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CLERK, U.S. DISTRICT COURT
DEC 13 2005
CENTRAL DISTRICT OF CALIFORNIA
BY [Signature] DEPUTY

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CLERK, U.S. DISTRICT COURT
DEC 14 2005
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BY [Signature] DEPUTY

12 Attorneys for Plaintiff FTC

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14 UNITED STATES DISTRICT COURT
15 CENTRAL DISTRICT OF CALIFORNIA
16 WESTERN DIVISION

17 FEDERAL TRADE COMMISSION,
18 Plaintiff,
19 v.
20 TREK ALLIANCE, INC., et al.,
21 Defendants.

Case No. CV-02-9270 DSF (AJWx)

22
23 **STIPULATED FINAL ORDER**
24 **FOR PERMANENT INJUNCTION AND**
25 **OTHER EQUITABLE RELIEF**
26 **AGAINST DEFENDANT JEFFREY**
27 **KALE FLAGG, a/k/a/ KALE FLAGG**

23 Plaintiff Federal Trade Commission ("Commission" or "FTC") filed a
24 Complaint for a permanent injunction and other equitable relief pursuant to Section
25 13(b) of the Federal Trade Commission Act ("FTC Act"). The Complaint charged
26 Defendants with violations of Section 5(a) of the FTC Act, as amended, 15 U.S.C.

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1 Plaintiff FTC and Defendant Jeffrey Kale Flagg, a/k/a Kale Flagg ("Kale
2 Flagg"), have agreed to entry of this Stipulated Final Order for Permanent Injunction
3 and Other Equitable Relief ("Order") by the Court to resolve all charges against
4 Kale Flagg set forth in the Complaint and all matters in dispute between them in this
5 action. Kale Flagg has consented to entry of this Order without trial or adjudication
6 of any issue of law or fact herein and has agreed that entry of this Order in the
7 docket by the Court will constitute notice to him of the terms and conditions of the
8 Order. The parties do not accede or admit to the claims of the other except to the
9 extent set forth in the Findings below. Kale Flagg denies liability for all charges in
10 the Complaint and makes no admission of guilt as to any practice set forth in the
11 Complaint. Plaintiff and Kale Flagg having requested the Court to enter this Order,
12 the Court hereby finds and orders as follows:

13 **FINDINGS**

14 1. This is an action instituted by the Commission under Section 13(b) of
15 the FTC Act in connection with Defendants' sale and offering for sale of the right to
16 participate in Defendants' multi-level marketing program. The Complaint seeks
17 permanent injunctive and other equitable relief against Defendants.

18 2. This Court has jurisdiction of the subject matter of this case and over
19 Kale Flagg. Venue in the Central District of California is proper.

20 3. The Complaint states a claim upon which relief may be granted against
21 Kale Flagg under Sections
22 5(a) and 13(b) of the FTC Act, 15 U.S.C. §§ 45(a) and 53(b).

23 4. Plaintiff has the authority under Section 13(b) of the FTC Act, 15
24 U.S.C. § 53(b), to seek the relief it has requested.

25 5. The activities of Kale Flagg charged in the Complaint are in or
26 affecting commerce, as defined in Section 4 of the FTC Act, 15 U.S.C. § 44.

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1 6. Kale Flagg denies liability for the charges in the Complaint, and there
2 has been no final adjudication of whether the charges in the Complaint are true.

3 7. Kale Flagg has waived all rights to seek judicial review or otherwise
4 challenge or contest the validity of this Order. Kale Flagg has also waived all claims
5 under the Equal Access to Justice Act, 28 U.S.C. § 2412, as amended by PL 104-
6 121, 110 Stat. 847, 863-64 (1996).

7 8. Entry of this Order is in the public interest.
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DEFINITIONS

10 1. The term "document" is synonymous in meaning and equal in scope to
11 the usage of the term in Federal Rule of Civil Procedure 34(a), and includes
12 writings, drawings, graphs, charts, photographs, audio and video recordings,
13 computer records, and other data compilations from which information can be
14 obtained and translated, if necessary, through detection devices into reasonably
15 usable form. A draft or non-identical copy is a separate document within the
16 meaning of the term.

17 2. "Material fact" means any fact likely to affect a person's choice of, or
18 conduct regarding, goods or services.

19 3. "Consumer" means an actual or potential purchaser, customer,
20 subscriber, or natural person.

21 4. "Multi-Level Marketing Program" means any marketing program in
22 which all of the following elements exist: (1) participants are given the right to sell
23 goods or services; (2) participants are given the right to recruit additional
24 participants into a first-level downline (however denominated), or to have additional
25 participants placed by the promoter or any other person into the program
26 participant's first-level downline; (3) the first-level downline participants in turn
27 have the right to recruit additional participants (second-level downlines), or to have
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1 additional participants placed into their downlines; and (4) participants may earn
2 compensation based in whole or in part upon the sales or purchases of those in the
3 participant's second-level downline or beyond.

4 5. "Prohibited Marketing Program" means any marketing program or plan
5 in which any participant pays money or valuable consideration to the company in
6 return for which he receives the right to receive rewards, in return for recruiting
7 other participants into the program, which are unrelated to the sale of products or
8 services to persons who are not participants in the marketing program.

9 6. "Business Venture" means any written or oral business arrangement,
10 however denominated, whether or not covered by 16 C.F.R. Part 436, that consists
11 of the payment of any consideration for (i) the right or means to offer, sell, or
12 distribute goods or services (whether or not identified by a trademark, service mark,
13 trade name, advertising or other commercial symbol); and (ii) assistance to any
14 person in connection with or incident to the establishment, maintenance, or
15 operation of a new business, or the entry by an existing business into a new line or
16 type of business.

17 **ORDER**

18 I.

19 **Prohibition Against Participating in**
20 **Multi-Level Marketing Programs**

21 **IT IS HEREBY ORDERED** that, while Kale Flagg disputes liability and
22 there having been no final adjudication with respect to whether he has operated or
23 participated in an illegal pyramid scheme, Kale Flagg, whether acting directly or
24 through any corporation, business entity or person under his control, **is hereby**
25 **prohibited** from engaging or participating in (i) the operation or promotion of any
26 Multi-Level Marketing Program or Prohibited Marketing Program, or (ii) the
27 offering, marketing, advertising, promotion, distribution or sale of the right to
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1 participate in any Multi-Level Marketing Program or Prohibited Marketing Program.

2 Examples of prohibited activities include, without limitation, the following:

- 3 1. Having any ownership or equity interest in any such Program;
- 4 2. Acquiring or exercising any control or authority over the
5 business decisions of any such Program; and
- 6 3. Serving as an officer, a director, an employee, a sales
7 representative, a distributor, a compensation plan participant, a
8 recruiter, or a "closer" of or for any such Program.

9 *Provided* that nothing in this Section shall be construed in any way to modify
10 the statutory or common law liability of any person who is not a party to this Order.

11 II.

12 **Prohibited Representations**

13 **IT IS FURTHER ORDERED** that, while Kale Flagg disputes liability and
14 there having been no final adjudication with respect to whether he has made any
15 misrepresentations, Kale Flagg, and his agents, servants, employees, and attorneys,
16 and all persons or entities under his control, and all other persons or entities in
17 active concert or participation with him who receive actual notice of this Order by
18 personal service or otherwise, and each such person, whether acting directly or
19 through any corporation, business entity or person under Kale Flagg's control, in
20 connection with the advertising, offering, marketing, promotion or sale of Business
21 Ventures, **are hereby prohibited** from:

- 22 1. Falsely representing, expressly or by implication, the amount of
23 earnings or income that can be or which is likely to be derived from the acquisition
24 of the Business Venture;
- 25 2. Falsely representing, expressly or by implication, that persons
26 who acquire the Business Venture are likely to realize substantial financial gain;
- 27 3. Falsely representing, expressly or by implication, the benefits
28 that can or are likely to be derived from acquiring the Business Venture;

1 4. Falsely representing, expressly or by implication, the amount of
2 sales that owners or acquirers of the Business Venture have made, or that acquirers
3 of the Business Venture can or are likely to make;

4 5. Falsely representing, expressly or by implication, that all or most
5 of the people who fail to make significant income from the Business Venture failed
6 to devote substantial or sufficient effort;

7 6. Falsely representing, expressly or by implication, that salaried or
8 permanent employment opportunities are available; and

9 7. Falsely representing, expressly or by implication, any other
10 material fact.

11 III.

12 **Prohibition Against Material Omissions and Lack of Substantiation**

13 **IT IS FURTHER ORDERED** that, while Kale Flagg disputes liability and
14 there having been no final adjudication with respect to whether he has failed to
15 disclose any material fact or made any unsubstantiated claims, Kale Flagg, whether
16 acting directly or through any corporation, business entity or person under his
17 control, in connection with the advertising, offering, marketing, promotion or sale of
18 Business Ventures, **is hereby prohibited** from:

19 A. Failing to disclose, clearly and conspicuously, before any consumer
20 pays any money in connection with acquiring a Business Venture, all information
21 material to the decision to acquire the Business Venture, including information that
22 is known or should reasonably be known to Kale Flagg regarding actual income and
23 profits of other acquirers of the Business Venture;

24 B. Making any representation, expressly or by implication, regarding the
25 amount or level of income that an acquirer of the Business Venture can reasonably
26 expect to make unless, at the time such representation is made, a reasonable basis
27 exists for such representation and Kale Flagg has in his possession material that
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1 constitutes a reasonable basis for such representation, which material is made
2 available to the Commission or its representatives upon reasonable demand.

3 IV.

4 **Equitable Monetary Relief**

5 A. **IT IS FURTHER ORDERED** that Kale Flagg shall pay to the Federal
6 Trade Commission the sum of THREE HUNDRED SIXTY THOUSAND
7 DOLLARS (\$360,000.00) in equitable monetary relief. No portion of any payments
8 under this Order shall be deemed a payment of any fine, penalty, or punitive
9 assessment. Kale Flagg shall make payments as follows:

10 1. Kale Flagg shall, promptly upon entry of this Order, pay to the
11 Commission the sum of \$160,000.00. This payment shall be
12 made as follows:

13 a. Kale Flagg and his wife Edwina Flagg hereby forever
14 waive, release, discharge and disclaim all right, title and
15 interest in the funds or assets contained in (1) Charles
16 Schwab account no. 4750-3956, and (2) Camden Financial
17 Services, Inc. account no. 16109159, both of which
18 accounts were identified in the "Financial Statement of
19 Individual Defendant," dated March 15, 2005, that Kale
20 Flagg has submitted to the FTC. Kale and Edwina Flagg
21 and the Court authorize and direct Charles Schwab and
22 Camden Financial Services, Inc. to liquidate and to
23 immediately turn over all assets in these accounts to the
24 FTC.

25 b. Kale Flagg shall provide full cooperation to the
26 Commission to ensure that the assets in the above accounts
27 are remitted to the Commission. If the amount of funds
28 obtained by the Commission from these accounts totals

less than \$160,000.00, Kale Flagg shall pay the deficit within five (5) court days following entry of this Order.

2. Thereafter, Kale Flagg shall pay to the Federal Trade Commission the remaining balance in installments of \$10,000.00 each over twenty (20) consecutive months. Payments shall be due on the same day each month, beginning on the thirtieth day after the date of entry of this Order, and shall continue monthly until Kale Flagg has paid a total of \$360,000.00 to the Commission.

3. Kale Flagg shall pay all amounts due under this Order in cash by electronic funds transfer to the Commission, or to such agent as the Commission may direct, pursuant to instructions provided by the Commission through its attorneys.

4. Time is of the essence. In the event Kale Flagg fails to make any payment in accordance with the deadlines set forth above, and fails to make the required payment within seven (7) calendar days after receiving notice of such failure, the amount of Kale Flagg's monetary liability shall be determined in accordance with Section V of this Order below.

B. IT IS FURTHER ORDERED and agreed that to secure payment due under this Section, Kale Flagg and his wife Edwina Flagg, individually and as trustees of the J. Kale Flagg and Edwina Flagg Living Trust, hereby grant to the Commission, pursuant to the Security Agreement attached hereto as Appendix 1, a voluntary lien on and security interest in real property located at 1745 Green Ash Road, Reno, Nevada, together with all dwelling houses, other structures, improvements, appurtenances, hereditaments, and other rights appertaining or belonging thereto, or which hereafter may be added or attached thereto, and all replacements, substitutions therefore or thereto, and all proceeds thereof, whether

1 presently existing or hereafter arising (collectively, the "Collateral"). Kale Flagg
2 represents and acknowledges that the Commission is relying on the material
3 representations that the J. Kale Flagg and Edwina Flagg Living Trust is the sole
4 owner in fee simple of the Collateral, that Kale Flagg and Edwina Flagg are the sole
5 trustees, trustors, and beneficiaries of the Trust, that title to the Collateral is
6 marketable, and that the Collateral currently is not encumbered by any other lien,
7 mortgage, deed of trust, assignment, pledge, security interest or other interest,
8 except: (1) a mortgage held by Washington Mutual Bank, FA, in an amount equal to
9 or less than \$552,000.00 ("First Mortgage"), (2) a second mortgage held by
10 Washington Mutual Bank, FA, in an amount equal to or less than \$246,000.00
11 ("Second Mortgage"), and (3) other restrictions and encumbrances of record subject
12 to which Defendant originally acquired the property. Kale Flagg represents that
13 neither the First Mortgage nor the Second Mortgage is in default. Kale Flagg shall
14 cooperate fully with the Commission and be responsible (at his expense) for
15 preparing, executing and recording the necessary documents and taking any other
16 actions necessary to perfect the Commission's voluntary lien on and security interest
17 in the Collateral. Kale Flagg shall deliver to the Commission copies of all recording
18 documents used to perfect the Commission's voluntary lien on the Collateral within
19 fourteen (14) days after entry of this Order. Neither Kale nor Edwina Flagg shall
20 grant any other security interest in the Collateral to any other person or entity prior
21 to perfecting the lien granted to the Commission herein. The amount of the lien
22 shall not exceed the remaining balance owed to the Commission.

23 C. The Commission acknowledges that the source of funds for Kale
24 Flagg's payment obligation under Section IV.A of this Order is likely to come in
25 whole or in part from the refinancing of the Collateral. The Commission agrees to
26 cooperate fully in Kale Flagg's efforts to refinance the Collateral and acknowledges
27 that release and/or subordination of its security interest, if any, may be necessary to
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1 effectuate the refinancing of the Collateral. In this regard, the parties further agree
2 as follows:

3 1. If Kale Flagg is able to obtain refinancing of the First and Second
4 Mortgages, and

5 (a) after discharge of all remaining obligations under the
6 First and Second Mortgages, the refinancing produces
7 "cash out" in an amount that equals or exceeds the balance
8 then owed to the Commission under Section IV.A of this
9 Order, or

10 (b) after discharge of all remaining obligations under the
11 First and Second Mortgages, the refinancing produces
12 "cash out" that is less than the balance then owed to the
13 Commission under Section IV.A of this Order, but Kale
14 Flagg pays into escrow at closing an amount equal to the
15 difference between the balance then owed to the
16 Commission and the amount of the "cash out" proceeds
17 (the "Deficiency"),

18 then the Commission agrees to release any and all security
19 interests in the Collateral, provided that Kale Flagg meets his
20 obligations under Section IV.A of this Order by payment in cash
21 to the Commission, through escrow at closing, of the amount
22 then owing to the Commission under Section IV.A; and

23 2. If Kale Flagg is able to obtain refinancing of the First and Second
24 Mortgages, and if, after discharge of all remaining obligations
25 under the First and Second Mortgages, the refinancing produces
26 "cash out" in an amount that is less than the amount then owing
27 to the Commission under Section IV.A of this Order, and Kale
28 Flagg does *not* pay into escrow the amount of the Deficiency,

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1 then Kale Flagg agrees that all refinancing proceeds after paying
2 off the First and Second Mortgages will be paid to the
3 Commission through escrow at closing, and the Commission
4 agrees to release any existing security interests and cause the
5 filing of a new security interest, subordinate to the security
6 interest of the refinancing lender, in the amount that remains
7 owed to the Commission under Section IV.A following receipt
8 by the Commission of any proceeds of the refinancing.

9 3. The Commission further agrees to release any security interests
10 granted herein upon discharge by Kale Flagg of all obligations
11 under Section IV.A of this Order. Kale Flagg shall be
12 responsible for preparing and filing any termination statements
13 reasonably required in connection therewith, provided that the
14 Commission shall cooperate with Defendant and shall not
15 unreasonably withhold its consent and acknowledgment of the
16 same. The Commission or its attorneys shall provide the
17 necessary consent within ten business days after receiving the
18 requisite documents. Kale Flagg shall be responsible for paying
19 all costs relating to the preparation, execution, delivery, filing,
20 recording, and termination of any voluntary lien and security
21 interests granted herein.

22 D. **IT IS FURTHER ORDERED** that the \$1,200,000.00 that Northfield
23 Insurance Company has agreed to pay pursuant to Directors and Officers and
24 Corporate Liability policy number ER000151 shall be distributed in accordance with
25 the Agreement appended hereto as Appendix 2. The \$600,000.00 payment directed
26 to counsel for the Individual Defendants may be used only to pay outstanding
27 attorneys fees and expenses that counsel for the Individual Defendants have accrued
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1 in FTC v. Trek Alliance, Inc. None of this amount may be returned or passed
2 through to any of the Individual Defendants.

3 **E. IT IS FURTHER ORDERED** that all funds paid to or received by the
4 Commission pursuant to this Section shall be deposited into a fund administered by
5 the Commission or its agent. Funds paid to or received by the Commission pursuant
6 to this Section shall be used first to pay to the Receiver and Special Master, Robb
7 Evans, all of the Receiver's and Special Master's reasonable fees, expenses and
8 liabilities that have been or will be incurred in this action and which cannot be paid
9 out of the receivership estate, and second, after the Receiver and Special Master has
10 been discharged, and all reasonable fees, expenses and liabilities have been paid, for
11 equitable relief, including but not limited to consumer redress and any attendant
12 expenses for the administration of any redress fund. In the event that direct redress
13 to consumers is wholly or partially impracticable or funds remain after redress is
14 completed, the Commission may apply any remaining funds for such other equitable
15 relief (including consumer information remedies) as it determines to be reasonably
16 related to Defendants' practices alleged in the Complaint. Any funds not used as
17 described above shall be deposited to the Treasury as disgorgement. Defendants
18 shall have no right to challenge the Commission's choice of remedies under this
19 Section, or to contest the manner of distribution chosen by the Commission.

20 V.

21 **Right to Reopen**

22 **IT IS FURTHER ORDERED** that the Commission's agreement to this Order
23 is expressly premised upon (a) the truthfulness, accuracy and completeness of the
24 "Financial Statement of Individual Defendant" of Kale Flagg, dated December 15,
25 2002 (as well as documents submitted therewith) and a supplemental "Financial
26 Statement of Individual Defendant," dated March 23, 2005 (as well as documents
27 submitted therewith) that Kale Flagg has submitted to the Commission, and (b)
28 timely payment pursuant to Section IV of this Order. Said financial statements and

1 documents contain material information upon which the FTC has relied in
2 negotiating and agreeing to the terms of this Order. If, upon motion by the
3 Commission to the Court, the Court finds that Kale Flagg (a) failed to disclose any
4 material asset, or materially misrepresented the value of any asset, or made any other
5 material misrepresentation in or omission from his financial statement, or (b) failed
6 to make timely payment to the FTC pursuant to Section IV of this Order above, then
7 judgment in the amount of FIFTEEN MILLION DOLLARS (\$15,000,000.00) shall
8 be entered and will become immediately due and payable, less any payments already
9 made. In addition to modifying Kale Flagg's monetary liability pursuant to Section
10 IV of this Order, the Court may order Kale Flagg to turn over any asset that he has
11 misrepresented or failed to disclose, or its exact liquid value, to the Commission.
12 *Provided, however,* that in all other respects this judgment shall remain in full force
13 and effect, unless otherwise ordered by the Court. Modification of Kale Flagg's
14 monetary liability as provided herein shall be in addition to, and not in lieu of, any
15 other remedies that may lie for any misrepresentation in or omission from the
16 Defendant's financial statements. While Kale Flagg does not admit any of the
17 charges in the FTC's Complaint, he nonetheless waives the right to contest those
18 charges in any proceedings to enforce payment or in response to any motion brought
19 under this Section, including without limitation in any response to a
20 nondischargeability complaint filed in a bankruptcy proceeding.

21 VI.

22 **Acknowledgment of Receipt**

23 **IT IS FURTHER ORDERED** that Kale Flagg, within five (5) business days
24 of receipt of this Order as entered by the Court, must submit to the Commission a
25 truthful sworn and notarized statement acknowledging receipt of this Order.
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VII.

Dissolution of Asset Freeze

IT IS FURTHER ORDERED that the freeze of Kale Flagg's assets pursuant to Sections IV and VII of the Preliminary Injunction is hereby lifted.

VIII.

Record Keeping

IT IS FURTHER ORDERED that, for a period of five (5) years from the date of entry of this Order, Kale Flagg, in connection with any company or business which advertises, offers, markets, promotes or sells Business Ventures, where the Defendant is the majority owner or otherwise controls the business (whether directly or through any corporation, business entity or person), is hereby restrained and enjoined from failing to create and retain the following records:

A. Accounting records that reflect (i) the cost of goods or services sold, (ii) revenues generated, and (iii) the disbursement of such revenues;

B. Personnel records accurately reflecting (i) the name, address, and telephone number of each person employed in any capacity by such business, including as an independent contractor; (ii) that person's job title or position; (iii) the date upon which the person commenced work; and (iv) the date and reason for the person's termination, if applicable;

C. Customer files containing the names, addresses, phone numbers, dollar amounts paid, quantity of items or services purchased, and description of items or services purchased, to the extent such information is obtained in the ordinary course of business;

D. Computer records containing the name, address, and phone number of each acquirer of the Business Venture (however denominated, including without limitation sales representatives, distributors, or independent business owners), as well as (i) dollar amounts paid by the acquirer to the business or any affiliate for any

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1 purpose, and the date of each payment, and (ii) all commissions or other pecuniary
2 benefit paid to the acquirer and the date of each payment;

3 E. Complaints and refund requests (whether received directly, indirectly or
4 through any third party) and any responses to those complaints or requests;

5 F. Copies of all sales scripts, training materials, advertisements, and other
6 marketing materials; and

7 G. All records and documents necessary to demonstrate full compliance
8 with each provision of this Order, including but not limited to copies of
9 acknowledgments of receipt of this Order (required by Section XI below), and all
10 reports submitted to the FTC pursuant to Section X below.

11 IX.

12 **Compliance Monitoring**

13 **IT IS FURTHER ORDERED** that, for the purpose of monitoring and
14 investigating compliance with any provision of this Order,

15 A. The Commission may apply to the Court for an order, and the Court
16 may issue an order, for good cause shown, on an *ex parte* basis without prior notice
17 to the Defendant, directing that Kale Flagg shall submit additional written reports,
18 sworn to under penalty of perjury; produce documents for inspection and copying;
19 appear for deposition; and/or provide entry during normal business hours to any
20 business location in the Defendant's possession or direct or indirect control to
21 inspect the business operation. *Provided that* Kale Flagg may, after attempting in
22 good faith to resolve with the Commission any dispute arising from such order, file
23 a motion with this Court seeking a protective order under Fed. R. Civ. P. 26(c).

24 B. In addition, the Commission and its representatives are authorized to
25 monitor compliance with this Order by all other lawful means, including but not
26 limited to the following:

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1. obtaining discovery from any person other than Kale Flagg, without further leave of court, using the procedures prescribed by Fed. R. Civ. P. 30, 31, 33, 34, 36, and 45; and
2. communicating with any entity controlled in whole or in part by Kale Flagg, or any of his employees, while posing as consumers or prospective customers or suppliers, without the necessity of identification or prior notice.

C. The Defendant shall not attempt to impose any restrictions, beyond those imposed by law in the relevant jurisdiction, on the Commission's ability to interview any employer, consultant, independent contractor, representative, agent, or employee who has agreed to such an interview, relating in any way to any conduct subject to this Order. In any such interview, the person interviewed may have counsel present. This provision shall not be construed as a waiver by the Defendant of any privilege or right, or as a grant of permission by the Defendant or the Court to any person to disclose information or documents that could not be disclosed in the absence of this provision.

Provided, however, that nothing in this Order shall limit the Commission's lawful use of compulsory process, pursuant to Sections 9 and 20 of the FTC Act, 15 U.S.C. §§ 49, 57b-1, to obtain any documentary material, tangible things, testimony, or information relevant to unfair or deceptive acts or practices in or affecting commerce (within the meaning of 15 U.S.C. § 45(a)(1)).

X.

Compliance Reporting by Defendant

IT IS FURTHER ORDERED that, in order that compliance with the provisions of this Order may be monitored:

- A. For a period of four (4) years from the date of entry of this Order,
 1. Kale Flagg shall notify the Commission of the following:

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- a. any changes in the Defendant's residence, mailing addresses, and telephone numbers, within thirty (30) days of the date of such change;
 - b. any changes in the Defendant's employment status (including self-employment), and any change in the Defendant's ownership in any business entity, within thirty (30) days of the date of such change. Such notice shall include the name and address of each business that the Defendant is affiliated with, employed by, creates or forms, or performs services for; a statement of the nature of the business; and a statement of the Defendant's duties and responsibilities in connection with the business; and
 - c. any changes in the Defendant's name or use of any aliases or fictitious names;
2. Kale Flagg shall notify the Commission of any changes in any business entity that he controls, whether directly or through any corporation, business entity or person, or has an ownership interest in, that may affect compliance obligations arising under this Order, including but not limited to a dissolution, assignment, sale, merger, or other action that would result in the emergence of a successor entity; the creation or dissolution of a subsidiary, parent, or affiliate that engages in the advertising, offering, marketing, promotion or sale of Business Ventures; the filing of a bankruptcy petition; or a change in the corporate name or address, at least thirty (30) days prior to such change, *provided* that, with respect to any proposed change in the business entity about which the Defendant learns less than thirty (30) days prior to the date such action is to take place, Defendant shall notify the

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1 Commission as soon as is practicable after obtaining such
2 knowledge.

3 B. One hundred eighty (180) days after the date of entry of this Order,
4 Kale Flagg shall provide a written report to the FTC, sworn to under penalty of
5 perjury, setting forth in detail the manner and form in which the Defendant has
6 complied and is complying with each section of this Order. This report shall
7 include, but not be limited to:

- 8 1. The Defendant's then-current residence address, mailing
9 addresses, and telephone numbers;
- 10 2. The Defendant's then-current employment and business addresses
11 and telephone numbers, a description of the business activities of
12 each such employer or business, and the title and responsibilities
13 of the Defendant, for each such employer or business;
- 14 3. Any other changes required to be reported under Paragraph A of
15 this Section; and
- 16 4. A copy of each acknowledgment of receipt of this Order obtained
17 by Defendant pursuant to Section XI of this Order;

18 Provided that, if Kale Flagg has failed to submit such a report by the deadline,
19 the FTC will so advise Mr. Flagg and allow him ten calendar days in which to
20 submit the required report before the FTC seeks any intervention from the Court.

21 C. For the purposes of this Order, Defendant shall, unless otherwise
22 directed by the Commission's authorized representatives, mail all written
23 notifications to the Commission to:

24 Federal Trade Commission
25 Attn: Assistant Regional Director
26 10877 Wilshire Blvd., Suite 700
27 Los Angeles, CA 90024
28 Re: FTC v. Trek Alliance, Inc., CV-02-9270 (C.D. Cal.)

27 D. For purposes of the compliance reporting required by this Section,
28 unless otherwise instructed by Kale Flagg's undersigned attorney, D.J. Poyfair, or

SCANNED

1 instructed by the Defendant through any other attorney, Plaintiff shall (1) direct all
2 oral communications to Mr. Poyfair, and (2) direct all written communications to
3 Kale Flagg, with copies of such written communications to be sent to Mr. Poyfair.

4 XI.

5 **Order Distribution by Defendant**

6 **IT IS FURTHER ORDERED** that, for a period of three (3) years from the
7 date of entry of this Order, Kale Flagg shall deliver copies of this Order as directed
8 below:

9 A. For any business that Kale Flagg controls (whether directly or through
10 any corporation, business entity or person under his control), or in which he has a
11 majority ownership interest, and which is engaged in the advertising, offering,
12 marketing, promotion or sale of Business Ventures, Kale Flagg shall deliver a copy
13 of this Order to (1) all principals, officers, directors and managers of that business,
14 and (2) all employees, agents, and representatives of that business who participate in
15 the advertising, offering, marketing, promotion or sale of Business Ventures. For
16 current personnel, delivery shall be within (5) days of service of this Order upon
17 Kale Flagg. For new personnel, delivery shall occur prior to their assumption of
18 responsibilities.

19 B. With respect to any business (a) for which Kale Flagg engages in the
20 advertising, offering, marketing, promotion or sale of Business Ventures, directly or
21 through any other person or business entity, and (b) which he does not own or
22 control, Kale Flagg shall deliver a copy of this Order to all principals and managers
23 of such business before engaging in such conduct.

24 C. Kale Flagg shall secure a signed and dated statement acknowledging
25 receipt of the Order, within thirty (30) days of delivery, from all persons receiving a
26 copy of the Order pursuant to this Section. Kale Flagg shall retain all
27 acknowledgments and make them available to the Commission upon request.
28

RECEIVED

XII.

Independence of Obligations

IT IS FURTHER ORDERED that each of the obligations imposed by this Order is independent of all other obligations under the Order, and that the expiration of any requirements imposed by this Order shall not affect any other obligation arising under this Order.

XIII.

Costs and Attorneys Fees

IT IS FURTHER ORDERED that each party to this Order bear its own costs and attorneys fees incurred in connection with this action.

XIV.

Waiver of Claims

IT IS FURTHER ORDERED that Kale Flagg waives and releases any and all claims he may have against the Plaintiff, its employees, representatives, attorneys and agents for any acts or omissions prior to and up to the date of this Order. He further waives and releases any and all claims he may have against the Receiver and his employees, representatives, attorneys and agents for any acts or omissions prior to and up to the date of this Order, except for any claims arising from unpaid sales tax due on sales made by Defendant Trek Alliance, Inc.

XV.

Other Settlements

IT IS FURTHER ORDERED that Kale Flagg hereby waives any right to contest or object to entry of any stipulated final order against any of the Corporate Defendants that may be presented to the Court for approval.

///

SCANNED

XVI.

Continued Jurisdiction

IT IS FURTHER ORDERED that this Court shall retain jurisdiction of this matter for all purposes, including construction, modification and enforcement of this Order.

XVII.

Entry by Clerk

There being no just reason for delay, the Clerk of the Court is hereby directed to enter this Order.-

SO STIPULATED:

PLAINTIFF:
FEDERAL TRADE COMMISSION

Dated: _____, 2005

John D. Jacobs
Jennifer M. Brennan
Barbara Y.K. Chun
David C. Fix
Attorneys for Plaintiff FTC

DEFENDANT:

Dated: 9/16, 2005

Jeffrey Kale Flagg, a/k/a Kale Flagg

APPROVED AS TO FORM AND CONTENT:

Dated: _____, 2005

D.J. Poyfair
Attorney for Defendant Jeffrey Kale Flagg

IT IS SO ORDERED.

Dated: _____

Dale S. Fischer
United States District Judge

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XVI.

Continued Jurisdiction

IT IS FURTHER ORDERED that this Court shall retain jurisdiction of this matter for all purposes, including construction, modification and enforcement of this Order.

XVII.

Entry by Clerk

There being no just reason for delay, the Clerk of the Court is hereby directed to enter this Order.

SO STIPULATED:

PLAINTIFF:
FEDERAL TRADE COMMISSION

Dated: _____, 2005

John D. Jacobs
Jennifer M. Brennan
Barbara Y.K. Chun
David C. Fix
Attorneys for Plaintiff FTC

DEFENDANT:

Dated: _____, 2005

Jeffrey Kale Flagg, a/k/a Kale Flagg

APPROVED AS TO FORM AND CONTENT:

Dated: 12/13/05, 2005

D.J. Poyfair
Attorney for Defendant Jeffrey Kale Flagg

IT IS SO ORDERED.

Dated: _____

Dale S. Fischer
United States District Judge

SCANNED

XVI.

Continued Jurisdiction

IT IS FURTHER ORDERED that this Court shall retain jurisdiction of this matter for all purposes, including construction, modification and enforcement of this Order.

XVII.

Entry by Clerk

There being no just reason for delay, the Clerk of the Court is hereby directed to enter this Order.

SO STIPULATED:

PLAINTIFF:
FEDERAL TRADE COMMISSION

Dated: December 6, 2005

John D. Jacobs
John D. Jacobs
Jennifer M. Brennan
Barbara Y.K. Chun
David C. Fix
Attorneys for Plaintiff FTC

DEFENDANT:

Dated: _____, 2005

Jeffrey Kale Flagg, a/k/a Kale Flagg

APPROVED AS TO FORM AND CONTENT:

Dated: _____, 2005

D.J. Poyfair
Attorney for Defendant Jeffrey Kale Flagg

IT IS SO ORDERED.

Dated: 12-13-05

Dale S. Fischer
Dale S. Fischer
United States District Judge

Security Agreement
Between J. Kale Flagg & Edwina Flagg and the Federal Trade Commission

Whereas J. Kale Flagg (Kale Flagg) and the Federal Trade Commission (FTC or Commission) have agreed to settle all of the Commission's charges against Kale Flagg in the matter of FTC v. Trek Alliance, Inc. (Case No. 02-CV-9270, C.D. Cal.), by entering into a Stipulated Final Order for Permanent Injunction and Other Equitable Relief against Defendant Jeffrey Kale Flagg, a/k/a Kale Flagg (Order), to which this Agreement is to be attached;

Whereas Kale Flagg, pursuant to Section IV of the Order, has agreed to pay to the Commission \$360,000.00 (Payment);

Whereas the Commission has agreed to settle its charges against Kale Flagg and to accept the Payment on the condition that Kale Flagg's obligation to pay this amount be secured by real property located at 1745 Green Ash Road, Reno, Nevada, together with all dwelling houses, other structures, improvements, appurtenances, hereditaments, and other rights appertaining or belonging thereto, or which hereafter may be added or attached thereto, and all replacements, substitutions therefore or thereto, and all proceeds thereof, whether presently existing or hereafter arising (collectively, the Collateral);

Whereas Kale Flagg and Edwina Flagg represent that the J. Kale Flagg and Edwina Flagg Living Trust (Trust) owns the Collateral in fee simple, and that they are the sole trustees, trustors, and beneficiaries of the Trust; and

Whereas Kale Flagg and Edwina Flagg have consented to secure the Payment with the Collateral;

NOW, THEREFORE, Kale Flagg, Edwina Flagg, and the Commission hereby agree as follows:

1. Upon approval of the Order by the Court, Kale Flagg and Edwina Flagg, individually and as trustees of the J. Kale Flagg and Edwina Flagg Living Trust, hereby grant to the Commission a voluntary lien on and security interest in the Collateral.

2. Kale Flagg and Edwina Flagg represent and acknowledge that the Commission is relying on the material representations that (a) the J. Kale Flagg and Edwina Flagg Living Trust is the sole owner in fee simple of the Collateral; (b) Kale Flagg and Edwina Flagg are the sole trustees, trustors, and beneficiaries of the Trust; (c) title to the Collateral is marketable; and (c) the Collateral currently is not encumbered by any other lien, mortgage, deed of trust, assignment, pledge, security interest or other interest, except: (1) a mortgage held by Washington Mutual Bank, FA, in an amount equal to or less than \$552,000.00 ("First Mortgage"), (2) a second mortgage held by Washington Mutual Bank, FA, in an amount equal to or less than \$246,000.00 ("Second Mortgage"), and (3) other restrictions and encumbrances of record subject to which Defendant originally acquired the property. Kale Flagg and Edwina Flagg represent that neither the First Mortgage nor the Second Mortgage is in default.

3. Kale Flagg and Edwina Flagg agree to cooperate fully with the Commission, and to be responsible (at their expense) for preparing, executing and recording the necessary documents and taking any other actions necessary to perfect the Commission's voluntary lien on and security interest in the Collateral. Kale Flagg shall deliver to the Commission copies of all recording documents used to perfect the Commission's voluntary lien on the Collateral within fourteen (14) days after entry of this Order.


4. Neither Kale nor Edwina Flagg will grant any other security interest in the Collateral to any other person or entity prior to perfecting the lien granted to the Commission herein.

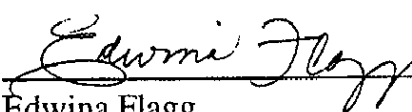
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SCANNED

5. The amount of the lien granted to the Commission shall not exceed the remaining balance owed to the Commission.

AGREED TO BY:

 9-16, 2005
J. Kale Flagg,
individually and as trustee of the
J. Kale Flagg and Edwina Flagg Living Trust

 9/16, 2005
Edwina Flagg,
individually and as trustee of the
J. Kale Flagg and Edwina Flagg Living Trust

FEDERAL TRADE COMMISSION

_____, 2005
By: John D. Jacobs
Attorney for Plaintiff FTC

5. The amount of the lien granted to the Commission shall not exceed the remaining balance owed to the Commission.


SCANNED

AGREED TO BY:

_____, 2005
J. Kale Flagg,
individually and as trustee of the
J. Kale Flagg and Edwina Flagg Living Trust

_____, 2005
Edwina Flagg,
individually and as trustee of the
J. Kale Flagg and Edwina Flagg Living Trust

FEDERAL TRADE COMMISSION


_____, Dec. 6, 2005
By John D. Jacobs
Attorney for Plaintiff FTC

Agreement between Plaintiff, Defendants, and Northfield Insurance Company

SCANNED

Whereas Northfield Insurance Company (Northfield) issued Corporate Directors and Officers and Corporate Liability policy number ER000151 (Policy), with a policy limit of \$3,000,000.00, to Defendants Trek Alliance, Inc., Trek Education Corp., VonFlagg Corp., for the policy period of March 21, 2002 through March 21, 2003;

Whereas on December 6, 2002, Plaintiff Federal Trade Commission (Plaintiff or Commission) filed a lawsuit against Defendants Trek Alliance, Inc., Trek Education Corp., VonFlagg Corp., Jeffrey Kale Flagg, Richard Von Alvensleben, Tiffani Von Alvensleben, and Harry Flagg;

Whereas Plaintiff's Complaint alleges that, between 1997 and 2002, the Defendants engaged in deceptive conduct in violation of Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45(a);

Whereas Defendants and Plaintiff have claimed that the Policy covers some or all of the acts and omissions that form the basis of Plaintiff's Complaint;

Whereas Defendants and counsel for Plaintiff have tentatively stipulated to entry of final orders (Orders) that would settle Plaintiff's claims against Defendants, which must be approved by the Commission and the Court before they become final;

Therefore, Plaintiff, the Defendants, and Northfield agree as follows:

1. If the Orders are approved by the Commission and the Court, Northfield agrees to pay a total of \$1,200,000.00, within five court days after entry of the Orders, as follows:
 - a. Northfield shall pay \$600,000.00 to the Commission.
 - b. Northfield shall pay \$600,000.00 to counsel for the Individual Defendants,

as follows: \$500,000.00 shall be paid to the law firm of Shughart Thomson & Kilroy, P.C.; \$50,000.00 shall be paid to the law firm of Buchalter Nemer; and \$50,000.00 shall be paid to the law firm of Grimes & Reese, P.L.L.C. These payments may be used only to pay for outstanding attorneys fees and expenses that counsel for the Individual Defendants have accrued in FTC v. Trek Alliance, Inc. None of the \$600,000.00 may be returned or passed through to any of the Individual Defendants.

2. The Commission will deposit funds received pursuant to this Agreement into a fund administered by the Commission or its agent. Such funds shall be used for equitable relief in FTC v. Trek Alliance, Inc., including but not limited to consumer redress and any attendant expenses for the administration of any redress fund. In the event that direct redress to consumers is wholly or partially impracticable or funds remain after redress is completed, the Commission may apply any remaining funds for such other equitable relief (including consumer information remedies) as it determines to be reasonably related to Defendants' practices alleged in the complaint. Any funds not used as described above shall be deposited to the Treasury as disgorgement. Neither the Defendants nor Northfield shall have any right to challenge the Commission's choice of remedies under this Section, or to contest the manner of distribution chosen by the Commission.

3. As consideration for payment of \$600,000.00 to the Commission, the Commission hereby forever waives and releases any and all claims against Northfield under the Policy or any other claims based on the facts alleged in the Complaint.

///

4. Defendants agree to release Northland from all claims under the Policy in accordance with Attachment A hereto.

SCANNED

AGREED BY:



Jeffrey Kale Flagg

PLAINTIFF
FEDERAL TRADE COMMISSION:

Richard Von Alvensleben

By:
John D. Jacobs
Attorney for Plaintiff FTC

Tiffani Von Alvensleben

NORTHFIELD INSURANCE COMPANY

Harry Flagg

By:
Its

TREK ALLIANCE, INC.

By Kenton Johnson, Deputy Receiver, on
behalf of Robb Evans, Receiver of Trek
Alliance, Inc.

TREK EDUCATION CORP.

By Kenton Johnson, Deputy Receiver, on
behalf of Robb Evans, Receiver of Trek
Education Corp.

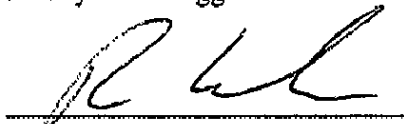
VONFLAGG CORP.

By Kenton Johnson, Deputy Receiver, on
behalf of Robb Evans, Receiver of
VonFlagg Corp.

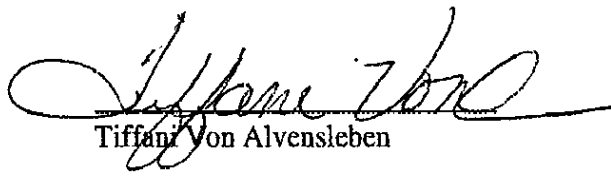
4. Defendants agree to release Northland from all claims under the Policy in accordance with Attachment A hereto.

AGREED BY:

Jeffrey Kale Flagg



Richard Von Alvensleben



Tiffany Von Alvensleben

Harry Flagg

TREK ALLIANCE, INC.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Alliance, Inc.

TREK EDUCATION CORP.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Education Corp.

VONFLAGG CORP.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of VonFlagg Corp.

PLAINTIFF
FEDERAL TRADE COMMISSION:

By:
John D. Jacobs
Attorney for Plaintiff FTC

NORTHFIELD INSURANCE COMPANY

By:
Its

SCANNED

4. Defendants agree to release Northland from all claims under the Policy in accordance with Attachment A hereto.

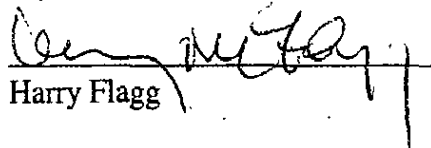
SCANNED

AGREED BY:

Jeffrey Kale Flagg

Richard Von Alvensleben

Tiffani Von Alvensleben



Harry Flagg

TREK ALLIANCE, INC.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Alliance, Inc.

TREK EDUCATION CORP.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Education Corp.

VONFLAGG CORP.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of VonFlagg Corp.

PLAINTIFF
FEDERAL TRADE COMMISSION:

By:
John D. Jacobs
Attorney for Plaintiff FTC

NORTHFIELD INSURANCE COMPANY

By:
Its

4. Defendants agree to release Northland from all claims under the Policy in accordance with Attachment A hereto.

AGREED BY:

Jeffrey Kale Flagg

Richard Von Alvensleben

Tiffani Von Alvensleben

Harry Flagg

PLAINTIFF
FEDERAL TRADE COMMISSION:

By:
John D. Jacobs
Attorney for Plaintiff FTC

NORTHFIELD INSURANCE COMPANY

By:
Its

TREK ALLIANCE, INC.

Kenton Johnson
By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Alliance, Inc.

TREK EDUCATION CORP.

Kenton Johnson
By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Education Corp.

VONFLAGG CORP.

Kenton Johnson
By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of VonFlagg Corp.

4. Defendants agree to release Northland from all claims under the Policy in accordance with Attachment A hereto.

SCANNED

AGREED BY:

Jeffrey Kale Flagg

Richard Von Alvensleben

Tiffani Von Alvensleben

Harry Flagg

PLAINTIFF
FEDERAL TRADE COMMISSION:

By:
John D. Jacobs
Attorney for Plaintiff FTC

Lee Laurson
NORTFIELD INSURANCE COMPANY

Lee S. Laurson

By: *Director Major Case Liability*
Its

TREK ALLIANCE, INC.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Alliance, Inc.

TREK EDUCATION CORP.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Education Corp.

VONFLAGG CORP.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of VonFlagg Corp.

4. Defendants agree to release Northland from all claims under the Policy in accordance with Attachment A hereto.

SCANNED

AGREED BY:

Jeffrey Kale Flagg

Richard Von Alvensleben

Tiffani Von Alvensleben

Harry Flagg

TREK ALLIANCE, INC.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Alliance, Inc.

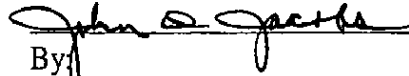
TREK EDUCATION CORP.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of Trek Education Corp.

VONFLAGG CORP.

By Kenton Johnson, Deputy Receiver, on behalf of Robb Evans, Receiver of VonFlagg Corp.

PLAINTIFF
FEDERAL TRADE COMMISSION:



By
John D. Jacobs
Attorney for Plaintiff FTC

NORTHFIELD INSURANCE COMPANY

By:
Its

GENERAL RELEASE AGREEMENT

This General Release Agreement (the "Agreement") is entered into between TREK ALLIANCE, INC., TREK EDUCATION CORPORATION, VONFLAGG CORPORATION, JEFFREY KALE FLAGG, RICHARD VON ALVENSLEBEN, TIFFANI VON ALVENSLEBEN and HARRY M. FLAGG (collectively the "TREK PARTIES"), on the one hand, and NORTHFIELD INSURANCE COMPANY ("NORTHFIELD") and all of its subsidiary, parent and affiliate corporations, on the other hand, and is made with reference to the following facts:

RECITALS

1. NORTHFIELD issued in favor of TREK ALLIANCE, INC., TREK EDUCATION CORPORATION and VONFLAGG CORPORATION its Private Company Directors and Officers and Corporate Liability (including Employment Practices Liability) Insurance Policy, Policy No. ER000151, covering the period from March 21, 2002, through March 21, 2003 (the "Policy").
2. On December 6, 2002, the FTC filed a complaint for injunctive relief and other equitable relief against the TREK PARTIES in the case styled *FTC v. Trek Alliance, Inc.; et al.*, United States District Court, Central District of California, Case No. CV-02-9270 (the "FTC Action").
3. Thereafter, certain of the TREK PARTIES requested reimbursement from NORTHFIELD under the Policy for the cost of their defense in the FTC Action (the "Trek Claim").
4. Thereafter, on June 24, 2003, the court in the FTC Action issued a Preliminary Injunction and appointed Robb Evans as permanent receiver for TREK ALLIANCE, INC., TREK EDUCATION CORPORATION and VONFLAGG CORPORATION.
5. On October 30, 2003, NORTHFIELD denied all liability under the Policy.
6. From time to time thereafter, and on December 22, 2003, the FTC demanded to NORTHFIELD that it pay to the FTC sums of money under the Policy (the "FTC Claim").

SCANNED

7. NORTHFIELD, on the one hand, and the TREK PARTIES on the other, are willing to settle all claims among them relating to amounts claimed owed under the Policy by the FTC or in any way arising from or pertaining to the FTC Action and/or the FTC Claim.

8. This agreement is prepared concurrently with a recommendation by FTC staff that the FTC approve settlements ("Proposed Settlements") of the FTC Action with the various TREK PARTIES, in which the FTC, *inter alia*, releases NORTHFIELD. This agreement is contingent upon the FTC's approval, and the court's approval, of the Proposed Settlements with the TREK PARTIES. This agreement is intended to be attached to each of the Proposed Settlements. This agreement shall take effect, and shall only take effect, upon the court's approval of the Proposed Settlements.

GENERAL RELEASE

NOW, THEREFORE, with reference to the foregoing facts and in consideration of the promises, covenants, and agreements set forth herein, the parties hereto agree as follows:

A. In consideration of the releases set forth herein, and contingent upon the court's approval of the Proposed Settlements, NORTHFIELD will pay the sum of \$1,200,000.00 to be allocated between the TREK PARTIES and the FTC pursuant to the terms of the Proposed Settlements between the FTC and the TREK PARTIES referenced above.

B. In exchange for said payment, and upon the court's approval of the Proposed Settlements, the TREK PARTIES for themselves and their successors, assigns, stockholders, insurers, parent, subsidiaries and affiliated companies, and any other person making claim under the Policy, hereby release, acquit and forever discharge NORTHFIELD, including, but not limited to, its subsidiary corporations, parent corporations, affiliate corporations, successors, assigns, agents, attorneys, stockholders, insurers, officers, directors, employees, or other representatives and their respective successors, assigns, agents, and attorneys, and the employees of any of them, from the FTC Action, the Trek Claim and the FTC Claim, and any and all known or unknown claims, damages, punitive damages, claims practices liability, costs, liabilities or causes of action arising therefrom, including by way of example and not of limitation all costs, fees, attorneys' fees (including "defense costs" as the term is used in the Policy), settlement payments regardless of form, and disbursements expended by or on behalf of the releasing party,

or any of them, and any and all matters related to the handling of the FTC Action, the Trek Claim and/or the FTC Claim.

C. NORTHFIELD, for itself and its successors, assigns, stockholders, insurers, parent, subsidiaries and affiliated companies, upon the court's approval of the Proposed Settlements, hereby releases, acquits and forever discharges TREK ALLIANCE, INC., TREK EDUCATION CORPORATION and VONFLAGG CORPORATION, including, but not limited to, their subsidiary corporations, parent corporations, affiliate corporations, successors, assigns, attorneys, insurers and their respective successors, assigns, and attorneys from the FTC Action, the Trek Claim and the FTC Claim, and any and all known or unknown claims, damages, punitive damages, costs, liabilities or causes of action arising therefrom and any and all matters related to the FTC Action, the Trek Claim and/or the FTC Claim.

D. The TREK PARTIES represent and warrant that the Trek Claim constitutes the entirety of the claims they have made, intend to make, and can make on the Policy as a result of the FTC Action.

E. TREK ALLIANCE, INC., TREK EDUCATION CORPORATION and VONFLAGG CORPORATION represent and warrant that they are authorized to act through the receiver Robb Evans, appointed pursuant to the Court's June 24, 2003 order referenced above.

F. All parties acknowledge that they are familiar with the provisions of California Civil Code Section 1542 which states:

"A general release does not extend to claims which a creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him, must have materially affected his settlement with the debtor."

To the extent California Civil Code Section 1542 is applicable to this Agreement, it, as well as the provisions of all comparable, equivalent or similar statutes or principles of common law, are voluntarily and expressly waived by all parties as to the Trek Claim, the FTC Claim and the FTC Action.

G. The TREK PARTIES and NORTHFIELD represent that no matter, claim or right released or to be released herein by them has previously been assigned.

H. This Agreement involves the release of claims which are contested by the parties, and neither any agreement, term nor provision contained herein shall be construed as an admission of liability by any party to this Agreement.

I. This Agreement constitutes the entire agreement and understanding of NORTHFIELD, on the other hand, and the TREK PARTIES, on the other hand, concerning the matters herein and supersedes and replaces all negotiations, and all proposed agreements, whether oral or written, concerning the subject matter of this Agreement. It is therefore agreed that all prior communications between NORTHFIELD, the TREK PARTIES and the FTC relating to or leading to this Agreement are finalized and memorialized herein.

J. Each individual signing this Agreement hereby represents and warrants that he is authorized and has capacity to do so, and represents and warrants that the Agreement memorialized herein has been submitted to and approved by the appropriate officers and/or governing body of his respective principal and that this Agreement has been reviewed with and agreed to following consultation with independent legal counsel.

K. This Agreement and any controversy arising therefrom shall in all respects be interpreted, enforced and governed by the laws of the State of California. This Agreement shall be construed as a whole according to its plain and fair meaning, and is not to be strictly construed for or against any of the parties hereto. This Agreement may be signed by counterparts.

L. None of the parties hereto has relied upon any representation, warranty or assurance other than as expressly set forth herein. The recitals and representations and warranties are part of this Agreement and shall survive the execution of this Agreement.

SCANNED

DATED: _____, 2005

TREK ALLIANCE, INC.

By: Robb Evans, Receiver of
Trek Alliance, Inc.

DATED: _____, 2005

TREK EDUCATION CORPORATION

By: Robb Evans, Receiver of
Trek Education Corp.

DATED: _____, 2005

VONFLAGG CORPORATION

By: Robb Evans, Receiver of
Von Flagg Corp.

DATED: 9/19, 2005



By: Jeffrey Kale Flagg

DATED: _____, 2005

By: Richard Von Alvensleben

DATED: _____, 2005

By: Tiffani Von Alvensleben

DATED: _____, 2005

By: Harry M. Flagg

[Signatures continued on next page]

SCANNED

DATED: _____, 2005

TREK ALLIANCE, INC.

By: Robb Evans, Receiver of
Trek Alliance, Inc.

DATED: _____, 2005

TREK EDUCATION CORPORATION

By: Robb Evans, Receiver of
Trek Education Corp.

DATED: _____, 2005

VONFLAGG CORPORATION

By: Robb Evans, Receiver of
Von Flagg Corp.

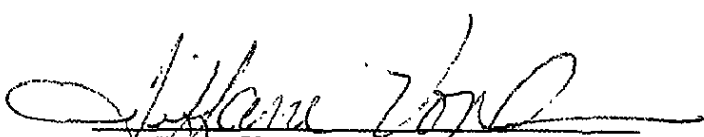
DATED: _____, 2005

By: **Jeffrey Kale Flagg**

DATED: 10-6, 2005


By: **Richard Von Alvensleben**

DATED: 10-6, 2005


By: **Tiffani Von Alvensleben**

DATED: _____, 2005

By: **Harry M. Flagg**

[Signatures continued on next page]

SCANNED

DATED: _____, 2005

TREK ALLIANCE, INC.

By: Robb Evans, Receiver of
Trek Alliance, Inc.

DATED: _____, 2005

TREK EDUCATION CORPORATION

By: Robb Evans, Receiver of
Trek Education Corp.

DATED: _____, 2005

VONFLAGG CORPORATION

By: Robb Evans, Receiver of
Von Flagg Corp.

DATED: _____, 2005

By: **Jeffrey Kale Flagg**

DATED: _____, 2005

By: **Richard Von Alvensleben**

DATED: _____, 2005

By: **Tiffani Von Alvensleben**

DATED: 10/2, 2005

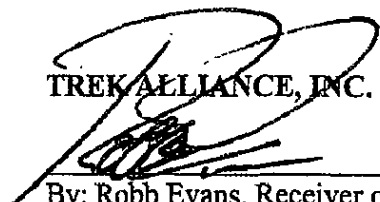


By: **Harry M. Flagg**

[Signatures continued on next page]

DATED: Sept. 21st, 2005

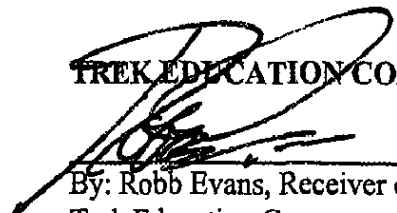
TREK ALLIANCE, INC.



By: Robb Evans, Receiver of
Trek Alliance, Inc.

DATED: Sept. 21st, 2005

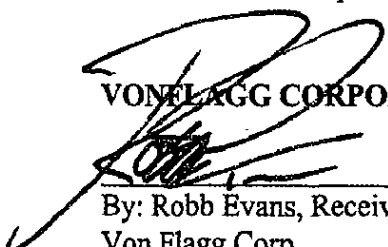
TREK EDUCATION CORPORATION



By: Robb Evans, Receiver of
Trek Education Corp.

DATED: Sept. 21st, 2005

VON FLAGG CORPORATION



By: Robb Evans, Receiver of
Von Flagg Corp.

DATED: _____, 2005

By: Jeffrey Kale Flagg

DATED: _____, 2005

By: Richard Von Alvensleben

DATED: _____, 2005

By: Tiffani Von Alvensleben

DATED: _____, 2005

By: Harry M. Flagg

[Signatures continued on next page]

DATED: _____, 2005

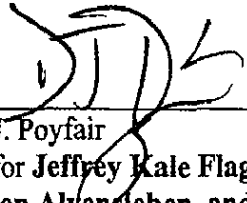
**NORTHFIELD INSURANCE
COMPANY**

SCANNED

By: _____
Its:

APPROVED BY COUNSEL AS TO FORM:

Shugart, Thomson & Kilroy

By: 
D. J. Poyfair
Attorneys for **Jeffrey Kale Flagg,**
Richard Von Alvensleben, and
Tiffani Von Alvensleben

Buchalter Nemer

By: _____
Michael L. Wachtell
Attorneys for **Harry M. Flagg**

Frاندzel Robins Bloom & Csato, L.C.

By: _____
Gary O. Caris
Attorneys for Receiver **Robb Evans**

Anderson, McPharlin & Conners LLP

By: _____
David T. DiBiase
Attorneys for **Northfield Insurance Company**

DATED: _____, 2005

**NORTHFIELD INSURANCE
COMPANY**

SCANNED

By: _____
Its:

APPROVED BY COUNSEL AS TO FORM:

Shugart, Thomson & Kilroy

By: _____

D. J. Poyfair

Attorneys for Jeffrey Kale Flagg,
Richard Von Alvensleben, and
Tiffani Von Alvensleben

Buchalter Nemer

By: _____

Michael L. Wachtell

Attorneys for Harry M. Flagg

Frاندzel Robins Bloom & Csato, L.C.

By: _____

Gary O. Caris

Attorneys for Robb Evans, Receiver of Trek
Alliance, Inc., Trek Education Corp. and
VonFlagg Corp.

Anderson, McPharlin & Conners LLP

By: _____

David T. DiBiase

Attorneys for Northfield Insurance Company

DATED: _____, 2005

**NORTHFIELD INSURANCE
COMPANY**

SCANNED

By: _____
Its:

APPROVED BY COUNSEL AS TO FORM:

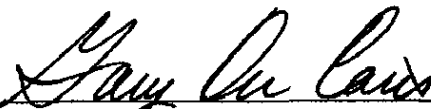
Shugart, Thomson & Kilroy

By: _____
D. J. Poyfair
Attorneys for Jeffrey Kale Flagg,
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Tiffani Von Alvensleben

Buchalter Nemer

By: _____
Michael L. Wachtell
Attorneys for Harry M. Flagg

Frاندzel Robins Bloom & Csato, L.C.

By: 
Gary G. Caris
Attorneys for Robb Evans, Receiver of Trek
Alliance, Inc., Trek Education Corp. and
VonFlagg Corp.

Anderson, McPharlin & Connors LLP

By: _____
David T. DiBiase
Attorneys for Northfield Insurance Company

DATED: October 21, 2005

Lee E. Laurson

NORTHFIELD INSURANCE
COMPANY

Lee E. Laurson

By: _____
Its: Director Major (Per Liability)

SCANNED

APPROVED BY COUNSEL AS TO FORM:

Shugart, Thomson & Kilroy

By: _____
D. J. Poyfair
Attorneys for Jeffrey Kale Flagg,
Richard Von Alvensleben, and
Tiffani Von Alvensleben

Buchalter Nemer

By: _____
Michael L. Wachtell
Attorneys for Harry M. Flagg

Frاندzel Robins Bloom & Csato, L.C.

By: _____
Gary O. Caris
Attorneys for Robb Evans, Receiver of Trek
Alliance, Inc., Trek Education Corp. and
VonFlagg Corp.

Anderson, McPharlin & Conners LLP

By: _____
David T. DiBiase
Attorneys for Northfield Insurance Company

DATED: _____, 2005

**NORTHFIELD INSURANCE
COMPANY**

SCANNED

By: _____
Its:

APPROVED BY COUNSEL AS TO FORM:

Shugart, Thomson & Kilroy

By: _____
D. J. Poyfair
Attorneys for **Jeffrey Kale Flagg,
Richard Von Alvensleben, and
Tiffani Von Alvensleben**

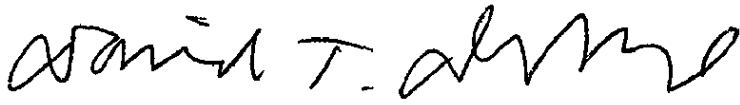
Buchalter Nemer

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Michael L. Wachtell
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Anderson, McPharlin & Conners LLP

By: 
David T. DiBiase
Attorneys for **Northfield Insurance Company**

ORIGINAL