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Alleged Pyramid Scheme Operators Banned from Multi-level Marketing

\$1.5 Million in Consumer Redress Required to Settle FTC Charges

The Federal Trade Commission has settled charges against three corporations and their owners and officers that the defendants used deceptive practices to promote their multilevel-marketing program and were operating an illegal pyramid scheme. The Commission will receive about \$1.5 million in consumer redress as part of the settlement. Three of the defendants, who had been top distributors for Equinox International, a multilevel-marketing firm sued by the FTC in 1999, are permanently banned from the multilevel-marketing industry.

The defendants sold products such as water filters, cleaning supplies, nutritional supplements, and beauty aids through a nationwide network of distributors. In its complaint filed in December 2002, the FTC alleged that while distributors were told they could make money by selling the products, the defendants emphasized that they could make more money by focusing on recruiting new distributors. According to the complaint, distributors used deceptive claims to lure prospective participants, including claims that salaried jobs were being offered. The complaint further alleged that the defendants misrepresented that distributors were likely to earn substantial incomes, and that the defendants operated an illegal pyramid scheme.

The defendants – Trek Alliance, Inc.; J. Kale Flagg; Richard and Tiffani Von Alvensleben; Harry Flagg; Trek Education Corporation; and VonFlagg Corporation – are a multi-level marketing company, its owners and officers, its training arm, and its parent corporation.

The orders against Kale Flagg, the Von Alvenslebens, and the corporations permanently ban them from multilevel-marketing. In addition, Kale Flagg is ordered to pay \$360,000 and the Von Alvenslebens to pay \$515,000. Harry Flagg – who, unlike the other individual defendants, had not previously been involved in multilevel-marketing – is not subject to a ban, but is prohibited from participating in illegal pyramid schemes and is required to pay \$20,000. The orders for all of the defendants also prohibit the violations alleged in the Commission's complaint. Additionally, as part of the settlement, the defendants have authorized their insurance company to pay \$600,000 to the FTC to be used as consumer redress. The payment settles a claim against a Directors & Officers liability policy issued to the defendants.

The Commission vote to authorize the staff to file the stipulated final orders was 4-0. The stipulated final orders for permanent injunction were entered in the U.S. District Court for the Central District of California on December 13, 2005.

NOTE: These stipulated final orders are for settlement purposes only and do not constitute an admission by the defendant of a law violation. Stipulated final orders require approval by the court and have the force of law when signed by the judge.

Copies of the stipulated final orders 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/2005/12/trekall.htm>)