

HONORABLE BENJAMIN H. SETTLE

UNITED STATES DISTRICT COURT, WESTERN DISTRICT OF WASHINGTON
AT TACOMA

DINAH CANADA, MARIE JOHNSON-
PEREDO and ROBERT HEWSON on behalf of
themselves and all others similarly situated,

Plaintiffs,

v.

MERACORD, LLC; LINDA REMSBERG and
CHARLES REMSBERG, individually and on
behalf of the marital community;
LLOYD E. WARD and AMANDA GLEN
WARD, individually and on behalf of the marital
community; LLOYD WARD, P.C.; LLOYD
WARD & ASSOCIATES, P.C.; THE LLOYD
WARD GROUP, P.C. (D/B/A LLOYD WARD
GROUP II); WARD HOLDINGS, INC.; and
SETTLEMENT COMPLIANCE
COMMISSION, INC.

Defendants.

No. 12-cv-05657-BHS

AMENDED CLASS ACTION COMPLAINT
AND JURY DEMAND

I. INTRODUCTION

1. Many Americans suffered – and continue to suffer – extreme financial and emotional hardships as a result of the recent financial crisis dubbed the “Great Recession.” From these difficult times rose a highly profitable industry purporting to provide “debt relief” to financially troubled and over-extended consumers. While there are, no doubt, some companies in the debt-relief industry that provide genuine assistance to consumers, there are also countless bad actors who see a consumer in financial distress as just another mark. Meracord, formerly known as

1 NoteWorld, LLC, is a perfect example of the latter. To Meracord and its network of co-
2 conspirators, the Great Recession offered not hardship, but windfall profits through exploitation
3 of those suffering financial distress.

4 2. Meracord engages and relies upon a network of “front-end” debt settlement
5 companies (“Front DSCs”) – including Lloyd Ward & Associates and its various related entities
6 – that it utilizes to recruit customers. The Front DSCs offer to act as intermediaries between
7 distressed and distraught debtors and their creditors, using inflated claims and misrepresentations
8 about their services to sign up customers, and charging exorbitant and abusive fees once the
9 mark is on the hook. The Front DSCs require customers to set up an escrow account into which
10 the customer makes a monthly deposit, generally via an automatic electronic funds transfer.
11 These accounts are administered by Meracord, which is a “back-end” debt settlement company.
12 In theory, once a sufficient balance accumulates in the escrow account, the Front DSCs will
13 approach creditors and utilize the accumulated balance to settle outstanding debts for a lump sum
14 in return for fees that are strictly regulated by law. The reality, however, is different.

15 3. The Front DSCs and Meracord represent to consumers that Meracord is independent
16 and unaffiliated with the Front DSCs and that consumers will at all times have control over their
17 money. Remsberg calls Meracord “an objective third party processor” on her blog. These
18 statements are false. In fact, Meracord is deeply intertwined with, and actively conspires with,
19 the Front DSCs. For most of the Front DSCs, Meracord provides software through which
20 consumers view their account balances and have the ability to “approve or decline” settlement
21 agreements with their creditors – if any are actually ever reached. This software in many cases
22 represents the bulk of the “services” that the Front DSC actually provides.

23 4. Despite its statements to the contrary, Meracord does not act as an independent
24 fiduciary. Together with its network of Front DSCs, it loots customers’ escrow accounts by
25 withdrawing exorbitant and abusive fees pursuant to debt settlement contracts that are wholly
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1 fraudulent because they are obtained by means of false representations, including guarantees
2 about consumers' debts being settled for "pennies on the dollar," misleading statements about the
3 success rates of the debt settlement services, and assurances that Meracord – the entity actually
4 withdrawing funds from consumers' accounts – is an "independent" third party. The contracts
5 entered into and fees charged by Meracord and the Front DSCs are illegal under the Washington
6 Debt Adjusting Act and Washington Consumer Protection Act, which strictly regulate the total
7 fees that can be charged by debt adjusters and prohibit the fraudulent practices alleged below. In
8 many cases, as a result of the exorbitant fees charged, it is impossible for the consumer to ever
9 accumulate sufficient funds for his or her debts to be settled as promised.

10 5. If consumers discover the fraud and attempt to retrieve the illegally extracted fees,
11 they often find that the Front DSC is completely unresponsive, or, worse, is nothing more than a
12 shell entity with no real address and no discernible ownership structure. Meracord, for its part,
13 stonewalls customers and refuses to refund illegal fees, hiding behind false claims that it "only"
14 provides "payment processing" services; that it is "not a debt settlement company;" and that it is
15 wholly "independent" from the suddenly unavailable (or vanishing) Front DSCs. By the time
16 Meracord actually closes the account, the consumer will have lost thousands, and in some cases
17 tens of thousands, of dollars in unlawful charges.

18 6. Meracord's debt settlement account "churn" rate (cancelled accounts as a percentage
19 of active accounts) approaches 70% – a clear and objective indication that the vast majority of its
20 business activity is wholly fraudulent. If Front DSCs were actually performing debt settlement
21 services, the vast majority of their consumers would not cancel their accounts before their debts
22 were extinguished. This telltale high "churn" rate is well known to Remsberg.

23 7. Meracord's claim that it is not a debt settlement or "debt adjusting" company is
24 particularly outrageous, since, as explained below, it clearly met the statutory definition for such
25 companies during the relevant time period for this complaint. Moreover, the online account
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1 management tool that Meracord provides for customers specifically has a section entitled
2 “Settlements,” where customers can “get more details about [pending settlement agreements]
3 and . . . approve or decline the proposed agreement[s].”

4 8. Plaintiffs’ experiences are typical of the harm suffered by victims of Meracord and
5 it’s co-conspirators. All three plaintiffs were in financial distress, and all were fraudulently
6 induced to sign up for “debt settlement services” that they believed would help them to finally
7 dig themselves out of debt. As part of its “services,” Meracord withdrew tens of thousands of
8 dollars from Plaintiffs’ bank accounts, which Plaintiffs believed were being saved in order to be
9 put towards the “settlements” that would be negotiated with their creditors. When Plaintiffs
10 realized that nothing was actually being done to negotiate settlements, it was too late. Meracord
11 had already taken exorbitant fees for itself and the Front DSCs out of Plaintiffs’ “debt settlement
12 accounts,” and when Plaintiffs demanded that their money be returned, they faced either
13 stonewalling by Meracord and the Front DSCs or, in one case, threats that the Front DSC would
14 *sue the Plaintiff* for demanding her money back. All three Plaintiffs ultimately lost thousands of
15 dollars to Meracord and the Front DSCs, and ended up even *more* in debt than they were when
16 they originally sought help.

17 9. Plaintiffs bring this action pursuant to the Racketeering Influenced and Corrupt
18 Organizations Act (“RICO”) and Washington state law, to remedy Meracord’s illegal conduct.
19 Plaintiffs bring this action on behalf of themselves and a Class consisting of all persons in the
20 United States who established an account with Defendant Meracord LLC (or its predecessors or
21 subsidiaries) from which Meracord processed any payments related to any debt settlement
22 program.

23 10. Meracord acted – and continues to act – in concert with the Front DSCs, including
24 Lloyd Ward Defendants discussed below, to perpetuate an unfair, deceptive, and fraudulent
25 business scheme injurious to consumers and in violation of RICO; Washington’s debt adjusting
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1 statute, WASH. REV. CODE § 18.28; the Washington Consumer Protection Act, WASH. REV. CODE
2 § 19.86; and the common law of Washington State.

3 4 II. JURISDICTION AND VENUE

5 11. This Court has original jurisdiction pursuant to 28 U.S.C. § 1332(d)(2). Based on
6 information and belief, the matter in controversy exceeds the sum or value of \$5,000,000
7 exclusive of interest and is a class action composed of more than 100 members and in which at
8 least one Class member is a citizen of a state different from that of Defendants. This Court has
9 jurisdiction over the RICO claim pursuant to the Racketeering Influenced and Corrupt
10 Organizations Act, 18 U.S.C. § 1964(c) (civil remedies for RICO violations). This Court has
11 pendant jurisdiction over Plaintiffs' state law claims pursuant to 28 U.S.C. § 1367.

12 12. Venue is proper pursuant to 28 U.S.C. § 1391(b)(2) because the events that gave rise
13 to the claims occurred in substantial part in this judicial district. Meracord is headquartered in
14 this district and the racketeering enterprise alleged is centered in Tacoma, Washington. In
15 addition, the Terms and Conditions signed by Plaintiffs Hewson and Johnson-Peredo (and, on
16 information and belief by Plaintiff Canada and all putative Class members) expressly state that
17 “[a]ny and all legal action” against Meracord “must be transacted or brought *in a court* located in
18 the State of Washington.” (Emphasis added.) As a result, Meracord cannot attempt to compel
19 arbitration of this action based on dubious arbitration clauses used by many of its Front DSCs.

20 13. This Court has personal jurisdiction over Meracord because its principal place of
21 business is Tacoma, Washington, which is also where it is headquartered. In addition, the Terms
22 and Conditions signed by Plaintiffs Hewson and Johnson-Peredo expressly state that “[a]ny and
23 all legal action” against Meracord “must be transacted or brought in a court located in the State
24 of Washington.”

1 14. This Court has personal jurisdiction over Linda Remsberg because Remsberg has
2 controlled and directed the affairs of Meracord and the Meracord Enterprise described below
3 from Meracord's headquarters in Tacoma, Washington and because, on information and belief,
4 Remsberg resides in this district.

5 15. This Court has personal jurisdiction over each of Lloyd Ward Defendants pursuant to
6 18 U.S.C. § 1965(b) since Lloyd Ward Defendants participated in the conduct of the Meracord
7 Enterprise and the claims against Lloyd Ward Defendants arise, in part, out of their business
8 transactions with Meracord, a Washington-based company. This Court also has jurisdiction over
9 Lloyd Ward Defendants pursuant to RCW § 19.86.160, since Lloyd Ward Defendants together
10 engaged in violations of RCW § 19.86 which had an impact on the state of Washington.
11 Specifically, Lloyd Ward Defendants have actively participated in the Meracord Enterprise and
12 conspired with Meracord with the intent and effect of defrauding consumers nationwide,
13 including hundreds if not thousands of consumers located in this district.

14 16. In addition, this Court has personal jurisdiction over Lloyd Ward Defendants because
15 Lloyd Ward Defendants "purposefully avail[ed] [themselves] of the privilege of conducting
16 activities within the forum State, thus invoking the benefits and protections of its laws."
17 *CollegeSource, Inc. v. AcademyOne, Inc.*, 653 F.3d 1066, 1077 (9th Cir. Cal. 2011) (quoting
18 *Hanson v. Denckla*, 357 U.S. 235, 253, 78 S. Ct. 1228, 2 L. Ed. 2d 1283 (1958)).

19 17. Lloyd Ward Defendants intentionally and knowingly solicited Washington State
20 residents for their wholly fraudulent debt settlement services by means of the internet, telephone
21 solicitations across state lines, and emails. For example, Lloyd Ward Defendants solicited
22 Washington State residents Sherrie Kay Gordon and Debbie Kay Miller for their wholly
23 fraudulent debt settlement services. These transactions are the subject of another lawsuit
24 currently pending in Washington State Superior Court. *Gordon, et al. v. Lloyd Ward, et al.*, No
25 12201551-6 (Filed April 23, 2012).

III. PARTIES

A. Plaintiffs

18. Plaintiff Marie Johnson-Peredo is a Pennsylvania resident. Ms. Johnson-Peredo signed up for the debt settlement services of Meracord and Lloyd Ward Defendants. As a result, she was defrauded of thousands of dollars by Meracord and its co-conspirators and accomplices.

19. Plaintiff Robert Hewson is a Pennsylvania resident. Mr. Hewson signed up for debt settlement services of Meracord and a member of Meracord’s Front DSC network. As a result, he was defrauded of thousands of dollars by Meracord and its co-conspirators and accomplices.

20. Plaintiff Dinah Canada is an Illinois resident. Ms. Canada signed up for the debt settlement services of Meracord and a member of Meracord’s Front DSC network. As a result, she was defrauded of thousands of dollars by Meracord and its co-conspirators and accomplices.

B. Defendants

1. Meracord Defendants

21. Defendant Meracord, LLC (“Meracord”) is a Delaware limited liability company with its principal place of business in Tacoma, Washington. According to its Sign-Up Agreement, Meracord “is in the business of providing transaction management and processing services and certain related services as an independent third party,” and its website touts its aim “to be the most respected 3rd party payment service provider in the world, where there is a written promise that dictates the responsible and accurate treatment of the payment.”

22. Defendant Meracord was formerly known as NoteWorld. After a number of class action lawsuits were filed against NoteWorld, the company changed its name to Meracord. Frequent name changes are a common tactic in the debt settlement industry. By changing names, companies in the debt settlement industry are able to wipe clean their online reputations virtually overnight, making it more difficult for consumers to associate the company with the lawsuits and

1 other negative consumer feedback. In this Complaint, Plaintiffs refer to “Meracord,” although
2 most of the events described herein took place when the company was called “NoteWorld.”

3 23. Defendant Meracord has conspired and/or currently conspires with scores (if not
4 hundreds) of front-end debt settlement companies (“Front DSCs”), who together with Meracord
5 compose the Meracord Enterprise. Those Front DSCs include at least the following entities:
6 Lloyd Ward and Associates, Express Debt Settlement Holdings, Law Office of Simon &
7 Bocksch, Freedom Debt Relief, First Rate Debt Solutions, Expert Settlement Professional, P&E
8 Solutions, Freedom Debt Center, Accredited Financial Corporation, Amber Network Inc., Best
9 Debt Options, Beyond Financial Service, Brite Credit Inc. (d/b/a Brite Credit 123), Century
10 Negotiations Inc., Clear Debt Solution, Coastal Debt Solutions LLC, Consumerwise Debt
11 Solutions Inc., Counsel 4 Debt Relief, Countrywide Debt Solutions Inc., Credit Care
12 Corporation, CreditCare Pro, Debt Help Center USA, Debt National Relief, Debt Reinvestment,
13 Debt Solutions, Debt Erase Inc., DebtPointer Inc., DebtPro LLC, DTS Financial Group, E.A.C.
14 Financial LLC, FBL Associates, Freedom Debt Solutions, Help Settle LLC, Helpsettle.com,
15 Innovative Debt Solutions, Lifeguard Financial, Maximum Debt Solutions, Morgan Stevens
16 Financial Solutions Company, National Financial Freedom LLC, Nationwide Consumer
17 Advocacy Group, On Track Financial LLC, Personal Debt Systems of America, Princeton Debt
18 Management LLC, Reduce My Debt LLC, Settle A Debt Inc., Settlement Corporation of
19 America, SilverLeaf Debt Solutions, The Debt Answer, The Debt Cure, US Consumer Report,
20 Vision Debt.com and World Debt Solutions. Many of these Front DSCs have been the subject of
21 state and federal investigations for consumer fraud.

22 24. Defendant Linda Remsberg (“Remsberg”) is the Owner, President, and CEO of
23 Defendant Meracord. Remsberg acquired Meracord in 2007, having worked for the company for
24 approximately nine years prior to that, primarily in the company’s Seller Finance business unit.
25 As President/CEO, Remsberg oversaw the creation of Meracord’s Debt Settlement business unit,
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1 which now generates over 70% of the company's revenues. Remsberg oversaw the creation of
2 the Meracord Enterprise and, in conjunction with the principals and owners of the Front DSC's
3 described above, Remsberg continues to conduct and/or participate in the conduct of the
4 Meracord Enterprise's unlawful activities.

5 25. Remsberg maintains an official blog on the Meracord website that disingenuously
6 touts Meracord's purported belief in "consumer protection." Examples of Remsberg's blatantly
7 false and misleading descriptions of Meracord and its business practices include:

- 8 (a) "We always do things right;"
9 (b) "We build trust by being trustworthy;"
10 (c) "We care about the people's lives we touch;" and
11 (d) "We lead transparently."

12 None of these things are true. The truth is that after being purchased by Remsberg,
13 Meracord was transformed from a company whose business was devoted almost exclusively to
14 processing payments for private mortgages into a company whose major business involves
15 preying on financially vulnerable consumers by creating the mechanism by which scores of
16 dubious "debt-settlement" companies can easily obtain direct payments from victims' bank
17 accounts. In that manner, Meracord deliberately supports, facilitates and participates in the
18 criminal conduct described below.

19 26. Defendant Charles Remsberg is a resident of Washington and the spouse of
20 Defendant Linda Remsberg. At all times, Defendant Linda Remsberg was acting on behalf of her
21 marital community with Defendant Charles Remsberg with respect to the misconduct alleged
22 herein.

23 2. Lloyd Ward Defendants

24 27. Defendant Lloyd E. Ward ("Ward") is an attorney licensed to practice in the state of
25 Texas. He owns and/or controls a byzantine web of corporate entities. These entities include
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1 those listed below, all of which, upon information and belief, operate in association with (or
2 under the name) “Lloyd Ward & Associates.” According to its website, LWA is a law firm
3 established in 1992 and located in Dallas, Texas. In addition to other practice areas, the firm
4 publicizes a Debt Settlement practice and touts its “relationships with creditors” who “realize
5 that we are working as diligently as they are to negotiate a debt settlement and remove it from
6 their books.” LWA’s website falsely advertises that its debt negotiation service is “guaranteed in
7 writing to work or your fees will be returned!” At all times, Lloyd Ward was acting on behalf of
8 his marital community with Amanda Glen Ward with respect to the misconduct alleged herein

9 28. Defendant Amanda Glen Ward is a resident of Texas, the spouse of Lloyd Ward, and
10 the Director of Marketing for LWA and its associated entities. Amanda Ward has the authority to
11 handle and disburse the funds, described below, received by Lloyd Ward Defendants from the
12 Meracord Enterprise. Amanda Ward has participated in, ratified or aided and/or abetted all the
13 unlawful practices alleged herein to have been committed by Lloyd Ward Defendants.

14 Specifically, she has directed and/or participated in the fraudulent solicitation of class members
15 and the transmission over interstate lines of unlawfully obtained funds. In addition, Defendant
16 Amanda Ward has permitted her family trust, the Glen Family Trust, to be used to hide her and
17 her husband’s ill-gotten gains. At all times, Amanda Ward was acting on behalf of her marital
18 community with Lloyd Ward with respect to the misconduct alleged herein.

19 29. Defendant Lloyd Ward, P.C. is a Texas professional corporation located in Dallas,
20 Texas. Ward serves as the sole Director, President, and registered agent for Lloyd Ward, P.C.
21 Upon information and belief, Lloyd Ward, P.C. also does business as Lloyd Ward Group, LLC.

22 30. Defendant Lloyd Ward & Associates, P.C. is a Texas professional corporation located
23 in Dallas, Texas. The registered agent for Lloyd Ward & Associates, P.C. is Lloyd Ward, P.C.,
24 with both entities using identical addresses. Ward serves as President of Lloyd Ward &

1 Associates, P.C. Upon information and belief, Lloyd Ward & Associates P.C. also does business
2 as Lloyd Ward Group, LLC.

3 31. Defendant The Lloyd Ward Group, P.C. is a Texas professional corporation located
4 in Dallas, Texas. Defendant Lloyd Ward, P.C. serves as the company's registered agent, and
5 Ward serves as CEO, Director, and President of The Lloyd Ward Group, P.C. The Lloyd Ward
6 Group, P.C. also operates under the assumed name Lloyd Ward Group II. The certificate of
7 formation states that its purpose is to engage in "legal services and other services ancillary
8 thereto." Even though The Lloyd Ward Group PC is a law firm purportedly engaged in the
9 practice of law, it shares profits with a non-lawyer. Specifically, it is 42.5% owned by Kevin
10 Devoto, 42.5% owned by Lloyd Regner and 15% owned by Lloyd Ward. Mr. Devoto is a
11 convicted felon who served 18 months for his involvement in a prior fraud and is currently
12 subject to a \$2,185,476.29 restitution order. Neither Mr. Regner nor Mr. Devoto are licensed
13 attorneys in Texas, or, on information and belief, in any other state.

14 32. Ward Holdings, Inc. is a Texas corporation located in Dallas, Texas. Ward serves as
15 the company's registered agent, President and Director. The company's charter was involuntarily
16 forfeited in February 2012 for failure to comply with the Texas Tax Code.

17 33. Defendant Settlement Compliance Commission Inc. is a Texas corporation located in
18 Dallas, TX. Defendant Lloyd Ward & Associates, P.C. serves as the company's registered agent,
19 and both companies are located at the same Dallas address. Ward serves as a Director of the
20 company, along with two other individuals: Mike Miles and Chris Garrison. Mr. Miles also
21 serves as the Manager of SilverLeaf Debt Solutions, LLC, one of the other entities that was
22 involved in Plaintiff Marie Johnson-Peredo's Meracord transactions. The relationship between
23 Ward and Mr. Miles/SilverLeaf served as the basis for a disciplinary petition brought by the
24 State Bar of Texas against Ward for various violations of the Texas Rules of Professional
25 Conduct.
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1 provide a “lump sum” amount which the debt settlement company can use to negotiate with
2 creditors in order to lower the overall amount required to satisfy the consumer’s debt.

3 38. Individuals suffering from debt-related troubles may be among the most vulnerable
4 consumers, due to the inherent emotional stress of carrying seemingly insurmountable debt loads
5 – a stress compounded by the harassment suffered by many debtors at the hands of collection
6 agencies. Despite the passage of the Fair Debt Collection Practices Act, many collectors continue
7 to subject indebted consumers to a deluge of harassing and harrowing phone calls and letters
8 demanding payment of debts and threatening dire consequences, resulting in an increasing sense
9 of desperation experienced by many debtors. Add to this emotionally charged setting a debt
10 settlement company promising to “make it all go away,” and an environment rife with fraud and
11 consumer exploitation emerges.

12 39. Indeed, many states, along with multiple federal government agencies and consumer
13 advocates, have recognized the rampant abuses taking place in the debt settlement industry, and
14 have taken steps to curb such abuses.

15 40. Recently, the Federal Trade Commission (“FTC”) responded to industry practice by
16 issuing new regulations prohibiting the very practices described herein, which include charging
17 advance fees for debt settlement services, as well as misrepresenting the nature and details of the
18 services to be provided. In describing the rationale for its advance fee ban, the FTC noted:
19 “Consumers in the midst of financial distress suffer monetary harm – often in the hundreds or
20 thousands of dollars – when, following sales pitches frequently characterized by high pressure
21 and deception, they use their scarce funds to pay in advance for promised results that, in most
22 cases, never materialize.” FTC Telemarketing Sales Rule, 75 Fed. Reg. 153, 48482 (August 10,
23 2010).

24 41. In 2010, the Government Accountability Office (“GAO”) issued a report on the for-
25 profit debt settlement industry. Bearing the illustrative title “DEBT SETTLEMENT: Abusive,
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1 and Deceptive Practices Pose Risk to Consumers,” the report outlined the GAO’s investigation
 2 of 20 debt settlement companies, in which GAO staff members had posed as indebted
 3 consumers. The GAO “found the experiences of its fictitious consumers to be consistent with
 4 widespread complaints and charges made by federal and state investigators on behalf of real
 5 consumers against debt settlement companies engaged in fraudulent, abusive, or deceptive
 6 practices.”

7 42. In Washington State, the legislature’s concern about abusive practices in the debt
 8 settlement industry led it to pass an act placing strict limitations and requirements on entities
 9 involved in “debt adjusting.”¹ The Washington Supreme Court held in 2011 that “debt adjusters”
 10 under the statute clearly included “payment processors” such as Meracord. In making that
 11 determination, the court briefly reviewed the legislative history of the Act, noting that it
 12 “reveal[ed] a deep-seated concern about the abuses inherent in the debt adjusting industry,”
 13 abuses that the legislature found stemming from “[t]he lack of industry regulation, and the
 14 frequently unsophisticated and/or desperate client seeking relief from bill collectors’
 15 harassment.” *Carlsen v. Global Client Solutions, LLC*, 171 Wn.2d 486, 495 (2011).²

16 **D. The Meracord Enterprise**

17 43. In order to vastly grow its customer base, while shielding itself from the scrutiny and
 18 complaints of those it defrauds, Meracord – at the direction of Defendant Linda Remsberg –
 19 partners with an elaborate network of Front DSCs. Meracord uses the Front DSC network to sign
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 22 ¹ Though the statute does not itself contain an official short title, for ease of reference it is referred to
 hereinafter as the Washington Debt Adjusting Act, or “DAA.”

23 ² In March 2012, the Washington State Legislature amended the DAA, creating a new statutory category
 24 for entities like Meracord called “third-party account administrators” (“TPAAs”). Under the amended
 25 statute, TPAAs are not considered “debt adjusters,” but continue to have their own set of responsibilities
 26 to consumers, including fee limitations, disclosure requirements, and restrictions on the handling of
 consumer funds. These amendments were not effective until June 7, 2012, and do not apply retroactively.
 Thus, the amendments to the DAA provide no shield to Meracord for the violations of Washington and
 federal law alleged in this Complaint.

1 up desperate and unsuspecting consumers who are looking for relief from the overwhelming
2 stress of their indebtedness.

3 44. Typically, a consumer will sign up with a Front DSC representing itself as a single
4 company engaged in the business of debt settlement. Front DSCs seek customers through
5 unsolicited phone calls, email, or mail, as well as internet, television and radio advertising
6 claiming to offer relief for consumers saddled with overwhelming debt.

7 45. Only later, if ever, does the consumer discover that there are multiple companies
8 involved in the process. The relationships between the various companies are purposefully
9 obscured to prevent the consumer from disentangling the complicated scheme.

10 46. With Meracord's and Remsberg's knowledge and approval, its Front DSCs uniformly
11 and falsely represent to the consumer that Meracord is an independent, unbiased "payment
12 processing" company. Meracord itself and Remsberg herself affirm these misrepresentations and
13 uniformly and falsely hold Meracord out to consumers as completely "independent" from its
14 Front DSCs and as "objective." In fact, there exist close relationships between Meracord and its
15 network of Front DSCs:

- 16 (a) Meracord promotes, establishes, maintains, and manages debt settlement
17 accounts on behalf of consumers as an integral component of debt settlement
18 programs marketed by its Front DSCs, including Lloyd Ward Defendants;
- 19 (b) Meracord invites select Front DSC's to join its "VIP Club" and provides these
20 Front DSC's with free industry research and free analyses of their "consumer
21 portfolio[s];"
- 22 (c) Meracord treats major debt relief sales channels to VIP events;
- 23 (d) Meracord provides the software through which customers enrolled by the Front
24 DSCs monitor their escrow accounts and approve creditor settlements – in the
25 relatively rare circumstances that such settlements actually occur;
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- 1 (e) Meracord’s profits are dependent on increasing the number of debt settlement
2 customers signed up by the Front DSCs because each such customer is also
3 *required* to sign-up for Meracord’s services;
- 4 (f) Despite Meracord’s express representation that the Front DSCs do not act as its
5 “agents,” the Front DSCs act under Meracord’s direction and control when they
6 provide customers with “Sign-Up Agreements” on its behalf;
- 7 (g) Despite Meracord’s express representation that it does not act as an “agent” for
8 its Front DSCs, Meracord in fact processes automatic withdrawals from
9 customer bank accounts and distributes unlawful debt settlement fees back to
10 the Front DSCs – all supposedly pursuant to dubious “agreements” between the
11 Front DSCs and customers and, upon information and belief, according to
12 express agreements between Meracord and the Front DSCs;
- 13 (h) Meracord is deeply intertwined with the Front DSCs. Remsberg, on behalf of
14 Meracord, often attends debt settlement industry events, where she serves on
15 panels alongside representatives of the Front DSCs, and, upon information and
16 belief, describes Meracord and the Front DSCs as engaged in the joint endeavor
17 of recruiting debt settlement customers.
- 18 (i) For example, in April 2011, Remsberg attended a conference of The
19 Association of Settlement Companies (“TASC,” which shortly thereafter
20 changed its name to the American Fair Credit Council). At the TASC
21 conference, Remsberg served on a panel with four other panelists – all four
22 of whom represented Front DSCs. One of the panelists was Andrew
23 Houser, CEO of Freedom Debt Relief, a Front DSC involved in the scam
24 that injured Plaintiff Dinah Canada, and which at the time had already been
25 investigated by the Washington State Attorney General’s office for
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1 violations of Washington consumer protection laws (discussed in further
2 detail below).

3 (ii) During the panel discussion at the TASC conference, on information and
4 belief, Remsberg referred to her company and the Front DSCs as part of a
5 joint endeavor, saying that “[our customers] feel *we* are better at
6 negotiating than they are. That’s why they sign up with *us*,” and advising
7 that business success for the endeavor depends on “who *we* are enrolling”
8 and “how fast are *we* delivering results.” (Emphasis added.)

9 47. The standardized contracts provided to consumers by the Front DSCs contain, at the
10 very least, an agreement for debt settlement services as well as a Meracord “Sign-Up
11 Agreement,” and often contain a myriad of other confusingly worded forms.

12 48. The debt settlement programs provided for by these agreements universally involve
13 the following material elements:

- 14 (a) The consumer agrees to pay specified debt settlement fees that, unbeknownst to
15 the consumer, are illegal and *per se* unfair, but generate large profits for the
16 Meracord Enterprise;
- 17 (b) In addition to the debt settlement fees, Meracord charges the consumer
18 unlawful fees to maintain and manage the trust account necessary for the
19 operation of the debt settlement program;
- 20 (c) The debt settlement account is established for the purported purpose of
21 accumulating funds with which to pay the settlements ostensibly to be
22 negotiated by the Front DSCs;
- 23 (d) Meracord is authorized to automatically transfer periodic (usually monthly)
24 payments from the consumer’s personal bank account into the debt settlement
25 account;
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- 1 (e) The program's success and the consumer's ability to financially afford the
2 monthly debt settlement program payments generally presupposes that the
3 consumer does not make further payments of his/her own on the outstanding
4 and now further defaulting debt;
- 5 (f) Meracord is also authorized to automatically and periodically debit the debt
6 settlement account to pay the exorbitant debt settlement fees specified in the
7 debt settlement agreement and "Sign-Up Agreement;"
- 8 (g) The fees usually entirely consume consumers' monthly debt settlement
9 payments for the first months, if not years, of participation in the program, and
10 substantially consume consumers' monthly payments for the remainder of the
11 debt settlement program;
- 12 (h) In almost all cases, the consumer would be far better off simply directing the
13 monthly payments to his/her creditors directly, thereby saving the fees illegally,
14 unfairly and deceptively extracted by the Meracord Enterprise, and preventing
15 the further accumulation of compounded interest.

16 49. The contracts used by the Front DSCs, in addition to charging illegal fees, contain
17 false, misleading, and illegal statements. For example, the contracts, along with the claims made
18 by the Front DSCs' salespeople, often

- 19 (a) Mislead customers into thinking that the debt settlement process will be
20 handled by attorneys, or are "backed by" law firms;
- 21 (b) Fail to disclose with appropriate specificity the nature of the fees to be charged
22 and when such fees will be incurred;
- 23 (c) Make false and/or misleading claims about the "success rates" of the programs;
- 24 (d) Make false and/or misleading statements about the length of time it will take to
25 complete the program;
- 26

- 1 (e) Make false or misleading promises about the percentage of the customer's debt
2 that the company will be able to settle; and
- 3 (f) Make false or misleading statements about the factors that affect the customer's
4 credit score and the impact of the debt settlement program on that score.

5 50. Moreover, the Front DSCs' salespeople often pressure consumers into signing (or "e-
6 signing") the contracts quickly, without any meaningful opportunity to review the terms; and for
7 their part, the contract terms are often so confusingly worded as to be unintelligible to the
8 average consumer.

9 51. Meracord Defendants know that the contracts used by its Front DSCs are fraudulent
10 and illegal, but Meracord still continues to process payments according to the terms of those
11 contracts. Meracord Defendants' knowledge is self-evident, as

- 12 (a) Meracord processes payments pursuant to the contracts used by its Front DSCs,
13 giving it direct knowledge of the fraudulent and illegal nature of those
14 contracts;
- 15 (b) Meracord has produced copies of the contracts in this litigation demonstrating
16 that it has the unlawful contracts in its possession;
- 17 (c) Meracord Defendants – as well as Lloyd Ward Defendants – are acutely aware
18 of the enormous volume of consumer complaints regarding these fraudulent
19 contracts and the false claims made to enroll consumers in debt settlement
20 programs offered by the Meracord Enterprise. There are scores, if not hundreds,
21 of consumer complaints on the Internet involving the scheme perpetrated by
22 Meracord and its Front DSCs, including Lloyd Ward Defendants; and
- 23 (d) Meracord's debt settlement "payment processing" business is characterized by
24 astronomically high churn rates (canceled accounts as a percentage of active
25 accounts). Meracord has internally determined that its churn rates invariably
26

1 exceed 60% and on occasion have exceeded 70%. Remsberg is aware of these
2 high churn rates, which are symptomatic of and thus reveal widespread fraud;

- 3 (e) Meracord is aware of regulatory enforcement actions against Front DSC's with
4 whom it does business, yet it takes no steps to cease doing business with these
5 Front DSCs. To the contrary, it often unlawfully facilitates the transfer of
6 accounts from Front DSC's under investigation to new or other Front DSCs
7 under common control in order to evade regulatory action.

8 52. Front DSCs tout their association with Meracord as proof of their *bona fides* and to
9 convince consumers that they are legitimate providers of debt relief services.

10 53. The following are just a few examples of the complaints that consumers have posted
11 on the Internet:³

- 12 (a) "I am in a terrible debt situation, I used [Meracord] to help me get my debt
13 collection off my back giving them \$240.00 a month, now my situation has
14 grown worst, and have paid them \$480.00 I can't keep my payments up with
15 [Meracord], I never got any thing done from them and I asked for a refund and
16 they said no, I felt like all my money went into helping my self get out of debt
17 and now they have made it impossible for me to pay anybody now I am in a rut.
18 Why can't I get some of it back, not even \$5.00 and they no longer want to help
19 me. I just know that my creditors are still calling and I don't know what to do."

- 20 (b) "[Meracord] is doing business with Lloyd Ward Law Firm. Lloyd Ward Law
21 Firm was suppose to settle my debt and 2 months have gone by and they have
22 not settled any debts. Therefore, they breached their contract. [Meracord] does
23 business with them (I believe they are run by the same person/people. They say
24 they are an "independent" company). They made 2 deductions from my account

25
26 ³ The complaints are reproduced verbatim, including grammatical and spelling errors.

1 and refuses to give the money back stating fees for services by LLOYD Ward.
2 They didn't do anything for me as contracted. Yet, [Meracord] is refusing to
3 refund the money. How independent is that? Just because you have a separate
4 Federal ID number, doesn't mean you aren't owned by the same people.
5 However, I will be filing complaints against both companies. DO NOT DO
6 ANY BUSINESS WITH LLOYD WARD LAW FIRM OR [MERACORD].
7 THERE IS DISHONESTY BY BOTH. RESEARCH THEM ON THE NET.
8 YOU FIND THERE ARE THE SAME TYPES OF COMPLAINTS AGAINST
9 BOTH.”

10 (c) “I went to [Meracord] for help on lowering interest on credit cards and they
11 started taking money out of my account every month in the amount of \$376.38
12 and referred me to another company named attorney at law associates Lloyd
13 ward firm for help on the credit cards. The Lloyd ward customers services
14 employees don't want to get in touch with the creditors over the phones, their
15 way is over the mailing letters instead and not talking for the clients and keep
16 taking my money of \$376.38. I joined them in March the [Meracord] and the
17 Lloyd wards for help. The account collected from me about three grand already
18 and I just closed it on October 27, 2010 because the Lloyd wards and
19 [Meracord] were taking my money and not helping us. . . . I tried to file a
20 complaint online with the better business bureau and they want so much
21 information, the money was being debit monthly out of my account. Why do I
22 have to prove how crooked these companies are.”

23 (d) “This Company is a big Scam and I think a class action law suite should be
24 started even if it take years to finish. I encouraged my mother and mother-in-
25 law to enroll and place my name as a contact to assist with both accounts. Me
26

1 and my wife were providing financial support with the accounts, which my
2 mother-in-law suddenly died last month and the company has had us fax
3 documents as proof. We have sent death certificate, and power of attorney, but
4 the company request q new document everytime because they don't want to
5 release the money that's sitting in the trust account. Since the company appears
6 to be a scam, I had my mother to cancel her account and all they refunded was
7 \$600 and paid off 1 debt in over a year after I provided a \$216 payment to her
8 for lloydward/[Meracord] every month. The second debt they claim to be paying
9 an arrangement with has yet to receive the two \$184 payments they claim to
10 have paid. After all this, we didn't discover the lies until my wife contacted
11 them that her mother died and requested the funds that were in the trust
12 account. Currently we are seeking an attorney to persue the lloydward firm for
13 the mental anquish they are creating for my wife. At this point it's not the small
14 amount of money, but it's the principal that they are scamming many people
15 including the disabled elderly.”

16 (e) “Three years ago, I contracted the services of Clear Debt Solution to negotiate
17 and reduce my credit card debt. Per the agreement, I made monthly payments to
18 a third-party account for use in the debt settlement. Over \$3000 was collected
19 up front by CDS and [Meracord] Service Center, the party in control of my
20 account. At the end of the program, for which I had contributed \$317 per month
21 for over two years, only one account was settled by CDS. When a second
22 creditor sued, CDS did not respond to my requests for information in a timely
23 manner. After I lost the suit, my account was wiped out, plus I had to pay more,
24 to pay the court-ordered settlement. Three accounts remained unsettled. As I
25 had made no payments nor attempts to communicate with the credit card
26

1 companies, per my agreement with CDS, each balance had doubled over the
2 two years. As I see it, these people made \$3000 and I became deeper in debt
3 than when I started.”

4 (f) “Lifeguard Financial is a fraud. They make claims that they can settle your debt
5 for 50 cents on the dollar of your debt. They claim that they neogiate your debt
6 with your creditors, a lie. The client does all the work contacting the creditors
7 that Lifeguard is handling the clients debt. Lifeguard takes monthly payments
8 from your checking account through a escrow agent, namely [Meracord]. The
9 problem is most of all of your payments through [Meracord] go back to
10 Lifeguard Financial as fees leaving little funds to accumulate to go towards the
11 settlement with the creditors. I was in this program almost a year and found that
12 little amount of my monthly payments were accumulating towards settlement.
13 In another instance, I was threatened with a lawsuit from one of my creditors, I
14 was told by their legal department to respond to the court clerk sending me
15 notice of the potential lawsuit which I also had to copy to the plaintiffs
16 attorneys. Lifeguard is of no help. In additon the creditors explained to me that
17 they refuse to deal with Lifeguard Financial. So what does that tell you. I will
18 file a complaint with Florida’s attorney general. I don’t think that contacting
19 BBB will get anywhere. I cancelled my contract with Lifeguard Financial and
20 expected a cordial converstation and that they will refund of my monies that I
21 paid them. Instead I got this “pitbull” whose name is “Robert” on the telephone
22 that started screaming at me about cancelling the contract with threats of suing
23 me. I ended up screaming back at him, needless to say at this point I out several
24 thousand dollars. If there is a class action suit, I want to be part of it.”

1 (g) “Back in March of 2008 I entered into a contract for debt relief with ClearDebt
2 Results. I first spoke with a Robert Till, then a Patrick Schlosser, then I was
3 passed to James Callahan, then again to Tiffany Shrum, all who appear to no
4 longer work at this company. This company has taken \$1300 dollars from me,
5 provided no service as they say they were going to and they have a company
6 called [Meracord] Service Center continue to take \$100 a month directly out of
7 my check. I want answers as to why they aren’t taking care of these credit
8 issues as they stated they would. None of these creditors have been paid and I
9 continue to get harrasing phone calls.”

10 (h) “On 09/16/09, I signed a contract with Covenant Debt Solutions to have them
11 settle my unsecured debt and credit card accounts. Covenant used the services
12 of [Meracord] Service Center to deduct monies from my checking account to
13 payoff my debt. [Meracord] began to deduct \$535.74 on the 17th of each
14 month, beginning on 10/17/2009. The monthly deduction included \$390.93 for
15 service fee, \$14.50 for maintenance fee and \$130.31 to be placed in my trust
16 account. It was very difficult to speak to Covenant’s customer service
17 department and I decided to cancel their services on 11/30/09. I spoke with
18 “oscar” who stated my trust account funds would be mailed to me within 7-10
19 days and pursuant a phone call from Brian. I waited but no check was sent to
20 me. I phoned Brian who stated that he was not in charge of approving issuance
21 of any checks and that he would have a supervisor contact me. I never received
22 a phone call from a Covenant supervisor. To this date, no check has been
23 issued/received from Covenant or [Meracord]. I placed a stop payment with my
24 bank to prevent [Meracord] to continue taking my monies.”

1 54. Instead of investigating these complaints and refusing to do business with the
2 unsavory Front DSCs, Meracord – at the direction of Remsberg – devotes its energy to posting
3 false and misleading rebuttals to these complaints. These rebuttals falsely claim:

- 4 (a) That Meracord is not a debt settlement company, despite the fact that its actions
5 clearly fall under the statutory definition for such companies during the relevant
6 time period of this complaint;
- 7 (b) That Meracord “takes on the payment servicing obligations as an independent
8 and objective company and does not act at the direction of the [debt settlement
9 companies],” despite the fact that Meracord withdraws fees from customer
10 payments *at the behest of* its Front DSCs and then provides those fees to the
11 Front DSCs;
- 12 (c) That it is “not contracted with” its Front DSCs, despite the fact that, on
13 information and belief, Meracord and its Front DSCs enter into contracts
14 related to the debt settlement programs administered by both entities;
- 15 (d) That it “follows the instructions stated in the Meracord contract and at no time
16 acts without authorization from the consumer,” despite the fact that many times
17 the contracts signed by consumers do not contain clear or specific schedules of
18 when fees will be withdrawn, and thus Meracord’s withdrawal of fees must
19 necessarily be the result of separate (unilateral) instructions from the Front
20 DSCs.

21 55. Meracord perpetuates the fraud by making false and misleading statements of its own
22 through its website, emails and letters to customers, and the Sign-Up Agreements given to
23 customers on behalf of Meracord by the Front DSCs – including Lloyd Ward Defendants. These
24 statements include false assurances that customers are fully “in control” of their accounts, and
25 that Meracord will not disburse any funds without the customer’s permission, when in fact
26

1 Meracord and its Front DSCs are in control of the debt settlement accounts, routinely disbursing
2 money to themselves for unearned and illegal fees.

3 56. Meracord also falsely claims that it is not a debt settlement or “debt adjusting”
4 company, even though it meets the statutory definition for such companies, during the relevant
5 time period of this complaint, since it is engaged in receiving funds for the purpose of
6 distributing said funds among creditors in payment or partial payment of obligations of a debtor.
7 Significantly, the online account management tool that Meracord provides (“MyPromise,”
8 formerly called “NoteWorld Reporter”) has a section entitled “Settlements,” where customers
9 can “get more details about [pending settlement agreements] and . . . approve or decline the
10 proposed agreement[s].”

11 57. Customers who discover the fraudulent activities of the Meracord Enterprise find
12 themselves fighting an uphill battle to disentangle the labyrinthine scheme and determine the
13 party ultimately responsible for the scam. The ephemeral Front DSCs disappear, stop answering
14 phone calls, disclaim responsibility, or resort to outright threats and intimidation; and Meracord
15 also refuses to admit any responsibility for the fraud in which it was complicit. Indebted
16 consumers are thus left in *worse* positions than if they had never sought help at all, having often
17 paid thousands of dollars in exorbitant and illegal fees that could have gone towards reducing
18 their debt loads.

19 58. Remsberg and Meracord profit from the fees generated by each consumer enrolled by
20 the Front DSC members of the Enterprise, knowing that the fees are generated by fraudulent and
21 deceptive means, and knowing that often the fees charged are flatly illegal.

22 59. The Front DSCs in the Meracord Enterprise include entities like Lloyd Ward
23 Defendants, who have been the subject of multiple lawsuits and government investigations
24 related to their debt settlement business:
25
26

- 1 (a) A Kansas court found that Lloyd Ward Defendants' debt settlement practices
2 violated the Kansas Consumer Protection Act and the Kansas Credit Services
3 Organizations Act, harming the plaintiff in that case by causing a judgment to
4 be entered against him and by causing him "considerable anguish, stress, and
5 despair." The court awarded the plaintiff \$100,000 in damages (\$4,347.82 for
6 each of the twenty-three deceptive acts in which Lloyd Ward Defendants
7 engaged), in addition to attorneys' fees.
- 8 (b) The Connecticut Department of Banking issued a Cease and Desist Order in
9 September 2011, requiring Lloyd Ward Defendants to pay a \$500,000 civil
10 penalty for violations of Connecticut's statutory requirements for debt
11 adjusters/negotiators. The violations included charging fees that the Department
12 found to be "excessive" and engaging in debt negotiation without a license. The
13 Department also required Lloyd Ward Defendants to specifically repay fees to a
14 Connecticut resident who was charged excessive fees and "received no benefit"
15 in return. When asked under oath in other litigation whether he intended to pay
16 the fine issued by Connecticut, Ward blatantly stated, "No". On information
17 and belief, to this date Ward has neither appealed nor paid this fine, despite the
18 fact that the order requires payment within thirty days.
- 19 (c) On July 29, 2010, the North Carolina Attorney General issued a cease and
20 desist letter to the Lloyd Ward Defendants and required them to identify within
21 ten days all North Carolina customers. On information and belief, Ward simply
22 ignored this cease and desist letter.
- 23 (d) In February 2012, a bankruptcy trustee in Ohio brought two lawsuits against
24 Lloyd Ward Defendants on behalf of LWA customers who had entered
25 bankruptcy. The suits alleged violations of the Ohio Debt Adjustment
26

1 Companies Act, the Ohio Consumer Sales Practices Act, and Fraud. Among
2 other things, the suits allege that “LWA is in the business of lending its name to
3 debt settlement businesses . . . to create a fiction that the services are being
4 performed by attorneys, thereby evading consumer protections applicable to
5 such services, including fee limitations.”

6 (e) In April 2012, a class-action lawsuit was filed against Lloyd Ward Defendants
7 in Washington State Superior Court, along with SilverLeaf Debt Solutions
8 (another of the businesses involved in the scam that injured Plaintiff Marie
9 Johnson-Peredo). The lawsuit alleges violations of the Washington Debt
10 Adjusting Act and the Washington Consumer Protection Act, as well as breach
11 of fiduciary duty, on behalf of Washington customers of Lloyd Ward
12 Defendants.

13 60. On information and belief, Lloyd Ward Defendants have received cease and desist
14 letters from other states or state attorneys general, including West Virginia, and have ignored
15 these inquiries.

16 61. Ward is also personally the subject of an ongoing disciplinary petition filed by the
17 Texas Commission for Lawyer Discipline, alleging six separate violations of the Texas
18 Disciplinary Rules of Professional Conduct. The allegations revolve around Ward’s interactions
19 with SilverLeaf Debt Solutions.

20 62. Lloyd Ward & Associates, P.C. currently has an “F” rating with the Better Business
21 Bureau, based on dozens of complaints having been filed against the company in the last three
22 years.

23 63. Like Meracord, however, Lloyd Ward Defendants actively attempt to manage their
24 online reputations. For example, when Defendant Amanda Ward discovered that negative
25 comments were being posted on the website www.merchantcircle.com, she immediately emailed
26

1 Lloyd Ward and their business partner Kevin Devoto, writing on April 15, 2010: “This is what I
2 was worried about!!!! We have no control over what people say and this is very bad. Can you not
3 get us removed from this website?” In a response the same day, Mr. Devoto wrote as follows:

4 The good news is:

5 A. You can answer these.

6 B. But even better, it seems pretty simple to just post enough good
7 comments to simple [sic] drive any bad ones so for [sic] Down the list that
8 no one can find them anyway.

9 We just don't want any comment like that being left alone.

10 FOR INSTANCE:

11 I personally just posted the following:

12 dear Lloyd Ward, pls tell Kervin that Kelly has just been incredible for us.
13 We really had some challenges and it's looking like the light is appearing
14 at the end of the tunnel. Thanks Lloyd Ward.

15 64. On information and belief, neither Ward nor Defendant Amanda Ward objected to
16 Devoto's posting of misleading comments falsely purporting to come from LWA customers,
17 thereby ratifying the false and misleading postings.

18 65. E-mail communications and Internet postings such as the one described above are
19 examples of the use of the interstate wire facilities to continue and perpetuate the illicit goals of
20 the criminal enterprise alleged herein.

21 66. Lloyd Ward Defendants profit from the fees generated by fraudulently inducing
22 consumers to sign up for their debt settlement “services,” and profit from their association with
23 the Meracord Enterprise by using Meracord to legitimize their services and by convincing
24 consumers that their money will be safe in a Meracord account which only the consumer can
25 control. In addition, because Meracord usually automatically deducts payments from the
26 consumer's bank account, Lloyd Ward Defendants are more likely to reap illicit gains from
consumers automatically after signing them up, as opposed to a system where consumers would
later – after having reviewed and contemplated the “services” being offered – have to make a
separate payment.

1 67. The Front DSCs in the Meracord Enterprise also include companies such as Freedom
2 Debt Relief, which has had 251 complaints filed with the Better Business Bureau in the last three
3 years and been the subject of an investigation by the Washington Attorney General which
4 resulted in a March 3, 2011 consent decree.

5 68. The Washington State consent decree “stems from the Attorney General’s claims that
6 Freedom Debt Relief in some cases charged consumers more than the allowed 15 percent of the
7 total enrolled debt, taking its fees before the time permitted and failing to adequately inform
8 consumers about how the program worked violating Washington’s debt adjusting act and
9 consumer protection act.” As a part of the consent decree, Freedom Debt Relief agreed to pay
10 approximately \$800,000 in restitution for Washington consumers, and was forbidden from
11 contracting with new Washington customers without notifying the Attorney General’s office.

12 69. In order to thwart regulatory actions, evade detection and continue to victimize
13 financially distressed consumers, the Front DSCs that are members of the Meracord Enterprise
14 regularly enter into agreements between and among themselves to transfer “portfolios” of
15 victims. For example, in late 2010, Front DSC ‘The Debt Answer’ faced numerous complaints
16 and regulatory issues including an investigation by the Connecticut Department of Banking.
17 Instead of complying with the law, The Debt Answer sold its portfolio of 3,407 “active” debt
18 settlement victims to Ward on January 1, 2011. The Debt Answer itself had apparently earlier
19 purchased an undisclosed number of these victims from another Front DSC, Simon & Bocksch –
20 one of the Front DSCs involved in the scheme to defraud Plaintiff Dinah Canada, as described
21 below.

22 70. On information and belief, Meracord facilitates these fraudulent “portfolio” transfers
23 by wiring the unlawful fees to the new entity without any authorization from the consumer
24 account holders, who generally remain unaware that their accounts have been transferred. In fact,
25 on at least several occasions, Meracord account representatives have recommended such
26

1 transfers upon learning that a Front DSC has encountered legal issues and “is going to be closing
2 the doors.” By facilitating – and in some cases recommending – these wholly fraudulent transfers
3 of “portfolios” of victims, Meracord ensures that its steady flow of unlawful fees continues.

4 71. Attorney-run Front DSCs have a special role in the Meracord Enterprise. By
5 marketing themselves as law firms, they are perceived by consumers as more trustworthy.
6 Attorney Front DSCs like Lloyd Ward Defendants use this false perception in their recruitment
7 efforts.

8 72. In addition, Attorney-run Front DSC members of the Meracord Enterprise, such as
9 Lloyd Ward Defendants, often permit the use of their names by other Front DSCs in return for a
10 cut of their ill-gotten gains. Indeed, LWA went so far as to have a formal “Affiliate Agreement,”
11 which expressly permitted affiliated Front DSCs to “use LWA and any images, likeness,
12 reference, web site and web site material belonging to LWA or other items developed by LWA
13 for purposes of marketing and advertising,” in return for a substantial cut of the profits.

14 73. In addition to gaining consumers’ trust by affiliating with a law firm, non-attorney
15 Front DSC’s often affiliate with an attorney-run Front DSC in order to evade regulations in states
16 that prohibit debt settlement. Such states often have exceptions for practicing attorneys, such that
17 by spuriously affiliating itself with a law firm, a non-attorney Front DSC may extend the period
18 during which it can avoid regulatory scrutiny. As a former employee of The Debt Answer
19 testified in other litigation: “The Debt Answer marketed to certain states while Lloyd Ward &
20 Associates was brought in to be able to get the states that we couldn’t market in under The Debt
21 Answer.”

22 74. Front DSCs also coordinate and communicate directly with each other through the
23 formation of industry trade associations whose primary purpose is to spread misleading
24 information about the debt settlement industry and issue bogus “certifications” to Front DSCs.
25 Front DSCs then use these bogus certifications to convince consumers that their activities are
26

1 legitimate. The following is an actual Frequently Asked Question (FAQ) from the website of one
 2 of these bogus trade associations, the United States Organizations for Bankruptcy Alternatives,
 3 Inc.:

4 **Why do the Debt Settlement Companies I am researching seem to all
 5 have failing grades with the Better Business Bureau (BBB)?**

6 *In an unfortunate turn of events, the BBB recently implemented a new
 7 'scoring model'. This scoring model dictates that certain industries be
 8 graded as a whole. Unfortunately in the case of debt settlement
 9 companies, this model is quite severe, and has any company, regardless of
 10 their best-practices operations or good track record, restricted from
 11 achieving any rating above C-, USOBA supports the theory behind the
 12 BBB; a consumer should have a resource to compare companies in any
 13 industry based on the company's merits alone. At this time, the BBB
 14 ratings of Debt Settlement companies tells a consumer little or nothing
 15 about a company's ethics or reputability. Several USOBA members and
 16 other Debt Settlement entities were asked to "give back" prestigious
 17 awards and achievements such as the BBB Accreditation and BBB Torch
 18 Award. Prior to the scoring model change, the companies were exemplary
 19 in the eyes of the BBB. If you wish to include the BBB in your research of
 20 a Debt Settlement provider, we suggest you look carefully at the complaint
 21 resolution and not the arbitrary score.*

22 75. As the above allegations make clear, the Front DSCs that are part of the Meracord
 23 Enterprise are directly connected to each other through bogus trade associations as well as the
 24 formal and informal agreements described above. Thus, the Meracord Enterprise involves
 25 relationships between Meracord and the individual Front DSCs as well as relationships between
 26 and among the Front DSCs themselves – all evidenced by both the participation of Meracord
 Enterprise members in industry-wide events and trade associations, as well as the formal and
 informal agreements made among those members.

76. The Meracord conspiracy is a classic hub-and-spoke conspiracy which also involves
 relationships between the various spokes. Meracord serves as the hub of the Meracord
 Enterprise, entering into bilateral relationships with each Front DSC, through which Meracord
 both directly engages in and facilitates the fraudulent and illegal activity of the Meracord
 Enterprise, as alleged herein. As discussed above, Meracord also causes and assists the various
 “spokes” – the Front DSCs – in communicating with and conspiring with each other, all for the

1 common benefit of the Meracord Enterprise and to the common detriment of its victims, whose
2 accounts are involuntarily shifted from one dubious Front DSC to another, with Meracord's
3 indispensable assistance, in order to hinder regulatory protective actions. These relationships
4 between Front DSCs, many of which are facilitated by Meracord, benefit and advance the
5 Meracord Enterprise as a whole. Other relationships between the Front DSCs include their bogus
6 trade associations and countless conspiratorial interactions between such Front DSCs at various
7 debt settlement industry functions, including those attended and sponsored by Meracord.

8
9 **E. Injury to Plaintiffs and the Class**

10 77. The experiences of Plaintiffs Dinah Canada ("Dinah"), Robert Hewson ("Robert"),
11 and Marie Johnson-Peredo ("Marie") are illustrative of the Meracord Enterprise's use of
12 unscrupulous Front DSCs to recruit consumers for its fraudulent and unlawful debt settlement
13 services.

14 78. All three Plaintiffs were struggling to pay off high-interest credit card debt. The Front
15 DSCs – including Lloyd Ward Defendants – recruited Plaintiffs by promising that they could
16 settle Plaintiffs' debts quickly and for amounts between forty and fifty percent of the amounts
17 owed. After Plaintiffs signed up with the Front DSCs, Meracord withdrew regular monthly
18 payments from Plaintiffs' bank accounts. After many months in the debt settlement programs,
19 none had received word of any settlement offers or successful settlements – and two Plaintiffs
20 had been sued by their creditors. In response to Plaintiffs' inquires, the Front DSCs either
21 disappeared completely or offered little if any information about the status of their "settlement"
22 efforts. Indeed, in Dinah's case, her attempts to inquire into the status of her account resulted in
23 the Front DSC threatening to sue her for "slander."

24 79. With knowledge of the fraudulent nature of the contracts between Plaintiffs and the
25 Front DSCs, Meracord withdrew monthly payments from Plaintiffs' bank accounts and deducted
26 exorbitant, illegal, and unearned fees, and refused to refund those fees after Plaintiffs closed their

1 accounts. In addition to the fees, two Plaintiffs incurred additional legal expenses. Robert was
2 forced to hire an attorney to reclaim part of the money Meracord withdrew from his account, and
3 Marie had to hire an attorney to defend against lawsuits brought by her creditor.

4 **1. Dinah Canada**

5 80. Dinah immigrated to the United States from the Philippines in 1982. She was joined
6 by her husband in 1988, and the two became U.S. citizens in 1994. Dinah's two daughters were
7 born in the United States. Her son, who was born in the Philippines, is a sailor in the United
8 States Navy Submarine Service.

9 81. Dinah accumulated most of her debt due to (1) the illness of her father and father-in-
10 law in 2004; (2) a failed investment in 2004; (3) paying expenses associated with her son's
11 college education and transferring balances from her son's high-interest-rate accounts to her own
12 accounts; and (4) a failed business in 2006.

13 82. In 2007, several of Dinah's credit card companies unilaterally lowered Dinah's credit
14 limits, resulting in the application of default interest rates approaching 30%. This dramatically
15 increased the balances owed through the addition of unpaid interest to the account balances.

16 83. In 2008, Dinah's husband was laid off from his job in the shipping department of a
17 metal stamping company. The reduction in income further exacerbated her financial situation
18 and led to further increases in her account balances.

19 84. As of March 2009, Dinah's credit card debt had ballooned to \$100,647.

20 85. Dinah was contacted in March 2009 by Dan Gordon, who said he represented
21 Freedom Debt Relief. Gordon told Dinah that Freedom Debt Relief could solve her debt
22 problems by negotiating with her creditors and dramatically reducing the amount she owed.

23 86. Gordon's email to Dinah had the subject: "Be Debt Free!" and read as follows:

24 **From:** Dan Gordon <danielgordon@gotsky.com>
25 **To:** [Dinah Canada]
26 **Sent:** Thu, March 26, 2009 2:00:03 PM
Subject: Be Debt Free!

1 Hello,

2 Getting DEPT-FREE is a phone call away with a no cost, no obligation
3 brief consultation at toll-free 1-877-397-HELP (4357)

4 I know that life is very busy, and that your debt situation is very important
5 to you. Most likely it is the cause of a great deal of stress and concern
6 right now. Debt is difficult to deal with...but, Freedom Debt Relief can
7 relieve that stress!

8 At Freedom Debt Relief, we have a unique approach:

9 1 - We effectively get rid of the interest & fees and provide a low monthly
10 payment

11 2 - We help you get out of debt quickly (typically 30 months or less) Raise
12 Your Credit Score!

13 3 -We settle your debt for thousands less than you currently owe

14 GUARANTEED or You Pay No Service Fees!

15 ‘You have nothing to lose but your debt!’

16 Freedom Debt Relief...’Helping Good People Overcome Bad Credit
17 Experiences’

18 1-877-397-4357

19 1-877-397-HELP (4357)

20 87. Dinah contacted Gordon and was promised her debt would be eliminated with easy
21 monthly payments for five years, and that the program was guaranteed to produce results.

22 88. Gordon told Dinah that she could trust his program, in part because it was
23 administered by Meracord, which had an excellent rating with the Better Business Bureau. Dinah
24 confirmed this was true, seeing Meracord had an A+ rating at that time.⁴

25 89. Relying on Gordon’s representations, Dinah e-signed a “contract” (the “EDS
26 Contract”). The EDS Contract bore little to no resemblance to the program that Dinah thought
she was getting, and was so convoluted and deceptively drafted as to be incoherent in many
places, and blatantly contradictory in others. Indeed, never had Gordon even mentioned EDS
 (“Express Debt Settlement,” or “Express Debt”), the company with whom Dinah was supposedly
contracting.

⁴ At this time, Meracord was called NoteWorld, and that is how Gordon actually referred to it and how it
appeared in all relevant documents and on the BBB website. For ease of reading, all references to
“NoteWorld” have been replaced with “Meracord.”

1 90. The EDS Contract's first page was titled "Important Information About Our
2 Program." Among other promises and assurances, it said, "Compared to making minimum
3 payments, our average client will pay a small fraction, as little as 55% of the total debt."

4 91. The first page also stated: "We do not consolidate your debt, and we do not make
5 monthly payments to your creditors. Money will accumulate in your settlement account while we
6 work with your creditors, and therefore your monthly payments to them will fall behind."

7 92. The second three pages of the EDS Contract purported to be a "Client Service
8 Agreement" between Express Debt Settlement and Dinah. The first sentence under "Subject
9 Matter of Agreement" reads, "Client hereby retains and employs Express Debt to assist in
10 resolving debts owed to the following creditors[.]" It then inexplicably states: "All parties to this
11 Agreement agree that Express Debt will not pay or directly resolve any client debt and Client
12 expressly acknowledges it."

13 93. The agreement then calls for Express Debt to "employ the Law Office of Simon &
14 Bocksch" – yet another company that Dinah had not previously heard of.

15 94. The next paragraph of the agreement called for Express Debt to get a non-refundable
16 fee of 15% of the total debt "placed with Express Debt." It called for a monthly payment of
17 \$719.98 per month for 60 months, which "shall be distributed in accordance with attached
18 payment schedule (Exhibit A). The monthly payment includes a \$49 monthly processing fee."

19 95. Exhibit A to the EDS Contract (found nine pages later) then expressly states that "Our
20 non-refundable fee" is \$0.

21 96. Under paragraph six, captioned "Payments," the agreement states: Client
22 acknowledges that Client has chosen the services of NoteWorld to assist it in saving Client's
23 settlement funds." NoteWorld, now Meracord, was yet another company that Dinah had not
24 previously understood was involved in her debt settlement program. The paragraph states
25 "Express Debt does not own or control NoteWorld," but then states "Express Debt requires a
26

1 minimum notice of Five (5) business days to change any scheduled electronic funds transfer
2 from Client's bank account."

3 97. The next document in the EDS Contract was a "Authorization to Communicate"
4 drawn on the letterhead of the Law Office of Simon & Bocksch. Dinah had not previously heard
5 of Simon & Bocksch, yet this agreement purported to "appoint Simon & Bocksch and its
6 employees as [Dinah's] agents and authorize Simon & Bocksch to communicate with [Dinah's]
7 creditors and collection agencies, or other entities trying to collect debts from [Dinah]."

8 98. The next two pages of the EDS Contract contained mostly blank "Client Personal
9 Information," followed (on page 9 of the EDS Contract) by a blank "Budget Analysis" and blank
10 "Financial Hardship." After those pages followed a list of Plaintiff's creditors and amounts owed
11 to each.

12 99. Page 11 of the EDS Contract was "Exhibit A," which stated: "Our non-refundable fee
13 [is] \$ 0."

14 100. Pages 12 and 13 of the EDS Agreement were the Meracord "Sign-Up Agreement."
15 This "agreement" falsely claimed Meracord was an "independent third party;" purported to
16 authorize Meracord to collect the fees listed; and authorized Meracord to collect additional fees
17 for its "payment processing" services. It referred specifically to Express Debt Settlement as
18 Dinah's "Debt Settlement Company" or "DSC." The Sign-Up Agreement noted Dinah's
19 payments of \$719.98 would be drawn automatically from her bank account and noted the
20 account information. It also indicated that Express Debt Settlement had a "Debt Settlement
21 Company Account ID Number" of N99067.

22 101. Throughout the 13 pages of the EDS Contract, and on each of the "agreements"
23 described above included therein, Dinah's electronic "signature" appears nine times, each time in
24 identical electronic script with the same signature date of "4/16/2009."

1 102. At no time did Gordon indicate to Dinah what the schedule would be for the payment
2 of fees to Freedom Debt Relief, Express Debt Settlement, Simon & Bocksch, or Meracord; or the
3 exact nature of any individual fees.

4 103. Nowhere in the Sign-Up Agreement, the Client Services Agreement, the
5 Authorization to Communicate, or any of the other documents, did the EDS Contract disclose
6 with precision the nature and timing of all of the fees Dinah was to pay under the EDS Contract.
7 Nor did the EDS Contract disclose the fact that the first \$12,000 plus of Dinah's initial payments
8 would go *not toward paying off her debt*, but instead *toward paying fees*.

9 104. Despite the fact that the EDS Contract expressly anticipated the debt settlement
10 services of Meracord, a Washington State corporation, the Contract did not include the "Notice
11 to Debtor" required by WASH. REV. CODE § 18.28.100(7).

12 105. The EDS Contract also made the following false and/or misleading claims, upon
13 which Dinah relied:

- 14 (a) That only Dinah would be allowed to disburse funds from her trust account –
15 this was untrue as Meracord disbursed funds to itself and to other participants in
16 the Meracord Enterprise;
- 17 (b) That "Express Debt will get you out of debt in a short period of time" – this was
18 untrue as the only settlement ever completed for Dinah (in the over 1.5 years
19 she was enrolled in the program) was for nearly 20% more than she owed at the
20 time she joined the program and only occurred after she was sued by the
21 creditor;
- 22 (c) That "our average client will pay a small fraction, as little as 55% of the total
23 debt" – untrue as the only settlement completed for Dinah was for about 120%
24 of the debt owed;
- 25
26

1 (d) That “Our non-refundable fee” was \$0. In fact, Dinah paid over \$17,000 under
2 the EDS Contract and got one \$2317.17 debt settlement as a result, for which
3 she paid 20% more than she owed on the debt at the outset of the program. She
4 requested a full refund, which was refused; and

5 (e) That Dinah’s monthly payment would be \$719.98. In fact, Dinah’s first two
6 payments were for \$971.60, and the following 19 payments were each for
7 \$737.70.

8 106. Dinah received an email from Meracord containing login information for her
9 “NoteWorld Reporter” account (now called “MyPromise,” after NoteWorld changed its name to
10 Meracord), where she could manage her Meracord escrow account. Over the course of the
11 following year, Dinah continued to receive emails from Meracord regarding withdrawals that the
12 company made from her bank account. Like the Sign-Up Agreement, the NoteWorld Reporter
13 website and Meracord’s emails falsely claimed that Meracord was an “independent” and
14 “neutral” third party.

15 107. Meracord received \$971.60 for each of Dinah’s first two payments on April 30, 2009,
16 and June 1, 2009. It then withdrew \$737.70 from Dinah’s bank account each month
17 (notwithstanding that the EDS Contract called for payments of \$719.98).

18 108. Despite having full knowledge of the wholly fraudulent nature of the EDS Contract,
19 Meracord continued to extract Dinah’s monthly payments from her personal bank account and to
20 deduct unearned fees from each payment:

21 (a) From Dinah’s first and second payments of \$971.60, Meracord deducted total
22 fees of \$971.60, equaling 100% of the payment;

23 (b) From Dinah’s third through 16th payments of \$737.70, Meracord deducted total
24 fees of \$737.70, equaling 100% of the payment.
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1 109. In April, 2010, Dinah was sued by Chase Bank for about \$2,500 on a credit card debt
2 that was listed at \$1,919 in the EDS Contract. By that time, Dinah had made two payments of
3 \$971.60 to Meracord, and nine payments of \$737.70, and should have had approximately \$8,582
4 available to settle debts. Pursuant to the instructions in the EDS Contract, Dinah attempted to
5 contact Express Debt Settlement about the lawsuit but got no response.

6 110. On August 19, 2010, Dinah sent an email to Dan Gordon, the salesman who
7 originally sold her the Freedom Debt Relief/Express Debt Settlement program. She wrote:

8 Hello Mr. Gordon:

9 I applied for a loan modification last year through your agency. I was sued
10 by one of my credit cards last April. Now I'm receiving notices that the
11 bank is going to garnish my wages. I tried to let Express Debt aware
12 through the email but did not get any response. What is going on?

13 111. In response, Gordon simply sent her the phone numbers for Express Debt and the
14 Law Office of Simon & Bocksch. Plaintiff called Simon & Bocksch and – even though by this
15 time Meracord had received nearly \$12,000 from Dinah's account – Simon & Bocksch told her
16 that she did not have enough money in her account to settle the \$2,317.77 debt and they would
17 not represent her in court because her agreement with them was not for actual legal
18 representation.

19 112. Dinah protested that there had to be money to cover the debt as she had paid about
20 \$12,000. This is when Dinah learned that every penny she had paid so far had been taken from
21 her Meracord account to pay fees. Her further pleas for help fell on deaf ears.

22 113. Chase Bank received a judgment against Dinah and her wages were garnished.

23 114. After receiving no help from Express Debt or from Simon & Bocksch, in September
24 2010, Dinah managed to make arrangements herself for Chase to be paid from her Meracord debt
25 settlement account, and for Chase to stop garnishing her wages. But by that point, the settlement
26 amount was \$2,317.77 – 121% of the amount she owed when she entered the debt relief
program.

1 115. On October 13, 2010, Dinah sent the following email to Jon Simon and Jim Van
2 Every at Simon & Bocksch and Dan Gordon:

3 Hello Gentlemen:

4 I am really very confused. I know I applied with "Freedom Debt Relief"
5 originally and I don't know how I got transferred to "Express Debt". Is it
6 because Freedom Debt Relief got in trouble so the name was changed to
7 Express Debt?

8 How did a lawyer get into this equation?

9 I did not mean to cheat the banks by applying for a debt settlement. I
10 thought this is a legal process. Please reassure me that I am not becoming
11 a felon over this.

12 I was very desperate last year but now I am going towards suicidal. The
13 debt collectors are getting smarter. They know how to avoid talking to Mr.
14 Simon and just torture me.

15 Is there any "good" end to this?

16 116. On October 13, 2010, Jon Simon responded by email:

17 Dinah. Please try to relax. You did not commit a crime and cannot and
18 will not be put in jail for this. Freedom Debt is a branch of Express Debt.
19 If you look at the contract you signed, you have always been a client of
20 Express Debt's. Express Debt hires our law firm to negotiate debts for
21 their clients. The program can and will work so again, take a deep breath
22 and try to relax. We are here to help and not hurt you.

23 117. On November 9, 2010, Dinah was served in another lawsuit brought by one of her
24 creditors, Capital One, for another debt that was supposed to be resolved through her debt
25 settlement program. She emailed Dan Gordon, Express Debt and Simon & Bocksch as follows:

26 Dear Gentlemen,

Here I am again. Today I received the summons for another lawsuit. This
time it is from Capital One. Since I do not have a defense, what do you
suggest should I do?

Over a year ago I went into a screening process with your company to
qualify for a five year debt settlement program. I whole heartedly
believed that was my salvation.

What was the five-year debt settlement program means again?

No logic nor math would tell me that I will come out of this alive. The
banks are suing and I have no money to pay them back but thousands of
my hard earned money has been siphoned into somebody else's
accounts. This does not compute!

1 I faxed the copy of the summons to Mr. Simon and Mr. Van Every. I do
2 not know what good it is going to do but I have nothing else to do.

3 Good day gentlemen!

4 118. Finally, On December 10, 2011, Dinah contacted Meracord in an attempt to get back
5 the thousands of dollars that she had paid into her debt relief program, but to no avail. Though by
6 that time Dinah had paid \$18,172.60 to Meracord, of which only \$2,317.77 had been used to pay
7 off a debt – leaving \$15,854 – Meracord told Dinah it would refund only \$1,105.73.

8 119. Despite the assurances she received from Freedom Debt Relief’s representative that
9 the company would help her “settle” her debts, and despite the EDS Contract’s claims that “our
10 average client will pay a small fraction, as little as 55% of the total debt,” on information and
11 belief, the company did absolutely nothing to begin negotiating or settling any of Dinah’s debts
12 prior to the institution of lawsuits by her creditors. And in the end, the only settlement of Dinah’s
13 debt required her to pay 20% more than she owed at the time she signed up for the program.

14 120. On information and belief, Meracord continued to apply 100% of Dinah’s monthly
15 payments to fees, but then when Dinah was sued by Chase Bank, and Express Debt reluctantly
16 agreed to settle that debt (for 20% more than it was worth at the time Dinah signed up for the
17 settlement service), Meracord retroactively deleted four monthly fee payments from Dinah’s
18 account statement and purported to apply \$688.70 per month to “reserves.”

19 121. It continued to charge its \$49 maintenance fee and also charged a \$20 “Trust
20 Management Fee” against Dinah’s seventeenth payment.

21 122. Meracord paid the Chase settlement of \$2,317.77 on September 15, 2010, then
22 immediately began again withdrawing 100% of Dinah’s monthly \$737.70 payments as fees for
23 itself and its Front DSCs.

24 123. By the time Dinah cancelled her Meracord account in December 2010, Meracord had
25 withdrawn \$15,959.50 from Dinah’s bank account. One settlement of \$2,317.77 was paid to
26 Chase Bank and \$1,105.73 was ultimately refunded to Dinah. The remaining \$12,536,

1 representing an astonishing 79% of Dinah's deposits, was stripped from Dinah's account and
2 paid to Meracord and its Front DSCs.

3 124. On December 10-11, 2010, Dinah emailed Express Debt, Gordon and Simon &
4 Bocksch, expressing her dismay over the disappearance of her settlement funds.

5 125. On December 11, 2010, Ari Dinov of Express Debt responded and claimed that
6 Dinah was "inconsistent" in making her payments on time. Dinov falsely accused Dinah of
7 having missed six of 21 payments. Dinov stated:

8 If we had all 21 payments like you were supposed to have made we would
9 have an additional \$5000 to offer your creditors for settlements, yet you
10 continue to blame Express Debt for your problems that you actually
11 created on your own and rather than accept responsibility you try to make
12 us a scapegoat for them.

13 126. Dinah immediately responded to Dinov, correcting his false statement about her
14 payments into the program and detailing the withdrawals from her checking account that
15 automatically were sent to Meracord.

16 127. Dinov responded, this time claiming only that Dinah was enrolled in a 60 month
17 program and more time was needed before settlements could be made. He even sought to get
18 Dinah to contribute additional sums to the program while refusing to refund any money to Dinah.

19 128. On December 12, 2010, Dinah sent a follow-up email to Dinov, Gordon and Simon &
20 Bocksch in which she set forth each payment that had been made to Meracord and complained
21 that nothing had been done with her money to settle her debts.

22 129. Several emails and phone calls followed in which Dinah sought to get back from
23 Meracord and its Front DSC some portion of the \$12,536 that had been stripped from Dinah's
24 account.

25 130. On December 15, 2010, Dinov responded by threatening to sue Dinah:

26 Dinah,

I am glad you have sent a dozen emails in the last 2 weeks because this is
all evidence that I have, that you are constantly harassing me and my
company. I am advising you to stop immediately or I will have no choice

1 but to file a lawsuit against you for slander, defamation of character and
2 harassment. Like I mentioned to you previously you signed a 5 year
3 contract with my company and you are only 1/3 of the way through, your
4 expectations have been unrealistic especially because you knew that your
5 fees are collected in their entirety upfront as referenced in the customer
6 agreement that you read and signed. I have further advised you that it
7 would be in your best interest to remain in the program because your fees
8 have already been paid and we will be able to settle some of your accounts
9 in the next few months, however you keep harassing me, my company and
10 my employees with “insane” acquisitions [sic] and metaphors. I am giving
11 you final warning to stop or the next time you hear from me will be from
12 my attorney’s filing suit against you.

13 131. Dinah effectively paid a \$12,536 fee to have Meracord and its Front DSC resolve her
14 \$1,919.00 debt to Chase Bank for \$2,317.

15 132. Throughout this nightmarish process, the only company consistently involved in
16 managing Dinah’s debt settlement account was Meracord, but when Dinah contacted Meracord,
17 expressing her dismay with the process and seeking a refund, Meracord told her it could only
18 refund \$1,105.73 of the \$15,959.50 she had already paid into the program.

19 133. Based on Meracord’s online account statements, it took 22 maintenance fees of \$49
20 each from Dinah’s account for its own benefit as well as a \$20 “trust management fee.” In total,
21 Meracord withdrew from Dinah’s account and kept for itself at least \$1,098.

22 134. Meracord withdrew from Dinah’s account and provided to its Front DSC
23 approximately \$11,375 of Dinah’s debt settlement funds.

24 135. Emails from Meracord continued to claim, falsely, that Meracord was completely
25 separate and independent from any of the other companies involved in the scheme; and that
26 Meracord was not a debt settlement company or debt adjuster, despite the fact that Meracord’s
actions clearly fell within the meaning of “debt adjuster” under the Washington Debt Adjusting
Act during the relevant time period of this complaint.

136. Dinah’s experience is typical of thousands of individuals who have utilized
Meracord’s debt settlement services and have collectively been charged millions in illegal fees.

2. **Robert Hewson**

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137. In August 2009, Robert owed approximately \$23,000 on two credit card accounts – one with Bank of America and the other with Chase. Both accounts were subject to high interest rates. At age sixty-three, Robert believed that he could not pay off the debt before retirement and worried about having debt after retirement.

138. In August 2009, feeling overwhelmed by his debts, Robert responded to a flyer posted at his workplace for a company called the Debt Relief Center, Inc. Because Robert is employed at a Merck Pharmaceutical site, where entry in and out of the facility requires a badge, he believed that businesses posting flyers at the facility – including the Debt Relief Center – would have to be legitimate businesses.

139. The Debt Relief Center’s flyer encouraged Robert to “[t]ake advantage of this program and get yourself out of debt between 1 and 3 years starting today. We work with your creditors based off of your hardship and financial analysis and get them to settle under 60% of what you owe them.”

140. The flyer claimed that the Debt Relief Center was a member of the International Association of Professional Debt Arbitrators and was accredited by the The Association of Settlement Companies, the United States Organizations for Bankruptcy Alternatives, and the BSI Group.

141. When Robert called the number on the flyer for the Debt Relief Center, he reached a company called SBL/Safeguard. He was told that Safeguard was previously known as Lifeguard. The representative, Carl, was a smooth talker who assured Robert that Safeguard could negotiate a good settlement for both of his debts.

142. Robert only spoke to Carl during this initial phone call, in which Carl told Robert that he would be required to make eighteen monthly payments of \$599.00, and that Safeguard would use that money to settle and pay his debts. Eighteen payments of \$599.00 totaled \$10,782.00

1 (approximately 46% of the debts to be settled). Based on Carl's representations, Robert agreed to
2 sign up with Safeguard.

3 143. Before sending Robert any contract, Carl asked Robert to provide his checking
4 account number and routing number for his monthly payments.

5 144. Carl never explained the fees that would be deducted from Robert's payments. Carl
6 never mentioned Meracord. Carl and Robert only discussed Robert's specific financial situation
7 and the general downturn in the economy.

8 145. During this initial phone call, Carl instructed Robert to stop making any payments to
9 his creditors and to send Safeguard any letters or notices that he received from his creditors or
10 collection agencies. He asked Robert to send these notices to a woman named Rachel, who
11 Robert thought was Carl's assistant. Robert sent the notices to Rachel, but after signing up with
12 Safeguard, Robert never spoke to Carl again.

13 146. Later, Robert received the contract attached to an email, but doesn't remember if he
14 signed it online or mailed it back to Safeguard. Robert's initial sign-up paperwork and contract
15 with Safeguard (including any electronic or paper versions) have since been lost.

16 147. Between September 23, 2009, and February 17, 2011, Meracord withdrew monthly
17 payments of \$599.00 from Robert's bank account. In total, Meracord withdrew \$10,782.00 from
18 Robert's account, deducting the following unearned fees:

- 19 (a) From payments one through three, Meracord deducted total fees of \$601.50
20 equaling over 100% of each payment.
- 21 (b) From payments four through seven, Meracord deducted total fees of \$331.50
22 equaling 55.34% of each payment. In March 2010, Meracord also deducted an
23 additional \$20.00 trust management fee.
- 24 (c) From payments eight through fourteen, Meracord deducted total fees of \$61.50
25 equaling 10% of each payment.
- 26

1 (d) From payments fifteen through eighteen, Meracord deducted total fees of
2 \$49.00 equaling 8% of each payment. In March 2011, Meracord deducted an
3 additional \$23.00 trust management fee.

4 148. In total, Meracord withdrew \$3,800.00 in unearned fees from Robert's bank account,
5 totaling 35.2% of the payments he had made.

6 149. In December 2009, Robert received an email from Meracord. Robert did not
7 remember Carl mentioning Meracord, nor did he remember signing up for Meracord's services.
8 Robert contacted Meracord by email to find out if it was connected to Safeguard and if so, how.
9 Meracord responded by email stating that it was "a third party payment processing agency in
10 charge of creating an escrow account and processing the scheduled drafts for the purpose of the
11 program with . . . Life Guard Financial . . ."

12 150. In July 2010, Robert contacted Meracord to retrieve the personal identification
13 number (PIN) for his account and to ask if any funds had been deducted to pay settlements to
14 Bank of America or Chase. According to Meracord, no money had been deducted for
15 settlements.

16 151. In early December 2010, approximately two months before the end of his scheduled
17 eighteen-month "plan," Robert contacted Safeguard again. This time, he spoke to a different
18 male Safeguard representative⁵ who said that Carl no longer worked there. The representative
19 said that there had been some kind of trouble and almost a complete turnover in staff, but did not
20 elaborate on the kind of trouble. The representative also said he did not have the letters and
21 notices that Robert had earlier sent to Rachel, and in fact said he had never heard of any Rachel
22 who worked at Safeguard.

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25 _____
26 ⁵ Robert believes that this representative was also named Robert, but does not recall the individual's last name.

1 152. The representative assured Robert that everything at Safeguard was fine now and told
2 him not to worry and that Safeguard would wait to contact his creditors until he had made all
3 eighteen scheduled payments.

4 153. In February 2011, just before Robert completed his eighteen monthly payments, he
5 received a letter from Midland Credit Management (“MCM”), a collection agency for Chase,
6 asking him to call them. Before calling MCM, he called the Safeguard representative to make
7 sure it was ok, and the representative told Robert to go ahead and call MCM. When Robert
8 called MCM, MCM asked if Robert was a Safeguard client and asked for permission to talk to
9 Safeguard. Robert gave MCM that permission.

10 154. Robert then called the Safeguard representative to let him know that he had given
11 MCM permission to speak with Safeguard. The representative told Robert that Safeguard would
12 call Chase within a couple of days. That was the last time that Robert talked to that
13 representative. Robert attempted to call him the next day, and on numerous other occasions,
14 leaving multiple voicemails, but the calls were never returned. Robert also attempted to send him
15 a fax, but it did not go through.

16 155. On February 15, 2011, Robert had made eighteen payments. He was concerned about
17 the lack of communication from Safeguard but did not panic because he thought that the
18 company was working on at least one settlement with MCM/Chase, so he waited until April
19 2011 to contact Safeguard again.

20 156. When Robert attempted to contact Safeguard at the company’s regular phone number
21 in April 2011, no one returned his repeated calls and voicemails. He also attempted to call the
22 Safeguard representative on the cell phone number he had provided to Robert, leaving three
23 voicemails asking for a call back. The representative never responded.

24 157. Robert never received any notice that either of his debts had been settled; nor did he
25 receive any notice or indication that Safeguard had even made any attempts to settle his debts.
26

1 158. In May 2011, Robert called Meracord, either to confirm that there were settlements
2 pending, or to close his account. The Meracord representative told Robert that the Debt Relief
3 Center/Safeguard had been reorganized and that she would contact Safeguard and pass on his
4 message.

5 159. Robert never heard from Safeguard again.

6 160. On or about May 14, 2011, Robert sent an email to Meracord, after which he received
7 a call from someone named Randy Lewis, who said he was calling Robert regarding his account.
8 Robert believed that Mr. Lewis worked for Meracord, but Mr. Lewis did not identify himself.
9 Mr. Lewis told Robert that because he had made eighteen payments, he should take the best
10 settlement he could, but did not offer any further help. Mr. Lewis told Robert that if he needed to
11 talk further he could call and leave a message, but when Robert called and left a message, he
12 received no response.

13 161. Robert continued to email Meracord, explaining that he could not get in touch with
14 anyone at the Debt Relief Center/Safeguard. In response, Robert simply received emails saying
15 that that Meracord could not refund his money until he notified Safeguard. Meracord never
16 provided Robert with a working number for Safeguard.

17 162. On June 6, 2011, Robert attempted to fax a letter to Safeguard, requesting that
18 Safeguard authorize Meracord to release the funds in his account. The fax number was
19 disconnected.

20 163. It was not until after Robert retained an attorney (discussed in more detail below) that
21 he was able to recover some of his money from Meracord, but he has still been unable to recover
22 the full amount that Meracord withdrew from his bank account.

23 164. When Robert was unable to reach anyone at Safeguard, and Meracord refused to
24 release any of his money without contact with Safeguard, Robert was forced to hire an attorney.
25
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1 165. In July 2011, Robert's attorney researched his claims and called Meracord. In
2 response to the attorney's phone call, Meracord refunded \$7,157.00 of the \$10,782.00 it had
3 withdrawn from Robert's account. Meracord refused to refund the remaining \$3,625.00,
4 however, despite the fact that nothing had been done to settle Robert's debts.

5 166. Robert's legal expenses totaled \$1,733.50.

6 167. After closing his Meracord account, Robert resolved his debts directly with his
7 creditors. After receiving a partial refund from Meracord, Robert received a letter from an
8 attorney for Chase about a potential lawsuit to collect his debt. Robert called the attorney and
9 accepted the attorney's offer to settle the debt for \$4,405.00. Robert then contacted his only other
10 creditor, Bank of America, which told Robert that it had already written off his debt and was no
11 longer attempting to collect it.

12 **3. Marie Johnson-Peredo**

13 168. In August 2010, Marie owed money on two credit cards – both with Discover Bank.
14 Marie owed approximately \$35,000, which she had accumulated over approximately five years
15 of helping to support her family, including providing a substantial amount for her daughter's
16 college tuition, room, and board. Marie, who works for the University of Pennsylvania Health
17 Systems and makes less than \$40,000 per year, knew it would take her many years to pay off the
18 debt, and was desperate to find a way to relieve the emotional stress of her high debt burden.

19 169. In August 2010, Marie saw a television advertisement for debt consolidation services
20 and began searching online for companies that might be able to help her pay off the
21 overwhelming credit card debt she owed to Discover. During that search, she provided her name
22 and contact information to a website, and as a result she was contacted by several individuals
23 representing different companies wanting to sell her their debt relief services.

24 170. Some of the individuals she spoke with would not sign Marie up for their programs
25 because her debt was with Discover. They said that their companies did not deal with Discover
26

1 because Discover was known for being extremely difficult to deal with and not very open to
2 settlement.

3 171. Marie was thus relieved when a woman named Rona Favreau contacted her and told
4 her she could settle Marie's debts with Discover. Ms. Favreau called Marie on or about August
5 17, 2010, and identified herself as a representative of Lloyd Ward and Associates ("LWA"), a
6 law firm specializing in debt settlement. Marie thought that perhaps LWA's status as a law firm
7 set them apart from the other debt settlement companies and gave them a special ability to deal
8 with Discover despite the fact that others were unwilling to do so.

9 172. Ms. Favreau also caught Marie's attention in part because Ms. Favreau told Marie
10 that she was a member of the International Association of Professional Debt Arbitrators
11 ("IAPDA"), emphasizing she was thus a "certified" debt arbitrator who was a "professional" and
12 "did this for a living." Indeed, Ms. Favreau assured Marie several times that she was
13 "legitimate," and encouraged Marie to look up her name on the IAPDA website to verify her
14 credentials. She also encouraged Marie to look up LWA's website and verify their legitimacy.

15 173. After confirming that Ms. Favreau was indeed listed as an active member on the
16 IAPDA website, and finding LWA's website – which appeared to be for a law firm purporting to
17 specialize in "debt negotiation" – Marie again spoke with Ms. Favreau by phone on or about
18 August 19, 2010.

19 174. During this next phone call, Ms. Favreau told Marie that LWA could settle Marie's
20 entire debt for \$14,120 (approximately 40% of the total amount of the debt). Marie asked how
21 that was possible, and Ms. Favreau represented to her that because LWA had "thousands and
22 thousands" of clients "just like" Marie, the firm was able to aggregate the debts of those clients
23 with particular creditors and use that aggregated debt as leverage to settle their clients' debts for
24 "pennies on the dollar." She then asked Marie, "How does \$433.34 per month sound for a
25 payment?"
26

1 175. Until this point, Marie had never missed a payment on her Discover accounts and had
2 been faithfully paying approximately \$600 per month towards her debt. Ms. Favreau told Marie
3 that when she entered the program she would stop paying that \$600 to Discover and would
4 instead pay \$433.34 to Meracord/LWA. Since this was a significant improvement on her
5 monthly payment burden, Marie told Ms. Favreau that \$433.34 sounded pretty good.

6 176. At no point during the conversation did Ms. Favreau explain to Marie either the
7 amount of the fees that would be deducted from her payments, or the structure of those fees.
8 Indeed, she explained to Marie that her money would go into a Meracord “escrow” account, and
9 would build up until LWA could negotiate a settlement with Discover. Ms. Favreau emphasized
10 that it would *not* be LWA deducting money out of her account, but Meracord, and that the
11 money Meracord deducted would be “[Marie’s] money,” over which she would have complete
12 control.

13 177. Because Ms. Favreau had gone to such lengths to assure Marie about the legitimacy
14 of all the parties involved (LWA, Meracord, and Ms. Favreau herself), Marie trusted her. Marie
15 assumed that there would be some fee to LWA coming out of her \$433 payment, but she
16 assumed it would be a reasonable fee, and that it would be worth it in exchange for the promise
17 of having her debt settled at a 60% discount (which would have saved her over \$20,000).

18 178. Based on Ms. Favreau’s representations – about the process by which LWA would be
19 able to lower Marie’s debt, the amount that Marie would have to pay, the legitimacy of the
20 companies involved, and Ms. Favreau’s credentials and her assurances that she would personally
21 negotiate with Discover Card – Marie agreed to sign up with LWA to settle her debts with
22 Discover.

23 179. After Marie agreed to sign up, Ms. Favreau told Marie that she would email “the
24 contract.” When Marie asked whether she would have to sign it and send it back by mail, Ms.
25 Favreau told her she would not have to send it back at all, because her “electronic signature”
26

1 would already be on the document. Ms. Favreau told Marie that the only thing she needed to sign
2 was the limited power of attorney that LWA would send to her in the mail and that she would
3 have to return that document by mail as well.

4 180. Marie understood this to mean that the contract was a “done deal” before it even got
5 to her, since she didn’t have to sign anything except the power of attorney.

6 181. At no point did Ms. Favreau offer to let Marie view the contract *before* Ms. Favreau
7 electronically “signed” the document on Marie’s behalf. Nor did Ms. Favreau explain the fees
8 that would be charged under the contract – much less any other details about the contract that
9 Marie was “signing.”

10 182. Ms. Favreau also told Marie that the “first thing” she had to do – “immediately,”
11 before she even received any paperwork – was to call Discover and change the address and
12 phone number that Discover had on file for her to LWA’s address and phone number. Marie did
13 as she was told, believing that by having her change her contact information with Discover,
14 LWA was essentially “stepping into her shoes” in relation to her Discover accounts.

15 183. After the conversation with Ms. Favreau, Marie received LWA’s “Debt Relief
16 Package” by mail. The materials contained in the package referred to LWA and Meracord, as
17 well as a company called Silver Leaf Debt Solutions, although Ms. Favreau had never mentioned
18 any such company.

19 184. The package contained a number of pages of materials, including the following: (1) a
20 letter congratulating Marie on her decision to let LWA “do the talking for her” and advising her
21 to ignore all contact with her creditor; (2) a limited power of attorney, which Marie executed and
22 returned to LWA; (3) LWA’s Client Services Agreement already containing Marie’s “signature”;
23 and (4) a Meracord Sign-Up Agreement, on which her initials and “signature” had already been
24 filled in.

25 185. The package referred specifically to the following entities:
26

- 1 (a) At the top of the first page of the Client Services Agreement, an address is
- 2 given for Ward personally (“Lloyd Ward, Attorney at Law”);
- 3 (b) The first paragraph recites that the agreement is made between Marie and “The
- 4 Lloyd Ward Group, PC (‘Attorney’);”
- 5 (c) The Limited Power of Attorney appoints “Lloyd Ward and Associates,” which
- 6 is also the name on the front of the package and in the introductory letter;
- 7 (d) A letter purporting to be from SilverLeaf uses the same address for that
- 8 company that is used for Ward and Lloyd Ward and Associates.

9 186. Despite the fact that the Client Services Agreement expressly anticipated the debt
10 settlement services of Meracord, a Washington State corporation, the agreement did not include
11 the “Notice to Debtor” required by Wash. Rev. Code § 18.28.100(7).

12 187. Between September 2010 and October 2011, Meracord deducted \$5,633.42 from
13 Marie’s bank account. Starting in September 2010, Meracord withdrew Marie’s monthly
14 payments of \$433.34 and deducted the following unearned fees from each payment:

- 15 (a) From her first three payments for the payment of fees, Meracord deducted fees
- 16 of \$433.34 each month, totaling 100% of each payment;
- 17 (b) From her fourth payment, Meracord deducted fees of \$225.98, totaling 52.2%
- 18 of that payment;
- 19 (c) From her next nine payments – between January 20, 2011, and September 19,
- 20 2011 – Meracord deducted a total fee of \$202.98 each month, totaling 46.8% of
- 21 each payment.

22 188. In June 2011, Marie received two letters containing “notices of debt” from a debt
23 collection law firm informing her that it had been retained to obtain payment on Marie’s
24 Discover accounts. Marie faxed the letters to LWA and was contacted by a LWA representative
25 who told her not to worry about the notice from the law firm and that she should continue to
26

1 make her payments to Meracord and “just keep saving [her] money” so that it could be used to
2 settle her debts.

3 189. Marie’s debts with Discover were not settled, nor did she receive any indication from
4 LWA that the firm was attempting to settle her debts. On October 2, 2011, she was served with
5 two lawsuits filed against her by Discover. Marie was extremely upset emotionally by being
6 served with a lawsuit on a Sunday while she was sitting at home, and she even worried whether
7 she would be going to jail.

8 190. The following day, Marie called LWA, the firm she believed she had hired to be her
9 attorney with respect to her Discover accounts. She thought LWA would tell her what to do
10 about the lawsuit. She asked to speak to her account manager (who she believes was named
11 Sylvia), but was told that Sylvia was unavailable. Marie called the next day, and the day after,
12 and continued to be told that her account manager was unavailable.

13 191. Finally, on October 6, 2011, she confronted the LWA representative she happened to
14 get on the phone, a man named Justin Andrews who identified himself as a Senior Legal
15 Assistant. Mr. Andrews told Marie that to his knowledge, Discover Bank – the *only* creditor for
16 which Marie had signed up for LWA’s settlement services – “doesn’t settle” and would not
17 participate in debt settlement programs.

18 192. At that point, Marie demanded that LWA stop taking money out of her bank account
19 and refund the money it had already taken. Of the \$5,633.42 that had been deducted from her
20 account, Mr. Andrews told her she was “only entitled” to a refund of \$2,280.60. He said that
21 LWA and Meracord had “earned” the other \$3,352.82, despite the fact that at that point
22 absolutely nothing had apparently been done to settle Marie’s debts. Indeed, Mr. Andrews had
23 just admitted that LWA had signed Marie up with her Discover accounts knowing that Discover
24 “doesn’t settle.”

1 193. Mr. Andrews also informed Marie that despite being a law firm and having told her
2 that it was “representing” her with respect to her Discover accounts, LWA would not assist her
3 in the lawsuits Discover had recently filed against her and that she would have to go to the
4 hearings in those suits on her own.

5 194. That same day, Mr. Andrews sent Marie an email confirming “that your account has
6 been closed in [Meracord],” and that she would receive a refund in the amount of \$2,280.60.
7 Again, this was \$3,352.82 less than the total amount Meracord had deducted from her bank
8 account.

9 195. After talking with LWA, Marie also contacted Meracord and requested that the
10 company provide her with a copy of her transaction history. In response, Meracord mailed her an
11 empty envelope.

12 196. In addition to the \$3,352.82 Meracord refused to return to Marie – in exchange for
13 which she received no services – Marie was forced to pay approximately \$1,000 to an attorney to
14 handle the lawsuits filed against her by Discover. Although the attorney was able to get the
15 lawsuits dismissed without prejudice because of technical defects in the complaints, he told
16 Marie that it was very likely that Discover would renew the lawsuit at some point.

17 197. In addition, because LWA had told Marie to stop paying Discover once she began
18 LWA’s “debt settlement” program, interest had been accruing on her accounts the entire time
19 that her debts were purportedly being “settled.” Thus, the total demand in Discover’s lawsuits (as
20 of their filing in September 2011) was \$35,540.49 – approximately \$1,000 more than the original
21 amount of her debt.

22 198. The attorney Marie hired also helped her draft a letter to LWA seeking the return of
23 all the money that Meracord had withdrawn from her bank account. Marie sent this letter on or
24 about November 4, 2011. Approximately two weeks after she sent the letter, Marie received a
25 telephone call (over the interstate wire facilities) from a “manager” at LWA. He continued to
26

1 insist that LWA had “earned” its fees, that Marie was mistaken, and that LWA had actually
2 negotiated settlements for her with Discover. When Marie asked for evidence to support his
3 statements, however, he told her that he did not have any actual supporting paperwork and that
4 he could only assure her “verbally” that LWA had earned the money that had not been refunded
5 to her. He refused to refund the remaining \$3,352.82 that Marie had paid, and this was the last
6 interaction that Marie had with LWA.

7 199. Throughout the sign-up process, LWA and Meracord made a number of false
8 promises and claims:

- 9 (a) Ms. Favreau, acting on behalf of Lloyd Ward Defendants, falsely promised
10 Marie that LWA could settle Marie’s entire debt for \$14,120 (approximately
11 40% of the total amount of the debt) because LWA had “thousands and
12 thousands” of clients “just like” Marie, the firm was able to aggregate the debts
13 of those clients with particular creditors and use that aggregated debt as
14 leverage to settle their clients’ debts for “pennies on the dollar.” This promise
15 was false when it was made, since, as they later admitted, LWA knew that
16 Discover “doesn’t settle.” In fact, Lloyd Ward Defendants had no intention of
17 settling Marie’s debt.
- 18 (b) LWA verbally promised to represent Marie in any collection action by
19 creditors. Indeed, its own documentation purports to require her to give them
20 notice of any filed lawsuits. LWA’s assurances of legal representation were
21 false and known to Lloyd Ward Defendants to be false when made. In fact,
22 despite holding itself out as a law firm representing Marie, LWA had no
23 intention of providing any legal representation or defense in any lawsuit and in
24 fact, never did so.
- 25
26

1 (c) Through its introductory letter, Lloyd Ward Defendants represented to Marie
2 that “[o]ver the next several months, you will be working with a dedicated team
3 of professionals whose main objective is assisting you on your journey [back
4 towards debt-free living],” and that “your personal advisor from our Settlement
5 Team will be in contact with you regularly to discuss any possible settlement
6 offers you or [LWA] may receive.” These statements were false when made. In
7 fact, Lloyd Ward Defendants had no intention of actually performing any debt
8 settlement services and in fact performed no debt settlement services.

9 (d) The Client Services Agreement claimed that “[LWA] will act as Client’s
10 attorney to negotiate with Client’s creditors . . . for the express purpose of
11 reducing Debts” In fact, LWA had no intention of ever actually
12 performing any debt settlement services and in fact, did not ever perform any
13 debt settlement services;

14 (e) When Marie faxed to LWA a copy of collection notices she received, LWA’s
15 representatives instructed her to continue to deposit money into the account
16 because it would be used to settle the debt. That assurance was false and known
17 to LWA to be false. In fact, LWA had no intention of settling any debts and
18 Marie would have been far better off had she immediately ceased permitting
19 LWA to automatically debit her account;

20 (f) Meracord’s Sign-Up Agreement claimed that Meracord was an “independent
21 third party.” In fact, Meracord is deeply intertwined and actively conspires with
22 LWA and other Front DSCs by among other things, assisting in the fraudulent
23 transfer of portfolios and accounts without proper authorization. By providing
24 this Sign-Up Agreement to Marie, Lloyd Ward Defendants adopted and ratified
25 this false statement. This statement was known by LWA to be false.
26

1 200. Marie relied on the above false and fraudulent statements in authorizing the Meracord
2 Enterprise to debit money from her account and in continuing to authorize the withdrawals. Had
3 she known the truth, Marie never would have signed up for LWA's fraudulent debt settlement
4 services. Had she discovered the truth after signing up, Marie would have immediately canceled
5 her account with LWA and the authorizations for Meracord to withdraw money directly from her
6 account.

7 201. The experiences of Marie are illustrative of Lloyd Ward Defendants' – and
8 Meracord's facilitation of Lloyd Ward Defendants' – unscrupulous, fraudulent, and deceptive
9 recruitment of customers for its fraudulent and unlawful debt settlement services and its failure
10 to fulfill its promises to those customers. On information and belief, Lloyd Ward Defendants
11 have similarly defrauded thousands of other consumers as part of the activities of the Meracord
12 Enterprise.

13 **V. ARBITRATION CLAUSES**

14 **A. MERACORD**

15 202. Meracord has expressly and irrevocably waived its rights to compel any arbitration of
16 the causes of action and claims contained herein.

17 203. Specifically, Meracord's Terms and Conditions, provided to Plaintiffs Hewson and
18 Johnson-Peredo, and on information and belief, provided to all its customers, expressly state that
19 "[a]ny and all legal action" against Meracord "must be transacted or brought in a court located in
20 the State of Washington." These terms and conditions also expressly state that Meracord is "not a
21 party" to the contract between Plaintiffs and the Front DSC and "is not bound by the terms of the
22 contract between the Customer and [any Front DSC]."

23 204. Plaintiff Canada has been unable to locate her Meracord Terms and Conditions, but
24 has no reason to believe that its terms differ from those described above.
25
26

1 205. In light of this language in their own terms and conditions, Meracord's attempts to
2 take advantage of "arbitration clauses" buried in the Front DSC agreements lack any good faith
3 basis in law.

4 206. Meracord's attempts in this litigation to take advantage of arbitration clauses buried
5 in Plaintiffs' Front DSC agreements also lacks any good faith basis in *fact*. In particular, on
6 information and belief, Meracord's counsel have made no efforts to verify that the Front DSC's
7 with whom Plaintiffs purportedly transacted had authority to transact any business, let alone
8 fraudulent debt settlement business, at the time Plaintiffs purportedly contracted with the
9 relevant Front DSCs.

10 207. For example, the purported contract of Plaintiff "Rober Hewson"⁶ produced by
11 Meracord in this litigation purports to have been executed in August 2009 between Mr. Hewson
12 and an entity called Lifeguard Financial, Inc. The telephone number listed on the contract is
13 disconnected. Neither of the two web addresses www.lgfftw.com or www.lgf101.com function
14 or forward to any functioning web address.

15 208. According to the Florida Secretary of State, an entity known as Lifeguard Financial,
16 Inc. was registered in April 2008 at the Florida address listed on Mr. Hewson's purported
17 contract. It filed a single annual report and then became inactive on January 26, 2009. Therefore,
18 at the time Mr. Hewson purportedly contracted with Lifeguard Financial, it was a defunct
19 corporation with no lawful authority to do business. Moreover, even if Lifeguard Financial, Inc.
20 were a functioning entity when Mr. Hewson purportedly contracted with it, it is clearly not a
21 functioning entity now.⁷ Any argument that Mr. Hewson is "estopped" from ignoring an
22 arbitration clause in the contract of a wholly defunct entity Lifeguard Financial, Inc. lacks any
23 good faith basis in fact.

24 ⁶ His name is not spelled correctly in the purported contract produced by Meracord.

25 ⁷ Florida corporate record show another entity Lifeguard Financial LLC was formed on January 26,
26 2009, using the same address as Lifeguard Financial, Inc. That entity was administratively dissolved in
September of 2010 for failing to file any annual report.

1 **B. LLOYD WARD DEFENDANTS**

2 209. Lloyd Ward Defendants' Client Services Agreement contains an arbitration provision
3 that purports to require that disputes over the amount of fees charged shall be submitted to
4 arbitration in Texas. This clause is procedurally and substantively unconscionable and
5 unenforceable.

6 210. Plaintiff Marie Johnson-Peredo orally retained Lloyd Ward Defendants as her
7 attorneys for the purposes of settling her debts. In violation of their ethical and fiduciary duties,
8 Lloyd Ward Defendants did not disclose the existence of the arbitration clause prior their oral
9 retention. Indeed, the policy and practice of Lloyd Ward Defendants was not to mention the
10 arbitration clause when Lloyd Ward Defendants induced consumers to sign up for their
11 fraudulent debt settlement services.

12 211. Subsequent to retaining Lloyd Ward Defendants, Marie received a "pre-signed"
13 Client Services Agreement containing an arbitration clause.

14 212. At no point in time did Lloyd Ward Defendants provide Marie or any other class
15 member with sufficient information about the differences between litigation and arbitration to
16 permit them to make an informed decision about whether to agree to binding arbitration.
17 Specifically, Lloyd Ward Defendants failed to inform Marie or any other class member that an
18 agreement to arbitrate would (i) require them to waive their right to a jury trial, (ii) reduce the
19 level of discovery they could obtain, and (iii) require them to waive their right to a judicial
20 appeal. This failure violated Lloyd Ward Defendants' fiduciary and ethical duties as outlined in
21 the American Bar Association's ethical guidelines, the Washington State Bar Association's
22 Rules of Professional Conduct, and the Texas Disciplinary Rules of Professional Conduct – all of
23 which require that an arbitration clause be clearly disclosed and that its risks and benefits be
24 clearly explained.

1 213. Even if the Lloyd Ward Defendants' arbitration clause were enforceable, its
2 enforcement has been clearly and unambiguously waived by Lloyd Ward. The clause expressly
3 grants LWA "thirty (30) days" to initiate a mediation and/or arbitration after which point
4 Plaintiff may initiate a "public or private complaint[]." At the latest, Marie gave notice to LWA
5 on November 4, 2011, when she sent LWA a detailed letter demanding a full refund. Despite
6 receiving this demand, LWA never sought or initiated any arbitration or mediation. Lloyd Ward
7 Defendants have therefore waived any right to arbitration.

8 9 VI. CLASS ALLEGATIONS

10 214. Plaintiffs bring this case as a class action pursuant to Federal Rule of Civil Procedure
11 23(a) and (b)(3) on behalf of a Class consisting of all persons in the United States who
12 established an account with Defendant Meracord LLC (or any subsidiary thereof) from which
13 Meracord processed any payments related to any debt settlement program prior to June 7, 2012.
14 Excluded from the Class are Defendants, its officers and directors, members of their immediate
15 families and their legal representatives, heirs, successors, or assigns, and any entity in which
16 Defendants have or had a controlling interest.

17 215. The members of the Class are so numerous that joinder is impracticable. While the
18 exact number of Class members is presently unknown to Plaintiffs, and can only be ascertained
19 through appropriate discovery, Plaintiffs believe that there are tens of thousands of members in
20 the proposed Class and the total number of class members likely exceeds one hundred thousand.

21 216. Plaintiffs' claims are typical of the claims of the members of the Class as all members
22 of the Class are similarly affected by Defendants' conduct in violation of law that is complained
23 of herein.

24 217. Plaintiffs will fairly and adequately protect the interests of the members of the Class
25 and have retained counsel competent and experienced in class action litigation.

1 218. Certification under Fed. R. Civ. P. 23(b)(3) is appropriate because common questions
2 of law and fact exist as to all members of the Class and predominate over any questions solely
3 affecting individual members. Among the questions of law and fact common to the Class are:

- 4 (a) Whether Meracord or its Front DSCs – including Lloyd Ward Defendants –
5 were engaged in debt adjusting within the meaning of WASH. REV. CODE
6 § 18.28 during the relevant time period or are otherwise subject to that statute;
- 7 (b) Whether Class members’ debt settlement agreements with members of the
8 Meracord Enterprise are *void ab initio*;
- 9 (c) Whether RICO was violated by Defendants’ acts and omissions as alleged
10 herein;
- 11 (d) Whether standardized fees charged by the Meracord Enterprise are unlawful or
12 otherwise constitute an unfair or deceptive trade practice;
- 13 (e) Whether Meracord’s’ standardized practices with respect to the maintenance
14 and management of Class members’ debt settlement accounts violate WASH.
15 REV. CODE § 18.28, or otherwise constitute unfair or deceptive business
16 practices, and whether Meracord should be enjoined from such practices;
- 17 (f) Whether Meracord Defendants knowingly and substantially assisted their Front
18 DSCs in violating WASH. REV. CODE § 18.28 and/or WASH. REV. CODE § 19.86;
- 19 (g) Whether the statute of limitation for Plaintiffs’ and Class members’ claims
20 should be properly tolled;
- 21 (h) Whether Defendants should be estopped from relying on the statute of
22 limitation for Plaintiffs’ claims;
- 23 (i) Whether Defendants’ wrongful conduct resulted in economic damage to
24 Plaintiffs and members of the Class, and the amount of said damages;
- 25 (j) Whether the Court can enter declaratory and injunctive relief; and
26

1 (k) The proper measure of disgorgement and/or actual and/or punitive damages
2 and/or restitution.

3 219. A class action is superior to all other available methods for the fair and efficient
4 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as
5 the damages suffered by individual Class members may be relatively small, the expense and
6 burden of individual litigation make it impossible for members of the Class to individually
7 redress the wrongs done to them. There will be no difficulty in the management of this action as
8 a class action.

9
10 **VII. CLAIMS FOR RELIEF**

11 **COUNT I.**
12 **(VIOLATION OF 18 U.S.C. § 1962(C))**

13 220. Plaintiffs incorporate by reference all preceding paragraphs as if fully set forth herein

14 221. This Count, which alleges substantive violations of RICO, as provided in 18 U.S.C.
15 § 1962(c), is asserted against the Defendants on behalf of the Class.

16 222. Plaintiffs, Class members, and Defendants are each “persons” as that term is defined
17 in 18 U.S.C. § 1961(3).

18 223. The RICO “enterprise” is an association-in-fact (the “Meracord Enterprise”) and
19 consists of Meracord and its Front DSCs, including but not limited to Lloyd Ward Defendants,
20 Freedom Debt Relief, SilverLeaf, Express Debt, Simon & Bocksch, Safeguard, First Rate Debt
21 Solutions, Debt Relief Center, Lifeguard Financial and others engaging in fraudulent and
22 deceptive practices designed to enroll consumers in useless debt settlement plans and extract
23 unearned fees from them (“the Meracord Scheme”). The Meracord Enterprise is an ongoing and
24 continuing business organization consisting of both corporations and individuals that are and
25 have been associated for the common or shared purposes of advancing the Meracord Scheme.
26

1 Members of the Meracord Enterprise operate businesses that perform services and have business
2 relationships that are distinct from the pattern of racketeering alleged herein.

3 224. The Meracord Enterprise is an ongoing organization that engages in, and whose
4 activities affect, interstate commerce and has an existence apart from the racketeering acts set
5 forth herein.

6 225. While Defendants participate in and are members and parts of the Meracord
7 Enterprise, they also have existences separate and distinct from the Meracord Enterprise. For
8 example, Meracord maintains a business servicing private mortgages that is separate and distinct
9 from the Meracord Enterprise, and Lloyd Ward Defendants similarly maintain businesses
10 separate and apart from its debt settlement practice. For example, Lloyd Ward Defendants are
11 involved in the sale of automobile warranties.

12 226. In order to increase their revenue and profits, members of the Meracord Enterprise
13 need to enroll a continuous stream of customers into their debt settlement programs. The
14 Meracord Enterprise provides that stream by fraudulently inducing Class members to enter into
15 illegal contracts through which members of the Meracord Enterprise extract illegal fees directly
16 from Class members' bank accounts.

17 227. A critical component of the Meracord Scheme is the use of the Meracord-provided
18 account management software and the insertion of the Meracord "contracts" into the contracts
19 foisted upon consumers by the Front DSCs. Without these integral steps, the Meracord
20 Enterprise would not have the ability to automatically withdraw thousands of dollars from Class
21 members' bank accounts and then distribute unearned and illegal fees from Class members'
22 escrow accounts.

23 228. The members of the Meracord Enterprise share the common purpose of engaging in
24 fraudulent and deceptive practices designed to enroll consumers in useless debt settlement plans
25 and extract unearned fees from them. Each of the members of the Meracord Enterprise is
26

1 rewarded financially based on its abilities to perform its role as a member of the Meracord
2 Enterprise.

3
4 **F. Conduct of the RICO Enterprise's Affairs**

5 229. During the Class Period, Defendant Meracord has, in violation of Section 1962(c) of
6 RICO, conducted or participated in the conduct of the affairs of the RICO Enterprise, directly or
7 indirectly, by making false statements and promises in an attempt to encourage Class members to
8 sign up for debt settlement programs through the Meracord Enterprise, and by extracting and
9 processing debt settlement payments knowing that the underlying contracts provided for illegal
10 fees and that Class members had signed those contracts based on the fraudulent and deceptive
11 activities of the Enterprise's Front DSCs. Defendant Meracord has taken these actions with the
12 knowledge of and at the direction of Remsberg.

13 230. During the Class Period, Lloyd Ward Defendants have, in violation of Section
14 1962(c) of RICO, conducted or participated in the conduct of the affairs of the RICO Enterprise,
15 directly or indirectly, by making false statements and promises in an attempt to encourage Class
16 members to sign up for debt settlement programs through the Meracord Enterprise. The
17 institutions that make up Lloyd Ward Defendants have taken these actions at the direction of
18 Ward.

19 **G. Defendant's Pattern of Racketeering Activity**

20 231. Defendants conducted and participated in the affairs of the above-referenced
21 Meracord Enterprise through a pattern of racketeering activity, including acts that are indictable
22 under 18 U.S.C. § 2314, relating to the interstate transportation of stolen property; 18 U.S.C.
23 § 1341, relating to mail fraud; 18 U.S.C. § 1343, relating to wire fraud; and 18 U.S.C. § 1344,
24 relating to bank fraud. Defendants' pattern of racketeering likely involved thousands of separate
25 instances of use of the U.S. mails or interstate wire facilities in furtherance of the Meracord
26

1 Scheme, as well as many instances involving the interstate transmission of potentially millions of
2 dollars in fraudulently obtained fees, which were withdrawn from accounts under the custody
3 and control of financial institutions. Each of these instances constitutes a “racketeering activity”
4 within the meaning of 18 U.S.C. § 1961(1)(B). Collectively, these violations constitute a “pattern
5 of racketeering activity,” within the meaning of 18 U.S.C. § 1961(5), in which the Defendants
6 intended to defraud Plaintiffs, the members of the Class and other intended victims.

7 232. Defendants’ racketeering activities amounted to a common course of conduct, with
8 similar pattern and purpose, intended to defraud Class members. Each separate instance of
9 racketeering employed by Defendants was related, had similar intended purposes, involved
10 similar participants and methods of execution, and had the same injurious results affecting the
11 same victims, including Plaintiffs and Class members. Defendants have engaged in the pattern of
12 racketeering activity for the purpose of conducting the ongoing business affairs of the Meracord
13 Enterprise.

14 **1. Defendants’ Use of the U.S. Mails and Interstate Wire Facilities in Violation**
15 **of 18 U.S.C. §§ 1341 & 1343.**

16 233. Defendants’ illegal conduct and wrongful practices were carried out by an array of
17 agents and members of the Meracord Enterprise, working across state boundaries, who
18 necessarily relied upon frequent transfers of documents, information, products, and funds by the
19 U.S. mails and interstate wire facilities. The nature and pervasiveness of the Meracord Scheme,
20 which was orchestrated primarily out of the offices of the Meracord Defendants, Lloyd Ward
21 Defendants, and other Front DSCs, necessarily required those offices to communicate directly
22 and frequently with each other and with Class members by the U.S. mails and by interstate wire
23 facilities. On the portion of its website devoted to marketing its debt settlement services,
24 Defendant Meracord boasts that it is a licensed “money transmitter” in approximately forty
25 states.
26

1 234. Many of the precise dates of Defendants' uses of the U.S. mails and interstate wire
2 facilities (and corresponding RICO predicate acts of mail and wire fraud) have been hidden and
3 cannot be alleged without access to these Defendants' books and records. However, Plaintiffs
4 can ascertain when and how their transactions involved the mail and wire facilities and can and
5 have described above several of the occasions on which the RICO predicate acts of mail fraud
6 and wire fraud occurred, and how those acts were in furtherance of the Meracord Scheme.

7 235. Defendants' use of the U.S. mails and interstate wire facilities to perpetrate the
8 Meracord Scheme involved thousands of communications including telephone, email, and U.S.
9 Mail communications to Class members. Use of the U.S. Mail, email, and telephone systems also
10 occurred on hundreds if not thousands of occasions where members of the Meracord Enterprise
11 communicated among themselves. In addition to these RICO predicate acts, it was foreseeable to
12 the Defendants that Meracord and its Front DSCs (including Lloyd Ward Defendants) would
13 communicate with Class members by the U.S. mails and by interstate wire facilities. Further,
14 Defendants have, in furtherance of the Meracord Scheme, communicated through use of the U.S.
15 mails and by interstate wire facilities with their various offices or divisions.

16 236. Indeed, Defendants' business models and the ensnarement of Class members in this
17 scheme is predicated upon and relies on use of the interstate wire facilities. Class members often
18 "e-sign" their documents using the Internet (an instrument of interstate commerce) to indicate
19 acceptance of the agreements. Further, the agreements are often then transmitted to Class
20 members over the Internet for them to print on their home computers, or may sometimes be sent
21 to Class members through the U.S. mail system. Examples of such mailings and transmissions
22 with respect to Plaintiffs are set forth in detail above. Thus, for each and every Class member,
23 the initiation of the scheme itself is done through the wires or the mails and involves at the very
24 least the wire or mail communication in which their Contract was delivered to them, and often
25 many other email and phone communications as well.

26

1 237. Specifically, Defendants perpetrated the Meracord Scheme against Plaintiffs through
2 interstate mail and wire facilities by sending emails and documents from Washington, Texas, and
3 potentially other states, to Plaintiffs in Pennsylvania and Illinois.

4 238. All three Plaintiffs received contracts via the Internet. In March 2009, Dinah received
5 her EDS Contract via email. In August 2009, Robert received his contract with Safeguard as an
6 attachment to an email. On or about August 19, 2010, Marie also received her contract with
7 LWA – already electronically signed for her – by email.

8 239. All three Plaintiffs received notices about their Meracord accounts by email.

9 240. Robert received at least one notice by email, on December 18, 2009, that Meracord
10 withdrew his payment of \$599.00.

11 241. On October 6, 2011, Marie received an email from LWA confirming that her
12 Meracord account had been closed and that she would receive a refund of \$2,280.60.

13 242. Robert exchanged emails with Meracord on several occasions:

- 14 (a) On December 21, 2009, Robert emailed Meracord because he did not recall
15 Carl mentioning Meracord and was confused as to why he received an email
16 from Meracord. On December 22, Meracord responded and falsely claimed that
17 it was only a “third party payment processing agency.”
- 18 (b) On July 17, 2010, Robert emailed Meracord to request his PIN and ask
19 questions about his account, including whether any payments had been made to
20 his creditors. On July 19, 2010, Meracord responded with Robert’s PIN and
21 stated that no payments had been made to his creditors.
- 22 (c) On May 14, 17, and 18, 2011, Robert emailed Meracord to inform it that he
23 could not reach anyone at the Debt Relief Center and to request a refund. On
24 May 17, 2011, Meracord responded with questions to verify Robert’s identity,
25 and on May 18, 2011, Meracord responded to Robert’s request for a refund by
26

1 stating that “If you wish to close your Meracord account, you will need to
2 notify Meracord and your service provider 5 or more business days before your
3 next scheduled payment.”

4 243. Marie received documents from Defendants in the mail:

- 5 (a) On or about August 19, 2010, LWA – and Meracord through LWA – used the
6 mail to send Marie a “Debt Relief Package” that included both LWA
7 documents and a Meracord Sign-Up Agreement on which Marie’s initials and
8 “signature” had already been filled in.
- 9 (b) On or about June 24, 2011, Marie received a letter from LWA regarding
10 changes to their mailing address and phone number, as well as an attempt by
11 LWA to distance itself from SilverLeaf, one of the entities involved in Marie’s
12 transactions with LWA. The letter contained both Ward’s personal email
13 address, as well as the address for “Lloyd Ward & Associates,” but was signed
14 by Ward on behalf of Defendant Lloyd Ward Group, P.C.

15 244. Dinah also received notices via email and both Meracord and her Front DSCs
16 communicated with Dinah via the internet:

- 17 (a) On March 26, 2009, Dan Gordon of Freedom Debt Relief sent the email to
18 Dinah described above with the subject “Be Debt Free!”
- 19 (b) On April 16, 2009, Dinah used the Internet to “e-sign” the Contract, which
20 included Meracord’s Sign-Up Agreement, provided to her by Freedom Debt
21 Relief and/or Express Debt.
- 22 (c) Each time Meracord withdrew payments from Dinah’s bank account
23 (approximately 20 times between April 30, 2009, and November 12, 2010),
24 Meracord sent Dinah an email confirming the withdrawal. These emails
25 contained false statements claiming that Meracord was an “independent” and
26

1 “neutral” third party and denying that Meracord was a debt settlement
2 company.

3 (d) On September 15, 2010, Meracord sent Dinah an email notifying her of the
4 proposal to settle Plaintiff’s debt to Chase of \$1,919 for \$2,317.77.

5 (e) On December 10, 2010, Meracord sent Dinah two emails in which Meracord
6 acknowledged Dinah’s request to close her account; refused to refund the
7 illegal and unearned fees Meracord had withdrawn from Dinah’s account; and
8 stated that it would refund only “\$1,105.73, less any fees owed to your debt
9 relief service provider.”

10 245. The mailings and emails to Plaintiffs are typical of the use of the wires and mails to
11 thousands of other Class members.

12 **2. Defendants’ Interstate Transportation of Stolen Property in Violation of 18**
13 **U.S.C. § 2314**

14 246. The Meracord Enterprise has developed a scheme, described in the above paragraphs
15 of this Complaint, to obtain money from Class members by fraudulent means.

16 247. In furtherance of this scheme, Defendant Meracord transmits – at the direction of
17 Remsberg, and with the knowledge and approval of Lloyd Ward Defendants – Class members’
18 monthly payments and fees in amounts exceeding \$5,000 in interstate commerce. Defendants do
19 so despite knowing that the authorization for those payments and fees are obtained by fraud.

20 248. Specifically, over the course of Plaintiffs’ dealings with Meracord, the company
21 transmitted over \$15,000 from Dinah’s bank account in Illinois, over \$10,000 from Robert’s
22 bank in Pennsylvania, and over \$5,000 from Marie’s bank in Pennsylvania, to trust accounts held
23 by Meracord’s bank in Washington and/or other states. The fraudulent transfers from Marie’s
24 bank account in Pennsylvania were authorized in writing by Lloyd Ward Defendants. At the time
25 of authorization, Lloyd Ward Defendants knew that these payments were converted or taken by
26 fraud.

1 249. On information and belief, Meracord transmits over \$5,000 for each of the thousands
2 of Class members in an ongoing pattern that continues with the ensnarement of each additional
3 victim. Indeed, many, if not all, of the Front DSCs require that a consumer have at least \$10,000
4 in debt in order to enroll in the program, which necessitates transfers exceeding \$5,000. LWA
5 employees have confirmed in depositions taken in other cases that LWA's policy was to require
6 its victims to possess at least \$10,000 in debt in order to enroll in its predatory program.

7 **3. Defendants' Commission of Bank Fraud Under 18 U.S.C. § 1344**

8 250. Defendants knowingly executed the scheme described in previous paragraphs of this
9 Complaint ("the Meracord Scheme") to obtain money, by means of fraudulent pretenses,
10 representations, and promises, from Class members' bank accounts, which were under the
11 custody and control of financial institutions.

12 251. Specifically, as described above, Defendants, through the Meracord Enterprise,
13 obtained by fraudulent means:

- 14 (a) Dinah's authorization to withdraw money from her Charter One Bank account
15 and/or her Chase Bank account, each of which was under the custody and
16 control of a financial institution, as described by the bank fraud statute;
- 17 (b) Robert's authorization to withdraw money from his checking account, which
18 was under the custody and control of Merck Employees Federal Credit Union, a
19 financial institution; and
- 20 (c) Marie's authorization to withdraw money from her checking account, which
21 was under the custody and control of Sovereign Bank, a financial institution.

22 252. On information and belief, the same process involving fraud in obtaining
23 authorization to withdraw money from Class members' bank accounts is repeated in a continuing
24 and ongoing pattern with the ensnarement of each additional Class member victim.

H. Damages Caused by the Meracord Scheme

253. Defendants' violations of federal law and its pattern of racketeering activity have directly and proximately caused Plaintiffs and members of the Class to be injured in their business or property because Plaintiffs and the Class:

- (a) Paid fees in excess of legal limits and otherwise in violation of applicable state and federal law for their debt settlement programs;
- (b) Would not have entered into those debt settlement programs if they had been aware of the illegality of the fees and/or the fraudulent nature of the scheme devised by the Meracord Enterprise;
- (c) In many cases, paid fees for services that were never performed, and were unable to get refunds for those fees because of the fraudulent and deceptive practices of the Meracord Enterprise;
- (d) Suffered continuing harm to their credit and creditworthiness as a result of the fraudulent and deceptive practices of the Meracord Enterprise;
- (e) In many cases, incurred substantial legal fees as a result of the fraudulent and deceptive practices of the Meracord Enterprise, whether in pursuit of refunds from the Enterprise, or in the defense of lawsuits by creditors brought about by Class members' enrollment in the Enterprise's debt settlement programs; and
- (f) In many cases, had judgments entered against them related to their failure to pay their debts as a result of entering into the Meracord Enterprise's "debt settlement" programs – sometimes despite the existence of valid defenses to those debts, including but not limited to statute of limitations defenses.

254. Plaintiffs were harmed by the Meracord scheme because had they known: (1) that the fees they would be charged exceeded legal limits and were illegal; (2) that both Meracord and its Front DSCs were deceiving them about the true nature of their relationships; and (3) the true nature of the debt settlement programs hidden by the Meracord Enterprise, they would not have

1 entered into the contracts. Instead, they would have either purchased debt settlement services
2 elsewhere or, more likely, would have simply settled the debts themselves.

3 255. Under the provisions of Section 1964(c) of RICO, Defendants are liable to Plaintiffs
4 and members of the Class for three times the damages that Plaintiffs and the Class members have
5 sustained, plus the costs of bringing this suit, including reasonable attorneys' fees.

6
7 **COUNT II.**
8 **(VIOLATION OF 18 U.S.C. § 1962(D))**
9 **(AS AGAINST ALL DEFENDANTS)**

10 256. Plaintiffs incorporate by reference all preceding paragraphs as if fully set forth herein.

11 257. Section 1962(d) of RICO provides that it "shall be unlawful for any person to
12 conspire to violate any of the provision of subsection (a), (b), or (c) of this section."

13 258. Defendants have violated § 1962(d) by conspiring to violate 18 U.S.C. § 1962(c). The
14 object of this conspiracy was to conduct or participate in, directly or indirectly, the conduct of
15 the affairs described previously through a pattern of racketeering activity.

16 259. Defendants conspired with other affiliates in order to further and perfect the financial
17 goals of the Meracord Enterprise. Meracord had overt written and oral agreements with the Front
18 DSCs – including Lloyd Ward Defendants – and other affiliates to further the goals of the
19 Meracord Enterprise and to engage in the pattern of racketeering activity alleged herein. The
20 nature of the acts, material misrepresentations and omissions in furtherance of the conspiracy
21 gives rise to an inference that Defendants and their affiliates not only agreed to the objective of
22 an 18 U.S.C. § 1962(d) violation of RICO by conspiring to violate 18 U.S.C. § 1962(c), but they
23 were aware that their ongoing fraudulent acts have been and are part of an overall pattern of
24 racketeering activity.

25 260. As a direct and proximate result of Defendants' and the other Meracord Enterprise
26 members' overt acts and predicate acts in furtherance of violating 18 U.S.C. § 1962(d) by

1 conspiring to violate 18 U.S.C. § 1962(c), Plaintiffs and the Class have been and are continuing
2 to be injured in their business or property.

3 261. Defendants and the members of the Meracord Enterprise sought to and have engaged
4 in the commission of and continue to commit overt acts, including the following unlawful
5 racketeering predicate acts:

- 6 (a) Multiple instances of mail and wire fraud violations of 18 U.S.C. §§ 1341 and
7 1342;
- 8 (b) Multiple instances of mail fraud violation of 18 U.S.C. §§ 1341 and 1346;
- 9 (c) Multiple instances of transporting fraudulently obtained money in violation of
10 18 U.S.C. § 2314;
- 11 (d) Multiple instances of bank fraud in violation of 18 U.S.C. § 1344; and
- 12 (e) Multiple instances of unlawful activity in violation of 18 U.S.C. § 195.

13
14 **COUNT III.**
15 **(VIOLATION OF THE WASHINGTON DEBT ADJUSTING ACT)**
16 **(AS AGAINST ALL DEFENDANTS BY PLAINTIFF JOHNSON-PEREDO)**
17 **(AS AGAINST MERACORD DEFENDANTS BY REMAINING PLAINTIFFS)**

18 262. Meracord and LWA are for-profit debt adjusters under the meaning of WASH. REV.
19 CODE § 18.28 (prior to June 7, 2012), since they are engaged in the business of receiving funds
20 for the purpose of distributing said funds among creditors in payment or partial payment of
21 obligations of a debtor. At all times when engaged in the business of debt adjustment and when
22 marketing its debt settlement services, Meracord acts at the direction of Remsberg.

23 263. By conspiring with Meracord, a Washington State corporation with its principal place
24 of business in Tacoma, Washington, Lloyd Ward Defendants have purposefully engaged in the
25 business of debt adjustment in Washington State. In addition, by purposefully directing their
26 fraudulent debt settlement practices at Washington residents, Lloyd Ward Defendants have

1 purposely availed themselves of the privilege of conducting activities within Washington, thus
2 invoking the benefits and protections of its laws.

3 264. Defendant Meracord (at the direction of Remsberg), LWA (at the direction of Ward),
4 and the Meracord Enterprise charged excessive and unreasonable fees for debt adjustment
5 services, in violation of WASH. REV. CODE § 18.28.080, including:

6 (a) Fees for single payments exceeding 15% of those payments for all three
7 Plaintiffs, with some fees representing 100% (or even more) of an individual
8 payment for all three Plaintiffs; and

9 (b) Total fees representing 79%, 35%, and 59.2% of the total payments made, for
10 Dinah, Robert, and Marie, respectively, and over 15% of the total debt to be
11 settled for Robert.

12 (c) Defendants failed to comply with other requirements of the Debt Adjusting
13 Statute, including:

14 (i) Failing to return to Plaintiffs and Class members' the amount of all
15 payments received, despite knowing that their debt adjustment contracts
16 were illegal and *void ab initio* under WASH. REV. CODE § 18.28.090;

17 (ii) Failing to notify Plaintiffs' and Class members' creditors that it had been
18 engaged as a debt adjuster, as required by WASH. REV. CODE
19 § 18.28.080(2), before a debt adjuster may retain *any* fees;

20 (iii) In violation of WASH. REV. CODE § 18.28.100, failing to disclose in precise
21 terms the rate and amount of all fees to be charged under its debt settlement
22 contracts; failing to include in the contracts the "Notice to Debtor" required
23 by the statute; and failing to adequately disclose the true nature of the
24 relationships between all of the entities involved in the Contract, which
25 was necessary for the protection of Plaintiffs;
26

- 1 (iv) Failing to distribute at least eighty-five percent (85%) of each payment
2 received from Plaintiffs and Class members to their creditors within forty
3 days after receipt of the payment, as required by WASH. REV. CODE
4 § 18.28.110(4);
- 5 (v) Permitting the debt adjusting services in which they participated to be
6 advertised by its Front DSCs in false, misleading, or deceptive statements
7 or representations, and – in the case of Lloyd Ward Defendants –
8 advertising their services using false, misleading, or deceptive statements
9 or representations, in violation of WASH. REV. CODE § 18.28.120(6);
- 10 (vi) In the case of Meracord Defendants, receiving fees from its Front DSCs in
11 connection with its debt adjusting services, in violation of WASH. REV.
12 CODE § 18.28.120(8); and
- 13 (vii) Using the name and letterhead of a law firm in connection with their debt
14 adjusting services, in violation of WASH. REV. CODE § 18.28.130.

15 265. With the knowledge and approval of Lloyd Ward Defendants, Meracord employees
16 located in the State of Washington have (i) caused funds to be withdrawn unlawfully from
17 Plaintiffs' and class members bank accounts, (ii) caused the exorbitant and unlawful fees
18 described above to be charged and (iii) distributed portions of those unlawful fees to LWA and
19 other Front DSCs.

20
21 **COUNT IV.**
22 **(VIOLATION OF THE WASHINGTON CONSUMER PROTECTION ACT,**
23 **WASH. REV. CODE § 19.86)**
24 **(AS AGAINST ALL DEFENDANTS BY PLAINTIFF JOHNSON-PEREDO)**
25 **(AS AGAINST MERACORD DEFENDANTS BY REMAINING PLAINTIFFS)**

26 266. Plaintiffs reallege and incorporate by reference the allegations contained in the
preceding paragraphs.

1 267. Plaintiffs and members of the Class are persons within the meaning and coverage of
2 the Washington Consumer Protection Act, RCW 19.86 (the “CPA”).

3 268. The CPA prohibits “[u]nfair methods of competition and unfair or deceptive acts or
4 practices in the conduct of commerce” RCW 19.86.020.

5 269. Defendant Meracord (at the direction of Remsberg) and Lloyd Ward Defendants (at
6 the direction of Ward), for compensation, received and managed funds of Plaintiffs and Class
7 members for the purported purposes of distributing said funds among creditors in partial
8 satisfaction of obligations of Plaintiffs’ and Class members’ debts.

9 270. Defendants and the other Front DSC members of the Meracord Enterprise are debt
10 adjusters and otherwise engaged in debt adjusting within the meaning of WASH. REV. CODE
11 § 18.28.

12 271. As described above in Count III, in carrying out the Meracord Scheme, Defendant
13 Meracord (at the direction of Remsberg) and Lloyd Ward Defendants (at the direction of Ward)
14 have violated WASH. REV. CODE § 18.28 at the direction of Remsberg.

15 272. Defendants’ conduct, as detailed above, constitutes unfair and deceptive acts and
16 practices in violation of the CPA.

17 273. Defendants’ conduct occurred in the conduct of trade or commerce in the State of
18 Washington.

19 274. By routing unlawful fees through the State of Washington, Lloyd Ward Defendants
20 and Meracord have made the State of Washington into a financial haven for unscrupulous debt
21 settlement companies. Furthermore, Defendants, including Lloyd Ward Defendants, have
22 actively targeted Washington State consumers in order to induce them to sign up for their
23 fraudulent debt settlement services.

24 275. Defendants’ deceptive acts or practices impact the public interest and have the
25 capacity to deceive a substantial portion of the public. The acts are committed in the course of
26

1 Defendants' business; the acts are part of a pattern or generalized course of business; the acts
2 were committed repeatedly prior to the acts involving Plaintiffs and since; and there is a real and
3 substantial potential for repetition of Defendants' conduct.

4 276. Defendants' unfair and deceptive acts and practices have directly and proximately
5 caused damage to the Plaintiffs and members of the Class. But for Defendants' unfair and
6 deceptive acts and practices, Plaintiffs and the Class would not have suffered an injury.

7
8 **COUNT V.**
9 **(AIDING AND ABETTING THE COMMISSION OF**
10 **UNFAIR AND DECEPTIVE BUSINESS CONDUCT)**
11 **(AS AGAINST MERACORD DEFENDANTS)**

12 277. Meracord Defendants knowingly aided and abetted their Front DSCs in the
13 commission of criminal, unfair, and deceptive practices, including practices violating WASH.
14 REV. CODE §§ 18.28 & 19.86, by giving substantial assistance that proximately caused harm to
15 Plaintiffs and to Class members in their business and property. Such assistance included, *inter*
16 *alia*:

- 17 (a) Offering to serve and serving as a processor of debt settlement funds procured
18 by illegal debt settlement contracts;
- 19 (b) Promoting illegal debt settlement programs to consumers and contracting with
20 consumers for such illegal debt settlement programs;
- 21 (c) Assuming and violating duties owed under WASH. REV. CODE § 18.28, as
22 described above in Count III;
- 23 (d) Offering to assume authority, assuming authority, and exercising authority to
24 transfer Class members' funds to Meracord's' debt settlement accounts for the
25 purpose of paying illegal and unearned fees;
- 26 (e) Paying illegal, unfair, deceptive, and unearned fees from those debt settlement
accounts; and

1 (f) Offering to assume authority, assuming authority, and exercising authority to
2 transfer consumers' debt settlement funds out of the state of Washington.

3 278. At the time that assistance was rendered, Defendants were aware of their role in these
4 wrongful activities.

5 279. Defendants are liable for the entire loss suffered by the Class.

6
7 **COUNT VI.**
8 **(BREACH OF FIDUCIARY DUTY)**
9 **(AS AGAINST ALL DEFENDANTS)**

10 280. Meracord was and is a custodial agent of and trustee to Plaintiffs and Class members.

11 281. Lloyd Ward Defendants agree to act both as an attorney for its customers and as a
12 custodial agent by claiming that it and Defendant Meracord will hold its customers' money in
13 trust for payment to their creditors.

14 282. Defendants owed fiduciary duties to Plaintiffs and Class members to act for the
15 benefit and safeguard the interests of Plaintiffs and Class members in all matters respecting their
16 custodial, trustee, and attorney roles, including the establishment, maintenance, and management
17 of Plaintiffs' and Class members' debt settlement accounts.

18 283. Defendants had a duty to use reasonable efforts to provide Plaintiffs and Class
19 members with facts that Defendants knew, had reason to know, or should have known were
20 material to Plaintiffs' and Class members' legal interests.

21 284. Defendants' fiduciary relationships to Plaintiffs and Class members did not privilege
22 conduct that was tortious or criminal.

23 285. Defendants negligently and intentionally breached duties owed to Plaintiffs and Class
24 members by, among other things:

25 (a) Failing to disclose to Plaintiffs and Class members that their debt settlement
26 contracts, pursuant to which fund transfers were being made, were void;

- 1 (b) Failing to disclose to Plaintiffs and Class members that fees being paid from
2 their debt settlement accounts were illegal and unearned;
- 3 (c) Initiating transfers of Plaintiffs' and Class members' money for purposes of
4 paying unearned, unfair, and illegal fees;
- 5 (d) Establishing, maintaining, and managing debt settlement accounts in ways
6 designed to evade consumer protections, including limitations on debt
7 settlement fees;
- 8 (e) Paying and receiving unearned, unfair, and illegal fees using Plaintiffs' and
9 Class members' funds; and
- 10 (f) Elevating their own pecuniary interests above those of Plaintiffs and Class
11 members, thereby unjustly enriching themselves at the expense of Plaintiffs and
12 Class members.

13 286. Defendants materially benefitted from their breaches of fiduciary duties to Plaintiffs
14 and Class members.

15 287. As a proximate result of Defendants' breach of duties, Plaintiffs and Class members
16 suffered loss and damages, and Defendants were unjustly enriched.

17
18 **COUNT VII.**
19 **(UNJUST ENRICHMENT)**
20 **(AS AGAINST ALL DEFENDANTS)**

21 288. Plaintiffs incorporate the previous allegations as if fully set forth herein.

22 289. As a result of the Meracord scheme, Defendants sold debt settlement services to
23 Plaintiffs and Class members at inflated prices, and collected money and fees that were
24 unreasonable and would not have been collected but for the deceptive and fraudulent actions of
25 the Meracord Enterprise. Defendant Meracord then distributed substantial portions of these funds
26 to Remsberg, and LWA then distributed substantial portions of these funds to Ward.

1 290. Defendants are aware of its receipt of the above-described benefits.

2 291. Defendants received the above-described benefits to the detriment of Plaintiffs and
3 Class members.

4 292. Defendants continue to retain the above-described benefits to the detriment of
5 Plaintiffs and the Class.

6 293. As a result of Defendants' unjust enrichment, Plaintiffs and the Class have sustained
7 damages in an amount to be determined at trial and seek full disgorgement and restitution of
8 Defendants' enrichment, benefits, and ill-gotten gains acquired as a result of the unlawful or
9 wrongful conduct alleged above.

10 294. Further, Plaintiffs and the Class, individually and on behalf of the public, seek
11 restitution and disgorgement of profits realized by Defendants as a result of its unfair, unlawful
12 and/or deceptive practices.

13 **PRAYER FOR RELIEF**

14
15 295. WHEREFORE, Plaintiffs demand judgment as follows:

- 16 (a) For an order declaring that this action may be maintained as a class action
17 pursuant to Federal Rules of Civil Procedure Rule 23, and for an order
18 certifying this case as a class action and appointing Plaintiffs as representative
19 of the Class;
- 20 (b) For an order awarding compensatory damages on behalf of Plaintiffs and the
21 Class in an amount to be proven at trial;
- 22 (c) For judgment for Plaintiffs and the Class on their claims in an amount to be
23 proven at trial, for compensatory damages caused by Defendants' unfair or
24 deceptive practices; along with exemplary damages to each Class member for
25 each violation;
- 26

- 1 (d) For judgment for Plaintiffs and the Class on their RICO and state law claims, in
2 an amount to be proven at trial;
- 3 (e) For restitution of all improperly collected charges and interest, and the
4 imposition of an equitable constructive trust over all such amounts for the
5 benefit of Plaintiffs and members of the Class;
- 6 (f) For an accounting of all credits, disbursements and charges and other benefits
7 associated with Plaintiffs' and Class members' transactions;
- 8 (g) For pre-judgment and post-judgment interest as provided for by law or allowed
9 in equity;
- 10 (h) For an order awarding Plaintiffs and the Class their attorneys' fees and costs;
11 and
- 12 (i) Such other and further relief as may appear necessary and appropriate.

13 **DEMAND FOR JURY TRIAL**

14

15 296. Pursuant to Federal Rule of Civil Procedure 38(b), Plaintiffs demands a trial by jury
16 on all issues so triable.

17

18 DATED: October 29, 2012

19 **HAGENS BERMAN SOBOL SHAPIRO LLP**

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From Article at GetOutOfDebt.org

