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AmeriDebt Founder Settles FTC Deception Charges

Andris Pukke Barred Permanently from Credit Counseling and Debt Management, Relinquishes His Assets for Consumer Redress

The Federal Trade Commission today put a successful end to the largest case against deceptive credit counseling and debt management brought by the agency. The FTC announced a settlement with Andris Pukke, founder of AmeriDebt, Inc., and with a related company owned by Pukke, DebtWorks, Inc. The agreement, if approved by a federal court in Maryland, would require Pukke to give up virtually all of his assets for a consumer redress program for victims of the deception, a fund that ultimately could total as much as \$35 million.

The agreement also bars Pukke permanently from engaging in credit counseling, debt management, and credit education activities, prohibits him from violating the Telemarketing Sales Rule, and prohibits him from engaging in other conduct in connection with telemarketing.

“Our case alleges that these defendants used their credit counseling business to deceive nearly 300,000 consumers about the services they provide, the fees they charged, and their status as a non-profit company,” said Lydia B. Parnes, director of the FTC’s Bureau of Consumer Protection. “This settlement bans the defendants from the credit counseling business permanently and requires them to give up the money they made from this scheme.”

The settlement ends more than two years of litigation against Pukke, effectively securing virtually all of his personal assets, including homes in Miami Beach and Southern California, for use as consumer redress. This settlement is part of a global settlement that also settles the claims of a nationwide class action, Polacsek et al. v. Debticated, et al., No. 04-0631 (D. Md), which had been consolidated for trial with the FTC’s case.

A receiver, appointed by the court in April 2005, to identify and maintain Pukke’s assets, has collected property worth millions of dollars, and the order authorizes him to continue his efforts to locate additional assets. Any amounts the receiver collects, up to \$35 million, would go into the redress fund under the settlement. If the receiver collects assets worth more than \$35 million, the excess would go into the bankruptcy estate that was created when Pukke filed for bankruptcy last July.

The Commission’s Complaint

In a complaint filed in November 2003, the FTC charged that AmeriDebt, Inc.; DebtWorks, Inc.; and Andris Pukke deceived consumers with claims that AmeriDebt was a nonprofit organization and that it provided counseling services to consumers seeking to get out of debt. The FTC charged that, rather than operating for charitable purposes as advertised, AmeriDebt funneled profits to affiliated for-profit entities and individuals, including DebtWorks and Pukke. The complaint also charged that the defendants did not provide counseling services, but simply enrolled every customer in a debt management plan (DMP). According to the FTC, AmeriDebt also deceived customers when it claimed that it did not charge an up-front fee. Instead, the complaint alleged, AmeriDebt kept its clients’ first payment under their DMPs as its own fee, rather than

disbursing the money to consumers' creditors as promised. The complaint charged these practices were deceptive in violation of the Federal Trade Commission Act.

In June 2004, AmeriDebt filed for bankruptcy relief. At the request of the FTC and others, the bankruptcy court removed existing management and appointed a trustee to oversee AmeriDebt. In March 2005, AmeriDebt settled the FTC's charges by, among other things, agreeing to shut down its debt-management operations. In April 2005, at the FTC's request, the court froze the assets of Pukke and DebtWorks, and appointed a receiver to locate and marshal their assets. Andris Pukke filed for bankruptcy in July 2005, and subsequently the District of Maryland court stayed the bankruptcy case pending the outcome of the FTC trial. Pamela Pukke, Andris Pukke's estranged wife, was charged as a relief defendant in the case and settled with the Commission in December 2005, by releasing her claims to certain assets and by agreeing to cooperate with the Commission regarding its ongoing actions involving Andris Pukke and DebtWorks.

Other Terms of the Order

The settlement imposes a \$172 million suspended judgment against the defendants, which will be triggered if they do not comply with the order. In addition, the monetary judgment is based on financial statements provided to the Commission by the defendants; the order requires them to turn over the value of any asset omitted from either financial statement. Further, the order contains the defendants' agreement that the assets collected will be held in a constructive trust for consumer victims and used for consumer redress. The Commission, in consultation with the lawyers for the class action, will determine how to set up and implement the redress program. In the event that the money collected instead must go into Pukke's bankruptcy estate, the FTC will hold a \$172 million claim against the bankruptcy estate.

The order allows Pukke to receive some funds to pay specified legal fees and living expenses incurred since April 2005. The order requires Pukke to cooperate with the Commission in connection with this action and with his pending bankruptcy case. The order also requires Pukke to cooperate with the receiver in the ongoing effort to locate all receivership assets, and maintains the asset freeze in place against the defendants. Finally, it contains standard monitoring and record-keeping requirements to allow the FTC to monitor the defendants' compliance with its terms.

For updates to the case, the FTC consumer hotline number for AmeriDebt is: 1-877-862-0886.

The Commission vote approving the stipulated final judgment and order was 3-0, with Chairman Deborah Platt Majoras and Commissioner William E. Kovacic not participating. The judgment and order were filed in the U.S. District Court for the District of Maryland on January 9, 2006, and settle the FTC's charges against defendants Andris Pukke and DebtWorks, Inc.

NOTE: Stipulated final judgments are for settlement purposes only and do not constitute an admission by the defendants of a law violation. Stipulated judgments have the force of law when signed by the judge.

Copies of the consent order in settlement of the court action are available from the FTC's Web site at <http://www.ftc.gov> and also from the FTC's Consumer Response Center, Room 130, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580. The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint in English or Spanish (bilingual counselors are available to take complaints), or to get free information on any of 150 consumer topics, call toll-free, 1-877-FTC-HELP (1-877-382-4357), or use the complaint form at <http://www.ftc.gov>. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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(<http://www.ftc.gov/opa/2006/01/andrispukke.htm>)