooge list.

But this was such a massive undertaking and there were so many moving parts and so much work that had to be done to be able to bring this action we were more than willing to partner with the FTC and we appreciate them asking us also to play a big role in this complaint. A lot of it for South Carolina came down to the resources that we had available and we needed their assistance to go out and protect our donors.

Moderator We have no further questions in queue.

Peter Kaplan Okay, I want to thank everyone for coming today. If you realize later on that you have questions that you didn't ask that you need to ask, don't hesitate to call the press office at the Office of Public Affairs at the Federal Trade Commission. Thanks again.

M I have one quick one for Mr. Taylor.

Peter Kaplan Sure.

M You've seen a lot of these phony charities over the years, a lot of these things. On the outrage scale, where does this lie?

Art Taylor It's way up at the top. This is by far one of the most egregious I've seen, I mean, I've seen some dealing with veterans that kind of irked me, too, but the whole cancer thing kind of rubs me because you know how distraught people are when they get news that they've got cancer or a family member has cancer and you can just imagine it triggers a whole wave of thinking in their minds about what they can do to address it and some of that, of course, is to get the best medical treatment.

It's also let's find other organizations that we can draw in to assist us, especially if you don't have the resources. And so, to take advantage of that, to take advantage of these emotions that people are feeling at the time when they or a family member gets the cancer diagnosis and to use that to generate money for your own purposes to line your pockets or defraud people it's about as, I think, as evil as it gets.

I just can't think of another situation. Maybe if you did something to children, that would probably be worse, but this is pretty bad in my mind. And since I'm at the podium I just want to say once again how unusual this event is. I can say it, but these regulators operate on a shoestring.

You don't hear people in the various states and the District clamoring to provide more tax dollars for charity regulation and so the fact that it may have taken them a little longer to get to it or that maybe more money was defrauded by people than would have been if they could have gotten to it earlier, yes, that may be true, but they don't have a whole lot of resources. So the fact that they've gotten to this at this point is really something for us to be proud of and something for us to applaud, given the amount of resources that they have.

I wanted to point that out and I think one of the things people can do is say let's support our state and District organizations that are trying to enforce

and regulate charities and enforce the laws. That would be something that we could do as well.

Jessica Rich

I actually want to add something that expands on that. Several states took action against some of these entities in years past and got orders or agreements to desist and there was reason to believe that perhaps those orders would be effective. These defendants were not deterred and therefore, one of the reasons we need to act today in a united front is to bring stronger and more powerful relief against these defendants to stop these practices.

Peter Kaplan

Any other questions? Okay, well thanks, again, everybody. And don't hesitate to call the Public Affairs office.

Moderator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive TeleConference Service. You may now disconnect.