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UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION

FEDERAL TRADE COMMISSION, Plaintiff, v. NATIONAL CONSUMER COUNCIL, an Arizona corporation; NATIONAL CONSUMER COUNCIL, a California corporation; NATIONAL CONSUMER COUNCIL, a Nevada corporation; LONDON FINANCIAL GROUP; NATIONAL CONSUMER DEBT COUNCIL, LLC; SOLIDIUM, LLC doing business as SoLidium Credit Recovery Services; UNITED CONSUMERS LAW GROUP, A PROFESSIONAL CORP.; J.P. LANDIS, LLC; FINANCIAL RESCUE SERVICES, INC.; SIGNATURE EQUITIES, LLC; M&L SPRINGFIELD TRUST; PC HAILEY TRUST; VIA LIDO TRUST; WALTER L. HAINES a/k/a Walter L. Hainowitz; PAUL KARDOS; WALTER JOSEPH LEDDA a/k/a Walter W. Ledda; HARVEY WARREN a/k/a Harvey W. Zvansky; MARTHA K. LEVITSKY a/k/a Martha E. Kerchen; and MARY BETH HARPER a/k/a Mary Beth Scholz, Defendants.	Case No. SACV 04-0474 CJC (JWJx) COMPLAINT FOR PERMANENT INJUNCTION AND OTHER EQUITABLE RELIEF

Plaintiff, the Federal Trade Commission ("FTC" or "the Commission"), for its complaint alleges:

1. Plaintiff FTC brings this action under Sections 13(b) and 19 of the Federal Trade Commission Act ("FTC Act"), 15 U.S.C. §§ 53(b) and 57b, the Telemarketing and Consumer Fraud and Abuse Prevention Act ("Telemarketing Act"), 15 U.S.C.§§ 6101, *et seq.*, and Sections 503 and 505(a)(7) of the Gramm-Leach-Bliley Act ("GLB Act"), 15 U.S.C. §§ 6803 and 6805(a)(7), to secure a permanent injunction, rescission of contracts and restitution, disgorgement of ill-gotten gains, and other equitable relief against the defendants for engaging in deceptive acts or practices in connection with the advertising, marketing, and sale of debt negotiation services in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), and the Telemarketing Sales Rule ("TSR"), 16 C.F.R. Part 310; and failure to provide consumers with the disclosures required by Subtitle A of Title V of the GLB Act, 15 U.S.C. §§ 6801 through 6809, and the FTC's Privacy of Consumer Financial Information Rule ("Privacy Rule"), 16 C.F.R. Part 313.

JURISDICTION AND VENUE

2. This Court has subject matter jurisdiction over this matter pursuant by 15 U.S.C. §§ 45(a), 53(b), 57b, 6102(c), 6105(b), 6805(a)(7), and 28 U.S.C. §§ 1331, 1337(a) and 1345.

3. Venue is proper in the United States District Court for the Central District of California under 15 U.S.C. § 53(b) and 28 U.S.C. §§ 1391(b) and (c).

PLAINTIFF

4. Plaintiff **FEDERAL TRADE COMMISSION** is an independent

agency of the United States Government created and given statutory authority and responsibility by the FTC Act, as amended, 15 U.S.C. §§ 41-58, as amended. The Commission is charged with enforcing, *inter alia*, Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), which prohibits unfair or deceptive acts or practices in or affecting commerce; the Telemarketing Act, 15 U.S.C. §§ 6101-6108, and the TSR, 16 C.F.R. Part 310, which prohibit deceptive or abusive telemarketing acts or practices; and Title V of the GLB Act, 15 U.S.C. §§ 6803 and 6805(a)(7). The Commission is authorized to initiate federal district court proceedings to enjoin violations of the FTC Act, the TSR and the GLB Act to secure such equitable relief as may be appropriate in each case, including, but not limited to, restitution and disgorgement. 15 U.S.C. §§ 53(b), 57b, 6102(c), 6105(b) and 6805(a).

DEFENDANTS

5. Defendant **NATIONAL CONSUMER COUNCIL, INC.**, an Arizona corporation ("NCC-AZ"), was organized under Arizona law ostensibly as a non-profit corporation in February 1995. Prior to September 1996, NCC-AZ was known as "National Consumer Council for Business Excellence, Inc." NCC-AZ is a telemarketer which leaves voice message advertisements on consumers' home answering machines with the goal of generating clients for defendants' debt negotiation programs. Until about mid-2003, NCC-AZ shared office space located at 1920 Main Street, Suite 650, Irvine, CA 92614 with defendants LFG, NCDC, Solidium, UCLG, PC Hailey Trust, and Via Lido Trust. In or about mid-2003, NCC-AZ relocated its offices to 1932 Deere Street Suite 230, Santa Ana, CA 92705.

NCC-AZ transacts or has transacted business in the Central District of California and throughout the United States. NCC-AZ is a device or instrumentality of individuals or for-profit entities that seek to obtain economic benefit or gain through NCC-AZ.

6. Defendant **NATIONAL CONSUMER COUNCIL, INC.**, a California corporation ("NCC-CA"), was organized under California law ostensibly as a non-profit corporation in July 2001. With LFG, NCC-CA operates a call center whose purpose is to answer calls from consumers responding to NCC-AZ's voice message advertisements and to enroll these consumers in defendants' debt negotiation programs. Until about mid-2003, NCC-CA shared office space located at 1920 Main Street, Suite 650, Irvine, CA 92614 with defendants LFG, NCDC, Solidium, UCLG, PC Hailey Trust, and Via Lido Trust. In or about mid-2003, NCC-CA relocated its offices to 1932 Deere Street Suite 230, Santa Ana, CA 92705. NCC-CA transacts or has transacted business in the Central District of California and throughout the United States. The Internal Revenue Service does not recognize NCC-CA as a non-profit organization exempt from federal taxation under section 501(c)(3) of the Internal Revenue Code, 26 U.S.C. § 501(c)(3). The State of California's Franchise Tax Board does not recognize NCC-CA as a tax-exempt entity under California Revenue and Taxation Code Section 23701. NCC-CA is a device or instrumentality of individuals or for-profit entities that seek to obtain economic benefit or gain through NCC-CA.

7. Defendant **NATIONAL CONSUMER COUNCIL, INC.**, a Nevada corporation ("NCC-NV"), was organized under Nevada law ostensibly

as a non-profit corporation in August 2001. NCC-NV maintains "trust accounts" used by defendants' debt negotiation programs to hold and administer the money consumers send to defendants as part of these debt negotiation programs. Until about mid-2003, NCC-NV shared office space located at 1920 Main Street, Suite 650, Irvine, CA 92614 with defendants LFG, NCDC, Solidium, UCLG, PC Hailey Trust, and Via Lido Trust. In or about mid-2003, NCC-NV relocated its offices to 1932 Deere Street Suite 230, Santa Ana, CA 92705. NCC-NV transacts or has transacted business in the Central District of California and throughout the United States. NCC-NV is a device or instrumentality of individuals or for-profit entities that seek to obtain economic benefit or gain through NCC-NV.

8. Defendant **LONDON FINANCIAL GROUP** ("LFG") was organized as a Nevada corporation in January 1997. LFG owns a telephone number database, a telephone number "autodialer," and computer equipment which it uses in making pre-recorded telemarketing calls on behalf of the other defendants. LFG also handles the accounting, business management, and trust management functions for the other defendants. LFG is owned by Paul Kardos and Walter Ledda. LFG has offices located at 1920 Main Street, Suite 650, Irvine, CA 92614. LFG transacts or has transacted business in the Central District of California and throughout the United States.

9. Defendant **NATIONAL CONSUMER DEBT COUNCIL, LLC** ("NCDC") was organized under California law as a limited liability company in December 2000. NCDC is a debt negotiation company. It is owned by Signature Equities, LLC, which is in turn owned by PC

Hailey Trust, M&L Springfield Trust, and Via Lido Trust, which are in turn owned by Paul Kardos, Walter Ledda, and Walter Haines. NCDC has offices located at 1920 Main Street, Suite 650, Irvine, CA 92614. NCDC transacts or has transacted business in the Central District of California and throughout the United States.

10. Defendant **SOLIDIUM, LLC** doing business as SoLidium Credit Recovery Services ("Solidium") was organized under California law as a limited liability company in March 2002. Solidium is a debt negotiation company. Solidium is owned by LFG and NCDC. Solidium has offices located at 1920 Main Street, Suite 650, Irvine, CA 92614. Solidium transacts or has transacted business in the Central District of California and throughout the United States.

11. Defendant **UNITED CONSUMERS LAW GROUP, A PROFESSIONAL CORP.** ("UCLG") was organized as a California professional law corporation by Walter Haines in August 1995. Prior to March 2003, UCLG was known as "Law Offices of Walter L. Haines, Inc." UCLG provides debt negotiation and other services in conjunction with the other defendants. UCLG has offices located at 1920 Main Street, Suite 650 and/or 710, Irvine, CA 92614. UCLG transacts or has transacted business in the Central District of California and throughout the United States.

12. Defendant **J.P. LANDIS, LLC** ("JP Landis") was organized under California law as a limited liability company in June 2003. JP Landis provides marketing services, including advertising by direct mail and radio, for the other defendants. JP Landis has offices located at 1920 Main Street, Suite 650, Irvine, CA 92614.

JP Landis transacts or has transacted business in the Central District of California and throughout the United States.

13. Defendant **FINANCIAL RESCUE SERVICES, INC.** ("FRS") was organized under California law as a corporation in May 2000. FRS is a debt negotiation company. FRS is owned by Martha Levitsky and Mary Beth Harper. FRS has offices located at 415 North Varney Street, Burbank, CA 91502. FRS transacts or has transacted business in the Central District of California and throughout the United States.

14. Defendant **SIGNATURE EQUITIES, LLC** ("Signature Equities") was organized under Delaware law as a limited liability company. Signature Equities is the owner of NCDC, and through NCDC, a co-owner (with LFG) of Solidium. In its filings with the State of Delaware, it lists as its principal place of business the address of "Incorporating Services, Ltd.," 15 East North Street, Dover, DE 19901. Its members are P.C. Hailey Trust, M&L Springfield Trust, and Via Lido Trust. Its managers are Walter Ledda, Paul Kardos, and Walter Haines. Signature Equities transacts or has transacted business in the Central District of California and throughout the United States.

15. Defendant **M&L SPRINGFIELD TRUST** is a grantor trust. Walter Haines is the trust's grantor, trustee, and beneficiary. M&L Springfield Trust owns one-third of Signature Equities. Its business address is 10880 Wilshire Blvd., Suite 2070, Los Angeles, CA 90024. M&L Springfield Trust transacts or has transacted business in the Central District of California and throughout the United States.

16. Defendant **PC HAILEY TRUST** is a grantor trust. Paul

Kardos is the trust's grantor, trustee, and beneficiary. PC Hailey Trust owns one-third of Signature Equities. Its business address is 1920 Main Street, Suite 650, Irvine, CA 92614. PC Hailey Trust transacts or has transacted business in the Central District of California and throughout the United States.

17. Defendant **VIA LIDO TRUST** is a grantor trust. Walter Ledda is the trust's grantor, trustee, and beneficiary. Via Lido Trust owns one-third of Signature Equities. Its business address is 1920 Main Street, Suite 650, Irvine, CA 92614. Via Lido Trust transacts or has transacted business in the Central District of California and throughout the United States.

18. Defendant **WALTER L. HAINES** a/k/a Walter L. Hainowitz ("Haines"), an attorney licensed to practice in the State of California, was the founder and an officer and director of NCC-AZ until approximately June 2001. He is the owner and principal of UCLG. Haines is the grantor, trustee, and beneficiary of M&L Springfield Trust, which has a one-third ownership interest in Signature Equities. Through Signature Equities, he is an owner and person in control of NCDC. Through NCDC, he is also a part owner (with LFG) of Solidium. At various times material to this complaint, acting alone or in concert with others, he has formulated, directed, controlled, or participated in the acts and practices of NCDC and NCC-NV, including the acts and practices set forth in this complaint. Haines transacts or has transacted business in the Central District of California and throughout the United States.

19. Defendant **PAUL KARDOS** ("Kardos") is an officer, director, and/or co-owner of LFG. He is the grantor, trustee,

and beneficiary of PC Hailey Trust, which has a one-third ownership interest in Signature Equities. Through Signature Equities, he is also an owner and person in control of NCDC. Through NCDC and LFG, he is also an owner of Solidium. At all times material to this complaint, acting alone or in concert with others, he has formulated, directed, controlled, or participated in the acts and practices of LFG, Solidium, NCDC, JP Landis, NCC-AZ, NCC-NV, and NCC-CA, including the acts and practices set forth in this complaint. Kardos transacts or has transacted business in the Central District of California and throughout the United States.

20. Defendant **WALTER J. LEDDA** a/k/a Walter W. Ledda ("Ledda") is an officer, director, and/or co-owner of LFG. He is the grantor, trustee, and beneficiary of Via Lido Trust. Through Via Lido Trust, which is one-third owner of Signature Equities, he is also an owner of NCDC. Through NCDC and LFG, he is also an owner of Solidium. At all times material to this complaint, acting alone or in concert with others, he has formulated, directed, controlled, or participated in the acts and practices of LFG, Solidium, NCDC, JP Landis, NCC-AZ, NCC-NV, and NCC-CA, including the acts and practices set forth in this complaint. Ledda transacts or has transacted business in the Central District of California and throughout the United States.

21. Defendant **HARVEY WARREN** a/k/a Harvey W. Zvansky ("Warren") holds key positions at each of the three NCC entities. He is the President, Vice President, and Director of NCC-AZ; the President, Secretary, and Director of NCC-NV; and Chief Executive Officer, Secretary, and Chief Financial Officer of NCC-CA. At

all times material to this complaint, acting alone or in concert with others, he has formulated, directed, controlled, or participated in the acts and practices of NCC-AZ, NCC-NV, and NCC-CA, including the acts and practices set forth in this complaint. Warren transacts or has transacted business in the Central District of California and throughout the United States.

22. Defendant **MARTHA K. LEVITSKY** a/k/a Martha E. Kerchen ("Levitsky") is an officer, director, and/or co-owner of FRS. At all times material to this complaint, acting alone or in concert with others, she has formulated, directed, controlled, or participated in the acts and practices of FRS, including the acts and practices set forth in this complaint. Levitsky transacts or has transacted business in the Central District of California and throughout the United States.

23. Defendant **MARY BETH HARPER** a/k/a Mary Beth Scholz ("Harper") is an officer, director, and/or co-owner of FRS. At all times material to this complaint, acting alone or in concert with others, she has formulated, directed, controlled, or participated in the acts and practices of FRS, including the acts and practices set forth in this complaint. Harper transacts or has transacted business in the Central District of California and throughout the United States.

24. NCC-AZ, NCC-CA, NCC-NV, LFG, NCDC, Solidium, UCLG, JP Landis, FRS, Signature Equities, PC Hailey Trust, Via Lido Trust, and M&L Springfield Trust are each a "corporation" as that term is defined in 15 U.S.C. § 44.

25. NCC-AZ, NCC-CA, NCC-NV, LFG, NCDC, Solidium, UCLG, JP Landis, Signature Equities, PC Hailey Trust, Via Lido Trust,

M&L Springfield Trust, Haines, Kardos, Ledda, and Warren operate together as a common enterprise with the primary purpose of financially enriching Haines, Kardos, Ledda, and Warren. They conduct the business practices described in this complaint through an interrelated network of companies that have common ownership, officers, and business functions.

COMMERCE

26. At all times relevant to this complaint, defendants have maintained a substantial course of business in the advertising, marketing, promoting, offering for sale and sale of debt negotiation services, in or affecting commerce, including the acts and practices alleged herein, as "commerce" is defined in Section 4 of the FTC Act, 15 U.S.C. § 44.

DEFENDANTS' BUSINESS ACTIVITIES

27. Since at least 2002, Walter Haines, Walter Ledda, Paul Kardos, Harvey Warren, Martha Levitsky, and Mary Beth Harper have operated a nationally-advertised debt negotiation business in which they promise to renegotiate and consolidate consumers' existing debts into manageable monthly payments. Their debt negotiation business consists of an elaborate network of companies. Three of these companies - NCC-AZ, NCC-NV, and NCC-CA – hold themselves out to the public as a single non-profit credit counseling entity, the "National Consumer Council" ("NCC"), allegedly dedicated to providing "free" assistance to consumers having difficulties with their personal finances.

28. Haines, Ledda, Kardos, Warren, Levitsky, and Harper have deceived consumers about the services their debt negotiation business provides and the fees they charge. The other companies

which are part of their debt negotiation network include LFG, NCDC, Solidium, UCLG, JP Landis, FRS, Signature Equities, PC Hailey Trust, Via Lido Trust, and M&L Springfield Trust.

29. In addition, defendants have represented that because NCC is a non-profit organization, it is able to work with creditors to favorably settle consumers' debts, and that consumers will not be able to obtain such favorable results by themselves or by using the services of a for-profit organization.

ATTRACTING CUSTOMERS AND ENROLLING THEM IN DEFENDANTS' DEBT NEGOTIATION BUSINESS

30. Haines, Ledda, Kardos, Warren, Levitsky, and Harper generate client leads for their debt negotiation business through NCC and JP Landis. They use NCC as a front to make telemarketing calls to consumers throughout the country, relying on NCC's ostensible non-profit status in an attempt to evade the FTC's national Do Not Call rules. These rules are not applicable to true non-profit entities. Beginning in or about June 2003, they have used JP Landis as a vehicle to mass-market defendants' debt negotiation business using, among other things, direct mail and radio advertising.

31. NCC's promotional materials state that NCC's mission is to "return America to a Debt-Free Standard of Living" by offering "free counseling and assistance in debt management." NCC claims its purpose is to provide "accurate and valuable information to consumers regarding debt and its effective management." However, NCC does not provide counseling about consumers' finances, nor does it teach them how to handle debt in the future. Instead, its primary purpose in dealing with consumers is to describe the "debt negotiation" programs (also known as "debt recovery" and

"debt settlement" programs) offered by NCDC, Solidium, and FRS, and to persuade consumers to enroll in these programs.

32. Each month, NCC solicits prospective clients for defendants' debt negotiation programs through a variety of means, including pre-recorded voice messages from "Jeffrey Colwell" from the "National Consumer Council" left on consumers' home answering machines. These calls are made on NCC's behalf by Ledda, Warren, and LFG. LFG makes millions of such calls for NCC each month at a cost of approximately $200,000 to $350,000 monthly. Many of these calls have been made in violation of the FTC's Do Not Call rules.

33. These pre-recorded voice message advertisements claim that: (a) NCC is able to cut the consumer's monthly payments in half; (b) NCC can help the consumer "get out from under" his credit cards; (c) NCC is a non-profit organization which exists to help people like the consumer; (d) NCC will provide advice and show the consumer how to be debt free; and (e) there will be no charge for the services NCC provides. NCC's voice message advertisements invite the consumer to call a toll-free number for free consultations with NCC.

34. JP Landis, which was created by or at the direction of Haines, Ledda, Kardos, and/or Warren in June 2003, at a time when NCC began receiving negative media coverage and a few months before the FTC's Do Not Call rules went into effect, operates out of the same office suites as LFG, NCDC, Solidium, and UCLG. JP Landis markets defendants' debt negotiation services to consumers throughout the United States, through a variety of means, including unsolicited mail and radio advertisements, and

referrals from NCC.

35. In its solicitations, JP Landis represents that it and one of defendants' debt negotiation companies (including NCDC, Solidium, and/or FRS): (a) will reduce the consumer's credit card bills significantly, (b) will reduce the time to completely pay off these debts; and (c) will apply its "funds and resources" to help the consumer achieve these results. Interested consumers are told to call a toll-free telephone number for more information.

36. Calls made to the toll-free number listed in NCC's and JP Landis' advertisements are answered by a "call center" located in LFG's office. The call center employs customer service representatives, whom defendants refers to as "pre-screeners," to sell the debt negotiation programs offered by NCDC, Solidium, and FRS to consumers. Although they are trained by LFG and NCDC, and money for their salaries comes from NCDC, pre-screeners identify themselves as being from "the NCC" or "JP Landis." NCDC provides these pre-screeners with scripts and specific instructions on how to market defendants' debt recovery services.

37. The pre-screeners marketing defendants' debt negotiation programs represent to consumers that:

a. defendants' debt negotiation program will reduce the consumer's debt by an appreciable amount in a specified period of time;

b. enrollment in the debt negotiation program will stop creditors' collection efforts of consumers' debts;

c. defendants will obtain a favorable settlement for the consumer promptly; and

d. NCC is a non-profit enterprise whose purpose is to help consumers eliminate their unsecured debt.

38. The pre-screeners marketing defendants' debt negotiation programs do not disclose that defendants often will not begin negotiating the consumer's debts until the consumers' accounts are at least six months delinquent.

39. The pre-screeners marketing defendants' debt negotiation programs also do not disclose that enrollment in the debt negotiation program will have other negative consequences, including, for example, that:

a. during the period of enrollment, the consumer will continue to accrue late fees, penalties, and interest on his debt;

b. the consumer's creditors may also sue to collect on his debts, and further, once a judgment has been obtained, the creditors may garnish the consumer's wages;

c. the consumer's creditors may raise the interest rates applicable to his debt because he is missing his minimum monthly payments;

d. in those instances where the consumer's debt is settled for a reduced amount, the consumer may be liable for federal and state taxes on the amount the debt is reduced; and

e. in those instances where the consumer's debt is settled for a reduced amount, a negative "settled for less than full amount" notation may appear on the consumer's credit report as a result of the settlement.

40. After collecting preliminary information from the consumer, the pre-screener sets a half-hour telephone

appointment, in which a "debt consultant" from NCDC, Solidium, or FRS will call the consumer for the stated purpose of providing more "in-depth" credit counseling. Although the debt consultants are employed and trained by NCDC, Solidium, and/or FRS, they identify themselves to the consumer in the follow-up calls as being "from the NCC" or an "NCC certified debt consultant."

41. In the follow-up call, the debt consultant determines in which of defendants' debt negotiation programs the consumer should be enrolled. To persuade consumers to enroll in defendants' debt negotiation programs, the debt consultants typically make the same or similar misrepresentations to consumers as the pre-screeners do about NCC, how the debt negotiation program works, and the favorable results that can be achieved through the debt negotiation program.

42. In order to be enrolled in one of defendants' debt negotiation programs, the consumer must complete and return enrollment forms and authorize defendants to make monthly debits from his account. Consumers are told that the monthly payments they make to defendants will be placed in a trust account managed by NCC. Defendants characterize this arrangement as particularly trustworthy, since NCC is a "non-profit."

43. Although NCC claims that it does not charge fees to consumers who seek its help, a consumer who enrolls in one of defendants' debt negotiation programs will be charged an up-front fee (also referred to by defendants as the "establishment fee") equal to 3.5% of the consumer's enrolled debt or $500, whichever is higher. This fee is taken out of the consumer's first monthly payments. In some instances, defendants do not disclose that

they charge this substantial up-front fee until after the consumer has agreed to enroll in the program.

44. In addition to charging a minimum of $500 in up-front fees, defendants charge consumers monthly maintenance fees of approximately $50 to participate in the debt negotiation program. As with the up-front fees, these monthly maintenance fees also are taken out of the consumer's monthly payments. In some instances, defendants do not disclose that they charge these substantial monthly fees until after the consumer has agreed to enroll in the program. Although the fees generate substantial profits for the defendants, they repeatedly represent to consumers that NCC is a non-profit enterprise.

45. Only after these fees are paid in full do defendants begin to apply a consumer's monthly payments to his NCC-administered trust account for use in settling his debts. The consumer pays these fees to the defendants regardless of whether the defendants successfully negotiate any settlements on the consumer's behalf.

THE DEBT NEGOTIATION PROCESS

46. Defendants tell the consumer that they will act as the consumer's attorney-in-fact, handling all communications and payment functions between the consumer and his creditors, including negotiating a repayment plan that is highly favorable to the consumer, answering the consumer's and his creditors' questions, managing the consumer's file, collecting payments from the consumer, and disbursing payments to creditors.

47. Consumers find out, only after enrolling in defendants' debt negotiation program, that:

a. even after they execute powers of attorney authorizing the defendants to represent them in dealing with creditors, they are still called, harassed, and sued by their creditors for collection of their outstanding debts;

b. it is not realistic for them to successfully complete the program or eliminate their debt because of intervening creditor collection efforts;

c. they will continue to accrue late fees, penalties, and interest on their debt during the time they are enrolled in the debt negotiation program, even though they are making monthly payments to the defendants;

d. their creditors may raise the interest rates applicable to their debt because, while they are enrolled in the debt negotiation program, the creditors are not receiving the consumers' minimum monthly debt payments; and

e. defendants will not reach a settlement, if at all, with the consumer's creditors, and in fact typically will not even contact the creditors, until after the consumer has deposited enough money into his NCC trust account to make a lump sum payoff to the creditors, which often does not occur until many months after the consumer has enrolled in the program.

48. Those few consumers for whom the defendants have reached settlements learn only after settlement that: (a) the consumer is liable for federal and state taxes on the amount the debt is reduced; and (b) a negative "settled for less than full amount" notation may be placed in the consumer's credit file as a result of the settlement.

49. Many, if not all, consumers who enroll in defendants'

debt negotiation programs never learn that the defendants are an interrelated for-profit business enterprise, and that NCC operates for the pecuniary benefit of for-profit companies and private individuals.

THE TELEMARKETING SALES RULE AND THE NATIONAL DO NOT CALL REGISTRY

50. In 1994, Congress directed the FTC to prescribe rules prohibiting abusive and deceptive telemarketing acts or practices pursuant to the Telemarketing Act, 15 U.S.C. §§ 6101-6108. On August 16, 1995, the FTC adopted the TSR (the "Original TSR"), 16 C.F.R. Part 310, which became effective on December 31, 1995. On January 29, 2003, the FTC amended the TSR by issuing a Statement of Basis and Purpose and the final amended TSR (the "Amended TSR"). 68 Fed. Reg. 4580, 4669.

51. Among other things, the Amended TSR established a "do-not-call" registry, maintained by the Commission (the "National Do Not Call Registry" or "Registry"), of consumers who do not wish to receive certain types of telemarketing calls. Consumers can register their telephone numbers on the Registry without charge, either through a toll-free telephone call or over the Internet at *donotcall.gov*.

52. Sellers, telemarketers, and other permitted organizations can access the Registry over the Internet at *telemarketing.donotcall.gov* to download the registered numbers, after paying the appropriate annual fee as set forth at 16 C.F.R. § 310.8(c). Sellers and telemarketers are prohibited from calling registered numbers in violation of the TSR. 16 C.F.R. § 310.4(b)(1)(iii)(B). Sellers and telemarketers are also prohibited from calling any telephone number within a given area

code unless the seller first has paid the annual fee for access to the telephone numbers within that area code that are included in the National Do Not Call Registry. 16 C.F.R. § 310.8(a) and (b).

53. Consumers who receive telemarketing calls to their registered numbers can complain of Registry violations the same way they registered, through a toll-free telephone call to 1-888-382-1222 or over the Internet at *donotcall.gov*, or by contacting law enforcement authorities.

54. On or after October 17, 2003, the FTC began enforcement of the National Do Not Call Registry against sellers and telemarketers subject to the FTC's jurisdiction that had already accessed the Registry and downloaded the telephone numbers not to call.

55. On or after December 31, 1995, the TSR prohibits sellers and telemarketers from initiating an outbound telephone call to any person when that person previously has stated that he does not wish to receive an outbound telephone call made by or on behalf of the seller whose goods or services are being offered. 16 C.F.R. § 310.4(b)(1)(ii).

56. Pursuant to Section 3(c) of the Telemarketing Act, 15 U.S.C. § 6102(c), and Section 18(d)(3) of the FTC Act, 15 U.S.C. § 57a(d)(3), a violation of the TSR constitutes an unfair or deceptive act or practice in or affecting commerce, in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

57. Defendants are "sellers" or "telemarketers" engaged in "telemarketing," as those terms are defined in the TSR. 16 C.F.R. § 310.2(z), (bb), and (cc).

58. On or after October 17, 2003, defendants, without authorization or other defense, have telemarketed consumers' telephone numbers that are on the National Do Not Call Registry.

59. On or after October 17, 2003, defendants have called, or have caused others to call, telephone numbers in various area codes without first paying the annual fee for access to the telephone numbers within that area code that are included in the National Do Not Call Registry.

60. On or after December 31, 1995, defendants have telemarketed consumers who have previously stated that they do not wish to receive calls by or on behalf of the seller.

VIOLATIONS OF SECTION 5 OF THE FTC ACT

61. Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), prohibits unfair or deceptive acts and practices in or affecting commerce.

62. Misrepresentations or omissions of material fact constitute deceptive acts or practices prohibited by Section 5(a) of the FTC Act.

COUNT I
MISREPRESENTATION THAT DEBT NEGOTIATION PROGRAM WILL REDUCE CONSUMERS' DEBT

63. In numerous instances in the course of advertising, marketing, promoting, offering for sale and sale of their debt negotiation services, defendants or their employees or agents have represented, expressly or by implication, that by enrolling in defendants' debt negotiation program, consumers will be able to satisfy most, if not all, of their unsecured debt obligations for a reduced amount within a specified amount of time.

64. In truth and in fact, in numerous instances, after

enrolling in defendants' debt negotiation program, consumers are not able to satisfy most, if not all, of their unsecured debt obligations for a reduced amount within a specified amount of time.

65. Therefore, defendants' representation as set forth in Paragraph 63 is false and misleading and constitutes a deceptive act or practice in violation of Section 5(a) of the FTC Act, 15 U.S. C. § 45(a).

<u>COUNT II</u>
<u>MISREPRESENTATION THAT DEFENDANTS' DEBT NEGOTIATION PROGRAM WILL STOP CREDITORS' COLLECTION EFFORTS</u>

66. In numerous instances, in the course of advertising, marketing, promoting, offering for sale and sale of their debt negotiation services, defendants or their employees or agents have represented, expressly or by implication, that after a consumer enrolls in defendants' debt negotiation program, the consumer's creditors will stop or lessen their debt collection efforts against the consumer.

67. In truth and in fact, in numerous instances, after a consumer enrolls in defendants' debt negotiation program, the consumer's creditors do not stop or lessen their debt collection efforts against the consumer.

68. Therefore, defendants' representation as set forth in Paragraph 66 is false and misleading and constitutes a deceptive act or practice in violation of Section 5(a) of the FTC Act, 15 U.S. C. § 45(a).

COUNT III
MISREPRESENTATION THAT DEFENDANTS WILL PROMPTLY OBTAIN FAVORABLE DEBT SETTLEMENTS FOR CONSUMERS

69. In numerous instances, in the course of advertising, marketing, promoting, offering for sale and sale of their debt negotiation services, defendants or their employees or agents have represented, expressly or by implication, that defendants will obtain favorable debt settlements for a consumer promptly upon the consumer's enrollment in defendants' debt negotiation program.

70. In truth and in fact, in numerous instances, defendants do not obtain favorable debt settlements for a consumer promptly upon the consumer's enrollment in defendants' debt negotiation program.

71. Therefore, defendants' representation as set forth in Paragraph 69 is false and misleading and constitutes a deceptive act or practice in violation of Section 5(a) of the FTC Act, 15 U.S. C. § 45(a).

COUNT IV
DECEPTIVE OMISSION THAT ENROLLING IN DEFENDANTS' DEBT NEGOTIATION PROGRAMS WILL HAVE NEGATIVE FINANCIAL CONSEQUENCES

72. Defendants, through their advertisements, contracts, and employees, have represented, expressly or by implication, that consumers will benefit financially and credit-wise from enrolling in their debt negotiation program. Defendants have failed to disclose that even while a consumer is enrolled in defendants' debt negotiation program: (1) late fees, penalties, and interest will continue to accrue on the consumer's debt until the consumer's creditors accept a settlement offer and the settlement is paid; (2) the consumer's creditors may still sue to

collect on his debts, and further, once a judgment has been obtained, the creditors may garnish the consumer's wages; (3) the consumer's creditors may raise the interest rates applicable to his debt; (4) to the extent that defendants are able to obtain a favorable settlement with a consumer's creditor of the consumer's debt, the consumer is required to treat that debt savings as income for purposes of federal and state income taxes; and (5) a debt settled for less than the full amount of the amount owed may result in a negative notation on the consumer's credit report. These facts would be material to consumers.

73. Defendants' failure to disclose these facts, in light of the representations made, was, and is, a deceptive practice in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

VIOLATIONS OF THE TELEMARKETING SALES RULE

74. The TSR prohibits telemarketers and sellers from "making a false or misleading statement to induce any person to pay for goods or services." 16 C.F.R. § 310.3(a)(4).

75. Pursuant to Section 3(c) of the Telemarketing Act, 15 U.S.C. § 6102(c), and Section 18(d)(3) of the FTC Act, 15 U.S.C. § 57a(d)(3), a violation of the TSR constitutes an unfair or deceptive act or practice in or affecting commerce, in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

COUNT V
MISREPRESENTATIONS IN VIOLATION OF THE TSR

76. In numerous instances, in connection with the telemarketing of debt negotiation services, defendants have made false or misleading statements to induce consumers to enroll in defendants' debt negotiation program, including but not limited to the following:

a. By enrolling in defendants' debt negotiation program, consumers will be able to satisfy most, if not all, of their unsecured debt obligations for a reduced amount within a specified amount of time;

b. The consumer's creditors will stop or lessen their debt collection efforts against the consumer; and

c. Defendants will obtain favorable debt settlements for a consumer promptly upon the consumer's enrollment in defendants' debt negotiation program.

77. Therefore, defendants have violated Section 310.3(a)(4) of the Rule, 16 C.F.R. § 310.3(a)(4).

COUNT VI
VIOLATIONS RELATING TO THE NATIONAL DO NOT CALL REGISTRY

78. In numerous instances, in connection with telemarketing, defendants have engaged in or caused others to engage in initiating an outbound telephone call to a person's telephone number on the National Do Not Call Registry, in violation of the TSR, 16 C.F.R. § 310.4(b)(1)(iii)(B).

COUNT VII
FAILING TO PAY THE FEE TO ACCESS THE NATIONAL DO NOT CALL REGISTRY

79. In numerous instances, in connection with telemarketing, defendants have initiated, or caused others to initiate, an outbound telephone call to a telephone number within a given area code without defendants first paying the required annual fee for access to the telephone numbers within that area code that are included in the National Do Not Call Registry, in violation of the TSR, 16 C.F.R. § 310.8.

COUNT VIII
IGNORING COMPANY-SPECIFIC DO NOT CALL REQUESTS

80. In numerous instances, in connection with

telemarketing, defendants have engaged in or caused others to engage in initiating an outbound telephone call to a person who has previously stated that he does not wish to receive such a call made by or on behalf of the seller whose goods or services are being offered, in violation of the TSR, 16 C.F.R. § 310.4(b)(1)(iii)(A).

COMMON ENTERPRISE

81. Defendants NCC-AZ, NCC-CA, NCC-NV, LFG, NCDC, Solidium, UCLG, JP Landis, Signature Equities, PC Hailey Trust, Via Lido Trust, M&L Springfield Trust, Haines, Kardos, Ledda, and Warren have operated as a common business enterprise while engaging in the deceptive acts and practices and TSR violations alleged above.

GRAMM-LEACH-BLILEY ACT VIOLATION
COUNT IX
FAILURE TO PROVIDE REQUIRED PRIVACY DISCLOSURES
(against LFG, NCC-NV, NCDC, and Solidium)

82. Defendants LFG, NCC-NV, NCDC, and Solidium are financial institutions for purposes of the GLB Act and the Privacy Rule, 15 U.S.C. § 6809(3); 16 C.F.R. Part 313.3(k). Pursuant to the GLB Act and the Privacy Rule, LFG, NCC-NV, NCDC, and Solidium were required to provide notices to their customers regarding the collection, disclosure, and protection of nonpublic personal information about their customers.

83. Defendants LFG, NCC-NV, NCDC, and Solidium have not sent these required notices to their customers.

84. Defendants LFG's, NCC-NV's, NCDC's, and Solidium's failure to provide to their customers constitutes a violation of Section 503 of the GLB Act, 15 U.S.C. § 6803, and the Privacy

Rule, 16 C.F.R. Part 313.

CONSUMER INJURY

85. Consumers throughout the United States have suffered as a result of defendants' unlawful acts or practices. Absent injunctive relief by this Court, defendants are likely to continue to injure consumers, reap unjust enrichment, and harm the public interest.

THIS COURT'S POWER TO GRANT RELIEF

86. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), empowers this Court to grant injunctive and such other relief as the Court may deem appropriate to halt and redress violations of the FTC Act. The Court, in the exercise of its equitable jurisdiction, may award other ancillary relief, including but not limited to, rescission of contracts and restitution, and the disgorgement of ill-gotten gains, to prevent and remedy injury caused by defendants' law violations.

87. Section 19 of the FTC Act, 15 U.S.C. § 57b, and Section 6(b) of the Telemarketing Act, 15 U.S.C. § 6105(b), authorize the Court to grant to the FTC such relief as the Court finds necessary to redress injury to consumers or other persons resulting from defendants' violations of the TSR, including the rescission and reformation of contracts and the refund of money.

PRAYER FOR RELIEF

Wherefore, Plaintiff FTC, pursuant to Sections 13(b) and 19 of the FTC Act, 15 U.S.C. §§ 53(b) and 57b, Section 6(b) of the Telemarketing Act, 15 U.S.C. § 6105(b), and the Court's own equitable powers, requests that this Court:

a. Award plaintiff such preliminary injunctive and ancillary relief as may be necessary to avert the likelihood of consumer injury during the pendency of this action and to preserve the possibility of effective final relief;

b. Permanently enjoin defendants from violating the FTC Act and the TSR, as alleged herein;

c. Award such equitable relief as the Court finds necessary to redress injury to consumers resulting from defendants' violations of the FTC Act, including but not limited to, rescission of contracts and restitution, and the disgorgement of ill-gotten gains by the defendants;

d. Permanently enjoin defendants LFG, NCC-NV, NCDC, and Solidium from violating Section 503 of the GLB Act or the Privacy Rule as alleged herein; and

e. Award plaintiff the costs of bringing this action, as well as such other and additional relief as the Court may determine to be just and proper.

Dated: April 23, 2004

Respectfully submitted,

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