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August 27, 2016

To: Members of the Knights of Columbus Board of Directors

This hard copy contains Confidential Information regarding Mediation Efforts between UKnight Interactive and the Knights of Columbus (KC). This information is highly confidential for Directors and Officers of KC only.

"Click Here" links are live in the on-line version of this letter which is posted with additional support information at www.supremedirectors.org.

Dear Member of the Knights of Columbus Board of Directors,

I am writing to you motivated by three events:

- The ongoing and heartbreaking headlines stemming from the Pittsburg Diocese scandal.
- The official announcement that Social Security will soon be unable to meet its obligations.
- The individuals selected to fill the three openings on your Board of Directors.

As I hope you are aware from my letter to you dated August 6, 2018, which I sent care of Supreme Knight Carl Anderson and Supreme Advocate John Marrella, my company, UKnight Interactive, is engaged in a commercial lawsuit in which the Knights of Columbus (KC) is the defendant. That lawsuit reveals a number of serious business wrongdoings by KC leadership, including a massive ongoing insurance fraud scheme, which have put at risk the long term best interests of the members of KC.

This letter supplements the information contained in the letter delivered to you via Messrs. Anderson and Marrella in Baltimore, and is written to underscore why UKnight was forced to file its lawsuit, and to provide you with further details about this fraudulent activity.

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We now know the recently exposed horrors were ignored by those with a duty to protect those children. Supreme Knight Carl Anderson too is ignoring the potential life shattering calamities that many members of the largest Catholic Fraternal order in the world and their families could be facing because of the massive insurance fraud being perpetrated by the Order on membership.

Even worse, Supreme Knight Anderson is at the top of the pyramid of this despicable scheme that enriches him and others by deceiving, abusing and profiting at the expense and the well-being of the Order's membership. His pronouncements about KC's operations and financial strength reek of the same hypocrisy as those who ignored the horrors in Pennsylvania.

As I wrote to Supreme Knight Anderson on June 9, 2016, (click here to read the full letter), while he is very quick to point out the moral failings of others, as he just did about the revelations of Pennsylvania, he continues to willfully ignore the misconduct within his own organization, the organization ***he*** has the authority and responsible to protect.

We urge you, therefore, to be committed to exercising *your* responsibility, as the Order's directors, to Catholic families around the country. Do not ignore the major fraud and its related management self-enrichment scheme that are being perpetrated on membership through the insurance operations of the Knights of Columbus. The future of members, their families, and the Order itself depend on you to act now.

Click here to read another letter sent to Carl Anderson to avoid litigation. Sadly, he ignored them all. The question is; why? His roll of the dice is a foolish gamble given the issues of wrong doings that need to be addressed at KC. If you've been told anything about UKnight, I expect they've been things designed for you to question the credibility of issues raised by UKnight in its litigation, so do not turn a blind eye. As directors you have every right to question the fact asserted by *both* sides, UKnight and KC, and a responsibility to search independently for the truth. It is your duty to question the status quo and investigate the information put forth in this letter in order to properly exercise your fiduciary duty to the KC membership who you serve, not KC executives.

I trust that you are aware of both the by-laws of the Knights of Columbus and, given this litigation, the civil laws being violated by KC and their related penalties. I urge you as a member of a non-profit board to be familiar with the responsibilities related to your directorship. Please stop and click here to at least read through a few pages that summarize those responsibilities which are reprinted in part with permission from the Board Source and the Connecticut Non-Profit Alliance.

According to *Principles and Practices for Nonprofit Excellence in Connecticut*, Board members (who are not employees) should receive no monetary compensation. In fact, board members of most of the largest, international, multi-billion-dollar U.S. nonprofits take no compensation.

But you do. And in addition to your salary you have approved millions of dollars in salaries and benefits for KC executives - some even after they resigned or retired - and approved millions of dollars to be given to one of the wealthiest organizations on earth – the Vatican. Most of these dollars were taken from funds generated by the sale of financial products to trusting Catholic families, dollars which are now no longer available to cover $111 billion KC owes to those families when they file their insurance claims.

Please be concerned. As Carl Anderson said in Baltimore on August 9, 2018, the Knights of Columbus has only $24 billion in the bank to cover those $111 billion in claims. Therefore, KC must somehow generate $87 billion in profits to cover that unfunded liability - $87 billion. With 30% of KC's insured members already over 70 years old, there does not seem to be a lot of time.

A major hurdle in fulfilling this requirement, generating $87 billion in profit, is that according to KC tax returns, under the leadership of Carl Anderson KC ***lost*** almost $10 billion. The mathematical, dollars and cents fact is that KC's insurance program has paid out almost $10 billion more in claims than it collected since 2004. You can click here to see pages from KC's 2013-2016 tax returns that show KC lost almost $1 billion this way each of those years with no end in sight.

Of course, the only way to generate $87 billion in time to pay those claims is to generate a profit, invest that profit, and then continue building those investments. Unfortunately, KC has been spending $1.70 on claims and expenses for every $1.00 collected, and has had to raid those investments just to break even.

Click here to see that in each of 2013, 2014, 2015, and 2016, for example, KC pulled out nearly $1 billion in investment gains each year as income just to cover those losses. Carl Anderson told us at the Supreme Convention that KC had grown its assets by $500 million, but that was not entirely true. What he did not tell us is that KC had *actually* grown its assets by nearly $1.5 billion, but as we see in the four prior years, needed $1 billion, or two-thirds of that gain, just to pay the bills, just to cover *today's* claims and expenses. Comparing KC with two similar insurance companies, Thrivent Financial and Guardian Life, Thrivent grew its assets by $9.3 billion, and only used 17%, $1.6 billion. Guardian, in the years reviewed, did not dip into their investments at all.

Think about it; it's taken since 1882 to put $24 billion in the bank. But *NOW*, with membership declining and aging, KC needs <u>another</u> $87 billion just to cover claims *already* on the books. Making matters worse, 30% of those claims are owed to families of members who are already over 70 years old. With so many thousands of Catholic families relying upon KC, relying upon you, as their fiduciary, you have every right as a director to review the qualifications of KC officers and board members to make sure they have the skills and experience necessary to get the job done.

Directors of non-profits have an especially critical role. With no owners, no shareholders, it is left to directors, like yourself, to recruit officers who can successfully manage the company, and then hold those officers accountable to carry out their responsibilities. For comparison, I've posted the list of individuals who sit on the boards of Thrivent Financial, est. 1902 by and for Lutherans and Guardian Life, est. 1860 by and for German-Americans. These companies proudly post information about their board right on their websites.

Please click here and read through the list of Thrivent and Guardian board members. This is the same list they keep posted on their websites for clients and potential clients to review.

Following below is the KC Board of Directors, as best as I can determine. Demonstrating a disappointing lack of transparency, unlike other companies, KC does not make its list of Officers and Directors available anywhere. In fact, as difficult as it is to just find your names, it is virtually impossible to find your resumes. Why do you think Supreme chooses not to be as transparent about KC's corporate governance as its peers?

<u>Knights of Columbus Directors, 2017 (as best as I could determine)</u>

Carl A. Anderson: Supreme Knight, *<u>KC Senior Officer</u>*

Virgil C. Dechant: Past Supreme Knight, *<u>KC Senior Officer</u>*

Logan T. Ludwig: Past Deputy Supreme Knight, *<u>KC Senior Officer</u>*

Michael J. O'Connor: Supreme Secretary, *<u>KC Senior Officer</u>*

John A. Marrella: Supreme Advocate, *<u>KC Senior Officer</u>*

Patrick E. Kelly: Deputy Supreme Knight, *<u>KC Senior Officer</u>*

Ronald F. Schwarz: Supreme Warden, *<u>KC Senior Officer</u>*

Most Rev. William E. Lori Supreme Chaplin Archbishop of Baltimore, MD

Thomas Wegener: Purchasing Agent, MI Senate Attorney's Office, PSD MI

Michael G. Conrad: Claims Representative, Metropolitan Utilities, PSD NE

Michael Gilliam: Agriculture Business Specialist, Univ of MO, PSD MO

Scott A. Flood: Mail Carrier, U.S. Postal Service, PSD CT

Paul J. Lambert: Telecommunications, Rural Electric Cooperative, PSD SD

James R. Scroggin: Retired Administrator, Fresno School District, PSD CA

Kenneth E. Stockwell: Retired Bank VP and Business Owner, PSD WY

Daniel Rossi: Exec Director, NE Regional Association of State Agriculture Experiment Station Directors, PSD NJ

Jose C. Reyes Jr: Lawyer, Associate Justice Philippine Court of Appeals, Pres., KCFAPI

Patrick Mason: Lawyer, private practice, PSD NM

Carmine Musumeci: Lawyer, private practice, PSD NY

Michael L. Wills: Lawyer, Tennessee Valley Authority Staff, PSD GA

Tommy C. Harger: Navy Veteran, PSD VA

Arthur J. Harris: Retired Quality Engineer, Eastman Kodak Co., PSD NY

Brian W. Simer: Financial Advisor, self-employed, PSD ID

Larry W. Kustra: No Professional Info, PSD Manitoba

Graydon A. Nicholas: Former lieutenant governor, New Brunswick, Canada

Arthur L. Peters: Dir of Development, Toronto Archdiocese, PSD Ontario

Colin Jorsch, JR.: retired military, PSD NC

> *New* Director - Anthony Minopoli: KC Executive Vice President, KC Chief Investment Officer, together with Carl Anderson co-founded KC Asset Advisors *Senior Officer*
>
> *New* Director - Terry Simonton: Land Surveyor, PSD TX
>
> *New* Director - Arcie Lim: No Professional Info, PSD British Columbia

A key responsibility of the Board is to hire and hold Senior Officers accountable. In fact, according to *Principles and Practices for Nonprofit Excellence in Connecticut*:

#1 <u>No more than one employee of the organization</u> should serve as a voting member of the board and should not serve as chair or treasurer of the board.

#2 The board should be made up of at <u>least five persons unrelated to each other or to staff</u>, to ensure appropriate deliberation and diversity.

A few questions:

1. Given these principles and practices, why is KC's board almost entirely officers and PSDs?

2. Can Mr. Minopoli hold himself or his good friend Carl Anderson accountable? Does a land surveyor have the experience to challenge them, or provide them with much needed advice?

3. Given the standard for transparency, why does Supreme not post information about its Board as other companies do?

4. If KC deserves the most qualified management possible, with all due respect, does the experience and management skills brought by the current board meet that standard?

5. Why has Carl Anderson and Supreme not recruited directors more akin to those recruited by Thrivent and Guardian?

I've been told that executives explain the incestuous nature of your corporate board by claiming KC By-Laws require Board Members to be PSD. This is in fact not true. KC Charter Constitution and By-Laws does dictate the requirements for board membership, but they are as follows:

Election Term: ***SEC. 7. There shall be a Board of Directors to consist of 24 insurance members, the Supreme Chaplain and Past Supreme Knights of the Order who retired from office in good standing.*** The regular term of Directors other than the Supreme Chaplain and Past Supreme Knights shall be three years from and after the first day of September following their election.

KC has no owners or shareholders; its stakeholders are its members. Members must rely upon the directors to select the most qualified officers, and then hold those officers accountable to manage KC successfully. What is it about the track record, leadership training, education or experience that convinced you the current KC officers have the skills and qualifications necessary to build the KC fraternal membership – which is shrinking - and manage its $111 billion fraternal insurance company - which lost almost $10 billion between 2004 – 2016?

Supreme Knight: Carl Anderson – lawyer, politician, government bureaucrat, writer, speaker

Deputy Supreme Knight: Patrick Kelly – military lawyer

Supreme Secretary: Michael O'Connor – personal injury and workman's comp lawyer

Supreme Advocate: John Marrella – lawyer, federal prosecutor

Supreme Treasurer: Ronald F. Schwarz – C.P.A., Div. Controller - Climate Control Group

Supreme Warden: Francis Drouhard – farmer, cattleman, and crop insurance agent

The board's number one fiduciary duty is to KC members, especially KC insured members; to monitor the organization and its finances and again, hold its management, its officers, accountable.

- The KC board is basically hand-picked by the Supreme Knight Carl Anderson. **Does the KC Board truly have the expertise either in terms of individual board members or, if required, advisors to responsibly execute its duties to membership?**

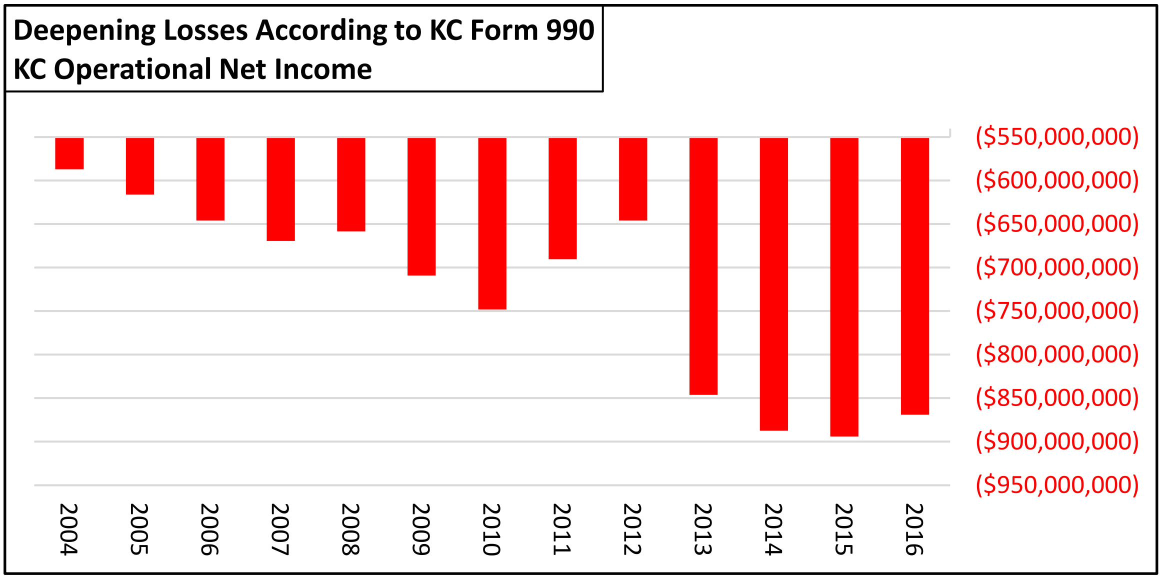
- The insurance fraud issue at KC must be evaluated and addressed. **Do you, as board members, have the independent resources necessary to make such judgements and cause the organization to take the necessary remedial actions?**

- **Did you approve the 2015 cash donation of $470,000 to a company named *First Do No Harm*?** In 2010, Lisa Bartoletti filed the Mutual Benefit Corporation *First Do No Harm, Inc.*, click here. In 2013, California suspended her company for failing to file required, biennial reports, click here. In 2015, she still had not filed a single report, her company was still suspended, but KC still gave her $470,000 in cash, click here. Extensive searches turned up absolutely no information about Ms. Bartoletti or her company, except that its location was a home listed for sale in late 2014, taken off the market in 2015, and then sold in 2017, click here. In 2018, after five years in suspension, *First Do No Harm, Inc.* was administratively dissolved by the state, click here.

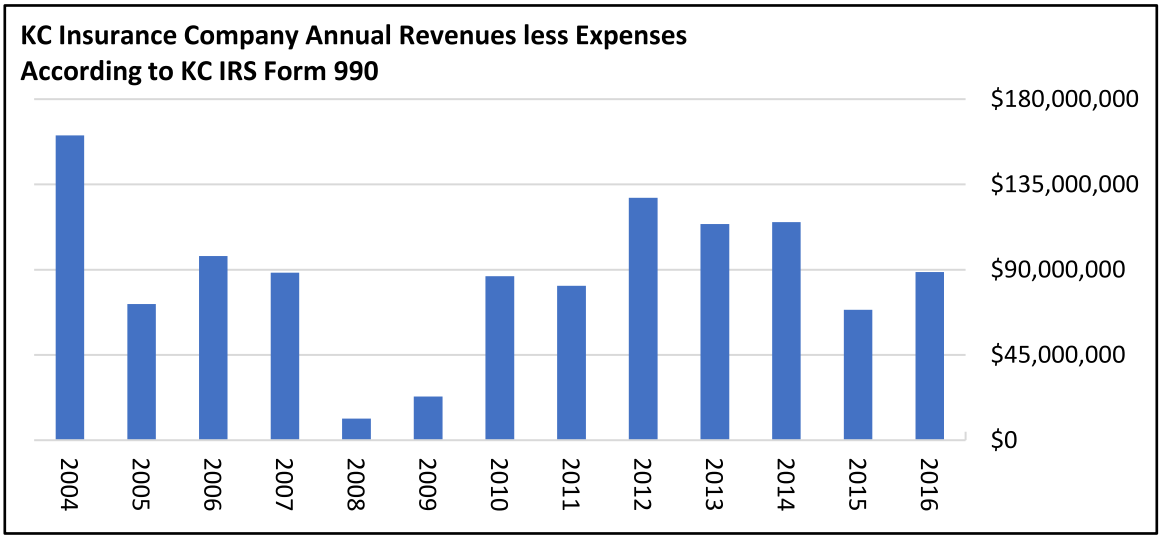
  This is, at the very least, questionable. Can you explain this $470,000 cash donation?

If you have been asking questions about KC's financial activities, its financial health and about the UKnight lawsuit charging business misconduct by KC, most likely you've been told KC is profitable and growing, and that UKnight rejected your settlement offers. **If such is the case, you are being misled and kept in the dark.** Following are the verifiable facts.

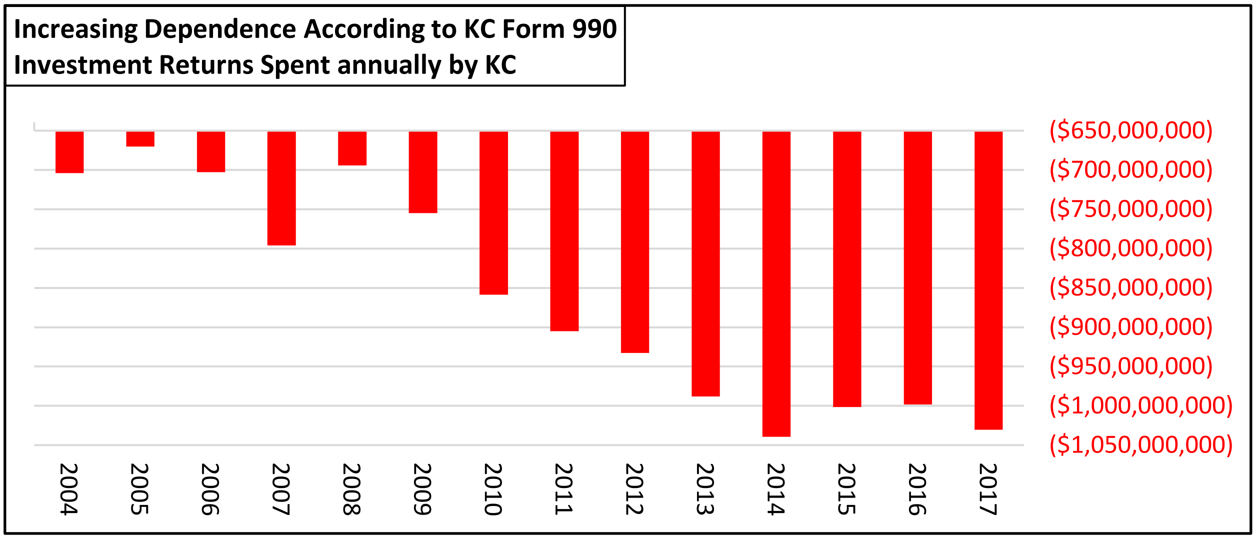
The chart below shows KC insurance company's performance under present leadership. Between 2013 - 2016 alone, KC generated revenues of $4.9 billion, **BUT** incurred expenses of $8.6 billion.



These are staggering losses of almost $1 billion per year, click here. Why then does KC tax forms show that KC's revenue less expenses yield positive results, as shown in the following chart, thus "proving" KC is stable and profitable?



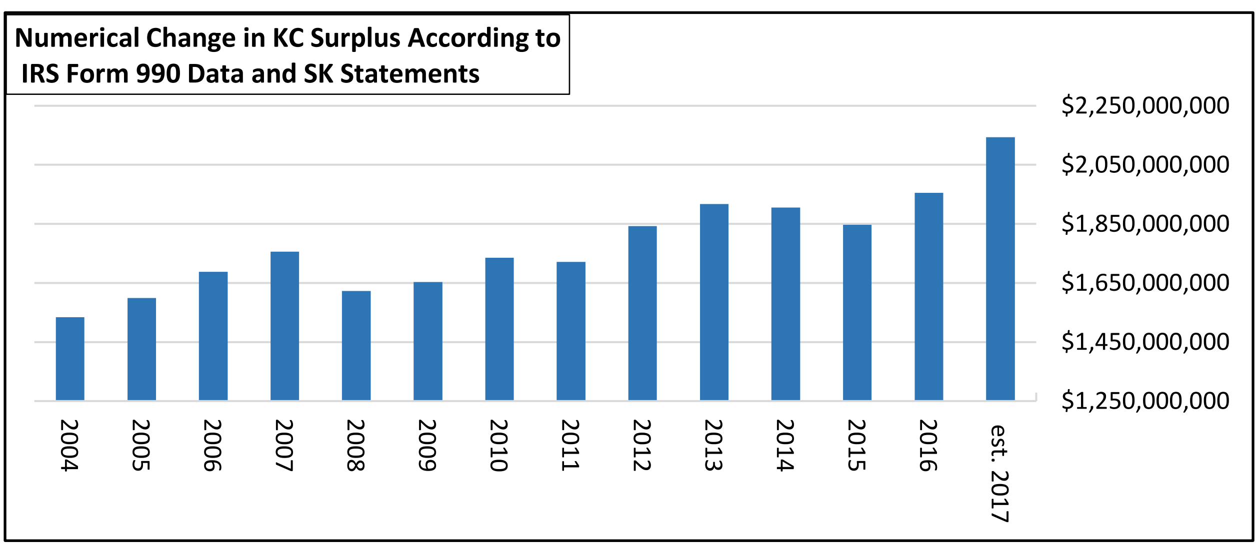
The answer about which you, as a director, have every right to be concerned is: **<u>To cover losses, KC is liquidating its investments to pay current bills instead of reinvesting the profits for future claims.</u>** Since 2004, almost $10 billion has been spent rather than reinvested to cover the upcoming $89 billion in unfunded liabilities on the books right now.



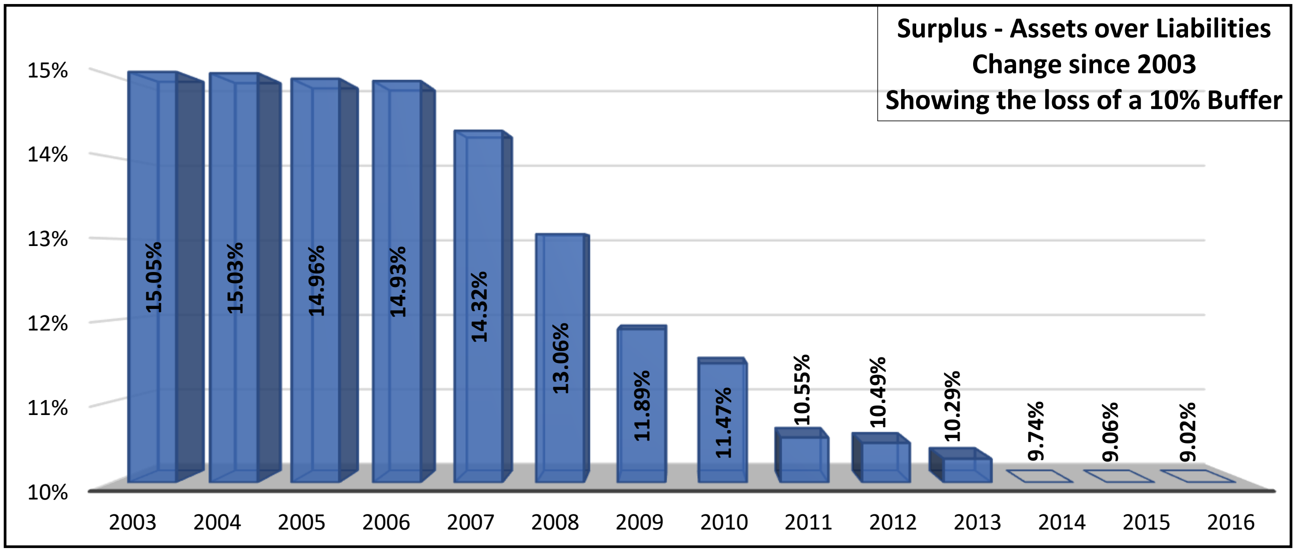
Interestingly, Supreme Knight Anderson just announced to you in Baltimore that KC's assets grew by $500 million to just over $24 billion. <u>That is not entirely truthful because assets actually grew by $1.5 billion, 3x as much</u>. But instead of keeping all <u>***or even most***</u> of that $1.5 billion to prepare for future claims, <u>KC had to cash out $1 billion, two-thirds of its asset growth</u>, in order to pay current claims and expenses, including millions of dollars for executive salaries and donations to the Vatican. The chart above shows this increasing dependence.

Again, to compare, KC spent 67%; Thrivent spent 17%; and, Guardian spent 0%.

This is dangerous for many reasons, not the least of which is what Carl Anderson referred to during his speech as the "Surplus". This "Surplus" is the value of KC assets that exceed their minimum reserve requirements established by regulators, a small fraction of KC's actual obligations. Carl Anderson emphasized that KC's surplus had grown by $188 million to $2.1 billion. But that too is just a selective part of the whole story.

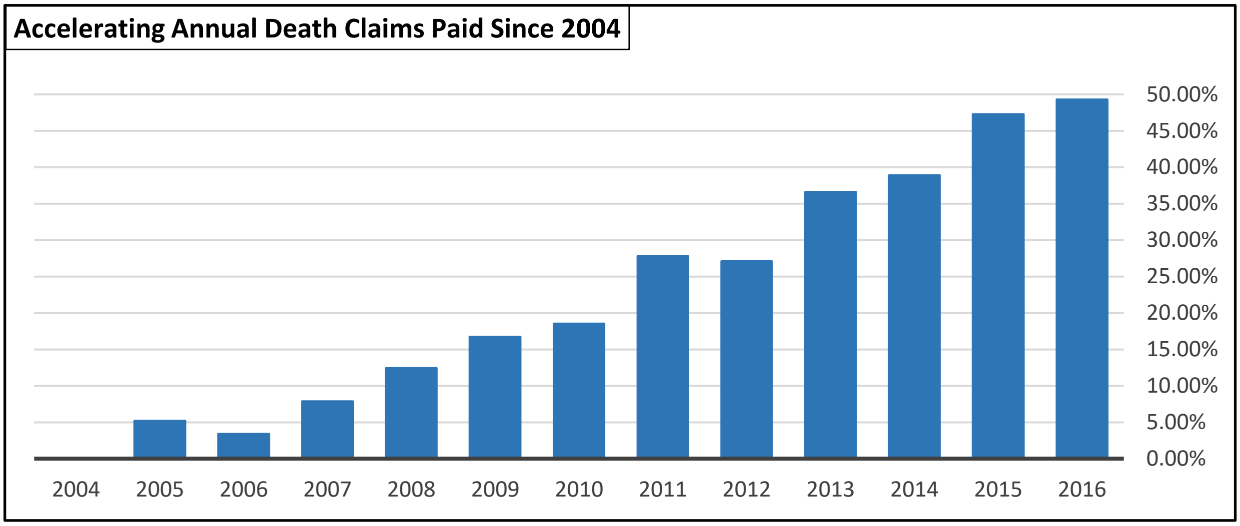


The chart on the prior page shows what Anderson said: the numerical value of KC's "surplus" had increased. But the next chart shows the full picture and it's disturbing: **KC's surplus is actually *diminishing*.** Even though its assets have grown every single year, and that surplus *number* has gone up nine of the last fourteen years, KC's obligations are growing faster than its assets are allowed to grow and accumulate because they are being spent. As you can see, the buffer has now dropped below 10%! The slightest change in KC's reserve requirements can be fatal. And, if these practices continue, it won't be long before KC's surplus turns negative all on its own, which is to say **KC will *not* be able to meet its reserve requirements.**

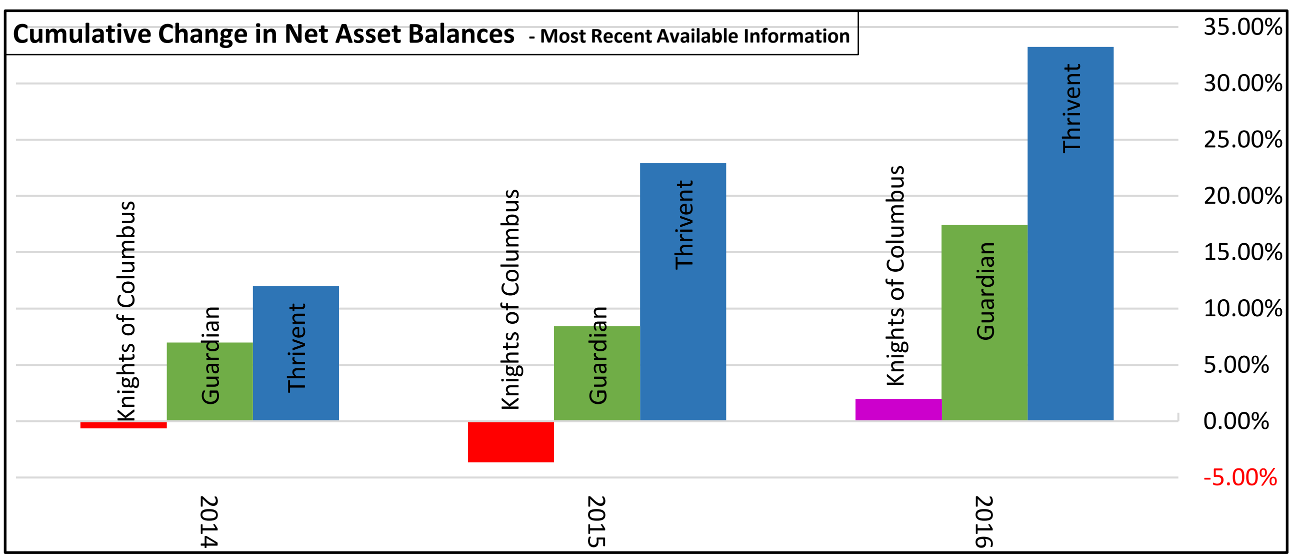


If financial markets remain strong, *if* death claims level off, *if* young men begin joining KC in North America, which is where KC insurance can be sold, *if* insurance sales do not slow further, and, *if the true facts about KC membership are never revealed*, at the current rate KC's assets will still drop below KC's current legally required reserve by 2033, *and that's a best-case scenario*. The fact is an *acceleration of negative conditions* is far more likely to occur, not a stabilization or reversal.

Since 2004 annual death claims filed against KC have increased by a full 50%, and the chart on the following page gives no indication that momentum is going to change. With 30% or so of KC's insured members already over 70 years old, that die has been cast; KC demographics are set as you will see confirmed later in this letter. Next year death claims will accelerate further, and again the year after that, and the year after that with no end in sight. Together with your diminishing surplus and your inability to add younger members to contribute revenue through paid in premiums, the financial future of KC could be characterized as dire.



To provide a point of comparison, the next chart illustrates the same surplus information, but does so in comparison to the performance of Thrivent, Guardian and KC. How do they measure up against each other given the most recent three years of available data?



If an insurance company fails to maintain its required reserves, it is considered a worst-case scenario. The company must shut down immediately until it builds its reserves up above that minimum threshold. Therefore, a key question is, what determines the reserve level? Given that KC has drawn its surplus down below 10%, the slightest fluctuation could prove devastating.

Given KC's predicament, it is not hard to believe that the pressure on KC General Agents to generate revenue is crushing. Indeed, three KC General Agents have committed suicide all within the past 12 months. I am told that all three suicides were directly related to the GAs' work with and pressure from KC home office. I am also told that a note left in one of these deaths makes this point as well. These three GA suicides out of 142 GAs also have occurred after UKnight filed its lawsuit and began shining a light on KC's behavior.

One of these GAs is Gary Struemph, who committed suicide on March 22, 2018. Gary was a KC agent for 27 years, he was a top 20 producer and very close to both UKnight and senior KC executives. With a background in information technology, he worked closely with UKnight and was one of its most effective and outspoken advocates. Gary's suicide came less than one week after UKnight notified KC leadership that it would call Gary as one of its key witnesses.

UKnight has engaged in two failed mediations with Knights of Columbus, which has led us into this litigation headed for an open trial of KC's conduct. Information associated with those failed attempts is confidential. Therefore, while you will find this information included with your hard copy of this letter, we have been advised not to post it with the rest of the exhibits online.

We've learned much however, through the litigation "discovery" process. Following is additional information most likely excluded from your briefings on the matter.

Many internal KC documents misrepresent our systems, technology and management, and include unprofessional statements by KC officials mocking and insulting UKnight with no basis in fact.

However, in earlier emails amongst themselves, your top executives call UKnight the "Near Perfect System". In another email, members of the KC committee specifically assembled to evaluating UKnight agreed that, "UKnight is our easiest, most cost-effective, and most value-added option." And that UKnight is, "… tremendously valuable and beyond the scope of what we are capable of producing".

Why the night and day difference? We believe the earlier comments were made by executives and managers prior to their realization, or who were not yet informed, that UKnight would expose the membership fraud.

We have also learned that in 2014, Supreme sent a survey to an unvetted list of UKnight subscribers. 91% of councils said they would recommend UKnight to other councils. 93% of agents said they would recommend UKnight to other agents. But for some reason, KC and its attorneys have marked this survey CONFIDENTIAL, and are trying very hard to keep anyone from seeing it.

UKnight provides services to well over 1,000 councils and agents. Most of KC's top GAs use UKnight and over 75% of council subscribers earned major council awards last year - 40% of them Star Council awards. But despite this success, Supreme now leaves councils to flounder on their own, and tells them they see no difference between UKnight and generic website providers.

UKnight includes very robust fundraising systems, chief among them is the Market Center. Had KC not breached our agreement, UKnight's Market Center was projected to have distributed over $18 million to individual councils through 2018, making UKnight a tremendous source of funds for thousands of charities supported by local councils, click here.

The entire cost for every UKnight subscription, across the entire organization, would have been covered if UKnight helped increase insurance *revenue* by a mere 0.25%, insurance *sales* by 0.04%.

UKnight is in a business sector called Software as a Service, or SaaS. Even with this on-going lawsuit, 67% of councils who try UKnight's 30-day free trial subscribe to the UKnight system. This compares to an overall SaaS Industry free trial conversion rate of less than 20%.

In the last 12 months, UKnight served up over 20.5 million pages to 6.2 million members and non-members with zero down time. Motivated to review their contact information by various UKnight systems specifically designed for that purpose, many thousands of members update their contact info through UKnight each year. This enabled council leaders to send 6 million emails through their UKnight mail centers over the last 12-months with a delivery success rate of over 98%. Perhaps this is just one of the reasons why councils using UKnight see increased member participation.

In July of 2015 I spent considerable time on the telephone with Matt St. John, KC's Director of Insurance Marketing at the time. He agreed to get together with me in New Haven so that we could meet in person and talk about UKnight and how we could work together for the good of the Order. Carl Anderson said no; do not invite UKnight to New Haven. He would not allow it.

You, as a director, have every right to ask: Why would the CEO of a >$100 billion insurance company prohibit his Director of Insurance Marketing from meeting with the same vendor he knew his Director of e-Business had already selected and had been advocating; a vendor his top executives considered cooperative and accommodating; a vendor that had been helping his organization successfully build membership and sales for over 5 years; a vendor that was recommended in writing by over 90% of the most successful council leaders and GAs surveyed; and, a vendor with whom he himself thought his company had already contracted two years earlier?

In early 2016 I asked to meet Logan Ludwig, DSK, at any location of his choosing. He refused.

As mentioned, before having to file the lawsuit I sent letter after letter to Supreme Knight Carl Anderson asking for his help to avoid litigation. He refused.

As a member of the KC board of directors, you have every right to be concerned about major financial, business misconduct and membership issues confronting the Knights of Columbus.

Just one of these issues is called "Excess Benefit". According to the IRS, each individual who is an organization manager—including board members—may be subject to an excise tax equal to 10 percent of the excess benefit for even knowing about an excess benefit transaction.

Here's an example; Dennis Savoie, the Deputy Supreme Knight, "suddenly resigned" in 2013, but KC still paid him $630,361 the following year. According to KC tax returns he didn't work a single day, but KC not only paid him over a half-million dollars, but KC even paid the income taxes on part of it. Excess Benefit? $0.00 benefit to KC. >$630,361 benefit to Dennis Savoie, click here.

Another example is Donald Kehoe, former Supreme Secretary. According to KC tax returns he didn't work a single day after he retired in 2010, but KC still paid him almost a quarter of a million dollars in salary and benefits the year after retirement. $0.00 benefit to KC, click here.

Carl Anderson has been chauffeured by limousine to and from his office each day, and has taken salary and benefits packages worth as much as $2.3 million for a single year with KC paying the income taxes on part of it, click here. This is up to 5x the compensation of top executives running larger and far more complex multi-billion-dollar tax-exempt organizations such as the Red Cross, Catholic Charities, Goodwill Industries, Lutheran Services, Feeding America, and others.

KC repeatedly boasts about the magnitude of its charitable services to justify exorbitant executive pay and to embellish its image as a top international charitable organization: $175 million per year according to KC filings. While that sounds impressive, if KC was included on the Forbes list of top 100 US Charities, which it is not, KC would rank below #73 Museum of Modern Art, #80 Wycliff Bible Translators, and even below #81 the Houston Food Bank, whose total charity is $196 million.

Google searches reveal that KC is not included on *any* list of top charities. However, if it was included on the Forbes list, KC would rank #85 and to put that into perspective, #84 is Scholarship America and #85 is now the Humane Society, whose top executives took $322,532 and $410,861 in salary and benefits respectively, click here for the entire 2017 list.

To show the objective measure of self-enrichment engaged in by KC's top executives, over the most recent three years of available information, Carl Anderson took *an average of $1.9 million in annual compensation*. Following are other tax-exempt organizations, their total charitable services, and the amount paid to their highest compensated officer.

Tax-Exempt Organization	Services Rendered	Top Executive Salary
Lutheran Services	$17.0 billion	$234,100
Goodwill Industries	$5.0 billion	$712,202
United Way	$3.4 billion	$1.2 million
Catholic Charities	$3.2 billion	$503,140
Salvation Army	$3.0 billion	$261,777
Task Force for Global Health	$2.7 billion	$531,589
Feeding America	$2.4 billion	$479,014
American Red Cross	$2.4 billion	$631,537
Habitat for Humanity	$1.5 billion	$356,596
Boys & Girls Clubs	$1.4 billion	$795,518
Knights of Columbus	$0.17 billion	$1.9 million

As a director, you bear the legal responsibility of ensuring that KC remains true to its mission and purpose by compliance with all applicable federal and state laws.

This all ties back to KC's insurance fraud. It is the engine that drives KC's "charitable" giving and its compensation to its executives. Here are the components of the fraud:

- Manpower: Financial ratings agencies track the size of an insurance company's salesforce as an indicator of the company's strength and growth. To manipulate this indicator, KC requires its GAs to hire a significant number of additional salesmen at the end of the year, thereby inflating its manpower numbers to receive higher ratings. In fact, KC has even told its GAs that if they do not hire more salesmen, KC's financial rating would drop.

We have been told first hand, that KC instructs GAs to suspend standard vetting procedures just to get additional salesmen on the books for their report, after which they can be terminated. GAs then hire and pay these salesmen out of their own pocket. The duped salesmen in this charade are Catholic men who are led to believe they have a future with this revered Catholic organization, until they've served their purpose and are dismissed. Indications are that in 2017, manpower numbers were inflated by 20%.

- Membership: GAs must also cooperate with KC's member inflation even though it works against their financial best interests. GA territories and sales quotas are based upon the number of members KC says are in the councils they service. Even though the accurate member counts are far fewer than KC represents, and even though most GAs know it, failing to cooperate in the fraud could cost them their businesses, their ability to support their families, so most just go along. Some GAs report being unable to get non-US councils removed from their agency. While putting an overseas council within a GAs territory adds to the number of "insurable" members, it works against his ability to earn certain bonuses.

We have been told first hand that KC has terminated GAs with decades of exemplary service for refusing to cooperate. For example, one such GA tried to clean up the membership roles in his territory, and it cost him his business. He tried to remove hundreds of members, many he knew to be deceased, and to insist that his State Officers abide by KC's by-laws. For this he was terminated after serving KC for more than 20 years.

As a director, you should be concerned that KC is using false salesforce, membership and related financial information in their reports to rating agencies and regulators.

SK Anderson took over leadership of KC in 2000 with a total 1.6 million members. Today, KC *reports* 1.9 million members, an average growth rate of 1% per year – worldwide. In 2017, UKnight surveyed councils to confirm the existence of and determine the extent of this member inflation. This survey revealed member counts that were 30% to 40% lower than what KC reports. This translates into a total membership count between 1.1 million and 1.3 million, a membership that is decreasing, not increasing. These numbers speak volumes about the difference between what KC *says* about its health and future, and what the *reality* is.

We are told that councils believe KC forces them to keep non-existent members on the books not only to report a growing membership every year, but so they can keep collecting per capita dollars for each of those members. Such forced payments are in reality, extortion.

Councils must pay member assessments to the KC National and State governing bodies. If these annual assessments are rounded to $10.00 per member, and if only half of KC's 15,000 councils have only 30 phantom members each, this means that council volunteers will raise $2.25 million per year for local charity work, that KC demands for itself in payment for members that do not exist.

But there is a more insidious, multi-billion-dollar reason for this practice: we have confirmed that KC uses these per capita payments to <u>*verify*</u> these false membership counts for actuarial purposes.

Here's how: Councils are independent entities, they operate in their own financial self-interest and they work hard to raise money to support charitable efforts in their own communities. Since the reasonable expectation is that these independent entities would not send KC any more money than is required, the assumption is that per capita payment counts must be accurate. This enables KC to use these inflated numbers as being *independently verified* in their reports to ratings agencies.

The schemes all work together.

- KC forces GAs to hire and pay for salesmen they don't need or want;

- KC forces councils to pay per capita for members that don't exist; and

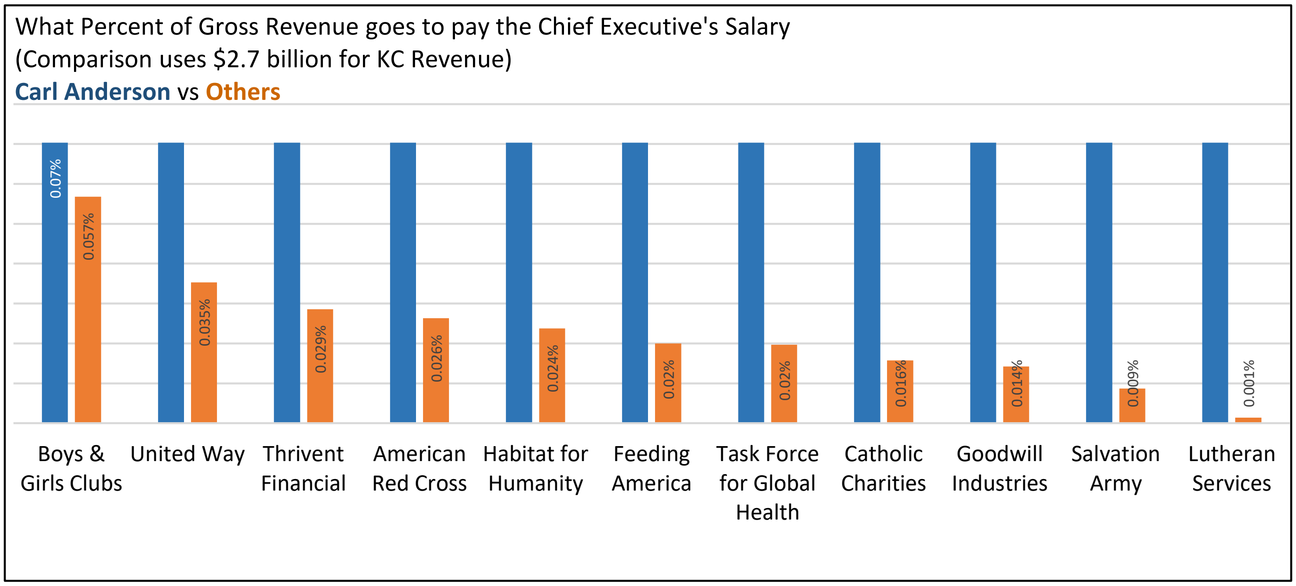
- KC spend millions buying influence at the Vatican.

- A.M Best then interprets that data as KC having a growing salesforce to service a growing customer base/risk pool which contributes to their willingness to issue KC a Superior rating.

- KC then reports back to agents, to members, and to the public at large that KC has received a glowing endorsement from the Pope, has been named one of the world's most ethical companies, and has earned a Superior rating by A.M. Best for 41 consecutive years.

As a result, KC executives maintain their exorbitant salaries and positions of power and influence, and KC members are duped into over-paying for over-priced financial products believing it is their Catholic duty to buy financial products from a company that appears to have endorsements from the Pope, that supports Catholic causes, and has had the highest possible financial ratings for 41 years.

The blue bars in the chart on the next page illustrate the percent of all KC's gross revenues from all sources including insurance, investments and charity, $2.7 billion, that goes to pay the salary taken by Carl Anderson. The orange bars represent the identical analysis of other CEO salaries as a percent of their company's total gross revenues.



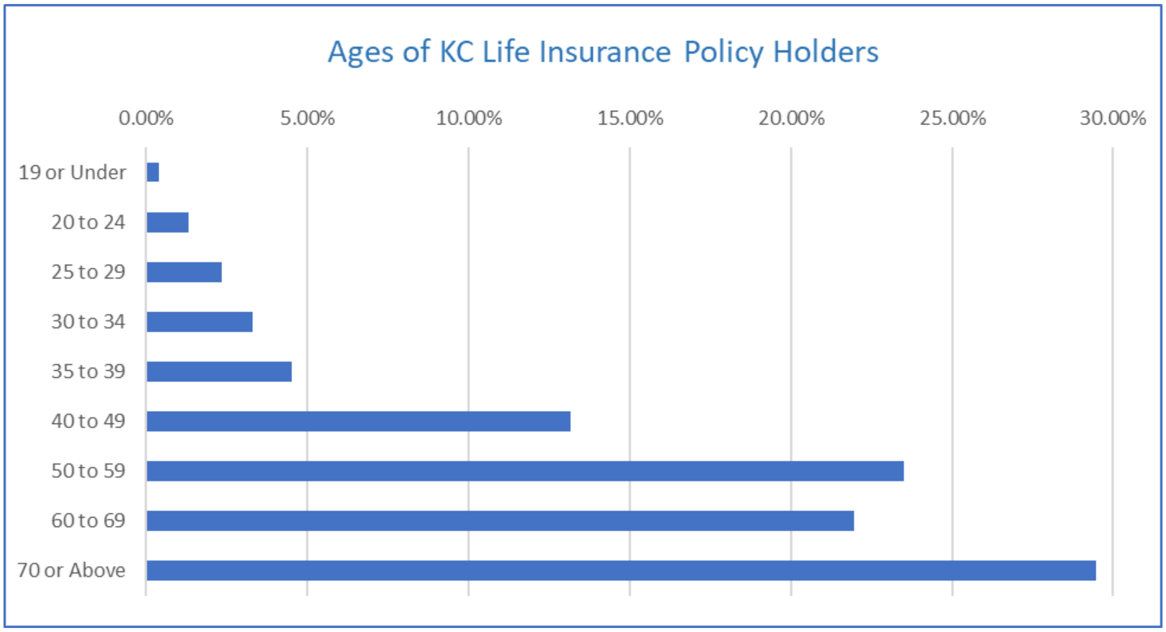
This is a very serious matter because the higher risks associated with KC's limited customer base and risk pool make the number, growth, and vibrancy of KC's membership critically important to its long-term viability. Ratings agencies, reinsurers, and purchasers of KC financial products want and need to know whether KC will be able to pay its claims in thirty, forty, or even fifty years. And today, how broadly are its insurance obligations dispersed over the demographic spectrum or, like social security, is the coverage more concentrated: **How soon will KC need that $111 billion?**

- You have every right to question whether KC's Surplus has actually *fallen* below 10%.
- As regulators understand the truth behind KC membership and field agent data, and if, based upon the true actuarial data, they decide to raise your required minimum reserve by a mere 10%, KC's reported current surplus of $2.1 billion might not be enough.
- You have every reason to be concerned that KC is over reporting member numbers by at least 20% - 30%, and the average age of members is *at least* 10 years older than KC reports.
- You have every reason to question whether KC over-reported its insurance field agent strength by at least 20% for 2017.

This is why, despite the success that UKnight was creating, once KC's top officers understood that the UKnight system would expose KC's fraud and data falsehoods, KC breached its contract with UKnight.

UKnight performed a study on these questions with anonymous data provided by >200,000 members of councils that subscribe to UKnight's technology – which may actually represent a younger than average subset of KC members - and with additional council data that was submitted to UKnight by councils voluntarily prior to KC's instruction to stop them from cooperating. Here is what was discovered.

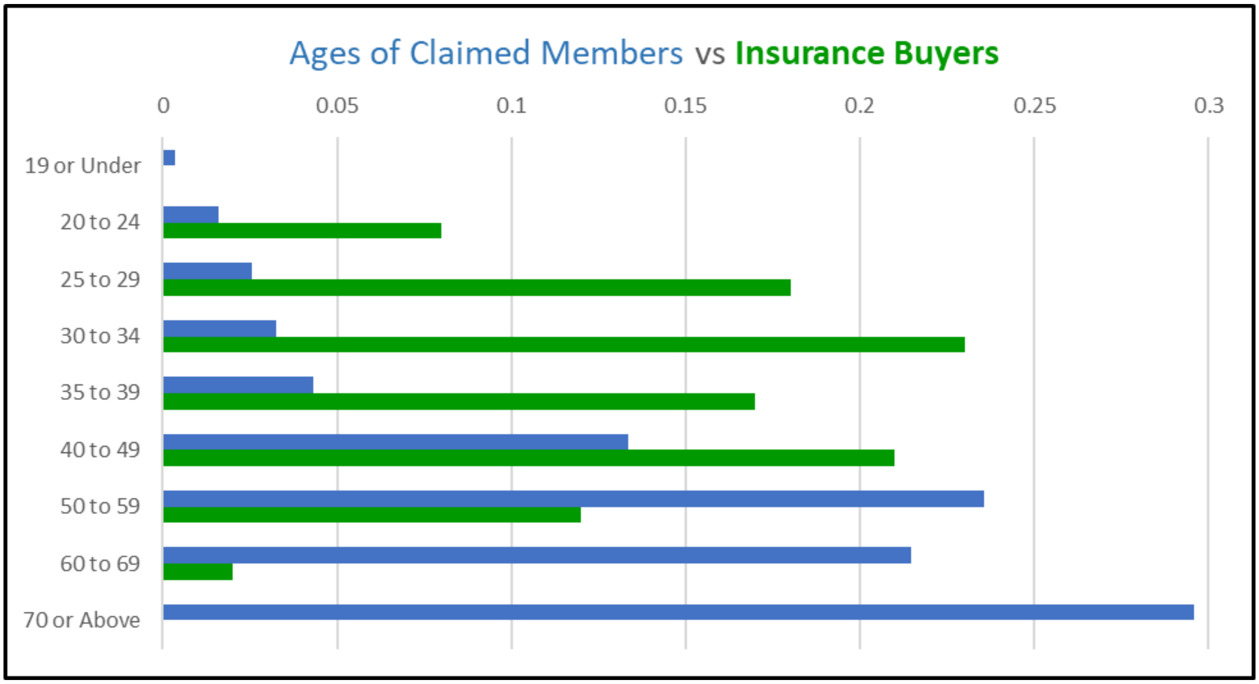
The graphs below depict the actual ages of KC Insured members in this >200,000-member sample. This clearly confirms that the acceleration of KC death claims has just gotten started, and that a *Tsunami* of claims is right on the horizon.



- 30% of current insured members are 70 years old and above
- 22% are between 60 and 69 years old
- 24% are between 50 and 59
- 13% are between 40 and 49
- 8% are between 30 and 39
- 4% are 29 years old and younger

Is KC recruiting younger members in sufficient numbers to buy enough new life insurance policies to cover that $87 billion gap?

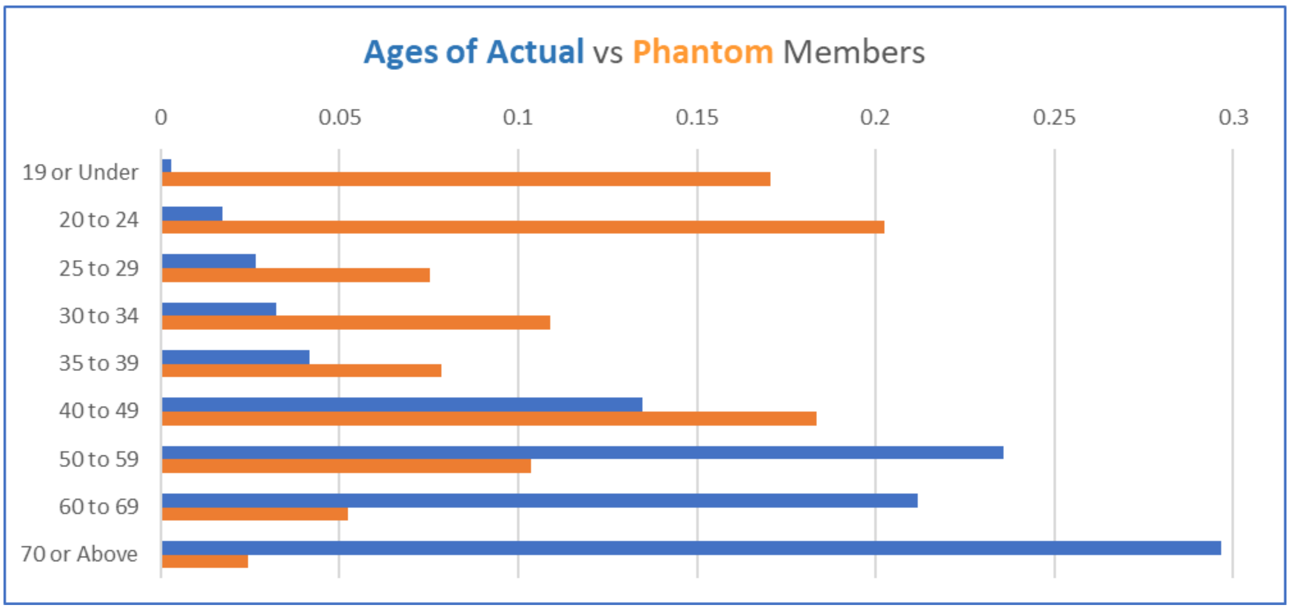
KC is no different than social security in that it needs younger members paying dollars into the system to cover costs associated with older members pulling dollars out of the system. Following is the demographic spread of all members claimed by KC, and the correlating demographic spread of members of the US population who buy insurance according to the Life Insurance Market Research Association (LIMRA) and the U.S. Census Bureau.



- 30% of KC members are 70 years old and above
  0% of actual Insurance Buyers are in this age range
- 21% of KC members are between 60 and 69 years old
  2% of actual Insurance Buyers are in this age range
- 24% of KC members are between 50 and 59
  12% of actual Insurance Buyers are in this age range
- 13% of KC members are between 40 and 49
  21% of actual Insurance Buyers are in this age range
- 8% of KC members are between 30 and 39
  40% of actual Insurance Buyers are in this age range
- 4% of KC members are 29 years old and younger
  26% of actual Insurance Buyers are in this age range

But this still does not tell the entire story. We strongly believe that members "claimed" by KC include phantom members that no longer exist except as entries on their membership rolls - names KC forces councils to keep on the books and verify by continuing to pay per capita assessments as if these men were still active, dues paying members.

The following data shows that KC deceptively skews its demographics. What the following extrapolation of data provided by KC councils shows, for example, is that of all the non-existent, phantom members carried on the books - hundreds of thousands of them - 45% are under 29 years old.



- 2% of Phantom Members reported by Councils are 70 years old and above
- 5% of Phantom Members are between 60 and 69 years old
- 10% of Phantom Members are between 50 and 59
- 18% of Phantom Members are between 40 and 49
- 19% of Phantom Members are between 30 and 39
- 45% of Phantom Members are 29 years old and younger

By law, only members <u>in good standing</u> with the KC Fraternity who reside in the U.S. and Canada can buy KC financial products. The KC Fraternity is shrinking, aging, and dying. Any new member growth is occurring overseas where KC financial products cannot be sold.

As shown, as the majority of members who joined and bought insurance in the late 20th century continues to age, death claims presented to KC will accelerate even more rapidly. By failing to recruit young, practical Catholic men who can and will buy KC insurance and contribute premium payments in amounts sufficient to cover these accelerating death claims, the outcome is as mathematical for KC as it is for the Social Security Administration, a fact KC is desperate to hide.

KC's fraud enables its insurance products to continue to be rated and priced at the top of the market.

Companies with lower financial ratings cannot command such high prices for their financial products. But this puts KC at serious, existential risk. Its fraud is not only wrong, it is unsustainable. The result: KC may very well be facing a lowered rating because eventually, based on the continued aging of its insured members, there will be no way to hide its accelerating claims.

- You have every right to be concerned for KC's integrity because if that lower rating is warranted and means that KC's products have been over-priced by just 20%, then for every $100,000 in premiums paid to KC by trusting Catholic families KC has cheated them out of $20,000. It's just that simple.

- And you have every right to be concerned as a director and member because if that lower rating leads to KC's reserve being adjusted by a mere 10% higher, and if that adjustment pushes their minimum reserve above the current surplus which is below 10%, KC's ability to operate in the insurance field- its main source of revenue- will be shut down.

Carl Anderson talks about the greatness of the Knights of Columbus insurance company. But, as directors, you have every right to feel uneasy because:

- KC took 136 years to put $24 billion in the bank. KC now needs $87 billion more just to pay future claims <u>already</u> on the books, and KC needs to generate and retain that profit in this current, more challenging environment of a shrinking and aging membership.

- KC spends $1.70 for every $1.00 in gross program revenue with a 31% expense ratio and executive salaries in the millions of dollars.

- KC's death claims are accelerating and are already 50% higher than they were 10 years ago.

- KC policy holders are aging quickly: 30% are already over 70; over 50% are now over 60.

- KC's need to drain its investment returns every year just to pay current bills – its expenses, claims and donations - will only get worse as death benefit claims owed to its rapidly aging insured members continue to accelerate.

- Carl Anderson announced that KC added $500 million to its total assets. But that represents a mere 2% annual growth rate within the longest bull-market in history. What's going to happen when market performance weakens and returns to its historic norms?

Since 2011, I have worked with hundreds of rank and file KC members and agents, many I consider to be among the finest men I have ever known. I'd like to believe that such men also sit on the KC board of directors, men of integrity and character who will ask KC management just how it plans to overcome these challenges so that KC can meet its obligations.

The recently exposed horrors with respect to the Catholic community in Pittsburgh were ignored by those with a duty to protect those children and, as we have learned, many other victims. We do not yet even know how high up into Vatican leadership the culpability will go. Since you are a KC director, I hope that you recognize *your* fiduciary duty. I hope *you* are prepared to do whatever is necessary to protect the confidence that generations of Knights of Columbus members have had in the morality and integrity of their Order, and to protect the faith and trust that thousands of Catholic families have shown to you, and to all Knights of Columbus leaders, by entrusting to you their hard earned dollars in the form of premiums paid month after month, year after year, in amounts that now total in the tens of billions of dollars.

Fraternally,

UKnight Interactive
Leonard S. Labriola