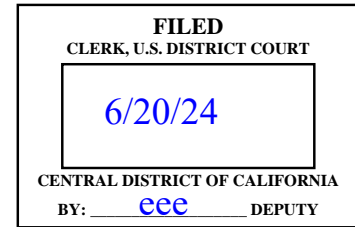


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DAVID S. PHILLIPS AND BEN CHAIB

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

UNITED STATES OF AMERICA,
ex rel. DAVID S. PHILLIPS
and BEN CHAIB,

Plaintiffs,

v.

LOS ANGELES FILM SCHOOL,
LLC; FULL SAIL, LLC, D/B/A
FULL SAIL UNIVERSITY; JAMES
W. HEAVENER; DIANA DERCYZ-
KESSLER; PAUL KESSLER; AND
DOES 1-10,

Defendants.

2:24-cv-05214-SB-RAOx

Case No. _____

**COMPLAINT FOR VIOLATIONS
OF THE FEDERAL FALSE
CLAIMS ACT [31 U.S.C. § 3729,
et seq.]**

**FILED IN CAMERA AND UNDER
SEAL PURSUANT TO 31 U.S.C.
§ 3730(b)(2)**

JURY TRIAL DEMANDED

COMPLAINT

I. INTRODUCTION

1. This is an action against Defendants Los Angeles Film Schools, LLC (hereinafter “LAFS,)) Full Sail, LLC, doing business as Full Sail University, (hereinafter “FS”) James W. “Bill” Heavener, Diana Derycz-Kessler, and Paul Kessler to recover damages and civil penalties under the federal False Claims Act 31 U.S.C. § 3729 *et seq.*

2. As more fully alleged herein, this action arises out of the Defendants’ prior and continuing schemes to defraud the United States of America by knowingly presenting and making, or causing to be presented and made, false claims and statements that were material to their receipt of funding from federal student aid programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 *et seq.* (“Title IV programs”) and the U.S. Department of Veterans Affairs (“the VA”) benefits regulations codified in 38 U.S.C. § 3680 *et seq.*

3. Specifically, LAFS and FS, for-profit post-secondary educational institutions, certified compliance with the “gainful employment” requirements in 20 U.S.C. § 1088(a)(1)(A)(i). LAFS also certified compliance with California Education Code § 94928. And both schools certified compliance with the Incentive Compensation Ban (“ICB”) of the Higher Education Act (“HEA”), as codified in 20 U.S.C. § 1094(a)(20), and the U.S. Department of Veterans Affairs (the “VA”) regulations codified in 38 U.S.C. § 3696(d), which mirror the ICB of the HEA, to be eligible to receive federal grant and loan dollars when in fact, LAFS was not in compliance with the ICB. The certifications were false. Heavener and the Kesslers caused LAFS’ false certifications, and Heavener caused FS’ false certifications. LAFS and FS violated federally required gainful employment requirements, violated accrediting standards given by for-profit education-favorable accrediting agencies and self-financed thousands of temporary employment opportunities for their graduates through schemes with non-

1 profits and paid-off vendors to give the false impression to incoming students and
2 federal regulators that their graduates were gainfully employed within the fields they
3 were educated in to continue receiving millions of dollars in federal financial aid.

4 4. The Relators were two of the highest-ranking management executives in
5 LAFS history, former Vice-President of Career Development and Special Advisor
6 to the Board David S. Phillips, and former Vice-President of Admissions Ben
7 Chaib. Each were employed by LAFS for 12 years and each served together on the
8 LAFS Executive Team, a select group of 6-8 top management executives who met
9 weekly to coordinate the operation of the institution at the direction of Heavener
10 and Kessler. Each had extensive contact with, and direction from, both Heavener
11 and Derycz-Kessler on the fraudulent schemes described herein. Each also had
12 frequent contact with, and direction from, the Executive Team at FS.

13 5. LAFS receives over \$85 million per year in federal financial assistance,
14 some \$60 million through federal student loans, and over \$19 million in veterans'
15 financial aid funds. LAFS is primarily owned and controlled by Heavener and his
16 partners (Edward Haddock, Jonathan Phelps, and Garry Jones) also own and control
17 Full Sail University (FS) in Winter Park, Florida, and the same false claims schemes
18 are operated at both locations. FS receives over \$377 million per year in federal
19 financial assistance. On information and belief, approximately \$90 million of that
20 money comes from Veterans' educational benefits. For at least the last ten years,
21 nearly all federal funds bestowed upon and taken in resulted from fraud with the
22 institution using taxpayer funds to finance and facilitate multiple, temporary
23 employment positions for LAFS graduates and through incentive payments to LAFS
24 sales representatives (hereinafter "sales reps,") prohibited for decades.

25 **A Brief Summary of the Legal Requirements and How They Were Violated**

26 6. Federal law specifically prohibits higher education institutions from
27 "provid[ing] any commission, bonus, or other incentive payment based directly or
28 indirectly on success in securing enrollments....to any persons or entities engaged in

1 any student recruiting or admission activities or in making decisions regarding the
2 award of student financial assistance....” See 20 U.S.C. § 1094(a)(20), 38 U.S.C. §
3 3696(d); see also 34 C.F.R. § 668.14(b)(22)(i). The United States Department of
4 Education (hereinafter “ED,”) requires any school seeking to be eligible to participate
5 in Title IV programs to sign a Program Participation Agreement (PPA) agreeing to
6 abide by the program’s legal requirements (34 CFR § 668.14). The PPA includes an
7 attestation that the school “will not provide any commission, bonus, *or other*
8 *incentive payment based directly or indirectly*, upon success in securing
9 enrollments.” ED specifies that the PPA can be revoked for “a failure to comply with
10 any provision set forth in this Agreement, a violation of Department regulations
11 deemed material by the Department, or a material misrepresentation in the material
12 submitted to the Department.” This includes “all statutory provisions of or applicable
13 to Title IV of the HEA, all applicable regulatory provisions prescribed under that
14 statutory authority, and all applicable special arrangements, agreements, and
15 limitations entered into under the authority of statutes applicable to Title IV...”

16 7. LAFS and FS violated the ICB by linking sales reps’ promotions and
17 corresponding salary increases to zealously tracked metrics in securing student
18 enrollments. LAFS and FS set strict monthly enrollment mandates guised as
19 “retention rates.” Sales reps who met or exceeded these mandates were promoted to
20 the next level and received salary increases. In addition, sales reps who met or
21 exceeded the sales quotas received special privileges, including private offices,
22 greater flexibility from “dress code” requirements, etc. Conversely, sales reps who
23 failed to meet the quotas were placed on performance improvement plans to create a
24 paper trail that would serve as a pretext and were eventually fired.

25 8. Sales supervisors pressure the reps daily to increase enrollment
26 numbers. Sales reps were trained in high pressure sales tactics and fired if they
27 did not succeed in using them to drive enrollments.

28 //

1 9. Both Congress and the California Legislature demand that to be
 2 eligible for federal education benefits a school must successfully train its students to
 3 land and hold jobs in the field for which they are trained. Congress requires that a
 4 school provide “a program of training to prepare students for gainful employment in
 5 a recognized profession” 20 U.S.C. §1088(a)(1)(A)(i). California’s requirements,
 6 upon which eligibility for Veteran’s tuition depends, are even more specific:

7 “Graduates employed in the field” means graduates who are gainfully
 8 employed in a single position for which the institution represents the
 9 program prepares its graduates, beginning within six months after a
 10 student completes the applicable educational program. For occupations
 11 for which the state requires passing an examination, the period of
 12 employment shall begin within six months of the announcement of the
 examination results for the first examination available after a student
 completes an applicable educational program.”

13 (Cal. Ed. Code, § 94928)

14 10. Lying about placements also constitutes marketing fraud, which
 15 was central to tricking students into enrolling. LAFS is prohibited from:

- 16 • Overstating the availability of jobs upon a student’s graduation;
- 17 • Advertising concerning job availability ... unless the information is
- 18 accurate and not misleading; and
- 19 • Making any untrue or misleading statement related to placement or
- 20 employment

21 (Cal Ed. Code §94897 (b),(c), and (j).)

22 11. Defendants’ fraudulent contact has not been publicly disclosed as
 23 defined by 31 U.S.C. § 3730(e)(4)(A).

24 12. If there has been a disclosure, Relator David Phillips and Relator Ben
 25 Chaib are each, individually an “original source” as that term is defined in §
 26 3730(e)(4)(B).

27 13. Before filing this Complaint, the Relators voluntarily submitted a
 28 confidential pre-filing disclosure statement (subject to the attorney-client, work

1 product and common-interest privileges) to the United States on or about May 14,
2 2024 containing evidence and information in their possession pertaining to the
3 allegations contained in this Complaint.

4 **II. JURISDICTION AND VENUE**

5 14. This action arises under the False Claims Act 31 U.S.C. § 3729 *et seq.*
6 This Court has jurisdiction over this case pursuant to 31 U.S.C. §§ 3732(a) and
7 3730(b). This court also has jurisdiction pursuant to 28 U.S.C. § 1345 and 28 U.S.C.
8 § 1331.

9 15. At all times material to the time frames set forth in this Complaint,
10 Defendants regularly conducted substantial business within the State of California
11 and made and continue to make significant revenue within California. Defendants
12 recruit and enroll students from California. Defendants are thus subject to personal
13 jurisdiction in California.

14 16. Venue is proper in this district pursuant to 31 U.S.C. § 3732(a) because,
15 at all times material to this Complaint. Defendants conducted and continue to
16 conduct business in the Central District of California.

17 **III. PARTIES**

18 17. Defendant Los Angeles Film Schools, LLC (LAFS) is incorporated in
19 California, and its sole physical campus is in Hollywood. LAFS lives on massive
20 federal financial assistance, some \$70 million through federal student loans, and
21 over \$19 million in veterans' financial aid funds. LAFS is primarily owned and
22 controlled by James. W. "Bill" Heavener, Co-Chair of the Board of Directors and
23 Chief Executive Officer. LAFS sells multiple associate and bachelor's degrees
24 ostensibly training students for supposedly gainful employment in careers such as
25 animation, music production and audio engineering, digital filmmaking,
26 "entertainment business," film, and film production. LAFS and FS are linked so
27 tightly that LAFS' accounting and paychecks are issued from within the FS Winter
28 Park, Florida offices. Heavener and his partners (Edward Haddock, Jonathan

1 Phelps, and Garry Jones) also own and control Full Sail University (FS) in Winter
2 Park, Florida, and the same false claims schemes are operated at both locations.

3 18. LAFS was created in 1999 and bought by the Kesslers in 2001. In
4 2003, the Kesslers sold 75% of the school, 25% to The Heavener Company, 25% to
5 Haddock Education, and 25% to Phelps Education West.

6 19. Defendant Full Sail LLC, AKA Full Sail University is located in Winter Park,
7 Florida and corporate filings list Edward Haddock as it's CEO. With a two-hundred-
8 acre campus for some 9,000 students (the other 10,000 or so being online,) FS boasts
9 soundstages, a film backlot, and over 100 studios for production and editing. As
10 discussed *infra*, FS offers free and below market rental rates to productions and
11 companies in exchange for the brief "hiring" of FS graduates.

12 20. Defendant James W. Bill Heavener is a Florida resident (although he
13 sometimes lived in a home in the Hollywood Hills which he purchased for actress
14 Gianna Simone.) Heavener is or has been Chair and Co-Chair of LAFS, FS, the Los
15 Angeles Recording School, and a fourth for-profit college, the Rocky Mountain
16 School of Design. He is a long-standing member of the University of Florida Board
17 of Trustees, and he UF Business School and the Football Training Center are also
18 named after him following major donations made by Heavener.

19 21. Defendant Diana Derycz-Kessler is a California resident and member of
20 the California Bar. During times material to this case, she was President and CEO
21 of LAFS for 16 years, stepping down abruptly in 2017 while LAFS was being
22 investigated by the ED. Within weeks of resigning, Derycz-Kessler (and her
23 husband Paul Kessler, with whom she purchased LAFS and the Los Angeles
24 Recording School) then brought a legal claim against Heavener and the other LAFS
25 & FS partners, leaving the Kesslers with millions while maintaining their 25% share
26 of the LAFS real estate owned by Ivar Partners, LLC, the entity co-owned by
27 Heavener, The Kesslers, Haddock, Phelps, & Jones which purchased the

28 //

1 real estate occupied by LAFS in 2003 when Heavener and his partners formed a
2 business partnership with the Kesslers.

3 22. Defendant Paul Kessler is a California resident and the husband of
4 Diana Derycz-Kessler. With her, he became a major investor in and CEO of Wizard
5 World Entertainment, LLC which was used to finance and create fake jobs so LAFS
6 could claim it met federal “gainful employment” requirements.

7 23. Relator David Phillips resides in Los Angeles, California. After
8 earning a BA from Duke University and an MBA in Entertainment Management at
9 The Anderson Graduate School of Management at UCLA, he began a 20-year career
10 in the industry as an agent, manager, and executive producer of critically acclaimed
11 and commercially successful films and television productions. In mid-2010,
12 Heavener hired Phillips as LAFS’ Vice President of Career Development
13 (placement).

14 24. Relator Ben Chaib resides in California. A veteran of sales
15 management jobs at the University of Phoenix, Career Education, Heald College and
16 Kaplan University, he was recruited to become LAFS’ Vice President of Admissions
17 (Sales) in 2009.

18 **IV. THE RELATIONSHIP BETWEEN FS AND LAFS**

19 25. With both Heavener and Haddock having Director’s or Co-Chair
20 positions at both FS and LAFS it is scarcely surprising that the operations of each
21 institution paralleled one another.

22 26. In fact, LAFS’ and FS’ entire online admissions and education
23 enterprise, by far its most profitable business, are both operated from within the FS
24 campus, not on the LAFS campus. FS vice President Tamara “Tammy” Elliot
25 (formerly Gilbert) was transferred to lead LAFS as President in 2017 and other
26 executives, such as Rachel Travaglini, Sharon Griffith, Tom Lacroix, Matt Pengra,
27 Ken Goldstone, Darren Millar, and James May were frequently transferred between
28 FS and LAFS.

1 27. The companies' accounting systems and financial management were
2 closely interlinked, with LAFS having to submit its fund requisitions (called
3 EREQS) to FS.

4 28. FS and LAFS Executive team leaders participated in joint strategy
5 retreats, Board meetings, and unified meetings with outside investors.

6 29. FS and LAFS Executive team leaders cooperated closely in making a
7 joint presentation to Heavener's business partner, the Haddock Family Trust.

8 30. LAFS frequently sought and received data and direction from FS
9 executives on marketing schemes and in creating the false appearance that the
10 schools were complying with all gainful employment criteria.

11 31. Heavener and the Kesslers went to great lengths to keep ED from
12 learning how closely the institutions were linked. In 2017, when an audit team
13 from ED came to LAFS, defendants anticipated that Relator Phillips would be
14 interviewed. In preparation for this ED interview, Heavener and Derycz-
15 Kessler repeatedly urged Phillips to reveal nothing about FS and/or between the
16 relationship between FS and LAFS. This was so vital that Phillips was asked to
17 participate in a last-minute meeting with Heavener and LAFS and FS Board
18 Members and owners, Haddock, Phelps, and Jones were tele-conferenced in
19 before Phillips' ED interview to flatter and thank Phillips and make sure he did
20 not mention Full Sail or anything that would incriminate LAFS. When Phillips
21 was debriefed post-ED interview by Heavener, Heavener immediately asked if
22 FS had been discussed and reiterated how important it was that Phillips had not
23 mentioned FS or informed ED of the operational ties between the two
24 institutions.

25 **V. LEGAL REQUIREMENTS FOR FS AND LAFS**

26 **A. The Higher Education Act Ban on Incentive Compensation**

27 32. Pursuant to Title IV of the Higher Education Act of 1965 ("HEA"), 20
28 U.S.C. §§ 1070, *et seq.*, the DOE provides financial assistance in the form of grants,

1 loans, loan guarantees and interest subsidies to eligible students to help defray the
2 costs of education. This includes the Federal Direct Student Loan Program, 20
3 U.S.C. §§ 1087a, *et seq.*, 34 CFR § 685; the Federal Perkins Loan Program, 20
4 U.S.C. § 1087aa, *et seq.*, 34 CFR § 674; the Federal Work Study Program, 42 U.S.C.
5 §§ 2751, *et seq.*, 34 CFR § 675; and the Federal Supplemental Educational
6 Opportunity Grant Program (“FSEOGP”), 20 U.S.C. §§ 1070b, *et seq.*, 34 CFR §
7 676.

8 33. One requirement of the Title IV programs is that an institution must
9 assent to a Program Participation Agreement (PPA) with the Department of
10 Education. 20 U.S.C. § 1094(a); 34 C.F.R. § 668.14(a)(1). The PPAs expressly
11 “condition the initial and continuing eligibility of the school to participate in a
12 program upon compliance with” the requirements of 20 U.S.C. § 1094 and 34
13 C.F.R. § 668.14.

14 34. The statute and the PPA require that:

15 “The institution will not provide any commission, bonus, or other
16 incentive payment passed directly or indirectly on success in securing
17 enrollments or financial aid to any persons or entities engaged in any
18 student recruiting or admission activities or in making decisions
regarding the award of student financial assistance.”

19 20 U.S.C. §1094(a)(20). *See also* 34 C.F.R. §668.14(b)(22).

20 35. Known commonly as the “Incentive Compensation Ban,” this
21 subsection of the statute expressly conditions the initial and continuing eligibility of
22 schools to obtain Title IV funding on the requirement that the schools not
23 compensate employees based on success in securing enrollments.

24 36. Congress prohibited incentive compensation schemes because it
25 determined that the payments led to enrolling unqualified students who received
26 federally insured student loans and defaulted on them at higher rates than schools
27 without such schemes. Since the federal government guaranteed the loans, incentive
28 compensation was tied to staggering costs to the taxpayer.

1 37. “Commission, bonus, or other incentive payment” means a sum of
2 money or something of value, other than a fixed salary or wages, paid or given to a
3 person or entity for services rendered.” 34 C.F.R. § 668.14(b)(22)(iii)(A).

4 38. Institutions may make merit-based adjustments to employee
5 compensation, provided that such adjustments are not **based in part, directly or**
6 **indirectly**, upon success in securing enrollments or the awards of financial aid. 34
7 C.F.R. § 668.14(b)(22)(ii)(A).

8 39. In each PPA, the institution certifies, “The execution of this Agreement
9 by the Institution and the Secretary is a prerequisite to the Institution’s initial or
10 continued participation in any Title IV, HEA Program.” The PPA then states, *inter*
11 *alia*:

12 “By entering into this Program Participation Agreement, the Institution
13 agrees that...(22) It will not provide, nor contract with any entity that
14 provides, any commission, bonus, or other incentive payment based
15 directly or indirectly on success in securing enrollments or
16 financial aid to any persons or entities engaged in any student recruiting
or admission activities or in making decisions regarding the awarding
of student financial assistance....”

17
18 40. The ED certification to participate in the Title IV programs lasts a
19 maximum of six years, and institutions are required to seek recertification from the
20 ED on a regular basis to continue their participation in the Title IV programs. An
21 institution must also apply for recertification by the ED if it undergoes a change in
22 control, as defined by ED regulations, and may be subject to similar review if it
23 expands its operations or educational programs in certain ways. 34 C.F.R. § 668.13.

24 41. Neither Relator worked in the Compliance Department and therefore
25 neither had access to copies of either FS’ or LAFS’ PPAs. However, since a current
26 PPA was required for a school to qualify its students for federal loans, and since the
27 loans were continued throughout this period, Relators assert, upon information and
28 belief, that each school maintained a PPA at all times material to this Complaint.

1 **B. The October 29, 2010 Final Regulations**

2 42. On October 29, 2010, the ED published in the Federal Register final
3 regulations for improving integrity in the programs authorized under Title IV of the
4 HEA of 1965, as amended. These rules and regulations are enumerated as 75 FR
5 66832 - 66975.

6 43. 75 FR 66876 states:

7 “We note that individuals may be compensated in any fashion that is
8 consistent with the prohibition identified in section 487(a)(20) of the
9 HEA...the Department recognizes, for example, that institutions often
10 maintain a hierarchy of recruitment personnel with different amounts of
11 responsibility. As long as an institution complies with section
12 487(a)(20) of the HEA, it may be appropriate for an institution to have
13 salary scales that reflect an added amount of responsibility. Institutions
also remain free to promote and demote recruitment personnel, as long
as these decisions are consistent with HEA’s prohibition on the
payment incentive compensation.”

14 44. 75 FR 66877 further clarifies by stating:

15 “Section 668.14(b)(22) does not prohibit merit-based compensation for
16 financial aid or admissions staff. An institution may use a variety of
17 standard evaluative factors as the basis for this type of compensation.
18 However, consistent with section 487(a)(20) of the HEA and §
19 668.14(b)(22), an institution may not consider the employee’s success
20 in securing student enrollments or the award of financial aid in
21 providing this type of compensation. Further, an increase in
22 compensation that is based in any part either directly or indirectly on
the number of students recruited or awarded financial aid is
prohibited.”

23 45. Standard evaluative factors that an institution may take into account in
24 determining the compensation of employees include: seniority or length of
25 employment; job knowledge and professionalism; skills such as analytic ability,
26 initiative in work improvement, clarity in communications, use and understanding of
27 technology; traits such as accuracy, thoroughness, dependability, punctuality,
28 //

1 adaptability; peer rankings; student evaluations; and interpersonal relations. *See*
2 Federal Student Aid Handbook, Vol. 2, Ch. 3, at 2-59, 2017-2018¹

3 **C. The November 27, 2015 Final Rule**

4 46. On November 17, 2015, ED provided clarification and additional
5 information applying to the October 29, 2010 regulations.

6 47. 75 FR 73992 states:

7 “The regulations at 34 CFR 668.14(b)(22), implementing the statutory
8 ban on enrollment-based compensation to recruiters of students, 20
9 U.S.C. § 1094(a)(20), do not contain a ban on graduation-based or
10 completion-based compensation...The Department...does not interpret
11 the regulations to proscribe compensation for recruiters that is based
12 upon students’ graduation from, or completion of, educational
13 programs....In assessing the legality of a compensation structure, the
14 Department will focus on the substance of the structure rather than on
15 the label given the structure by an institution. Thus, although
16 compensation based on students’ graduation from, or completion of,
17 educational programs is not *per se* prohibited, the Department reserves
18 the right to take enforcement action against institutions if compensation
19 labeled by an institution as graduation-based or completion based
20 compensation is merely a guise for enrollment-based compensation,
21 which is prohibited. Compensation that is based upon success in
22 securing enrollments, even if one or more other permissible factors are
23 also considered, is prohibited.

19 **D. Veteran’s Administration Education Benefits Regulations**

20 48. Unlike Title IV assistance, these are not federally insured student loans.
21 They are direct tuition grants which the veterans are not required to repay. 38 U.S.C.
22 §3301 et. seq. In addition to having a lower threshold for customer buy-in (since
23 there is no debt faced by the student or service member,) the veteran’s benefits are
24 //

26 ¹[https://ifap.ed.gov/fsahandbook/attachments/1718FSAHbkActiveIn](https://ifap.ed.gov/fsahandbook/attachments/1718FSAHbkActiveIndex.pdf)
27 [dex.pdf](https://ifap.ed.gov/fsahandbook/attachments/1718FSAHbkActiveIndex.pdf)

1 popular because they pay money to the school much more quickly than insured loan
2 money comes in.

3 49. Responding to anecdotal accounts of widespread fraud in the veterans’
4 “educational” programs, in 2012 Congress added a ban on incentive compensation
5 for sales reps (38 USC §3698(b)) that paralleled the prohibition in Title IV. Earlier
6 that year President Obama issued Executive Order 13607, extending to active-duty
7 military financial assistance the same protections that were in the Higher Education
8 Act. 34 CFR § 668.71 authorized the Secretary of Education (and by extension, the
9 Secretary of Defense) to revoke a school’s eligibility to receive financial assistance
10 or get student loans for its enrollees. 34 CFR §§ 668.73-75 prohibited schools from
11 lying to students about financial aid matters, the employability of its graduates, job
12 opportunities, or the school’s “knowledge about the current or likely future
13 conditions, compensation, or employment opportunities”. Further, the schools must
14 meet all state legislative and administrative requirements. (34 CFR § 600.9)

15 50. Like the PPA, schools seeking tuition support veterans must enter into
16 a memorandum of understanding with the Department of Defense Office of the
17 Undersecretary of Defense for Personnel and Readiness. Compliance with its terms
18 is mandatory. 32 C.F.R. Pt. 68 Appendix A, ¶ 3(a)(2) and educational institutions
19 failing to comply may be removed from the program.

20 51. The schools must have policies in place that “[b]an inducements
21 including any gratuity, favor, discount, entertainment, hospitality, loan,
22 transportation, lodging, meals, or other item have a monetary value of more than a
23 de minimis amount to any individual, entity, or its agents including third party lead
24 generators or marketing firms other than salaries paid to employees or fees paid to
25 contractors in conformity with all applicable laws . . .” *Id.*, at ¶ 3(j)(1).

26 52. President Obama issued Executive Order 13607 extending to active-
27 duty military financial assistance the same protections that were in the Higher
28 Education Act. 34 CFR § 668.71 authorized the Secretary of Education (and by

1 extension, the Secretary of Defense) to revoke a school's eligibility to receive
2 financial assistance or get student loans for its enrollees. 34 CFR §§ 668.73-75
3 prohibited schools from lying to students about financial aid matters, the
4 employability of its graduates, job opportunities, or the school's "knowledge about
5 the current or likely future conditions, compensation, or employment opportunities".
6 Further, the schools are required to meet all state legislative and administrative
7 requirements. 34 CFR § 600.9

8 53. The Veteran's assistance program requires that the eligibility of each
9 school must be determined by the "state authorizing agency" in the state in which
10 the school is located, thus importing a state regulatory matrix in addition to the
11 federal requirements. LAFS falls under the domain of the California State
12 Approving Agency for Veterans Education (CSAAVE). CSAAVE's role and
13 responsibilities are laid out in the *California Education Code* §§ 61700 *et. seq.*

14 54. Since 2016 CSAAVE must also certify that the school has been
15 approved to operate by the Bureau of Private Postsecondary Education, (BPPE) *Cal.*
16 *Ed. Code* §67103(c).

17 **E. Gainful Employment Requirements**

18 55. Both Congress and the California Legislature demand that to be eligible
19 for federal education benefits a school must successfully train its students to land
20 and hold jobs in the field for which they are trained. Congress requires that a school
21 provide "a program of training to prepare students for gainful employment in a
22 recognized profession" 20 U.S.C. §1088(a)(1)(A)(i). California's requirements,
23 upon which eligibility for Veteran's tuition depends, are even more specific:

24 "Graduates employed in the field" means graduates who are gainfully
25 employed in a single position for which the institution represents the
26 program prepares its graduates, beginning within six months after a
27 student completes the applicable educational program. For occupations
28 for which the state requires passing an examination, the period of
employment shall begin within six months of the announcement of the

1 examination results for the first examination available after a student
2 completes an applicable educational program.”

3 (Cal. Ed. Code, § 94928)

4 56. This violation is also tied to marketing fraud which was central to
5 tricking students into the program. The school is prohibited from by (Cal Ed. Code
6 §94897 (b),(c), and (j)

- 7
- 8 ■ Overstating the availability of jobs upon graduation;
 - 9 ■ Advertising concerning job availability ... unless the information is
10 accurate and not misleading; and
 - 11 ■ Making any untrue or misleading statement related to placement or
12 employment.

13 57. All members of the Executive Team, executives and program managers
14 at LAFS were fully aware of the regulatory requirements. In April of 2012, LAFS
15 assured their accrediting agency ACCSC that LAFS, a member of the state’s
16 proprietary school association, had access to a variety of webcast seminars, and that
17 is compliance officer routinely updates all department heads on new developments.
18 Moreover, the CEO, Diana Derycz-Kessler, the Vice President of Operations, Jenna
19 Langer, and Paul Bott, the Vice President for Academic Affairs, regularly attended
20 seminars and conferences sponsored by regulatory and accrediting agencies and
21 trade associations. Bott is a former Commissioner of ACCSC.

22 58. Just as LAFS’ leaders knew what was required, its owners and Board
23 Members knew LAFS was built on a platform of deceit. The day before the ED
24 audit visit in 2017, Heavener told Jenna Langer, Derycz-Kessler, and Phillips that
25 full-time jobs did not exist for graduates of LAFS’ audio recording area and unless
26 the LAFS could sell to auditors “about a third of our business is going to disappear
27 because full-time time jobs don’t exist for these people, they don’t exist.”

28 //

1 **VI. THE FRAUD SCHEMES**

2 “Most [grads] report a yearly income of 0-\$5,000 in their field of study “

3
4 #1477.1, Agenda for LAFS Career Development “Jobs” Meeting

5 "What’s the point of [getting grads] work if we cannot use it in service
6 of our accreditation obligations?"

7 #21080.1 Elaine Chekich, LAFS Career Development
8 Production Supervisor

9 59. Concerted lies to federal officials rarely occur in a vacuum. To
10 understand the intense financial pressure which drove the school to lie, and its
11 profound impact on thousands of hoodwinked students and the tens of millions of
12 dollars this cost, one must first understand why Congress demands proof of gainful
13 employment and how LAFS gamed the system.

14 60. Once the Los Angeles Recording School (LARS) fought litigation and
15 its former instruction was absorbed into LAFS, LAFS proceeded to ramp up its
16 audio engineering program and add a music production program to prey on
17 thousands more students it knew would likely never become gainfully employed
18 after graduation. Kevin Bannerman, one of the placement executives recalls that “At
19 the beginning of 2011 . . . the market for Recording students seeking engineering
20 work was vanishing before our eyes. (Draft of Career Development Business Plan.)
21 The problem was worsened by the nature of the students admitted and the graduates
22 the school had to find jobs to maintain accreditation. At the 2016 “Jobs Meeting”
23 managers knew that 90% of the jobs available to LAFS graduates were freelance.
24 Worse yet, Phillips, an experienced former entertainment industry executive and
25 agent who for twenty-five years specialized in getting clients jobs, observed the vast
26 majority of LAFS graduates were not able to obtain entry level positions. With
27 BPPE and accreditation criteria requiring that seven of every ten graduates actually
28 be consistently employed in the field they were trained in, LAFS executives

1 estimated that only 20% of graduates *might* be able to get work on their own, and
2 that for 50%, the “we must engineer gigs.” (*Ibid*, p. 2)

3 61. LAFS was instructed by Heavener and Derycz-Kessler to focus strictly
4 on the appearance of compliance. evidenced by management’s carefully granular
5 calculations, measuring *down to the day* how many placements had to be created to
6 reach the 70% number for each of the LAFS programs. And it shows that the orders
7 came directly from Derycz-Kessler. (*Id.*, p. 1.) and Bill Heavener.

8 62. Fearing the loss of its accreditation, under Heavener’s direction, LAFS
9 approached this problem through multiple fraudulent schemes to artificially prop up
10 its placement rates by intentionally misleading both its accreditors and its current
11 and prospective students. Placing 70% of its graduates was essential to Heavener
12 and he insisted upon it. When Heavener saw this could not be achieved honestly, he
13 and the Kesslers financed productions through multiple loan-out corporations such
14 as Jellyworks Films, LLC and First Chance Films. Released in 2009, All Ages
15 Night was executive produced by the Kesslers, Heavener, and Ed Haddock, and
16 Garry Jones.



26 <https://www.imdb.com/title/tt1081919/mediaviewer/rm1142010880/>, last visited
27 May 5, 2024.

28 //

63. LAFS and FS also made a habit of repeatedly hiring industry professionals like former Warner Brothers executive turned LAFS President Thom Mount to “hire” LAFS graduates exactly as they had done before Phillips’ arrival by investing in and producing multiple films with him that specifically hired LAFS and FS graduates for just a few days, long enough to claim their graduates had been “placed.” This was the primary reason the owners invested in these films—to hire their graduates so they could claim their graduates were employed-in-field and hit their placement goals when they were actually employed-in-field by LAFS’ own self-financed schemes. Second, both schools leveraged their campuses and the film and recording equipment they owned, offering it to production companies free or wildly below fair market value on condition that its graduates be hired for the most fleeting of jobs just to create a years-long façade of compliance and genuine placement. LAFS even went so far as to change its official internal operations policy in 2016 to insist that no one, including LAFS employees, could shoot anything on its campus unless they specifically hired LAFS graduates. LAFS was only interested in employing its graduates in temporary jobs which could be counted as a two-day placement as it had to place 35-50 graduates each month as it grew so fast. And LAFS could only afford to pay for jobs lasting two days, because even at \$10-12 an hour, between 420-600 students a year could only be momentarily employed. So, LAFS claimed that even two days of work as a production assistant, furniture mover, runner, or even showing up for a position that was not really needed would count. LAFS then padded its records with wildly imaginative claims that its graduates actually had freelance careers. This was necessary to sidestep traditional employment requirements by tricking or coercing LAFS graduates into signing freelance verification forms before they were paid and instructing its “artificial employers” not to pay any LAFS graduate until a freelance verification form, created by LAFS, was signed by each of them. The schemes will be described in greater detail and the evidence for them set forth.

1 **A. The Pay for Placements Scheme**

2 64. Heavener, and others at his direction had set these basic schemes in
3 motion at both LAFS and FS prior to Phillips' arrival at LAFS. When Phillips came
4 to work as LAFS' Vice President of Career Development (and Special Advisor to
5 the LAFS Board of Directors,) he was quickly initiated into Heavener's habit of
6 laundering money through the Greater Kansas City Community Foundation
7 (GKCC) to which Heavener had donated great sums of money several years before.
8 At Heavener's instruction, Phillips would relay the request to the GKCC that large
9 sums of money be funneled by the GKCC to others. The GKCC would then
10 distribute it, per Heavener's direction, to media and production companies which
11 had agreed to "hire," however briefly, LAFS graduates.

12 65. A variation of this model was used by the Kesslers, when on March 31,
13 2011 Diana Derycz Kessler reported "We have done at least 3 feature films here
14 using our students through Jellyworks or 1st Chance Films." On October 5, 2011, an
15 executive team meeting discussed the fact that Ben Chaib was achieving the same
16 results the same way: "Ben is hiring grads to film graduations and testimonials. May
17 be hired through Jellyworks."

18 66. With the growth of LAFS graduates, the GKCC money laundering
19 turned into a large enterprise at Heavener's direction, with money going to the
20 Fender Foundation, Kids in the Spotlight, the Montalban Foundation, Entertainment
21 Training Through Internships (ETTI) and others to specifically finance the hiring of
22 hundreds of LAFS graduates to inflate their placement rates, a practice which has
23 led the shut-down of numerous for-profit schools. In 2011, ETTI was paid \$13,000
24 for 98 placements, and another \$15,500 for yet more placements, a deal in which
25 Heavener's accountants were directly implicated.

26 67. At Heavener's direction, LAFS hired psychologist Michael Aharoni in
27 October or November of 2011. Aharoni began working with LAFS Career
28 Development staff and helped develop a business plan and organizational structure

1 to systematize a plan to create fully 50% of the supposed “jobs” through what were
2 euphemistically called “In-house Production Opportunities” and “Post-Graduate
3 Apprenticeships.” In truth, both categories of “jobs” were paid for by LAFS (and
4 perversely – were paid for with the money LAFS got from the federal government
5 via insured loans or Veteran’s education benefits.) Heavener and Derycz-Kessler
6 reviewed nearly all the communications surrounding the business plan’s formation.

7 68. From 2010-2017, LAFS paid nearly a million dollars to production
8 companies that would “hire” LAFS graduates, typically for two days, and LAFS was
9 on track to pay another \$360,000 for 2017. Given that the Ivar Music Group was
10 paid nearly half of that money for orchestrating placements on the LAFS campus,
11 defendants’ intentional concealment of this relationship from ED is especially
12 egregious. Most significantly, it is the Ivar Music Group contract that LAFS was
13 most careful about concealing from the ED audit team before and months after their
14 LAFS visit because Heavener and Derycz-Kessler knew that if this contract was
15 exposed, it would most certainly terminate LAFS’ Title IV and Veteran’s benefits.

16 69. The language written into contracts and agreed-upon arrangements with
17 vendors was built in and/or in cases intentionally camouflaged to specify how many
18 LAFS graduates would be hired in exchange for LAFS’ financial support and/or
19 quid pro quos. In September 2011, LAFS paid \$55,000 to sponsor the 3D Film
20 Festival to have 40 of its graduates getting temporary work even though they had no
21 chance of turning these few hours of bought-and-paid-for “employment” into
22 reasonable and sustainable employment. This was done at the direction of and with
23 the full knowledge of Heavener and Derycz-Kessler, both of whom were involved in
24 the email chains discussing and confirming these arrangements.

25 70. Similarly, in August of 2013 LAFS promised one vendor, IES, that it
26 would sponsor a film festival by donating \$30,000 in cash and 5 days of use of the
27 LAFS-owned Ivar theater, rent free (valued at \$25,000). In return, IES would hire
28 whatever 100 graduates LAFS needed placed.

1 71. The alternative to outright cash bribes was to use the Ivar Theater and
2 the LAFS campus to offer free or below-market rental rates for space and equipment
3 to shoot on campus, in exchange for “hiring” whatever graduates LAFS sent them.
4 The entirely bogus nature of these “jobs” is glaringly apparent. In what other
5 environment does the employer have almost no say in *whom* they hire? Yet that is
6 precisely the case here as Phillips, under constant pressure from Heavener to get
7 LAFS graduates hired within specific reporting deadlines to hit 70%, was instructed
8 by Heavener to insist LAFS had to have complete control over the hirings to meet
9 its placement criteria since LAFS cared only about the current cohort of LAFS
10 graduates it needed to place right then, not any alumni who were out of school past
11 eighteen months and had already been reported upon, because LAFS did not have to
12 report on any graduates beyond the current unplaced cohort. For example, in June
13 2015, SKEE TV prepared to walk away from a contract, complaining:

14 “[W]e cannot simply employ grads to fulfill a job placement
15 requirement for LAFS with such high turnover and no value to our
16 growth. This model is ineffective for all three sides including the
graduate.”

17
18 72. The “high turnover” was also directly required by LAFS which would
19 only allow two days of “employment” so it could maximize the number of graduates
20 it claimed had “jobs”. This was a frequent source of tension. In April 2015, LAFS’
21 Compliance Director, Mark Debacco inserted language in yet another contract,
22 explaining:

23 The contract looks fine, except that unless you are otherwise confident,
24 may I suggest verbiage that gives us control over who they engage as
25 opposed to just “LAFS Graduates”. I’ve added some verbiage to article
26 5 that attempts to accomplish this. It is similar verbiage that I put in the
Tom Tran deal, which came in handy when they didn’t want to hire
who we gave them.

27 //

28 //

1 73. The tension between the needs of the vendors, productions, and LAFS’
2 effort to “place the unplaceable” continued. In December 2016, Phillips insisted “a
3 daily graduate hire commitment . . . is the single most important factor for us,” and
4 pushed a small production company to hire “10 PAs per day (even if they have
5 limited responsibility)”. That same month, LAFS insisted that if the production
6 company insisted on a five-day stint for the graduates, instead of LAFS’ preferred
7 two-day rotation with another group coming in for another two days, the company
8 would have to agree to further “hires”. LAFS’ unrelenting approach also
9 diminished whatever value there might possibly have been for the veterans who
10 were graduating. In March of 2015, a comedy event wanted to hire veterans who
11 had graduated, yet LAFS insisted that the production had to accept whoever LAFS
12 sent them. Similarly, in December 2015, Phillips had to insist that with one Skee
13 production contract the graduates “hired” by Skee would be whoever LAFS chose to
14 send them, and that even though they had graduated LAFS, they could not be placed
15 in positions of responsibility – only “supportive roles” so that Skee, after agreeing
16 to pay for the “LAFS graduates who had been thrust upon them,” would still have to
17 hire its own production assistants, sound technicians, lighting technicians, and
18 camera operators.

19 74. LAFS knew these arrangements were highly suspicious and worked to
20 conceal them so it could deny it controlled these “hiring” arrangements. In April
21 2017, just before a Department of Education audit, Phillips, at the direction of
22 Derycz-Kessler and Heavener, assured LAFS’ Vice President of Operations Jenna
23 Langer, who was not aware of, nor informed of these arrangements at Derycz-
24 Kessler and Heavener’s insistence, “[W]e don’t have any written quid pro quo
25 agreements like that anymore . . . no one gets paid directly to hire anyone directly.”
26 In May 2017, with the Department of Education auditors barely out the door,
27 DeBacco directed a revision to yet another contract, remarking:
28

1 “Please remove from the document the verbiage, ‘4 graduate student
2 PA’s will be hired by the production at \$150/day per hire through
3 payroll.’ Where we appreciate Sneak Preview’s willingness to engage
4 LAFS graduates and where we believe you will find LAFS graduates
5 well prepared for entry level on set positions and where we encourage
6 Sneak Preview to engage LAFS graduates whenever you find the need
7 for trained filmmakers (our Career Development Department is always
8 ready to hook you up with some appropriate personnel to meet your
9 needs), it would not be appropriate for the contract to specify same.”

75. Even more telling was the second deletion:

9 “Paragraph 7, LAFS does not own the Ivar Theatre. Ivar Theatre is
10 owned by a holding company whose ultimate ownership is the same as
11 the ultimate ownership of LAFS. LAFS leases the Ivar Theatre from
12 the aforementioned holding company and LAFS holds sufficient right
13 to enter into the agreement with Sneak Preview. . .”

14 *ibid.* This was part and parcel of the Ivar Music scheme which created
15 fake placements for nearly a third of all LAFS graduates from 2010-May,
16 2017.

17 76. LAFS had to conceal its largest “pay for placement” relationship with
18 Ivar Music Group (formerly known as Heavy Harmony, which both received LAFS
19 funds and hired and paid LAFS graduates). LAFS used these two cut-outs to pay for
20 hundreds of fake “jobs” which it financed with the federal money pouring into its
21 coffers. LAFS controlled who to hire, when to hire them, what they would be paid,
22 how much they would be paid, and even whether they would be paid (conditional
23 upon their signing LAFS’ “Self-Employment Verification forms.) To achieve this
24 LAFS financed a music publishing lab for the sole purpose of creating hundreds of
25 fake jobs, “employing” graduates for two days so LAFS could report “success” to its
26 accreditor. From 2013 to 2015, LAFS paid Heavy Harmony (and later its related
27 company, Ivar Music Group,) \$120,000 a year to create “jobs” for over 550 LAFS
28 graduates.

//

1 77. LAFS' 2013 first "arrangement" with Heavy Harmony could not have
2 been more blatant as evidenced by the agreement drafted by VP Mark Debacco per
3 Derycz-Kessler. Heavy Harmony was paid \$10,000 per month to hire and pay 12-
4 18 LAFS graduates for two-day jobs. In 2015, this arrangement morphed into a
5 written contract with the Ivar Music Group, also owned by Grimaldi, after Heavener
6 and Derycz-Kessler met with and ordered Grimaldi to create a different sister
7 company (which would become Next Level) to avoid the appearance that LAFS was
8 directly paying money to the same company paying the LAFS graduates. Derycz-
9 Kessler explained to Grimaldi and to Phillips in order to execute the new deal with
10 Ivar Music Group, LAFS needed this to hide the flow of money from LAFS to the
11 ostensible "employer" which it had not done when Heavy Harmony hired LAFS
12 graduates. The 2013 agreement draft between LAFS and Heavy Harmony specified
13 that the money from LAFS was used to pay graduates \$25 per hour for up to 8 hours
14 of work. And the work had to be performed over a two-day period to create LAFS'
15 colorable "placement" claim. In 2016, when LAFS needed more audio and music
16 production graduates hired to reach its placement goals, these monthly payments to
17 Ivar Music Group sometimes spiked to \$13,500 per month if Next Level
18 "employed" up to 24-36 graduates.

19 78. But midway through the contract revisions, LAFS apparently decided
20 that even the ruse of having Ivar spawn Next Level (so Next Level could pretend to
21 "employ" the graduates,) was not enough protection. Although the arrangement
22 evidenced in the 2013 draft contract was the *de facto* operative agreement, the
23 written contract with Ivar Music Group was sanitized to avoid any admission of the
24 pay for placement scheme. Beginning in December 2014 or January 2015, the old
25 contract was slowly sanitized so that the final version read:

26 //

27 //

28 //

1 Derycz-Kessler continued in this vein signing yet another pay for placement
2 contract with Wizard World the very month of the ED audit team's visit.

3 82. LAFS could make this boast because, as Phillips described, the Ivar
4 Music Group scheme went on exactly as before, with LAFS selecting grads to be
5 hired based solely on the school's placement needs, stretching out two days of paid
6 work over weeks. And just as Heavy Harmony did before, Next Level withheld the
7 "employees' pay" until they signed the "Self-Employment Verification" forms
8 LAFS demanded of them. In January of 2015, Derycz-Kessler had been personally
9 involved in Skee's contract trading space at the Ivar for guaranteed brief-sting
10 "hiring" for LAFS graduates.

11 83. Heavy Harmony was founded and owned by George Grimaldi, a former
12 Sony Music executive who owned a contemporary music library (music that is
13 produced to be used in film, television, or radio.) Grimaldi began working for
14 LAFS as an independent contractor in 2013. In 2014, Derycz-Kessler, LAFS'
15 President and Chief Executive Officer, told Grimaldi, "You cannot be part of the
16 school" and instructed him to establish two independent companies, one to receive
17 money from LAFS, and the other to use some of that money to pay wages to the
18 hundreds of graduates who were briefly employed there. Again, an email from
19 Debacco tells the tale. On January 7, 2014, he wrote to Phillips:

20
21 "I don't see Ivar Music in the California Secretary of State's database
22 of business entities. But I do see Heavy Harmony. See below. I assume
23 it is still Heavy Harmony and the name change to Ivar Music has not
24 been processed yet. Is the below our Heavy Harmony and is it a
25 business entity "we" control? . . . Is the below the entity in question
and do we have control of the entity sufficient to obtain insurance
coverage on behalf of the business entity."

26 84. As with the other companies, Heavy Harmony and Next Level had no
27 control over whom it "hired." LAFS would send Grimaldi its list of hires for the
28 week who needed to be placed (the ones in a specific cohort to be reported on

1 eight months after their graduation from LAFS, and Grimaldi would hire them
2 no questions asked. No other students from any other school other than LAFS were
3 to be hired, and these LAFS graduates did not have to even interview for these
4 opportunities—their hiring was 100% guaranteed.

5 **B. Pretending the Graduates Have Sustainable Freelance “Careers”**

6 85. Heavener, Derycz-Kessler, Aharoni and other executives knew LAFS’
7 claims about freelance careers would not stand up to scrutiny. As early as February
8 2012, LAFS Vice President of Operations Jenna Langer was suggesting to
9 Heavener, Derycz-Kessler, and Phillips that before evidence of graduate “self-
10 employment” was submitted to ACCSC for review, “placement records reflecting
11 ‘self-employments’ **will have no actual dates of employment listed, just ‘self-
12 employment’ written on them.**” Also, “**Updated photocopies** (not masters) of
13 docs that were **originally flagged as potentially problematic**’ will be provided ...”
14 Jenna Langer and “Compliance” Director Mark Debacco also directed that CD staff
15 “update” graduates’ resumés when a “placed” graduate had “helpful information
16 that could simply look good. Pursuant to January 2012, instructions from Derycz-
17 Kessler, much of this was done at her direction.

18 86. Under pressure from Heavener, LAFS kept lowering the bar for “proof”
19 that its graduates were somehow self-employed. In August of 2013, the former head
20 of ACCSC, who was then an LAFS consultant pronounced that if “we have made
21 and documented multiple attempts to contact graduates to no avail, but have
22 evidence that they are in fact working, then we should document that and count
23 them as placed.”

24 87. By 2014, LAFS was listing one and two day “jobs” with its “pay for
25 placement” partners as evidence that a graduate’s employment was “sustainable.”
26 LAFS elected to interpret the ACCSC Guidelines for Employment Classification,
27 Appendix VII of ACCSC’ Standards of Accreditation as meaning that two days of
28 employment was somehow evidence of reasonable sustainability. And as noted,

1 *supra*, the “jobs” invoked by LAFS were not jobs in any sense of the word. The
2 graduates did not apply, were not interviewed, and did not go through a hiring
3 process. They simply showed up when and where LAFS officials told them. And as
4 also noted *supra*, the graduates were kept from being asked to take on any real
5 responsibilities, and frequently worked moving furniture, painting sets, or working
6 on “crowd control”, none of which made use of their purported training in the
7 technical aspects of film production, animation, or audio engineering as revealed by
8 2015 email exchanges between a vendor and Career Development, and a 2016
9 database compiled by Career Development. This has long been standard procedure.
10 In 2012 one graduate was counted as employed because he had a “front of the
11 house” job in a comedy club. “Front of the house” is an industry term for an
12 audience-facing position, taking tickets, preparing or serving drinks, etc. In 2016
13 LAFS’ Director of Alumni Engagement, Joe Byron estimated that only 20% of the
14 graduates were actually employed in the industry.

15 88. Integral to this scheme was forcing, and in most cases simply tricking
16 graduates to sign forms claiming that they had actively embarked on “careers”
17 seeking freelance work. LAFS desperately needed a scheme to create evidence of
18 “self-employment” so LAFS compliance executives developed a form they insisted
19 everyone in Career Development use and give to employers to pass out to LAFS
20 graduates. In 2012, LAFS would count a graduate as placed if there was “any
21 evidence at all that they were working”, or even trying to get work. In addition to
22 lying, LAFS sometimes resorted to outright trickery. In a 2012 email exchange that
23 included the compliance manager, Debacco, an LAFS “advisor” wrote about that:

24 I need to be sneaky with this and have her quickly sign whatever we
25 need all in one shot when she first arrives. Once she signs what we
26 need I’m going to inform her there is no job for her and that
threats/ultimatums don’t work out so well in the real world.

27 //

1 89. George Grimaldi of the Ivar Music Group and Heavy Harmony has
2 confirmed that LAFS controlled the graduates he “hired” were told (after traveling
3 to the LAFS campus for “fake work” and before they ended the seminar on the
4 LAFS campus) that they would not get their two-day paychecks unless they signed
5 LAFS forms claiming “I have continued to pursue freelance opportunities which are
6 related to the training which I received. [¶] By pursuing freelance work, I am
7 continuing to progress toward achieving my career objectives. I am taking steps
8 toward building a client base, and I am earning income from industry-related
9 services rendered.”

10 **C. 2017 False Statements to United States Department of Education**

11 90. To survive, LAFS repeatedly lied on the Program Participation
12 Agreements which require LAFS to attest that it was not paying incentive
13 compensation to the sales force. It then had to maintain those lies to an ED audit
14 team that visited the school in May, 2017.

15
16 From: Cupp, Jason
17 Sent: Wednesday, May 3, 2017 2:09 PM
18 To: McAuley, Patricia <Patricia.McAuley@ed.gov>
19 Cc: Espinosa, Adeline <Adeline.Espinosa@ed.gov>
20 Subject: Response to Follow-Up Question on Employer Agreements

21 Patricia,

22 Thank you for the recent e-mail and we are happy to provide additional information regarding various arrangements
23 LAFS had with entities from 2014-2016. As we mentioned in our most recent submission, LAFS does not have any
24 agreements with employers or potential employers that involve payments related to the placement of graduates and
25 similarly had no such arrangements during the referenced period. However, the school has entered into various
26 program advisory/support efforts. None of these arrangements contemplated any direct hiring by these individuals
27 and there is no expectation for them to do so. In addition to Dan Morrell (d/b/a Mix Mastered Studios), Del
28 Breckenfeld (d/b/a Music Depot) and Simone Bartesaghi (d/b/a Siba Media), described in the prior submission, LAFS
also utilized the occasional services of the following from 2014-2016: Joe Mazzone (d/b/a Another Music Library,
LLC), J4U Entertainment, Inc., the Ricardo Montalban Foundation, and Adrian Ross (d/b/a Media Music Productions)
during the 2014-2016 period. Due to time constraints involved in compiling information for the latest request, we
have not discussed all the details for each, but are happy to discuss before, during, or after the upcoming visit.

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1 91. This was entirely untrue. Less than four months before this email to
2 ED LAFS President and CEO Derycz-Kessler signed a contract with ABC stating:

3
4 10.1 To help Producer with the Production, as a minimum, Producer agrees to
5 retain the services of the Los Angeles Film School's Graduates pursuant to a
6 separate Agreement between Producer and the Graduates and according to the
7 following schedule:

8
9 LAFS ABC Final Executable

10 Date(s): January 20, 24, 25, 26 & 27, 2017; # of Graduates: 10 (over the
11 course of the 5 day shoot) @ \$112.00 per day.

12 And

13 Date(s): TBD; # of Graduates: 15 (for 2 days each, within 90 days of shoot
14 dates, on any other ABC shoot at any location) @ \$112.00 per day.

15 92. LAFS continued to lie to the ED auditors. Before arriving at LAFS the
16 ED requested additional information about any “arrangements or agreements the
17 school had with employers or potential employers”, its claimed gainful employment
18 statistics, and the length of employment behind each claim. The school claimed that
19 “[w]ith respect to regular employment, LAFS typically requires that the graduate be
20 employed for at least a week to be considered sustainable for reporting to ACCSC.”
21 Although the school admitted that it considered two days of work sufficient for the
22 “self-employed” graduates, it specifically hid the hundreds of jobs LAFS bought
23 through its “pay for placement” scheme.

24 93. Although LAFS never stopped lying to ED, they did accelerate their
25 evasive actions. Executives laid the groundwork for this before the auditors arrived.
26 On April 28, 2017, “Compliance Director” Debacco claimed to have “just learned”
27 LAFS had been improperly counting many students as self-employed based on
28 rumors instead of signed attestations from the graduates. In June 2017, Phillips was
forced out of his Vice President/Special Advisor to the Board of Directors role by
Heavener immediately after the ED visit in May 2017 and given an "LAFS & FS

1 Board-identified consultant role" which removed Phillips from all oversight of
2 Career Development but preserved his salary, benefits, office, and staff support.
3 LAFS President & CEO Diana Derycz-Kessler resigned from both roles on July 14,
4 2017 (as she feared losing her law license and was certain million-dollar fines and
5 closures for LAFS and FS were imminent.) This was confirmed to Chaib by LAFS
6 Vice President of Operations Jenna Langer who told Chaib "Diana resigned to save
7 her law license because she authorized LAFS to buy all those jobs for LAFS
8 graduates for so many years with government funds, and her and the owners needed
9 Dave to be the guy they blamed their schemes on."

10 94. Nor did this stop after the audit. In 2019, Phillips reported to Tammy
11 Elliott that "Angelia worked with from the Music Supervisors' Guild to book 40-
12 something "2 day" gigs by utilizing our facilities which still afforded us hires when
13 needed..." George Grimaldi recently learned this year, in May 2024, from a current
14 LAFS employee in Career Development, that LAFS' pay for placement deals still
15 exist on the LAFS campus with the Music Supervisors Guild under LAFS President
16 Tammy Elliott

17 95. LAFS' deception continued notwithstanding (or in conjunction with)
18 these cosmetic changes. After the ED audit team left, it followed up with some
19 document requests based on information LAFS gave to the auditors. It could not,
20 however, follow-up on the information purposely withheld from them. Although a
21 number of the arrangements with pay for placement vendors were listed by LAFS,
22 **Ivar Music Group**, by far LAFS' largest vendor accounting for approximately 137
23 LAFS "two-day" audio graduate hires per year, which received the most money
24 from LAFS and generated the most placements for them, was missing from LAFS'
25 disclosures to the ED. Phillips was instructed by LAFS to say nothing to ED of this
26 particular relationship during interviews, and LAFS submitted nothing before or
27 after the ED visit to the ED which would have clearly disclosed LAFS' contractual
28 relationship with Ivar Music Group to receive LAFS funds to train, hire, employ,

1 and verify payment to hundreds of LAFS graduates on campus from 2015-2017. In
2 addition, four months later, in October, 2017, Heavener emailed Phillips, then a
3 consultant with LAFS, to personally request Phillips check his files and send him
4 any evidence that could be used for ED discovery that mentioned “every CD
5 vendor” LAFS dealt with from 2013-2017, except Ivar Music Group and George
6 Grimaldi, were both intentionally removed from the list to be provided from LAFS
7 to the ED, again, as LAFS was betting on the ED not discovering them any
8 connection between Grimaldi, the Ivar Music Group, and Next Level.

9 96. On information and belief that in presentations and correspondence to
10 ED, LAFS specifically avoided mentioning anything about the Heavy Harmony
11 arrangement and the Ivar Music Group contract which were financed by LAFS
12 through the use of over \$1 million in federal funding as line items in yearly Career
13 Development budgets approved by LAFS, Heavener, and Derycz-Kessler which
14 disclosed and proved the exact nature of the consistent pay-for-play hiring schemes
15 conducted directly from the LAFS campus.

16 **D. LAFS Has Violated the California Education Code and Had BPPE**
17 **Known the School’s Operation Would Not Have Been Approved,**
18 **Leading to a Loss of CSAAVE Certification**

19 97. Since 2016 the CSAAVE for veterans must also certify that BPPE has
20 approved the school. This depends upon the school’s compliance with the
21 California state regulatory scheme. LAFS has falsely claimed compliance with state
22 requirements. First, the California Education Code prohibits:

- 23 ■ Overstating the availability of jobs upon graduation;
- 24 ■ Advertising concerning job availability ... unless the information is
- 25 accurate and not misleading; and
- 26 ■ Making any untrue or misleading statement related to placement or
- 27 employment

28 (Cal Ed. Code §94897 (b),(c), and (j))

1 98. LAFS former VP of Admissions Chaib reports that the sales reps were
2 told they could tell students anything about placement rates that was in LAFS'
3 submissions to ACCSC. But the ACCSC submissions did not include the
4 information that most of the "gainful employment" reports were based on LAFS'
5 paying people to "employ" the graduates, or that the average industry-related
6 income for graduates was estimated to be \$0-5,000 per year, or that the graduates
7 were not legitimately hired for the two-day "jobs" the school paid for, or that many
8 of those "jobs" did not involve doing any of the work for which they had been
9 supposedly trained.

10 99. Similarly, LAFS falsely claimed to be complying with 5 Cal. Code of
11 Regulations §7112(d)(3)(C) which allowed it to claim credit for a placement if:

12 "The graduate is self-employed or working freelance as
13 reasonably evidenced by, but not limited to, a business license,
14 fictitious business name statement, advertising (other than business
15 cards,) website, or business receipts or other evidence of income from
16 business; or an attestation signed by the graduate of self-employment or
17 freelance work and dated after graduation."

18 100. Forcing graduates to sign an attestation by withholding "pay" from
19 them unless they did so, or by otherwise tricking them into signing is not reasonable
20 evidence that the graduate is working freelance. Concealing these facts was material
21 to BPPE's continued tolerance of LAFS, without which it CSAAVE certification
22 and Veterans' benefits would have been lost.

23 **E. The Incentive Compensation Ban Scheme**

24 Dana and Bill, I will send you start performance for the reps via txt not
25 email . . . We need to remember safe harbors were removed and we do
26 not want email asking for start numbers when considering
27 compensation.

28 Ben Chaib to Bill Heavener, 2015

101. Defendants LAFS, Heavener, and both of the Kesslers violated ICB,
as codified in 20 U.S.C. § 1094(a)(20), and of the VA regulations, as codified in

1 38 U.S.C. § 3696(d), (collectively, “the ICB”) by linking sales reps’ promotions
2 and corresponding salary increases to their success in securing student
3 enrollments. LAFS set monthly enrollment quotas and sales reps who met or
4 exceeded them were promoted to the next level and received a salary increase, in
5 addition to other employment perks (casual dress, private offices, eligibility to
6 work highly paid overtime hours, etc.) And reps who failed to meet the quotas
7 were demoted or eventually fired.

8 102. Incentive compensation schemes for schools receiving Title IV support
9 have been illegal for over thirty years. Congress banned them after receiving
10 numerous reports that sales reps were wildly misleading potential customers so they
11 could earn commissions for enrolling them. Efforts to disguise incentive
12 compensation have been at the heart of numerous private school FCA cases, and
13 ours is no exception. Relator Ben Chaib, former Vice President of Admissions was
14 recruited, *inter alia*, to LAFS for this purpose. Chaib’s extensive experience with
15 these schemes in the for-profit school industry began in 2001. By the time he
16 reached LAFS in 2008 he had worked for University of Phoenix which only
17 bonused and promoted its sales staff based on enrollments they sold, called “starts”².
18 Although sales reps were nominally evaluated on various “soft skills,” none of them
19 mattered. The real criteria for bonuses, salary increases, or promotions was a sales
20 rep’s start performance. In 2004, Chaib moved to Career Education Corporation’s
21 American International University division. There, Chaib reports, salaries would be
22 increased or decreased at least twice a year, again, based primarily on starts.³ Chaib

24 ² The University of Phoenix paid \$80 million in 2009 to settle a declined *qui tam* action,
25 including \$67.5 million to the United States with another \$12 million in attorney’s fees.

26 ³ In 2019 Career Education Corporation resolved a false claims case that was pursued by a
27 team of state AGs. CEC waived its right to collect nearly \$500 million in student debt, paid the
28 states \$10 million, and another \$22 million to relators’ counsel. Federal involvement appeared
minimal as ED’s leadership included ED’s General Counsel who had represented CEC, the Acting
Undersecretary of Education had been a senior Vice President, and a senior advisor to the
Secretary had been CEC’s Vice President of regulatory operations. In April, 2024 the United

1 then went to Heald College, whose sales operation was quite similar, and then to
2 Kaplan University.⁴

3 103. A headhunter for LAFS recruited Chaib away from Kaplan for a
4 meeting with Heavener and the Kesslers at the Beverly Hills Hotel. At Heavener's
5 direction, LAFS hired Chaib and instructed him to build and disguise an incentive
6 compensation program at LAFS. The goal was to maximize profits above all else.

7 104. As directed, Chaib, and his then-wife, Amber Chaib, who was hired as
8 a high-ranking sales executive, proposed to Heavener a five-level pay scale with
9 salaries ranging from \$45,000 to \$90,000 per year, with "Starts Required to be
10 Promoted" as the sole criteria, ranging from 45 to 105 "starts" every six months
11 until 2011. After July 2011 the criteria to be promoted were changed to 120 to 210
12 starts per year. This meant that even a low-lever "Rep 1" was generating \$1.9
13 million in tuition money, and the highest paid reps were generating \$4.5 million in
14 annual sales. Although LAFS mimicked CEC and the University of Phoenix by
15 claiming to evaluate reps by many other criteria, just like those defendants,
16 enrollments were the only thing carefully tracked and the only thing that mattered.
17 Reps whose enrollment pace faltered were swiftly demoted or fired, and it was made
18 clear to them that the demotion was based on their sales statistics. The stratification
19 was rapidly implemented. Although sales reps could theoretically earn "merit
20 increases" that were at least partially based on their "soft" skills, those merit
21 increases ranged from 0% to 5% of salary, so a rep earning \$50,000 per year could
22 get an extra \$0-2500m meaning they could get nothing. The merit increases paled
23
24

25 States intervened in an incentive compensation case, United States ex rel Hitrost, LLC v. Study
26 Across the Pond, LLC, et. al. 1:21-cv-10274, D. Mass.

27 ⁴ In 2015 Heald settled its FCA case for \$30 million, although it was based on falsified
28 employment statistics, not illegal sales incentives.

in comparison to the \$10,000 – 24,000 set increase at each level, which looked like this:

Starts Required to be Promoted

| | | | |
|--|--------------------------------------|--------------------------------|-----------------------------------|
| Admission Rep I to Admissions Rep II | Admission Rep II to Senior Rep | Senior Rep to Master Rep | Master Rep to Executive Rep |
| 60 | 75 | 90 | 105 |

The Promotional Salary Ranges for each job level are:

| Level | Promotional Salary Range | | |
|--------------------------|--------------------------|----|-----------|
| Admissions Rep I | \$ 45,000 | to | \$ 54,000 |
| Admissions Rep II | \$ 55,000 | to | \$ 64,000 |
| Senior Admissions Rep | \$ 65,000 | to | \$ 74,000 |
| Master Admissions Rep | \$ 75,000 | to | \$ 80,000 |
| Executive Admissions Rep | \$ 81,000 | to | \$ 90,000 |

And in the fall of 2017, after the ED audit, it was raised to:

The Salary Ranges for each job level are:

| Level | Salary Range | | |
|--------------------------|--------------|----|------------|
| Admissions Rep I | \$ 45,000 | to | \$ 57,000 |
| Admissions Rep II | \$ 55,000 | to | \$ 69,000 |
| Senior Admissions Rep | \$ 67,000 | to | \$ 87,000 |
| Master Admissions Rep | \$ 85,000 | to | \$ 99,000 |
| Executive Admissions Rep | \$ 95,000 | to | \$ 123,000 |

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1 105. In July of 2011, with the elimination of “safe harbors” that LAFS felt
2 allowed it to get away with incentive compensation, Chaib, at Heavener’s direction,
3 issued a new compensation policy that was exactly like the previous one, but simply
4 eliminated mention of the start requirements as *the* criterion. But as shown by his
5 2015 warning to Heavener, starts – and only starts mattered. Closer regulation of
6 compensation practices barred schools from adjusting a rep’s supposed “salary”
7 more than once a year to reduce the effective pressure from disguised incentive
8 compensation schemes. But LAFS circumvented this with its “overtime” program.
9 Reps that were meeting their sales quotas – at whatever level, were allowed to work
10 5 hours of overtime per week, or 260 hours per year, earning 150% of their hourly
11 wage. For even a Level I rep earning \$20 an hour, this was an extra \$5,000 per year.
12 Reps who failed to meet their sales quotas would lose their right to overtime, which
13 was an immediate goal to increase starts, even before they were demoted or fired.

14 106. The incentive compensation system was so integral to the sales effort
15 that it was used on the managers as well in an incentive structure mirroring the
16 illegal incentives for the sales reps. Managers would be promoted or demoted based
17 solely on their team’s sales performance. Although “enrollment managers” could
18 legally be the targets of incentive compensation based strictly on sales results
19 (“starts,”) aggressively doing so guaranteed that they would closely manage the
20 sales reps under them to ensure that only sales results would be rewarded, and only
21 their lack would be punished.

22 107. Perversely, even ostensible compliance efforts were turned into
23 weapons that protected the most effective high-pressure sales reps and punished the
24 less effective ones. When regulatory changes made it riskier to demote less
25 aggressive reps, Heavener’s solution was to fire them instead. Heavener would
26 demand of Chaib, “Why are these people still here? They’re not hitting their
27 numbers. You should get them off the team.” Chaib explained to Heavener that they

28 //

1 could not fire people just “for numbers only” so LAFS devised a scheme to use one
2 of its few compliance tools to find pretextual reasons to fire them.

3 108. LAFS had a system for covertly monitoring sales calls. Although
4 LAFS claimed in a self-evaluation report to ACCSC that every sales rep had at least
5 one call monitored each week, this was untrue. Enrollment managers would target
6 the calls of low-sales reps and monitor them, waiting to detect some violation of
7 policy which they would then seize upon as a pretext to fire the rep and hope that
8 the replacement was more aggressive. Since the high-selling reps went
9 unmonitored, the tricks they used, and half-truths they told, went undetected and
10 uncorrected.

11 109. Because these tactics are wildly successful, Heavener continued to
12 pressure the sales department, demanding reports on a daily basis to remind his
13 managers that past performance matters little – only today’s results will save them.

14 110. Heavener and Derycz-Kessler continued their own active involvement
15 in, and direction of, these manipulations. Just two weeks after the ED audit they
16 were reviewing and approving reports of ongoing plans to reduce the bonuses of
17 sales reps who were not meeting their quotas after their prior sales exploits won
18 them promotions.

19 **FIRST CAUSE OF ACTION**

20 **31 U.S.C. § 3729(a)(1)(A)**

21 **False Claims**

22 111. Relators repeat and replead each and every allegation set forth in the
23 preceding paragraphs as though fully set forth herein.

24 112. As set forth above, from at least 2010 to the present, and ongoing,
25 Defendants knowingly presented or caused to be presented false or fraudulent claims
26 for payment to the United States, in violation of the FCA 31 U.S.C. § 3729(a)(1)(A).
27 Specifically, Defendants knowingly submitted or caused to be submitted false
28 certifications regarding compliance with the requirements of Title IV of the HEA, in,

1 inter alia, their PPAs, in order to obtain eligibility to participate in Title IV programs
2 and receive Title IV funding, when in fact Defendants' gainful employment
3 practices and compensation practices did not and do not comply with Title IV of the
4 HEA and its associated regulations in ways set forth in this Complaint above. In
5 signing the PPAs, a duly authorized director or agent of LAFS and FS, at the
6 direction of Heavener, Diana Derycz-Kessler or Paul Kessler, expressly certified that
7 the FS or LAFS "will not provide any commission, bonus, or other incentive
8 payment based in any part, directly or indirectly, upon success in securing
9 enrollments or the award of financial aid, to any person or entity who is engaged in
10 any student recruitment or admission activity, or in making decisions regarding the
11 award of title IV, HEA program funds." These certifications were false because FS
12 and LAFS, jointly and separately, created fake jobs to falsely represent each school
13 as meeting gainful employment standards and promoted and gave corresponding
14 salary increases, demotions, and terminations of sales reps based in part, directly, or
15 indirectly, on their success in securing student enrollments.

16 113. The Defendants also knowingly submitted or caused to be submitted
17 false certifications regarding compliance with the requirements of the VA to obtain
18 GI Bill benefits and other VA education benefits listed herein in, inter alia, their
19 application to the SAA, when in fact Defendants' compensation practices did not and
20 do not comply with VA regulations banning incentive compensation and in fact lied
21 about LAFS' gainful employment achievements in ways set forth in this complaint.

22 114. The Defendants knew they were paying employees based on their
23 success in securing student enrollments and paying others to temporarily employ
24 their graduates and that their representations to the Government were false.
25 Defendants' claims for Title IV funds and VA education funds based on these false
26 representations are fraudulent. When the Defendants request, receive, and retain
27 Title IV funds or VA education funds, Defendants know they are ineligible for those
28 funds because of their intentional violations of the ICB.

1 115. These fraudulent representations were material to the ED's and the
2 VA's decision to make FS and LAFS eligible for these financial aid programs as
3 well as GI Bill benefits and other VA education benefits listed herein, respectively,
4 and to pay funds under Title IV programs and the GI Bill benefits/other VA
5 education benefits listed herein. Therefore, each and every one of the claims
6 Defendants submitted or caused to be submitted violated the FCA. The violations
7 were material in accordance with caselaw interpreting the term.

8 116. In submitting or causing to be submitted such certifications and
9 applications, Defendants acted with actual knowledge, reckless disregard, or
10 deliberate ignorance of the truth or falsity of the claims.

11 117. By virtue of these false or fraudulent claims, the United States
12 suffered damages in an amount to be determined at trial.

13 118. The Defendants are jointly and severally liable to the United States
14 under the False Claims Act for treble damages in an amount to be determined at
15 trial, plus a civil penalty of \$5,500 to \$11,000 (adjusted for inflation) for each
16 false claim they presented and caused to be presented for payment.

17 **SECOND CAUSE OF ACTION**

18 **31 U.S.C. § 3729(a)(1)(B)**

19 **False Statements Material to False Claims**

20 119. Relators repeat and replead each and every allegation set forth in the
21 preceding paragraphs as though fully set forth herein.

22 120. As set forth above, from at least 2011 to the present, and ongoing,
23 Defendants knowingly made, used, or caused to be made or used false records or
24 statements material to false or fraudulent claims, in violation of 31 U.S.C. §
25 3729(a)(1)(B). Specifically, Defendants knowingly made, used, and caused to be
26 made or used, false certifications regarding compliance with the requirements of Title
27 IV of the HEA, in, inter alia, their PPAs, in order to obtain eligibility to participate in
28 Title IV programs and to receive Title IV funding, when in fact, Defendants' gainful

1 employment compensation practices did not and do not comply with Title IV of the
2 HEA and its associated regulations in ways set forth in this Complaint above. In
3 signing the PPAs, a duly authorized director or agent of LAFS and FS, at the
4 direction of Heavener, Diana Derycz-Kessler or Paul Kessler, expressly certified that
5 the FS or LAFS met gainful employment standards and that FS or LAFS “will not
6 provide any commission, bonus, or other incentive payment based in any part,
7 directly or indirectly, upon success in securing enrollments or the award of financial
8 aid, to any person or entity who is engaged in any student recruitment or admission
9 activity, or in making decisions regarding the award of title IV, HEA program funds.”
10 These certifications were false because the University promotes and gives
11 corresponding salary increases, demotes, and terminates enrollment sales reps based
12 in any part, directly or indirectly, on their success in securing student enrollments.

13 121. The Defendants also knowingly made, used, and caused to be made or
14 used, false certifications regarding compliance with the requirements of the VA to
15 obtain GI Bill benefits and other VA education benefits listed herein in, inter alia,
16 their application to the SAA, when in fact Defendants’ compensation practices did
17 not and do not comply with VA regulations banning incentive compensation in
18 ways set forth in this Complaint above.

19 122. The Defendants knew they were paying employees based on their
20 success in securing student enrollments and that their representations to the
21 Government were false. Defendants’ claims for Title IV funds and VA education
22 funds based on these false representations are fraudulent. When the Defendants
23 request, receive, and retain Title IV funds or VA education funds, Defendants
24 know they are ineligible for those funds because of their intentional violations of
25 the ICB.

26 123. In making, using, or causing to be made or used such false records
27 and statements, Defendants acted with actual knowledge, reckless disregard, or
28 deliberate ignorance of the truth or falsity of the claims.

124. These false records and statements were material to the ED's and the VA's decision to make FS or LAFS eligible for these financial aid programs and benefits, respectively, and to pay funds under Title IV programs as well as GI Bill benefits/other VA education benefits listed herein. Therefore, each and every one of the claims Defendants submitted or caused to be submitted violated the FCA. The violations were material in accordance with caselaw interpreting the term.

125. By virtue of these false or fraudulent claims, the United States suffered damages in an amount to be determined at trial.

126. The Defendants are jointly and severally liable to the United States under the False Claims Act for treble damages, in an amount to be determined at trial, plus a civil penalty of \$5,500 to \$11,000 (adjusted for inflation) for each false statement they made, used, or caused to be made or used that were material to a false or fraudulent claim.

PRAYER FOR RELIEF

WHEREFORE, the Relators, on behalf of the United States and on behalf of themselves hereby pray that after a trial, this Court:

1. On the First and Second Causes of Action, enter judgment holding the Defendants liable for the maximum amount of civil penalties, adjusted for inflation, for each violation of the False Claims Act committed by the Defendants jointly and severally;

2. On the First and Second Causes of Action, enter judgment against the Defendants, jointly and severally, for three times the amount of damages sustained by the United States because of the acts of the Defendants;

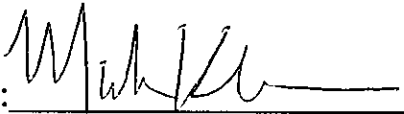
3. Award the Relators a percentage of the proceeds of the action in accordance with 31 U.S.C. § 3730;

4. Award the Relators their costs and reasonable attorneys' fees incurred in prosecuting this action;

1 DATED: June 20, 2024

Respectfully submitted,

2 KLEIMAN RAJARAM

3
4 By: 
5 Mark Kleiman

6 Attorneys for Plaintiffs/Relators
7 DAVID S. PHILLIPS and
8 BEN CHAIB
9

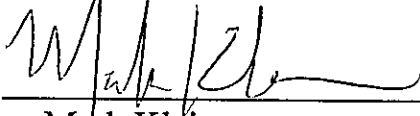
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11
12 **DEMAND FOR JURY TRIAL**

13 Relators, on behalf of themselves and the United States, demand a jury trial
14 on all claims alleged herein.
15

16 DATED: June 20, 2024

Respectfully submitted,

17 KLEIMAN RAJARAM

18 By: 
19 Mark Kleiman

20 Attorneys for Plaintiffs/Relators
21 DAVID S. PHILLIPS and
22 BEN CHAIB
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10 UNITED STATES DISTRICT COURT
11 FOR THE CENTRAL DISTRICT OF CALIFORNIA
12 WESTERN DIVISION

13 [UNDER SEAL],

14 Plaintiffs,

15 v.

16 [UNDER SEAL],

17 Defendants.

Case No. _____

**COMPLAINT FOR VIOLATIONS
OF THE FEDERAL FALSE
CLAIMS ACT [31 U.S.C. § 3729,
et seq.]**

**FILED IN CAMERA AND UNDER
SEAL PURSUANT TO 31 U.S.C.
§ 3730(b)(2)**

JURY TRIAL DEMANDED

22
23 **DOCUMENT TO BE KEPT UNDER SEAL**
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27
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