

NEWS RELEASE



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SOUTHERN DISTRICT OF CALIFORNIA
San Diego, California***

***United States Attorney
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For Immediate Release

**METABOLIFE AND OWNER WILLIAM BRADLEY
PLEAD GUILTY TO TAX CHARGES**

NEWS RELEASE SUMMARY - October 5, 2005

United States Attorney Carol C. Lam announced that William Robert Bradley, one of the owners of Metabolife International, Inc., pled guilty today in United States District Court in San Diego to evading millions of dollars in taxes. In a related proceedings, Metabolife International, Inc., pled guilty to two counts of Filing False Income Tax Returns. As a result of these pleas, the defendants have agreed to pay over \$6 million in back taxes, penalties and interest.

According to the plea agreements, Bradley evaded paying the taxes by a variety of complex methods and schemes, including: (1) the diversion of corporate profits that should have been accounted for by Metabolife; (2) the improper classification of corporate income; (3) failing to report personal income from

his towing company; and (4) utilizing a charitable foundation to conceal and disguise income. Examples of some of those schemes are set out below.

According to Assistant United States Attorney Kyle W. Hoffman, who is one of the prosecutors handling the case, Bradley utilized his position as a one-third owner of Metabolife International, Inc., a member of its Board of Directors and an officer responsible for the management of the corporation's financial affairs to successfully diverted hundreds of thousands of dollars in corporate receipts.

As set forth in the plea agreement, Bradley diverted corporate funds into four "off-the-books" accounts that he set up at two different banks in Metabolife's name. In order to conceal and disguise the existence of these accounts, Bradley had the statements from all of the "off-the-books" accounts sent directly to his residence. These accounts were funded with checks that Metabolife distributors made payable to Metabolife to reimburse Metabolife for advertising. As a result of this practice, the income to Metabolife -- represented by these reimbursement checks -- was concealed and disguised from the corporation's accounting department.

According to Assistant U.S. Attorney Phillip L.B. Halpern, who is also prosecuting the case, between August 19, 1997 and September 28, 1998, Bradley deposited over \$4 million in reimbursement checks into the "off-the-books" accounts. After depositing these funds, Bradley would write checks off these accounts to Bradley Towing, Inc., Auto Storage Auction Pool (a division of Bradley Towing, Inc.), and Metabolife International, Inc. In return for the checks drawn on the "off-the-books" accounts, Bradley diverted an equivalent amount of cash that was received from customers of Bradley Towing and Metabolife during the normal course of business. Finally, Bradley would take the diverted "cash" and split it up among himself, and the other two principals of Metabolife.

According to Assistant U.S. Attorney Phillip L.B. Halpern, Bradley also utilized The Bradley Foundation to assist in the evasion of millions of dollars in taxes. The Bradley Foundation was ostensibly formed by Bradley as "a nonprofit public benefit corporation" that was "not organized for the private gain of any person." The articles of incorporation specifically noted that the Foundation would not engage in any

activities or exercise any powers that are not in furtherance of the charitable purposes of the corporation. On May 7, 1999, the IRS granted The Bradley Foundation (based upon submitted materials) tax exempt status as a “private foundation.”

According to the plea agreement, Bradley (in January 2000) loaned \$2 million to Metabolife International, Inc. to cover operating expenses. Bradley funded this loan, in part, with a \$1 million check from The Bradley Foundation. The use of \$1 million in foundation funds constituted an improper “distribution” from The Bradley Foundation as it was not made to a tax-exempt foundation or for any recognizable charitable purposes.

In order to conceal this improper distribution, the \$1 million check was falsely categorized as a “donation” in the books and records of The Bradley Foundation. On March 29, 2000, Metabolife repaid the loan from The Bradley Foundation (plus 8.5% interest) by issuing a \$1,004,657.53 check to Bradley. At that time, Bradley improperly converted the funds for his personal use by depositing the Metabolife check into his personal bank account.

Also, according to the plea agreement, Bradley (on January 27, 2000) agreed to finance up to \$5 million to fund a swing loan to a limited liability corporation (2020 Camino Del Rio LLC) which owned an office building located at 2020 Camino Del Rio North in Mission Valley. Once again, Bradley improperly funded the loan from assets of The Bradley Foundation.

Between January 28, 2000 and March 9, 2000, The Bradley Foundation improperly distributed \$4,331,448.33 to 2020 Camino Del Rio LLC not for charitable purposes, but to fund the swing loan. On January 28, 2000, a trust deed for up to \$5 million was recorded on the property in favor of The Bradley Foundation.

On March 3, 2000, in order to create a vehicle to allow Bradley to purchase 2020 Camino Del Rio North, he formed Area 8 LLC. On March 10, 2000 (although the \$11 million construction loan had not yet closed), Area 8 signed a purchase agreement to buy the assets of 2020 LLC. Bradley signed the agreement

for Area 8, LLC. On March 17, 2000, Defendant William R. Bradley, on behalf of Area 8, purchased 2020 Camino Del Rio North.

Further, according to the plea agreement, Bradley, acting as an agent of Metabolife, knowingly and willfully caused Metabolife to subscribe to its corporate federal income tax return for the calendar year 1997 (Form 1120) and 1998 (Form 1120X). Metabolife knew that its 1997 and 1998 corporate tax returns failed to include: (1) \$231,644.41 in income from the “off-the-books” accounts; (2) \$335,066.61 in corporate income that was falsely classified as repayment of shareholder loans; (3) \$500,000 in overstated “sales returns and allowances” that was, in reality, distributed to Metabolife’s principals. As a result of omitting these items, Metabolife evaded the payment of \$339,221.23 in income taxes.

United States Attorney Lam said, “In simple terms, income tax cheats force honest taxpayers to shoulder more than their fair share of the tax burden. The use of charitable foundations, designed to help the poor and disadvantaged, for tax evasion is particularly egregious.”

IRS Special Agent-in-Charge Kenneth J. Hines stated, “These tax crimes involved the evasion of over \$2.3 million in federal income taxes. Elaborate tax evasion schemes were devised to intentionally evade corporate and personal income taxes. IRS Criminal Investigation will continue to aggressively pursue corporations and individuals who attempt to conceal their true income from the Internal Revenue Service through sham transactions.”

The United States Attorney also praised the efforts of the Internal Revenue Service, Criminal Investigation Division for its vigorous prosecution of the case.

Metabolife’s sentencing is set for December 16, 2005 (at 11:00 a.m.), and Bradley’s sentencing is set for April 28, 2006 (at 11:00 a.m.) in U.S. District Court in San Diego. Both sentencing will be handled by United States District Court Judge Barry Ted Moskowitz, who took the defendants’ guilty pleas today.

DEFENDANTS

WILLIAM ROBERT BRADLEY

Case No. 05 CR1474- BTM

METABOLIFE INTERNATIONAL, INC.

Case No. 05 CR1757-BTM

SUMMARY OF CHARGES AND MAXIMUM PENALTIES(Bradley):

COUNTS 1-3	Tax Evasion in violation of Title 26, United States Code, § 7201 which is punishable by 5 years in prison and/or a \$250,000 fine (for each count).
COUNT 4	Filing a False Income Tax Return in violation of Title 26, United States Code, § 7206(1) which is punishable by 3 years in prison and/or a \$100,000 fine.
COUNTS 5-7	Aiding and Abetting the Preparation of a False Income Tax Return in violation of Title 26, United States Code, § 7206(2) and Title 18, United States Code, § 2 which is punishable by 3 years in prison and/or a \$100,000 fine (for each count).

SUMMARY OF CHARGES AND MAXIMUM PENALTIES(Metabolife):

COUNTS 1-2	Filing False Income Tax Returns in violation of Title 26, United States Code, § 7206(1) which is punishable by 3 years in prison and/or a \$100,000 fine (for each count).
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Internal Revenue Service Criminal Investigation