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Granite Mountain Charter School

SUPERIOR COURT FOR THE STATE OF CALIFORNIA
COUNTY OF LOS ANGELES

GRANITE MOUNTAIN CHARTER
SCHOOL, a California nonprofit public
benefit corporation,

Plaintiff,

v.

PROVENANCE, a California nonprofit public
benefit corporation formerly known as
INSPIRE DISTRICT OFFICE; and DOES 1
through, 20, inclusive,

Defendants.

Case No.

COMPLAINT FOR:

- 1. BREACH OF CONTRACT;**
- 2. BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING;**
- 3. BREACH OF FIDUCIARY DUTY AND CONSTRUCTIVE FRAUD;**
- 4. ANTI-CYBERSQUATTING CONSUMER PROTECTION ACT;**
- 5. CONVERSION;**
- 6. PENAL CODE SECTION 496;**
- 7. ACCOUNTING; AND,**
- 8. UNFAIR BUSINESS PRACTICES**

DEMAND FOR JURY TRIAL

Plaintiff Granite Mountain Charter School (“GMCS”) brings this action against defendant Provenance, formerly known as Inspire District Office, and Does 1 – 20, and allege as follows:

INTRODUCTION

1. GMCS has been the victim of fraud and financial mismanagement by defendant Provenance and others, from its creation in January 2019 until GMCS’s departure from Defendant Provenance, a year later. In this short period of time, more than \$5 million in State educational funds allocated to GMCS’s students was used by Defendants for their own purposes and enterprises without GMCS’s permission. In that same time frame, more than \$70 million in State Funds was moved in and out of GMCS’ bank account, an account that Provenance controlled. Meanwhile, Provenance reports to be some \$29 million in the red. This action is brought to seek restitution to GMSC of State Funds that were allocated to GMCS students, but which the Defendants refuse to return. This action also seeks to recoup GMCS’s domain names, obtain recovery for damages caused by Defendants, and obtain an accounting of all transactions involving GMCS funds and property. The students of GMCS deserve the full benefit of the State funds provided for their education.

THE PARTIES AND VENUE

2. Plaintiff Granite Mountain Charter School (“GMCS”) is a California nonprofit mutual benefit corporation with its principal place of business in this judicial district. GMCS operates a charter school authorized by the Lucerne Valley Unified School District under the California Charter Schools Act. GMCS is a K-12 school that serves students who live in San Bernardino, Riverside, Los Angeles, Kern, Orange and Inyo Counties.

3. GMCS is informed and believes, and on that basis alleges, that defendant Provenance, is a California nonprofit mutual benefit corporation, that used to be named Inspire District Office. Its name was changed to Provenance on or about July 6, 2018. According to the most recent Statement of Information on file with the California Secretary of State, Provenance’s business address is 1740 Huntington Drive, Suite 205, Duarte, California.

4. GMCS does not know the true names or capacities of the defendants sued as Does 1 through 20. These defendants are sued by these fictitious names pursuant to California Code of Civil Procedure § 474. GMCS is informed and believes, and on that basis alleges that each of these defendants are responsible in some manner for the events, transactions, arrangements, or occurrences described in this Complaint and the resulting injuries and damages. This Complaint will be amended or

supplemented to state these defendants’ true names and capacities when and if they are ascertained.

5. GMCS is informed and believes, and on that basis alleges that each of the defendants was the agent, joint venturer, co-conspirator, partner, aider, abettor, or employee of each of the other defendants, and in doing the things alleged in this Complaint, were each acting within the course and scope of this agency, joint venture, conspiracy, or employment, and with each other’s advance knowledge and approval or subsequent ratification.

6. Venue in this judicial district is proper because the defendant is located in this district, and the actions underlying all causes of action occurred in substantial part in this district.

FACTUAL BACKGROUND

7. On information and belief, Provenance was formed as part of an effort by Inspire Charter Schools (“ICS”), Herbert “Nick” Nichols, and others associated with them (Does 1 - 20) to profit off of the burgeoning charter school movement in California and nationwide. On information and belief, ICS, Provenance, Nichols and Does 1 – 5 established more than ten charter schools in California and sold them a variety of administrative and educational support services directly and through affiliated businesses. Each of these charter schools operated on a non-classroom-based schooling model,¹ with ICS, Provenance, and the schools providing the educational resources necessary for a complete education for students learning outside of a centralized physical school/classrooms. As alleged herein, ICS, Provenance and Does 1 - 20 commingled the assets of the various schools with which they were working, misallocated and misappropriated funds belonging to GMCS, improperly booked expenses to GMCS that were not GMCS expenses, and otherwise failed to perform their duties to GMCS. GMCS was unsatisfied with the explanations it received about these issues and told Provenance that it intended to leave its network at the end of the 2019-2020 school year as allowed by the parties’ contract. Thereafter, around the middle of March, 2020 (just as the Coronavirus pandemic began) Provenance improperly registered roughly a dozen domain names using permutations of GMCS’s name and trademarks, and made an illegal demand for a \$200,000 payment should GMCS want to use its own

¹ On information and belief, the California based schools all operate as independent study programs in accordance with Article 5.5 of Chapter 5 of Part 28 of Division 4 of Title 2 of the Education Code.

1 name in its future marketing to students. Since notifying Provenance that it would no longer work with
2 it, GMCS has learned that—even though its revenue was roughly \$28 million—Provenance ran some
3 \$70 million through GMCS’s bank account without authorization or explanation and often for the
4 benefit of other schools, leaving millions of dollars unaccounted for and missing. This action seeks to
5 recoup GMCS’s domain names, obtain recovery for damages caused by Defendants, and obtain an
6 accounting of all transactions involving GMCS funds and property.

7 8. On information and belief, ICS, Provenance, Nichols, Does 1 - 20 and others promoted
8 what they called the “Inspire Education Model,” whereby they would run and/or provide services to
9 charter schools throughout the country. ICS, Provenance, Nichols, and Does 1 - 20 sought to become
10 major players in the charter school movement, and used the Inspire Education Model as their vehicle to
11 prominence. With the Inspire Education Model, these parties developed standardized educational
12 materials, management systems, policies and governing documents for charter schools, which they ran
13 more or less as a single enterprise promoting the Inspire brand. Initially, this was done by running
14 schools directly. As their needs changed, however, ICS, Provenance, Nichols, and Does 1 - 20 took
15 advantage of their position of power, influence and trust to maintain control over schools that they “spun
16 off” as separate entities by placing their employees in leadership roles of the schools and saddling them
17 with contractual relationships through which ICS, Provenance, Nichols, and Does 1 - 20 maintained
18 control over the schools, their finances, accounting and records, and without disclosing the full nature of
19 the relationship among the parties or the control they maintained to the persons that they placed in
20 leadership positions at the schools.

21 9. On information and belief, ICS, Provenance, Nichols, and Does 1 - 20 failed to honor the
22 contracts and policies that they put in place, and failed to treat the schools as separate legal entities with
23 independent assets and liabilities, such that they comingled assets, liabilities, employees, property and
24 finances of the various schools and of their own. Further, ICS, Provenance, Nichols, and Does 1 – 20
25 operated the schools and provided services to the schools not for the purposes of promoting the interests
26 of the schools or students, but for the purposes of promoting the Inspire brand and increasing the profile
27 and value of the Inspire brand.
28

Incorporation of Provenance and Existing Schools

10. On information and belief, in 2017, ICS, Nichols and Does 1 - 20 decided to separately incorporate each of the schools ICS was operating, with each one becoming a separate nonprofit benefit corporation and with ICS designated as the “sole member” under Corporations Code section 5056. ICS thereafter did in fact incorporate a number of the schools it was operating as separate entities. ICS caused various assets and personnel to be distributed among the schools it incorporated, yet it failed to clearly document these assignments and continued to operate the schools in more or less the same fashion as before, paying debts of one school with assets of another, booking debts of various schools as liabilities of other schools, and otherwise commingling assets, liabilities, and accounting.

11. On information and belief, ICS, Nichols and others formed Provenance in May 2017, giving it the name at that time “Inspire District Office.” The original Articles of Incorporation for Provenance state that it was incorporated to carry out the purposes of seven specifically identified “Supported Organizations,” and that it would provide each Supported Organization with administrative and/or educational support services. The May 2017 Articles of Incorporation further state that Provenance is empowered to exercise all rights and powers conferred by the State of California upon nonprofit corporations *solely* for the purposes of providing administrative and/or educational support services to the seven identified Supported Organizations: Clarksville Charter School; Inspire Charter School—Kern; Inspire Charter School—Los Angeles; Inspire Charter School—North; Inspire Charter School—South; Inspire Charter Schools—Winship-Central; and Learning Latitudes Charter School. GMCS is not one of the seven listed Supported Organizations.

12. On information and belief, Provenance filed Amended and Restated Articles of Incorporation of Provenance with the California Secretary of State on December 5, 2018. The Amended and Restated Articles of Incorporation state that Provenance is incorporated to carry of the purposes of *eight* specifically identified “Supported Organizations,” that it would provide each Supported Organization with administrative and/or educational support services, and that Provenance is empowered to exercise all rights and powers conferred by the State of California upon nonprofit corporations *solely* for the purposes of providing administrative and/or educational support services to the eight identified Supported Organizations: Clarksville Charter School; Inspire Charter School—

Kern; Inspire Charter School—Los Angeles; Inspire Charter School—North; Inspire Charter School—South; Inspire Charter Schools—Winship-Central; Inspire Education Foundation; and Pacific Coast Academy. GMCS is not one of the eight listed Supported Organizations in the Amended and Restated Articles of Incorporation.

Defendants Form GMCS and Other New Schools

13. On information and belief, and notwithstanding the limitation on its activities contained in its original Articles of Incorporation and in its Amended and Restated Articles of Incorporation, Provenance began work to open additional schools in California (including, but not limited to GMCS) and other states, providing its affiliate ICS control over their operations by designating it as the “sole member” under California Corporations Code section 5056 (for the California based schools).

14. On information and belief, on December 13, 2018, Provenance prepared and submitted an application to the Lucerne Valley Unified School District (“LVUSD”) to operate a charter school to be named Granite Mountain Charter School. The application was substantially identical to other applications prepared and submitted by Provenance for the operation of other charter schools (including the Supported Organizations), with the only material differences in governing documents being the name, location, and governing school district of the schools. The 2019-2020 school year was to be the first year of operation of GMCS. The GMCS application stated that the school was to “be operated by Inspire Charter School-Los Angeles/Granite Mountain Charter School, a California Nonprofit Public Benefit Corporation, the sole member of which shall be Inspire Charter Schools,” and included Provenance’s standard form governing documents, including operating bylaws, conflict of interest code, and related materials as part of the application.

15. Following submission of the application to LVUSD, Provenance, ICS, Nichols and Does 1 - 20 undertook a number of actions to prepare GMCS to begin operation, including procuring a website for it, recruiting staff and teachers, and setting up systems for maintaining school records, paying employees, tracking schools, and complying with state reporting and other educational requirements, etc.

16. On or about January 18, 2019, Provenance and/or ICS secured domain names for use by GMCS, including www.granitemountain.org and www.granitemountaincharter.org. Provenance and/or

ICS subsequently used www.granitemountain.org as its internet domain address for GMCS.

17. On information and belief, on January 23, 2019, Nichols, as Incorporator, on behalf of Provenance, filed Articles of Incorporation for Granite Mountain Charter School with the Secretary of State, forming GMCS as a separate corporation.

18. On information and belief, Provenance scheduled the first meeting of the GMCS Board of Directors for April 19, 2019. There were three initial members of the Board of Directors, each of whom was appointed by ICS and/or Provenance. The GMCS Board approved a number of resolutions for GMCS to begin functioning, including but not limited to resolutions approving and adopting the Articles of Incorporation prepared by Nichols and the Bylaws prepared by Provenance, ICS or Does 1 -

20. Under the Bylaws, ICS was designated GMCS's "sole member" and was given complete control over GMCS's operations through control of the Board of Directors. Specifically, ICS was given the exclusive authority to designate members of the Board and complete authority to remove a Director with or without cause, and without advance notice.

19. At the initial April 19, 2019 Board meeting, the GMCS Board authorized the school to set up depository and other bank accounts and designated Nichols as the only authorized signatory to write checks or have money drawn from the accounts.

20. On information and belief, Provenance arranged for each of the Supported Organizations and other California based charter schools, including GMCS, to enter into a Memorandum of Understanding ("MOU") with each other in accordance with Education Code § 51749.5, which allows charter schools that provide independent study courses to share credentialed teachers by having a teacher employed by one school supervise students enrolled in a different school.

Provenance's Support Services Contract with GMCS and Other Schools

21. On information and belief, Provenance arranged for each of the Supported Organizations and other charter schools, including GMCS, to contract with it to provide various support services in exchange for 15% of the school's annual revenue. Some of the duties Provenance was to provide the schools were provided by Charter Impact, Inc. ("Charter Impact") instead, a subcontractor of Provenance that provided "back office" support and accounting related services. With specific regard to GMCS, at the June 8, 2019 Board Meeting, the Provenance/ICS appointed Board voted to approve a

1 contract entitled “Education and Support Services Agreement Between Inspire District Office and
2 Granite Mountain Charter School,” with an effective date of July 1, 2019 (hereafter, the “Education and
3 Support Services Agreement”). Also during the June 8, 2019, Board meeting, the GMCS Board
4 approved the 2019-2020 school and fiscal year budget and roughly 30 policies related to the operation of
5 the school which, on information and belief, were substantially similar to the policies adopted by the
6 Supported Organizations and other charter schools established by ICS and Provenance because
7 Provenance and/or ICS supplied the policy forms.

8 22. Under the Education and Support Services Agreement with GMCS, Provenance agreed to
9 perform a broad array of services “with due care, in good faith” and consistent with policies adopted by
10 GMCS. The agreement authorized Provenance to use subcontractors to perform its obligations, and it
11 did use Charter Impact to perform some of those services. GMCS was required under the agreement to
12 reimburse Provenance for direct costs and expenses incurred on behalf of GMCS; Provenance was
13 required to comply with all of GMCS’s procurement policies, was not allowed to include any mark-up
14 or added fees or charges on goods or services purchased for GMCS, and was required to specifically
15 itemize on invoices all goods or services purchased for GMCS and provide “backup documentation for
16 such costs (e.g., copies of receipts or purchase orders)”. Materials purchased on GMCS’s behalf became
17 the property of GMCS. Provenance also was required to make available, upon request, all records
18 maintained about GMCS to GMCS’s independent auditor. Some of the specific services that
19 Provenance agreed to provide GMCS under the Education and Support Services Agreement were:

- 20 a. Public relations services;
- 21 b. Financial services, including all accounting, bookkeeping, payroll, procurement, and
22 other financial functions in accordance with budgets approved by GMCS. Provenance
23 explicitly agreed to be “responsible and accountable for”: Preparation and submission of
24 all required financial reports, including monthly reports to the Board; coordination and
25 processing of payments for all school expenditures, including management of cash
26 balances, payroll and payments to vendors; coordination and processing of payroll and
27 tax reporting and payments; coordination and management of audit activity, including
28 independent auditing of the school; “coordination and management of all facility, vehicle

and equipment leasing agreements, including holding title or leasehold on behalf of School, with School's consent"; and monitoring spending and general administration of grant funding.

- c. Coordination and documentation for Board meetings and preparation of agendas, minutes, etc., related to the Board and the training of Board members;
- d. Provision of ready access to all school policies and procedures for all stakeholders;
- e. Human capital management, including the employment, discipline or dismissal of all personnel employed by the School (subject to final authority of the Board and school management) including: recruitment; training; pre-employment screening services; coordination and administration of health, life and retirement benefits; employee hiring and termination support and training; tracking and monitoring employee attendance, leaves of absence benefits, and handling of work related injuries; and recommending changes to employment policies;
- f. Maintaining custody of and ready access to all school records and files, including acknowledgment that all such records and files are property of GMCS and will immediately be returned upon termination of the contract;
- g. Educational services consisting of making changes to educational materials licensed by Provenance for use by the school as necessary to implement mandated educational requirements; staff and teacher training to insure that education is delivered consistent with State and other requirements on the school; administration of student testing and assessments and standardized testing preparation for the State of California requirements; maintaining student school records as required by law; providing "a comprehensive Computer Technology and IT infrastructure to School and its employees, which shall include procuring, imaging, delivering, repairing, warehousing and collection of such Computer Technology, as well as other related comprehensive logistical support services required for delivery of the Inspire educational program licensed to School"; identifying and procuring necessary materials and curricula to support special needs students; development of curriculum and coordination of purchasing of curriculum and

instructional materials approved by the Board; tracking and coordinating inter-School library materials loans; and providing and maintaining a system for ordering enrichment services and field trips for students in compliance with School policies;

- h. Marketing and brand management for the school, including provision of Inspire branded materials, maintenance of the school public website, review and reporting on social media properties and use, and coordination and management of third party vendors; and
- i. Providing and maintaining the student enrollment system portal, including service as a liaison between the School and Student Information Service Provider; coordination, management and development of school technology systems; maintenance of student tracking data, including attendance, performance, etc.; and preparation of required reports regarding student demographics and performance.

23. On August 17, 2019, the GMCS Board approved a change in the identity of the authorized signatory for its bank account and policies related to expenditures. The Board replaced Nichols as signatory with two individuals, one was Board member and GMCS Treasurer Wendy Maldonado, the other was Provenance employee Christopher Williams. The Board required any check in excess of \$100,000 to be signed by both Williams and Maldonado, and made clear that they were the individuals with authority to conduct all banking activities on behalf of GMCS. Provenance was instructed to process the necessary paperwork to the bank to effectuate this change, but it never did so. Thus, it maintained its control over GMCS's bank account in violation of its duties to GMCS. It also disregarded the limitations on check writing authority, treating expenditures by wire and otherwise as exempt from this spending limitation/check and balance.

24. On September 21, 2019, the GMCS Board held another meeting, at which it adopted another roughly dozen school policies and procedures which, on information and belief, were substantially similar to the policies adopted by the Supported Organizations and other charter schools established by ICS and Provenance because Provenance and/or ICS supplied the policy forms. One of the policies adopted by the GMCS Board was GMCS's Fiscal Policies and Procedures, the terms of which Provenance, ICS, Nichols and Does 1 – 20 were aware and which Provenance agreed to follow as part of the Education and Support Services Agreement and its general duty of fidelity and good faith. In

fact, the Fiscal Policies and Procedures required Provenance to provide training for all individuals expected to carry out school policies and procedures, whether employed by GMCS or Provenance itself, and cover issues including:

- a. Statement of the purpose of the policies, which is “to ensure the most effective use of the School’s funds to support the School’s mission and to ensure that the funds are budgeted, accounted for, expended, and maintained appropriately;”
- b. Identification and discussion of internal financial controls, which are recognized as “the foundation of sound financial management” and provide “checks and balances” “to insure segregation of duties” and a requirement that Provenance follow all internal controls and work to address problems with internal control as soon as they are identified;
- c. Allocation of responsibility making clear that “School staff are responsible for initiating, authorizing, approving, and executing transactions, while [Provenance] is responsible for recording, reconciling, reporting, and reviewing transactions;”
- d. A requirement that the School follow all relevant and applicable laws;
- e. A requirement that the School’s financial documents, records, and accounts be maintained in conformity with generally accepted accounting principles, and that: (1) “No funds or accounts [] be established or maintained for purposes that are not fully and accurately described within the books and records of the School;” (2) “Receipts and disbursements [] be fully and accurately described in the books and records;” (3) “No false entries [] be made on the books or records nor any false or misleading reports issued;” and (4) “Payments [] be made only to the contracting party and only for the actual services rendered or products delivered” and “[n]o false or fictitious invoices [] be paid;”
- f. A requirement that Provenance review all non-payroll expenditures and invoices to determine whether they are consistent with the Board-adopted budget and an approved contract (where applicable);
- g. A requirement that Provenance maintain an electronic general ledger and that it post all transactions in that ledger;

- h. A prohibition on Provenance signing any purchase orders or check requests;
- i. Identification of applicable accounting policies (the non-profit accounting requirements of the Financial Accounting Standards Board), and a requirement that Provenance organize the accounts on the basis of the Standardized Account Code Structure, with a separate set of self-balancing accounts comprising the assets, liabilities, net assets, revenues and expenditures, and that it insure “that all General Ledger entries are current, accurate and complete” and “are made soon after the underlying accounting event,” and “supported by adequate documentation that clearly shows the justification and authorization of the transaction” in a manner that allows for a complete audit trail;
- j. Maintenance of a schedule of aged accounts and grants receivable, prepared monthly and reflected on regular financial reports to the GMCS Board;
- k. Board approval of an annual operating budget of revenues and expenses, cash flow projection and a capital budget;
- l. Preparation by Provenance of financial statements to be presented at each regularly scheduled Board meeting, displaying budget vs. actual results, and that it maintain supporting records in sufficient detail to prepare the School’s financial reports throughout the year, including annual, monthly and periodic reports and statements;
- m. A requirement that only valid accounts payable transactions based on documented vendor invoices, check requests or other approved documentation be recorded;
- n. A prohibition on any loans not approved by the Board unless it is authorized under the School’s Interschool Lending and Borrowing Policy, and a requirement that all loans be in a writing that specifies all applicable loan terms, including the purpose of the loan, interest rate and repayment schedule;
- o. Purchasing policies that require proper authorization and approval of all purchases, with Provenance being responsible for assigning and attaching asset number tags and keeping documentation of each capital asset, with depreciation records and information about the name, asset class, description, serial number, asset tag number, date purchased, date placed in service, vendor, original cost, depreciation method, estimated useful life,

accumulated depreciation, net book value, and any estimated salvage value; and

- p. An Interschool Lending and Borrowing Policy that: (1) allows the Chief Executive Officer of the school (or a designee) to “approve loans and borrow funds under this policy in an amount of \$50,000 or less, per transaction and cumulatively” without Board approval, so long as there will be no negative impact on the School’s own budgeted spending; (2) requires that requests to borrow or loan funds and their approval be made in writing, while allowing Provenance to act as a conduit for the loans; and (3) requires that the “identity, origin and source of funds loaned or borrowed under this policy shall remain known and identifiable and the transactions themselves shall be open, auditable and accountable” with a ledger of all transactions that includes loan amounts, dates and sources, and that this ledger be provided at regular Board meetings and upon request.

25. Under the Education and Support Services Agreement and GMCS Fiscal Policies and Procedures, Provenance was responsible for tracking the use of shared teachers by GMCS under the MOU (and GMCS’s sharing of its teachers with the other schools covered by the MOU), which, on information and belief, Provenance did with its own personnel or through Charter Impact.

The Media and Regulators Raise Questions about Charter Schools and the Inspire Network

26. On December 26, 2018, the California Attorney General published Opinion No. 11-201, declaring that California Charter Schools are subject to Government Code § 1090. Thereafter, on March 5, 2019, Governor Gavin Newsom signed Senate Bill 126, requiring charter schools to comply with the same public records, open meeting, and conflict of interest laws (including Government Code § 1090) as school districts and county offices of education. This was motivated, in part, by concerns being raised about the operation and accountability of charter schools, particularly those that have charter management organizations (CMO) that are the “sole statutory member” of the Charter School. As the sole statutory member, a CMO, here ICS, controls the Board of the school and is often simultaneously a contractor with the school, a potential violation of Government Code §1090.

27. On information and belief, Provenance, ICS, Nichols and Does 1 - 20 did not want to make available for public inspection or disclosure the books, records and finances of ICS and Provenance and have asserted that they are exempt from the disclosure requirements because they do not

1 operate charter schools and are not charter management organizations.

2 28. On or about May 29, 2019, the San Diego County District Attorney indicted eleven
3 individual who operated A3 Charter Schools for allegedly defrauding the State of California out of \$50
4 million in education funds. A3 Charter Schools allegedly operated and/or controlled a number of charter
5 schools without transparency and with affiliated companies that the defendants controlled that provided
6 consulting and other services to the schools. Following this indictment, the scrutiny of ICS and other
7 charter schools increased.

8 29. On information and belief, the San Diego Union-Tribune has been conducting an ongoing
9 investigation of ICS and apparent conflicts of interest related to it and the schools it operated. On
10 August 11, 2019, the SDUT published an article under the headline: “Inspire charter schools spread
11 across California as critics warn of performance, financial concerns.” In this article, the paper reported
12 that it emailed questions to ICS about it being the sole statutory member of the schools it ran on July 16,
13 2019. It further reported that, “[w]ithin five days, the Inspire school boards changed their bylaws to
14 remove Inspire Charter Schools as the sole statutory member, according to their board agendas.”

15 30. On July 19, 2019, the GMCS Board of Directors held a meeting where it voted to change
16 the GMCS Bylaws and remove ICS as its sole statutory member.

17 31. On information and belief, on September 17, 2019, the California Charter Schools
18 Association (“CCSA”), of which ICS was a member, announced that it had expelled ICS from its
19 membership after a months-long-due-diligence process looking into its operational and governance
20 practices under the CCSA’s Non-Academic Accountability process. The Non-Academic Accountability
21 process focuses on ongoing, large-scale, intentional malfeasance related to fiscal, operational and
22 governance standards of practice where no other regulatory body is acting. After having completed that
23 process, CCSA expelled ICS and “recommend[ed] the organization engage in a third-party management
24 study to review school and central office structures, policies and processes, leadership capacity, and
25 internal controls.” CCSA also stated that, “[f]uture consideration for CCSA membership will be based
26 on Inspire adopting CCSA’s and the management audit firm’s recommendations, and ongoing
27 demonstration that Inspire has addressed all operational, fiscal, and governance practices to industry
28 standards.” CCSA notified school districts that authorized Inspire affiliated charter schools of the

1 results of its audit and its conclusions, including GMCS’s authorizing district, the LVUSD.

2 32. Thereafter, at the September 21, 2019 Board meeting at which the Fiscal Policies and
3 Procedures were adopted, it was disclosed to GMCS that Nichols had received an “advance” on his
4 salary of approximately \$1 million that had not been paid back and that Nichols had been placed on
5 unpaid leave. Which of the Inspire-affiliated entities from which this “advance” had come was not
6 clearly explained or disclosed, nor was the process by which it was approved (or who approved it).

7 33. On information and belief, on October 3, 2019, the Superintendent of Schools in six of
8 the counties in which ICS and Provenance ran schools wrote to the State of California’s Fiscal Crisis
9 and Management Assistance Team (“FCMAT”) asking it to conduct a 139 Extraordinary Audit of the
10 “governance, fiscal practices and operations of the charters schools operated by the Inspire Public
11 Schools charter network” to prevent further waste of public education dollars.” The Superintendents
12 identified the following areas of concern: “Average Daily Attendance reporting irregularities /
13 misreporting, inter-related party transactions, and conflicts of interest among Inspire, executive officers
14 and directors.” The Superintendents also reported that, “[t]he manipulation of student attendance,
15 revenue, shifting of enrollment among related and commonly controlled corporations, and borrowing
16 among charter schools amounts to fiscal malfeasance on the part of Inspire,” and asserted that it
17 appeared that “Inspire charter schools knowingly operate[] unlawful resource centers in contiguous
18 counties when they are not legally permitted to do so in violation of charter school laws.”

19 34. On or around October 9, 2019, FCMAT announced that it would audit the Inspire charter
20 school network, including ICS and Provenance. Shortly thereafter, Nichols resigned his position from
21 ICS/Provenance and the other Inspire affiliated entities.

22 35. These developments led the officers and directors of GMCS to begin investigating its
23 own origin, along with the conduct of ICS, Provenance, Nichols and Does 1 - 20.

24 **GMCS Uncovers Irregularities in Provenance’s Reporting Which are Never Explained**

25 36. In October – November 2019, GMCS began raising questions with Provenance about its
26 finances and structure, and about its financial condition based on the reports being provided by
27 Provenance and Charter Impact on behalf of Provenance. The GMCS Board discussed SB 126 at its
28 November 23, 2109 meeting, considering the impact it had on Provenance and the manner in which

GMCS was operating with Provenance providing services under the Education and Support Services Agreement. GMCS also raised concerns about Provenance’s performance of its duties under that agreement and otherwise.

37. In particular, Provenance and Charter Impact were recording “Related Party” transactions in financial schedules presented to the Board, although there was no documented identification of these related parties in the reports until GMCS raised additional questions about them. GMCS understood these entities to be some of the Supported Organizations and other Inspire affiliated schools, but Defendants did not provide details about the entities or amounts in the reporting required by the Education and Support Services Agreement and GMCS never approved any of these transactions. Beginning with the September 21, 2019 Board Meeting, Provenance provided reports with a listed entry identified as “Due to/from Related Parties.” The reports individually and over time did not make sense and reflected huge transfers of funds made to and from GMCS without GMCS knowledge or approval to/from unidentified entities (until the sixth report), all in breach of the Education and Support Services Agreement, GMCS’s Fiscal Policies and Procedures and Provenance’s duties. Provenance provided no information, documentation or explanation as to who these funds came from/to, or what they were used for (by GMCS or anyone else).

- In a document entitled “Statement of Financial Position” dated July 31, 2019 that was provided to GMCS by Provenance in connection with the September 21, 2019 Board Meeting, the Due to/from Related Parties entry shows a negative balance of \$552,510 under the heading “Assets.” There does not appear to be any record under the listing of “Liabilities” concerning these so-called related party transactions. A document entitled “Statement of Cash Flows” provided at the same time identifies a decrease of \$552,510 on the row labelled Due to/from Related Parties under the columns identified as “Month Ended 07/31/19” and “YTD Ended 07/31/19.”
- In a Statement of Financial Position dated September 30, 2019 that was provided to GMCS by Provenance in connection with the October 26, 2019 Board Meeting, the Due to/from Related Parties entry shows a balance of \$4,583,218 under the heading Assets. The Statement of Cash Flows accompanying this report identified an increase of

\$6,669,701 on the row labelled Due to/from Related Parties under the under the column identified as “Month Ended 09/30/19” and an increase of \$4,583,218 under the column identified as “YTD Ended 09/30/19.”

- In a Statement of Financial Position dated October 31, 2019 that was provided to GMCS by Provenance in connection with the November 23, 2019 Board Meeting, the Due to/from Related Parties entry shows a balance of \$4,507,442 under the heading Assets. The Statement of Cash Flows accompanying this report identified a decrease of \$75,776 on the row labelled Due to/from Related Parties under the under the column identified as “Month Ended 10/31/19” and an increase of \$4,507,442 under the column identified as “YTD Ended 10/31/19.”
- In a Statement of Financial Position dated December 31, 2019 that was provided to GMCS by Provenance in connection with the January 25, 2020 Board Meeting, the Due to/from Related Parties entry shows a balance of \$4,557,754 under the heading Assets. The Statement of Cash Flows accompanying this report identified an increase of \$326,455 on the row labelled Due to/from Related Parties under the under the column identified as “Month Ended 12/31/19” and an increase of \$4,557,754 under the column identified as “YTD Ended 12/31/19.”
- In a Statement of Financial Position dated January 31, 2020 that was provided to GMCS by Provenance in connection with the February 29, 2020 Board Meeting, the Due to/from Related Parties entry shows a balance of \$5,989,250 under the heading Assets. The Statement of Cash Flows accompanying this report identified an increase of \$1,354,190 on a row labelled “Due from Related Parties” under the under the column identified as “Month Ended 01/31/20” and an increase of \$5,989,250 under the column identified as “YTD Ended 01/31/20.”
- In a Statement of Financial Position dated February 29, 2020 that was provided to GMCS by Provenance in connection with the March 28, 2020 Board Meeting, the Due to/from Related Parties entry shows a balance of \$5,907,419 under the heading Assets. The Statement of Cash Flows accompanying this report identified a decrease of \$81,831 on a

row labelled “Due from Related Parties” under the under the column identified as “Month Ended 02/29/20” and an increase of \$5,907,419 under the column identified as “YTD Ended 02/29/20.” Also accompanying this report was a document entitled “Granite Mountain Due (To)/From All Inspire Charter School Locations for the period ended February 29, 2020” that provided a breakdown of the \$5,907,419 spread across the following eight entities: Cabrillo Point Academy, Feather River Charter School, Blue Ridge Academy, Yosemite Valley Charter School, Pacific Coast Academy, Inspire Charter Services, Mission Vista Academy and Triumph Academy. On information and belied, “Inspire Charter Services” is Provenance, not a school, and Provenance included it on this list in an effort to conceal its having stolen money from GMCS and others. The amount listed as owed by Inspire Charter Services to GMCS is \$1,464,510. This was the first time Provenance provided a breakdown of the so-called “Due To/From” account.

- In a Statement of Financial Position dated March 31, 2020 that was provided to GMCS by Provenance in connection with the April 25, 2020 Board Meeting, the Due to/from Related Parties entry shows a balance of \$5,443,405 under the heading Assets. The Statement of Cash Flows accompanying this report identified a decrease of \$464,014 on a row labelled “Due from Related Parties” under the under the column identified as “Month Ended 03/31/20” and an increase of \$5,443,405 under the column identified as “YTD Ended 03/31/20.” Also accompanying this report was a summary document of the “Granite Mountain Due (To)/From All Inspire Charter School Locations for the period ended March 31, 2020” that provided a breakdown of the \$5,443,405 spread across the same eight entities as the prior month. The summary document indicates that Inspire Charter Services owes GMCS \$1,000,496.
- In a Statement of Financial Position dated April 30, 2020 that was provided to GMCS by Provenance in connection with the May 21, 2020 Board Meeting, the Due to/from Related Parties entry shows a balance of \$5,285,482 under the heading Assets. The Statement of Cash Flows accompanying this report identified a decrease of \$157,923 on a row labelled “Due from Related Parties” under the under the column identified as

“Month Ended 04/30/20” and an increase of \$5,285,482 under the column identified as “YTD Ended 04/30/20.” Also accompanying this report was a summary document of the “Granite Mountain Due (To)/From All Inspire Charter School Locations for the period ended March 31, 2020” that provided a breakdown of the \$5,285,482 spread across the same eight entities as the prior month. The summary document indicates that Inspire Charter Services owes GMCS \$842,573.

- In a Statement of Financial Position dated May 31, 2020 that was provided to GMCS by Provenance in connection with the June 25, 2020 Board Meeting, the Due to/from Related Parties entry shows a balance of \$4,575,946 under the heading Assets. The Statement of Cash Flows accompanying this report identified a decrease of \$527,536 on a row labelled “Due from Related Parties” under the under the column identified as “Month Ended 05/31/20” and an increase of \$4,575,946 under the column identified as “YTD Ended 05/31/20.” Also accompanying this report was a summary document of the “Granite Mountain Due (To)/From All Inspire Charter School Locations for the period ended March 31, 2020” that provided a breakdown of the \$4,575,946 spread across the same eight entities as the prior month. The summary document indicates that Inspire Charter Services owes GMCS \$361,713.

38. On information and belief, Provenance, ICS, Nichols and Does 1 - 20 treated the schools and the funds of all of the them as one single entity of which it was a part and in control, making decisions about financial matters, personnel assignments, and operations on behalf of the schools without following appropriate procedures and controls and without approval of the schools, and specifically without the approval of GMCS. On information and belief, the Due To/From amounts were designed to summarize and report the results of these decisions.

39. Provenance has provided inconsistent and incomplete explanations for what the Due To/From amounts represent, but none of the transactions were approved by GMCS, and complete documentation supporting the entries has not been provided. Further, as alleged below, Provenance used GMCS’s bank account without authorization to funnel money to the various schools and entities affiliated with it, in an effort to either hide the money trail or cover obligations it claims are covered by

the Due To/From reporting. Provenance ICS, Nichols and/or Does 1 - 20 told GMCS and others that it was using funds from one school to cover obligations of others, although any such transfer of funds would have been without approval by GMCS, would not have complied with generally accepted accounting practices, the Education and Support Services Agreement or GMCS's Fiscal Policies and Procedures (or, on information and belief, that of any of the other schools).

40. In January 2020, without authorization or even prior notice to GMCS, Provenance notified some of its employees and those of other charter schools that it needed them to updated their employment documentation (consisting of W2 forms, retirement benefit forms and the like) with the names of different schools to which Provenance was going to assign them to work. When questioned by GMCS, Provenance claimed that it wanted to move the employees to the "correct charter." On information and belief, the personnel Provenance planned to assign to GMCS included individuals that had not provided any services to GMCS or its students, and some had unneeded or excessive qualifications that would inflate GMCS's expenses and salary burden. GMCS objected and instructed Provenance it could not assign employees to its school accounts, yet Provenance did so anyway in breach of its duties and its contract with GMCS. GMCS is informed and believes that Provenance was making these changes as part of its overall scheme of managing all schools as one and assigning expenses that properly belonged to one school to a different school that had either greater resources or cash available at that moment, and it was relying on the Memorandum of Understanding to assign expenses to one school for employees performing work for others.

41. Provenance justified its use of the Due To/From process and its processing of loans between all schools with which it was working, including the Supported Organizations and GMCS, based on a July 1, 2019 Master Credit Agreement between it and a number of the Supported Organizations and affiliates of Provenance and/or ICS. The parties to this Master Credit Agreement consisted of a number of the Supported Organizations, Provenance and other entities that are associated with Provenance. These parties agreed among themselves that they would share funds and make loans to each other to cover operating expenses that would be tracked by Provenance and reconciled each fiscal year, and they ratified outstanding loan amounts claimed to be due/owing between and among them. Provenance itself is identified as the lender of millions of dollars to some of the participating parties,

1 which were purportedly to cover liabilities of Inspire affiliated schools for years in the past. On
2 information and belief, loans made among participants needed approval of the governing body of each
3 participant unless the loan amount was \$50,000 or less (in the aggregate). GMCS was not a party to the
4 2019 Master Credit Agreement. Despite this fact, Defendants used funds belonging to GMCS to make
5 and pay-off loans to the participants, and used GMCS's bank account as a conduit through which money
6 passed in connection with loans made under the Master Credit Agreement. Further, the Due To/From
7 amounts reported by Provenance to GMCS as an asset/liability of GMCS included the liabilities created
8 and acknowledged by this Master Credit Agreement, even though these were not legitimate assets or
9 liabilities of GMCS.

10 42. When GMCS objected that the Master Credit Agreement could not justify the Due
11 To/From amounts allocated to it by Provenance, Provenance identified the Interschool Lending and
12 Borrowing Policy that is part of GMCS's Fiscal Policy and Procedures. However, as noted, that policy
13 only authorized loans in a cumulative amount of no more than \$50,000 and upon approval of GMCS,
14 not Provenance and cannot support the Due To/From loans/expenditures reported by Provenance.

15 43. In addition to making these unauthorized transfers and account entries in the Due
16 To/From reporting, Provenance ICS, Nichols and/or Does 1 – 20 failed to document (or properly
17 document) the transactions and failed to provide backup documentation for the transfers, if it ever even
18 existed. In the accounting received from Charter Impact, which reflected instructions received from
19 Provenance ICS, Nichols and/or Does 1 – 20, the information was incomplete and inconsistent and
20 would be revised repeatedly when questioned, making it unreliable and incomplete. On information and
21 belief, based on its own spreadsheets and accounting (prepared by Provenance itself or Charter Impact at
22 Provenance's direction), GMCS is owed roughly **\$5,000,000**. Despite this apparent amount owed to
23 GMCS, Provenance has continued demanding payment for services yet it has failed to provide necessary
24 backup or support for the amounts charged.

25 **GMCS Votes to Leave Provenance and Provenance Uses Extortion to Try to Get it to Stay**

26 44. In January, 2020, Provenance scheduled a meeting of the Principals of all Inspire
27 affiliated charter schools, including GCMS, which was called to address what it called its "Payback
28 Plan." Steven Lawrence, Executive Director of Provenance, notified the schools that he had consulted

with an attorney and that Provenance had developed a plan to cover the debt held on its balances sheets, which it viewed as a shared obligation of the schools. Lawrence acknowledged that there were trust issues between Provenance and some of the schools and he asked the Principals to meet with his team and a “trust doctor” to assist in repairing trust. Lawrence told the Principals that if any of the schools should try to leave the Inspire affiliated network that they should be sued.

45. In February, 2020, Provenance scheduled another Payback Plan meeting. At this meeting, Provenance asked all the schools to approve a plan by which it would recover from the schools payments to cover Provenance’s historical debt. GMCS notified Provenance during the meeting that it could not approve the plan without first consulting with legal counsel.

46. At its February 29, 2020 Board meeting, the GMCS Board acted to terminate its relationship with Provenance and ICS. The Board voted to cancel the Education and Support Services Agreement effective with the next school year, and it voted to directly contract with Charter Impact to provide the back office accounting and other services that Charter Impact was providing as a subcontractor to Provenance. The Board also voted to eliminate Provenance’s ability to act as an authorized signatory on its bank account, adopting a resolution removing its authority to make withdrawals from the bank, sign checks or institute wires. Provenance, however, failed to provide the necessary instructions to GMCS’s bank or authorize the bank to implement the change, and continued to exercise control over GCMS’s bank account and initiate transactions without GMCS’s approval and for its own purposes, all the while lying to GMCS and telling it that the paperwork had been processed.

47. In response to GMCS terminating its relationship with Provenance, on information and belief, in or around early March 2020, in bad faith, Provenance registered roughly a dozen domain names using permutations of the name Granite Mountain and its team name (the Trailblazers), in order to deny GMCS access to domain names that would facilitate the operation of the school independent of Provenance. Provenance falsely notified GMCS it owned the GMCS logo, website and domains and that GMCS would not be allowed to use them in the 2020-2021 school year or beyond. Further, Provenance proposed that in exchange for a \$250,000 payment, it would transfer to GMCS the domain name then being used by GMCS. In response to a request for a breakdown of that cost, Provenance made a proposal that for a \$200,000 payment, it would (a) sell to GMCS the domain names that it had

registered,² (b) sell to GMCS the Granite Mountain logo and mascot (which were owned and designed by GMCS itself), (c) license certain photographs for use by GMCS in perpetuity, and (d) allow GMCS to continue using the school’s existing website through the remainder of the pending fiscal year, even though Provenance was already contractually obligated to do so under the Education and Support Services Agreement. Provenance refused to transfer the domain names to GMCS, acknowledge GMCS’s ownership of its name, logo and mascot.

48. In March, 2020, Provenance made a presentation to GMCS, the Supported Organizations and other Inspire affiliated schools in which it proposed a number of options for addressing the Due To/From accounts involving it and the schools. In a spreadsheet dated March 9, 2020 prepared by Charter Impact, Provenance reported that it is \$29,729,136 in the red and that its projected 2020 year-end cash balance was a mere \$258,748. It proposed eliminating the debt by increasing the percentage of funds it takes from each school each year (its fee based on state funds received) with the quickest elimination of the deficit occurring in three years. However, there is no basis for Provenance to extract more money from the schools annually to pay for the same services from Provenance that Provenance was already contractually obligated to provide. On information and belief, Provenance was accounting for this deficit by including alleged costs it incurred years prior to the creation of GMCS and was asking GMCS to assume responsibility for these obligations that had no connection to GMCS’ operation and existence. GMCS rejected these proposals by Provenance.

49. On information and belief, Provenance told families of GMCS students that GMCS was somehow responsible for services that were allegedly provided to the students by other Provenance-affiliated schools for school years that predated GMCS’s existence. In addition, GMCS has been forced to defend legal actions caused by Provenance with respect to special education services.

² The domain names that Provenance offered to sell GMCS were: granitemountain.org; granitemountain.com; granitemountaincharter.org; granitemountaincharter.com; granitemountaintrailblazers.com; granitemountaincharterschool.org; granitemountaincharterschool.com; gmsctralblazers.com; granite-mountain.org; thegranitemountain.org; granitemountaintrailblazers.org; gmctrailblazers.org; granitemountaincharter.school.

Provenance Refuses to Provide Information or Answer Questions

50. GMCS repeatedly asked for further detail and documentation for the transactions at issue throughout the first half of 2020, but Provenance refused to provide answers. On June 30, 2020, GMCS and an independent auditor that it retained met with Provenance’s Chief Financial Officer in an effort to obtain documentation and answers to questions concerning the incomplete and inconsistent accounting, including amounts owed to GMCS. Following the meeting, Provenance was provided a list of documents that GMCS and its auditor needed to reconcile the accounting and make determinations as to the amounts actually owed to/from GMCS by each of the other schools, the damages and other losses incurred by GMCS, potential sources to recover the missing funds, and to complete State required reporting under the Education Code. Provenance has not, however, provided the requested documentation, which is a further breach of its obligations under the Education and Support Services Agreement.

Use of GMCS’s Bank for Improper Purposes

51. Based on its enrollment and other factors, GMCS was expected to generate revenue from the State of California of roughly \$28,000,000 for the 2019-2020 fiscal/school year. And, in fact, it earned that much revenue. Under Provenance’s control, however, more than \$70,000,000 passed through GMCS’s bank account between July 2019 and April 2020, with deposits totaling roughly \$71,656,114, and withdrawals totaling approximately \$70,541,098. According to the financial information provided to GMCS by Provenance or at its direction, however, the deposits totaled roughly \$28,411,324, and the withdrawals totaled \$22,512,657.

52. Records and information made available to GMCS to date indicate Provenance initiated unauthorized and/or unapproved transfers using the GMCS bank account, including:

- \$5,640,939.11 in funds wired to Provenance itself in eight separate wires ranging in amounts from \$8,835 to \$3,000,000;
- \$1,000,000 wired to Pacific Coast Academy in a single wire;
- \$2,700,000 wired to Inspire Charter School – Kern in two wires of \$2,200,000 and \$500,000;
- \$1,202,231 wired to Inspire Charter School – Central in four wires ranging from

\$109,597.80 to \$700,000;

- \$1,577,080 wired to Heartland Charter School in two wires of \$1,250,000 and \$327,080.19;
- \$1,550,000 deposited by Heartland Charter School in three wires of \$500,000, \$650,000 and \$400,000;
- Four wires out to unidentified recipients and accounts totaling \$30,767,727.86; and
- Eight inbound wires depositing a total of \$39,816,793.86 from unknown accounts/transferrors.

53. Based on information gleaned to date, GMCS believes between \$5,000,000 and \$10,000,000 of the money that went through its account is missing. GMCS's bank records disclose that roughly \$17,500,000 went to pay operating expenses of GMCS, but the financial reports provided to GMCS by Provenance or at its direction indicate GMCS's operating expenses were roughly \$22,000,000, which suggests that Provenance inflated expenses to hide what it did with the missing funds. Provenance's deficient recordkeeping, accounting and reporting make an accounting necessary to determine what happened to the money that went through GMCS's bank account.

FIRST CAUSE OF ACTION

(Breach of Contract against Provenance)

54. Plaintiff incorporates by reference Paragraphs 1 - 53 as though fully set forth below.

55. GMCS and provenance entered into a written contract, the Education and Support Services Agreement.

56. GMCS has performed all of its obligations under the Education and Support Services Agreement, except those obligations GMCS was prevented or excused from performing.

57. Provenance breached the Education and Support Services Agreement by the conduct alleged above, including but not limited to: failing to provide full, complete and accurate reports and financial statements to GMCS; failing to coordinate and process GMCS's expenditures in accordance with school policy and direction; failing to report irregularities in bank statements and accounting records and unauthorized transfers and expenditures; making unauthorized transfers of funds to itself and third-parties, including but not limited to the Supported Organizations and other Inspire branded

schools, and failing to document (or accurately document) these transactions whether through the Due To/From reporting or otherwise; failing to provide documentation and back-up to support accounting entries, loans, bank transfers, use of shared employees under the MOU; assigning employees to GMCS for payroll and other purposes without GMCS direction or consent; failing to respond to requests for information and documents, including but not limited to requests from GMCS's independent auditors; failing to provide reasonable assistance to GMCS in transitioning to another service provider; failing to properly track property purchased for or assigned to GMCS, with proper asset tagging and documentation; failing to provide and support through termination of the agreement a comprehensive computer technology infrastructure solution for GMCS.

58. As a direct and proximate result of the contractual breaches described in this Complaint, GMCS has suffered damages in an amount above the jurisdictional minimum of this Court, plus interest, costs and attorneys' fees, in an amount to be proven at trial.

SECOND CAUSE OF ACTION

(Breach of the Covenant of Good Faith and Fair Dealing against Provenance and Does 1 - 20)

59. Plaintiff incorporates by reference Paragraphs 1 - 58 as though fully set forth below.

60. California law imposes a duty of good faith and fair dealing in all contracts, which is an implied covenant of good faith and fair dealing that neither party will take any actions that with frustrate the other party's rights to receive the benefits of the contract and that they will do everything necessary to accomplish the purposes of the agreement.

61. Provenance owed GMCS a duty of good faith and fair dealing as implied in the Education and Support Services Agreement.

62. GMCS has performed all of its obligations under the Education and Support Services Agreement, except those obligations GMCS was prevented or excused from performing.

63. By its conduct described above, including but not limited to, responding to receipt of notice by GMCS that it was exercising its contractual right to terminate the agreement by registering domain named using permutations of GMCS and demanding payment to obtain access to those domain names, and failing to transfer domain names to GMCS as requested, Provenance breached the covenant of good faith and fair dealing in the Education and Support Services Agreement.

64. As a direct and proximate result of the contractual breaches described in this Complaint, GMCS has suffered damages in an amount not less than \$5,000,000, plus interest, costs and attorneys' fees, in an amount to be proven at trial.

THIRD CAUSE OF ACTION

(Breach of Fiduciary Duty And Constructive Fraud against Provenance and Does 1 - 20)

65. Plaintiff incorporates by reference Paragraphs 1 - 64 as though fully set forth below.

66. Provenance and Does 1 – 20 have a fiduciary relationship with GMCS arising out of their activities forming GMCS, including but not limited to incorporating it, providing it with bylaws that made ICS its sole statutory member, appointing its initial directors, submitting its application to LVUSD as an authorizing body using the templates developed by Provenance, ICS, Nichols and their affiliated entities, providing GMCS with template policies and procedures used by other Inspire affiliated schools and having them adopted by the Provenance appointed Board. They also owed fiduciary duties to GMCS resulting from the relationship between them consisting of them both being nonprofit corporations seeking to expand educational opportunities for California students funded with California state funds, and the additional obligations imposed by the Education and Support Services Agreement by which it agreed to operate computer systems and back office operations to provide education to students of GMCS.

67. By their conduct described above, Provenance and Does 1 – 20 breached their fiduciary duties to GMCS, including but not limited to misappropriating GMCS funds, misusing GMCS's bank account and running some \$70 million of funds through that account without authorization, failing to notify GMCS's bank of the votes to change the authorized signatories on the account and process the paperwork to change the signatories, failing to provide documentation and support for expenditures and teacher assignments reported as obligations of GMCS, registering domain names in bad faith, failing to maintain school computer systems and student access and threatening to turn off student and school computer access unless additional payments were made by GMCS which were not legitimate obligations of GMCS and during summer school when students and staff needed access to conduct school during the Coronavirus pandemic, or they conspired with and aided and abetted each other's breaches of duty and committed constructive fraud upon GMCS.

68. Upon information and belief, Defendants' actions and omissions were carried out with malice, fraud or oppression towards GMCS, entitling it to punitive damages under Civil Code section 3294.

69. As a direct and proximate result of the breaches of Defendants' fiduciary duty to GMCS, constituting constructive fraud, GMCS has suffered damages in an amount not less than \$5,000,000, plus interest, costs and attorneys' fees, in an amount to be proven at trial.

FOURTH CAUSE OF ACTION

(Anti-Cybersquatting Consumer Protection Act, 15 U.S.C.A. § 1125(d), against Provenance and Does 1 - 20)

70. Plaintiff incorporates by reference Paragraphs 1 - 69 as though fully set forth below.

71. By their conduct described above, Provenance, ICS and Does 1 – 20 engaged in cybersquatting in violation of the Anti-Cybersquatting Consumer Protection Act by registering domain names using permutations of the GMCS name after being notified by GMCS that Provenance's services were being terminated and then offering to sell these domain names to GMCS, which is the bad faith intent to profit off of a mark, under 15 U.S.C. § 1125(d) , or they conspired with and aided and abetted each other's cybersquatting.

72. By reason of Defendants' acts alleged in this Complaint, GMCS has suffered and, unless Defendants' conduct is restrained and Defendants ordered to provide GMCS control and ownership over all improperly registered domain names, GMCS will continue to suffer serious and irreparable harm for which there is no adequate remedy at law, and GMCS is entitled to statutory damages under 15 U.S.C. § 1117(d), attorneys' fees and costs.

FIFTH CAUSE OF ACTION

(Conversion against Provenance and Does 1 - 20)

73. Plaintiff incorporates by reference Paragraphs 1 - 72 as though fully set forth below.

74. GMCS owned all revenue generated by its operations, including the State funds paid for education of GMCS students and other money in its bank accounts.

75. By their conduct described above, Provenance and Does 1 – 20 wrongfully took possession and disposed of these funds by transferring it to others without approval of GMCS, including

but not limited to the transfer of funds to other Supported Organizations, Inspire affiliated schools and entities, and to itself, as reflected on the Due To/From reports; through the unauthorized transfer of staff and teachers to GMCS; and through its taking of GMCS's domain names used in operation of the school, or they conspired with and aided and abetted each other's conversion.

76. As a direct and proximate result of the contractual breaches described in this Complaint, GMCS has suffered damages in an amount not less than \$5,000,000, plus interest, costs and attorneys' fees, in an amount to be proven at trial.

SIXTH CAUSE OF ACTION

(Penal Code § 496(a) against Provenance and Does 1 - 20)

77. Plaintiff incorporates by reference Paragraphs 1 - 76 as though fully set forth below.

78. By their conduct described above, Provenance and Does 1 – 20 obtained property in a manner that constituted theft under California Penal Code § 496(a), or has conspired with and aided and abetted Provenance's receipt of property in violation of Penal Code § 496(a) and are liable therefore.

79. As a direct and proximate result of their violation of California Penal Code § 496(a), GMCS has sustained actual damages in an amount of not less than \$5,000,000, to be proven at trial.

80. Accordingly, pursuant to California Penal Code § 496(c), Provenance and Does 1 – 20 are each jointly liable to GMCS for three times the amount of actual damages sustained, plus costs and attorneys' fees, in an amount to be proven at trial.

SEVENTH CAUSE OF ACTION

(Accounting against Provenance and Does 1 - 20)

81. Plaintiff incorporates by reference Paragraphs 1 - 80 as though fully set forth below.

82. By their conduct described above, Provenance, Does 1 – 20 and others have obtained money by illicit means, through their relationship with GMCS. Defendants have moved millions of dollars through GMCS's bank account without explanation, authority or documentation, and have failed and refused to make records available or answer questions to determine what has happened to GMCS's money. Further, they have misapplied and misreported GMCS's financial statements and accounts, and misallocated expenses and obligations for teachers and staff.

83. An accounting is required to determine the amounts due to GMCS, as well as other

schools and entities and the amounts owing by defendants (and to whom) and whether Provenance is entitled to any off-set.

EIGHTH CAUSE OF ACTION

(Business & Professions Code §§ 17200 *et. seq.* against Provenance and Does 1 - 20)

84. Plaintiff incorporates by reference Paragraphs 1 - 83 as though fully set forth below.

85. California's Unfair Competition Law, California Business & Professions Code §§ 17200 *et seq.* (the "UCL") prohibits unfair business acts and practices, including false advertising. California Business & Professions Code section 17200 defines as unfair competition, any "unlawful, unfair or fraudulent act or practice and unfair, deceptive, untrue or misleading advertising."

86. The defendants engaged in unlawful conduct in violation of the UCL by reason of their violations of Penal Code § 496, their breaches of fiduciary duties, their participation in unlawful conspiracies, and their violation of the Anti-Cybersquatting Consumer Protection Act, 15 U.S.C.A. § 1125(d).

87. The defendants engaged in fraudulent conduct in violation of the UCL because, among other things, they fraudulently booked entries in GMCS's financial and accounting records and reports, including but not limited to the Due To/From records, they fraudulent used GMCS's bank account for deposits and withdrawals of funds that were unrelated to GMCS to/from unknown accounts and persons and for unknown purposes and fraudulently maintained control over the bank account despite the GMCS Board having voted twice to change the authorized signatories.

88. The defendants engaged in unfair conduct in violation of the UCL as alleged in this Complaint, because the conduct is immoral, unscrupulous, unethical, oppressive or offends public policy and outweighs any public benefit from the conduct, including but not limited to their fraudulently having booked entries in GMCS's financial and accounting records and reports, including but not limited to the Due To/From records, fraudulent use of GMCS's bank account for deposits and withdrawals of funds that were unrelated to GMCS to/from unknown accounts and persons and for unknown purposes and fraudulent maintenance of over the bank account despite the GMCS Board having voted twice to change the authorized signatories, and their unlawful conduct alleged herein.

89. In accordance with Business and Professions Code § 17203, GMCS seeks an order

enjoining defendants' unlawful, fraudulent and unfair business acts and practices, and further directing defendants to make equitable restitution to GMCS by returning to it all money improperly diverted through its bank account, ordering the return of control and ownership over all improperly registered domain names.

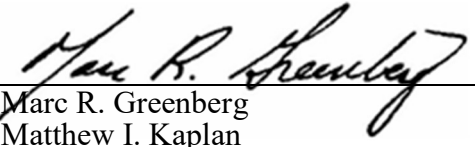
PRAYER FOR RELIEF

WHEREFORE, plaintiff Granite Mountain Charter School prays for judgment against defendants Provenance and Does 1 - 20, as follows:

1. For actual damages according to proof, including general damages in an amount of not less than \$5,000,000;
2. For treble damages under California Penal Code § 496(c);
3. For statutory damages under 11 U.S.C. § 1117(d);
4. For punitive and exemplary damages under California Civil Code § 3294 in an amount to be ascertained at trial;
5. For an order declaring defendants' conduct alleged in this Complaint unlawful, unfair and fraudulent pursuant to California Business and Professions Code §§ 17200 *et seq.*, and ordering them to make restitution to GMCS;
6. For an order directed defendants to transfer to GMCS control and ownership in the domain names granitemountain.org; granitemountain.com; granitemountaincharter.org; granitemountaincharter.com; granitemountaintrailblazers.com; granitemountaincharterschool.org; granitemountaincharterschool.com; gmsctralblazers.com; granite-mountain.org; thegranitemountain.org; granitemountaintrailblazers.org; gmcstrailblazers.org; granitemountaincharter.school; and any other domain names registered by defendants using GMCS's name, school team name, or trademarks.
7. For prejudgment and post-judgment interest on all damages awarded;
8. For attorney's fees and costs as authorized by law; and
9. For such other and further relief as the Court may deem just and proper.

1 Dated: September 3, 2020

TUCKER ELLIS LLP

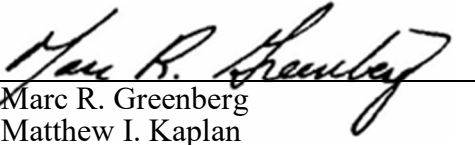
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4 By: 
5 Marc R. Greenberg
6 Matthew I. Kaplan
7 Attorneys for Plaintiff
8 Granite Mountain Charter School

9 **DEMAND FOR TRIAL BY JURY**

10 Plaintiff Granite Mountain Charter School demands a trial by jury on all causes of action for
11 which a jury is authorized by law.

12 Dated: September 3, 2020

TUCKER ELLIS LLP

13 By: 
14 Marc R. Greenberg
15 Matthew I. Kaplan
16 Attorneys for Plaintiff
17 Granite Mountain Charter School
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