

December 30, 2004

Terry Goddard Settles with Telecommunications Leasing Company Holding NorVergence Lease Agreements

(Phoenix, Ariz.) Arizona Attorney General Terry Goddard today announced a settlement with TCF Leasing, Inc. to forgive \$61,000 in loans for two local companies in connection with a widespread telecommunications fraud involving NorVergence, Inc., a bankrupt New Jersey-based telephone equipment and service company. Under the agreement filed in Pima County Superior Court, TCF Leasing agreed to forgive the outstanding principal balance due on NorVergence leases held in Arizona. Two local businesses that will benefit from this settlement are:

- Lindstrom OB/GYN in Gilbert will be forgiven \$28,936
- Formosa International Systems in Tempe will be forgiven \$31,920

"NorVergence took advantage of the Arizona business community by selling non-existent telecommunication services," Goddard said. "TCF Leasing understood the loans were based on a fraud, and did the right thing in forgiving these loans. It is my hope that other leasing companies holding NorVergence leases follow TCF's lead."

According to court documents filed today, NorVergence began aggressively marketing its telecommunications products in 2002, falsely promising potential customers savings of up to 60 percent. It attributed these savings to its use of a proprietary device referred to as a "Matrix box." The company claimed this technological innovation provided customers with local and long distance telephone service, cellular phone service, and high-speed internet connection, all for a fixed monthly fee. In truth, the equipment did not accomplish any of these functions.

NorVergence's sales people were trained to use high pressure sales tactics with prospective customers, which consisted largely of small businesses, not-for-profits and religious institutions. Nationally, the company secured approximately 11,000 customers.

The company's customers typically signed five-year contracts, which the company then sold at a discount to third-party financial institutions. The financial institutions, in turn, billed customers under the original contract terms. These multi-year commitments allegedly

obligated customers to pay as much as \$340,000 for the "matrix box," even though the market value of the device was no more than \$1,500.

Last summer, a federal bankruptcy court declared NorVergence bankrupt. As a result, customers were left without telecommunications services and had to purchase alternative service on a per call basis. Yet the financial institutions continued to bill customers for the discontinued services, and many institutions sued to collect on the agreements.

Goddard joined the Attorneys General from California, Colorado, Florida, Georgia, Louisiana, Maryland, Massachusetts, Michigan, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, and Texas in this multi-state settlement with TCF Leasing.

Arizona consumers holding a NorVergence telecommunications contract are encouraged to file a complaint with the Arizona Attorney General's Office. Consumers can visit the Attorney General's Web site at www.azag.gov to complete an online complaint or call the office at:

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