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IN THE UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF OKLAHOMA

FILE
MAY 30 2001
Phil Lombardi, Clerk
U.S. DISTRICT COURT

FEDERAL TRADE COMMISSION,

Plaintiff,

v.

SKYBIZ.COM, INC.
WORLD SERVICE CORPORATION,
NANCI CORPORATION INTERNATIONAL,
WORLDWIDE SERVICE CORPORATION,
JAMES S. BROWN,
STEPHEN D. MCCULLOUGH,
ELIAS F. MASSO,
NANCI H. MASSO,
KIER E. MASSO,
RONALD E. BLANTON,

Defendants.

01 CV 0396K (E)

CIVIL ACTION NO.:

~~SEALED~~

~~UNDER SEAL~~

Unsealed
6-8-01

COMPLAINT FOR PERMANENT INJUNCTION AND OTHER EQUITABLE RELIEF

Plaintiff, the Federal Trade Commission ("FTC" or "Commission"), by its undersigned attorneys, allege:

1. The FTC brings this action under Section 13(b) of the Federal Trade Commission Act ("FTC Act"), 15 U.S.C. § 53(b), to secure a permanent injunction, preliminary relief and other equitable relief against defendants for their unfair or deceptive acts or practices in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

JURISDICTION AND VENUE

2. This Court has subject matter jurisdiction over the FTC's claims pursuant to 15 U.S.C. §§ 45(a) and 53(b) and 28 U.S.C. §§ 1331, 1337(a) and 1345.

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

PLAINTIFF

4. Plaintiff, the FTC, is an independent agency of the United States government created by statute, 15 U.S.C. §§ 41 et seq. The Commission enforces Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), which prohibits unfair or deceptive acts or practices in or affecting commerce. The Commission may initiate federal district court proceedings to enjoin violations of the FTC Act and to secure such equitable relief as is appropriate in each case. 15 U.S.C. § 53(b).

DEFENDANTS

5. Defendant SkyBiz.com, Inc. ("SkyBiz.com") is a Nevada corporation with its principal place of business at 6128 E. 38th Street, Suite 400, Tulsa, OK 74135. It has conducted business since at least 1999 as a multi-level marketing company. Prior to the formation of SkyBiz in 1999, SkyBiz 2000, Inc., an Oklahoma corporation, conducted business as a multi-level marketing company since its formation in 1998. Upon the formation of SkyBiz.com, SkyBiz 2000, Inc. was merged into SkyBiz.com and ceased to maintain a separate existence. SkyBiz.com, Inc. and SkyBiz 2000, Inc. will be referred to collectively as "SkyBiz." SkyBiz.com transacts business in the Northern District of Oklahoma.

6. Defendant World Service Corporation ("World Service") is a Nevada corporation with its principal place of business at 6128 E. 38th Street, Suite 400, Tulsa, OK 74135. It has conducted business since at least 1993. World Service promotes and has promoted SkyBiz.com and SkyBiz 2000, Inc. through internet newsletters, the sale of promotional materials, and the arrangement of promotional presentations and telephone calls. It also provides and has provided

management services to SkyBiz.com and SkyBiz 2000, Inc. World Service transacts business in the Northern District of Oklahoma.

7. Nanci Corporation International (“Nanci Corp.”) is an Oklahoma corporation with its principal place of business at 11330 East 58th Street, Tulsa, Oklahoma 74146. It has conducted business since 1986. Nanci Corp. promotes and has promoted SkyBiz.com and SkyBiz 2000, Inc. by accessing merchant accounts for the collection of SkyBiz fees. Nanci Corp. transacts business in the Northern District of Oklahoma.

8. WorldWide Service Corporation (“WWSC”) is an Oklahoma corporation with its principal place of business at 6128 E. 38th Street, Suite 400, Tulsa, OK 74135. WWSC recently began performing various management administrative functions for SkyBiz.com including promoting SkyBiz.com through internet newsletters, the sale of promotional materials, and the arrangement of promotional presentations and telephone calls. WWSC transacts business in the Northern District of Oklahoma.

9. Defendant James S. Brown (“Brown”) is the president of SkyBiz.com and was the president of SkyBiz 2000, Inc. Individually or in concert with others, Brown directs, controls or participates in the acts and practices of the corporate defendants. Brown resides and transacts business in the Northern District of Oklahoma.

10. Defendant Stephen D. McCullough (“McCullough”) was the vice president for marketing of SkyBiz.com and was the vice president for marketing of SkyBiz 2000, Inc. Individually or in concert with others, McCullough directed, controlled or participated in the acts and practices of the corporate defendants. McCullough resides and transacts business in the Northern District of Oklahoma.

11. Defendant Elias F. Masso (“Elias Masso”) is the CEO of World Service and is or has been the president of World Service and president of SkyBiz 2000, Inc. He is or has been an officer of Nanci Corp. Individually or in concert with others, Elias Masso directs, controls or participates in the acts and practices of the corporate defendants. Elias Masso resides and transacts business in the Northern District of Oklahoma.

12. Defendant Nanci H. Masso is or has been the secretary and treasurer of World Service and president of Nanci Corp. Individually or in concert with others, Nanci Masso directs, controls or participates in the acts and practices the corporate defendants. Nanci Masso resides and transacts business in the Northern District of Oklahoma.

13. Defendant Kier E. Masso is or has been the secretary and treasurer of World Service. He was a director and the secretary of SkyBiz 2000, Inc. He is secretary and treasurer of SkyBiz.com. Individually or in concert with others, Kier Masso directs, controls or participates in the acts and practices of the corporate defendants. Kier Masso resides and transacts business in the Northern District of Oklahoma.

14. Defendant Ronald E. Blanton (“Blanton”) is or has been president of World Service. Individually or in concert with others, Blanton directs, controls or participates in the acts and practices of the corporate defendants. Blanton resides and transacts business in the Northern District of Oklahoma.

COMMERCE

15. At all times material to this complaint, defendants’ course of business, including the acts and practices alleged herein, have been and are in or affecting commerce, as “commerce” is defined in Section 4 of the FTC Act, 15 U.S.C. § 44.

DEFENDANTS' BUSINESS PRACTICES

16. Since at least December, 1998 defendants have promoted a "home-based" business opportunity (hereinafter referred to as the "SkyBiz Program"). The SkyBiz Program provides consumers with the opportunity to obtain commissions by recruiting of additional participants, known as Associates, into the SkyBiz Program.

17. Defendants promote the SkyBiz Program both directly and through their network of recruited Associates. Defendants urge Associates to use word-of-mouth referrals to get potential recruits to attend in-person sales presentations given by SkyBiz officers, corporate-sponsored presenters and more senior Associates. These presentations focus primarily on the opportunity to earn thousands of dollars per week by recruiting new Associates into the SkyBiz Program. In addition, defendants sponsor conference calls and prerecorded calls to pitch the SkyBiz Program to prospective Associates.

18. To assist their Associates in recruiting new participants into the SkyBiz Program, defendants also sell CD-Roms, computer disks, videos, and books promoting the SkyBiz Program. Defendants advertise these promotional items to Associates and prospective Associates at the in-person sales presentations and on the SkyBiz website. Defendants also provide a PowerPoint presentation on their website that SkyBiz Associates may download to aid in recruiting Associates.

19. The fee to participate in the SkyBiz Program is \$100 for one year with a one time administration fee of \$25 (initially, the administration fee was \$10). The only product or service associated with this fee is an internet and computer software educational package with two websites that defendants call an "e-Commerce Web Pak" ("WebPak"). Of these two websites,

one is designed for use in the recruitment of additional participants and the other website is purportedly for personal use. However, the vast majority of Associates do not even activate the personal website.

20. SkyBiz claims that payment is for the Web Pak only and the home-based business is provided free. In fact, it is difficult to participate meaningfully in the home-based business without purchasing the SkyBiz Web Pak, and few, if any, consumers have become Associates without spending at least \$110 to \$125. Conversely, few, if any, consumers purchase the WebPak without becoming Associates.

21. In their live presentations, telephone calls, marketing materials and on their websites, defendants have represented, expressly or by implication, that consumers are likely to receive substantial income by participating in the SkyBiz Program, including, but not limited to, the following representations:

- a. If we can get your group to grow like this over the next year, you'll make approximately \$50,000, part-time, on the side;
- b. This system was put together by a gentleman named Eric Rasmussen who basically joined SkyBiz and six months later was able to retire with an income of about 400,000 a month. Currently, Eric lives in the Gold Coast of Australia and he's making 76,000 a week and growing;
- c. With less than two years in business and doing business in over 200 countries, millions of commission dollars are being paid out weekly to thousands of Associates worldwide and we haven't even started yet. What do I mean by that, folks? Listen, the world is our market. Six billion people and here we are with just over 1,300,000 websites online. You've heard me say time and time again that the world is our playground; and
- d. Can you make money? Our average active representative is earning \$240 a week. And that's like \$1,000 a month. That can make a huge difference in people's lives.

22. In their marketing materials and at seminars, defendants have also featured “testimonials” from participants in the SkyBiz Program. In these testimonials, the individuals describe how successful they have become through participation in the SkyBiz Program, including, but not limited to, the following statements:

- a. I got introduced to this program. I didn't really see the value of it at the start and I didn't join until September the 2nd. And I went to work. I had the desire to change my life. I saw how simple it would be to get two people and I thought, well, I can get 22 and did. I've been in the program now for a year and I've been generating over \$400,000 in income. My check last week was \$16,000 U.S.;
- b. I actually had over 32,000 web packages sold in my total group in just five or six months. I've only personally referred about 20. That's incredible income. Just do the math;
- c. In my eighth month of being involved in the business, our monthly income was \$174,000 a month. In my eighth month; and
- d. Right now I'm earning right around \$50,000 U.S. per week. Per week..

23. Associates pay to participate in the SkyBiz Program and then are paid to recruit new Associates, who purchase the SkyBiz Program from defendants and in turn recruit new Associates who purchase the SkyBiz Program from defendants, and so on. In this fashion, each Associate creates a “downline” consisting of all the people who are directly or indirectly sponsored by that Associate. Defendants tell prospective Associates that there is an “infinite depth of sales,” meaning that compensation from the growth of an Associate’s downline is not cut off at a particular level.

24. Each recruit is placed in a position below the recruiting Associate. Each position in the structure can have two positions directly beneath it. Defendants refer to this as a “binary”

system or a “2x matrix.”

25. The two positions directly beneath an Associate and every position that is filled beneath each of those positions are known respectively as the right and left “legs.” Defendants require Associates to have no less than 1/3 of their downline in one leg to remain eligible for compensation under their binary payment plan. Defendants refer to this requirement as “balance.”

26. Associates must have recruited at least two recruits, assigning one to each leg of their downline in order to qualify for compensation. This requirement forces Associates to either directly recruit two new Associates or to purchase three positions for \$375.

27. Assuming they have “balance” and have directly sponsored two positions, Associates are paid up to \$70 for every additional nine Associates recruited into their downline. Every time the downline increases by a total of 50 new recruits, Associates complete an “orbit” and are paid an additional bonus.

28. According to Defendants’ websites and other promotional materials, Associates are paid up to \$420 per orbit, and can receive income from “unlimited daily orbits.” Defendants, directly and through testimonials, often use the frequency with which particular Associates orbit as a way to describe the amount of income received by those Associates.

29. Defendants often state that each business center is “limited” to earnings of \$25,000 per week.

30. Defendants, directly and indirectly, urge consumers to start by purchasing three or more SkyBiz Program positions, at a cost of \$125 each, and to place the second two positions beneath their first position. Defendants, directly and indirectly, represent that this will enhance

an Associate's potential earnings by immediately meeting the qualifying requirement alluded to in Paragraph 7, above, and by allowing them to start with "balance." Defendants also represent to consumers, directly and indirectly, that they should purchase multiple SkyBiz Program positions so that they can avoid the \$25,000 per week per business center limitation.

31. The Defendants operate what is commonly known as a pyramid scheme.

32. In pyramid schemes, each participant pays money to the scheme's promoter in exchange for the right to recruit new participants. Participants then receive benefits for each individual they recruit or who appears below them. Earnings in a pyramid scheme are derived primarily from recruiting other participants into the program, not from the retail sale of products or service.

33. The result of the structure and operation of a pyramid scheme is that the vast majority of participants will receive little, if any, financial reward. In fact, most participants will lose their initial investment.

34. The SkyBiz Program is structured so that financial gains are dependent upon the continued, successful recruitment of additional participants. Only those individuals at the very top of the structure will achieve financial success. The majority of SkyBiz Associates enjoy little or no financial success from the SkyBiz Program.

35. Defendants fail to disclose, in connection with the offering for sale or sale of participation in the SkyBiz Program, that the vast majority of SkyBiz Associates enjoy little or no financial success from the SkyBiz Program.

VIOLATIONS OF SECTION 5 OF THE FTC ACT

COUNT 1

36. In numerous instances, defendants represent, expressly or by implication, that participants in the SkyBiz Program are likely to receive substantial income.

37. In truth and in fact, in numerous instances, consumers who participate in the SkyBiz Program are not likely to receive substantial financial income.

38. Therefore, the representation set forth in paragraph 36 is false and misleading and constitutes a deceptive act or practice in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

COUNT 2

39. By furnishing SkyBiz Associates with promotional materials to be used in recruiting new participants that contain false and misleading representations, including but not limited to the false and misleading representations described in paragraph 36, above, defendants have provided the means and instrumentalities for the commission of deceptive acts and practices.

40. Therefore, defendants' practices, as described in paragraph 39, constitute deceptive acts and practices in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

COUNT 3

41. In numerous instances, defendants represent, expressly or by implication, that participants in the SkyBiz Program are likely to receive substantial income.

42. Defendants fail to disclose that SkyBiz's structure ensures that most participants in the SkyBiz Program are not likely to receive substantial income.

43. This additional information, described in paragraph 42, would be material to customers in deciding whether to participate in the SkyBiz Program.

44. The defendants' failure to disclose the material information in paragraph 42, in light of the representations made in paragraph 41, constitutes a deceptive act and practice in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

COUNT 4

45. As alleged in paragraphs 16 through 35, the SkyBiz Program is characterized by the payment of money by a participant to defendants in return for which the participant obtains the right to receive income for recruiting others into the SkyBiz Program which is unrelated to the sale of a product or service to an ultimate consumer.

46. This type of scheme, often referred to as a pyramid, is a deceptive act and practice in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

CONSUMER INJURY

47. Defendants' violations of Section 5 of the FTC Act, as set forth above, have caused and continue to cause substantial injury to consumers. Absent injunctive relief by this Court, defendants are likely to continue to injure consumers.

THIS COURT'S POWER TO GRANT RELIEF

48. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), empowers this Court to grant injunctive and other ancillary relief, including consumer redress, disgorgement and restitution, to prevent and remedy any violations of any provisions of law enforced by the Federal Trade Commission.

PRAYER FOR RELIEF

WHEREFORE plaintiff Federal Trade Commission pursuant to Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), and the Court's own equitable powers, request that this Court:

1. Award plaintiff such 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;
2. Permanently enjoin defendants from violating the FTC Act as alleged herein;
3. Award such relief as the Court finds necessary to redress injury to consumers resulting from defendants' violations of the FTC Act as alleged herein, including but not limited to, rescission of contracts, the refund of monies paid, and the disgorgement of ill-gotten monies.
4. 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.

Date: May 30, 2001
Tulsa, OK

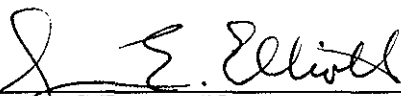
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Respectfully submitted,

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