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## **Court Halts Trek Alliance Pyramid Scheme**

A federal district court judge has issued a preliminary injunction halting the alleged illegal activities of Trek Alliance, freezing its assets and those of its principals pending trial, and appointing a receiver to oversee the business assets. In his order, Judge J. Spencer Letts barred the defendants from making misrepresentations about the potential earnings, financial gain, or benefits of any multi-level marketing program, business investment opportunity, or pyramid marketing scheme. In addition, the order prohibits the defendants from participating in any illegal pyramid schemes. The order also prohibits the defendants from failing to disclose all information material to a consumer's decision to participate in such programs. Defendants also are prohibited from falsely representing that salaries or permanent employment opportunities are available. Finally, the defendants are prohibited from making any false or misleading representation of material fact in connection with the advertising, promotion, marketing, distribution, offering for sale or sale of any good or service.

Judge Letts, of the United States District Court for the Central District of California in Los Angeles, found that there is good cause to believe that defendants have violated Section 5(a) of the FTC Act, and that the FTC is likely to prevail on the merits of this action. The parties will continue to conduct discovery, after which a trial will be scheduled.

In December 2002, the Federal Trade Commission sued the California-based operation for using deceptive earnings claims to lure recruits into investing hundreds or thousands of dollars in their illegal scheme. The FTC charged that Trek Alliance was patterned after Equinox International, an operation that in April 2000 agreed to liquidate assets worth roughly \$40 million to settle charges by the FTC and eight state attorneys general that it was operating an illegal pyramid scheme. Two of the four individual defendants associated with Trek were top distributors with Equinox.

According to the FTC, Trek Alliance operated a multilevel marketing company that offered distributorships for products including water filters, cleaning products, and nutritional supplements.

The FTC alleged that Trek distributors ran classified ads in the "Help Wanted" sections of newspapers that implied that they were offering salaried positions. According to the FTC, people who responded to the ads were instead given a sales presentation designed to recruit new distributors. The FTC alleged that Trek told recruits that they could earn money by selling products or recruiting, but emphasized that more money could be made through recruiting. The recruits were expected to attend training seminars around the country, purchase hundreds of dollars worth of products so they could enter the program at a higher level, rent desk space in regional offices, and subscribe to phone lines so they could begin recruiting others, all at their own expense. While the company promised monthly incomes ranging from \$2,000 to \$20,000, the FTC complaint alleged that the vast majority of consumers made less money than they had paid for front-end expenses, and that many made little or nothing. The complaint also alleged that compensation was not sufficiently linked to retail sales, and that Trek did not adequately enforce policies and requirements that were ostensibly designed to assure such a link.

The FTC charged that Trek's earnings claims, as well as its claims implying that employment opportunities were available, were false. The FTC also charged that the defendants deceptively failed to disclose that most investors would not make substantial income. Finally, the FTC alleged that the program is a pyramid scheme and most participants lose money. The practices violate federal law, the complaint says. The FTC has asked the court to permanently enjoin the defendants' deceptive practices and to order consumer redress as final relief in the matter.

The FTC's complaint names as defendants Trek Alliance Inc., Trek Education Corporation, VonFlagg Corporation, and individual defendants J. Kale Flagg, Harry Flagg, and Richard and Tiffani Von Alvensleben.

**NOTE:** The Commission files a complaint when it has "reason to believe" that the law has been or is being violated, and it appears to the Commission that a proceeding is in the public interest. The complaint is not a finding or ruling that the defendant has actually violated the law. The case will be decided by the court.

**Copies** of the complaint and the preliminary injunction 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, 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.

**MEDIA CONTACT:**

Claudia Bourne Farrell  
*Office of Public Affairs*  
202-326-2181

**STAFF CONTACT:**

John D. Jacobs, Jennifer M. Brennan,  
*Western Regional Office*  
Los Angeles  
310-824-4343  
Trek Hotline: 310-824-4321

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(<http://www.ftc.gov/opa/2003/trek.htm>)