



DIRECT SELLING ASSOCIATION

Law and Judicial Precedence Help Define, Prosecute Pyramid Schemes

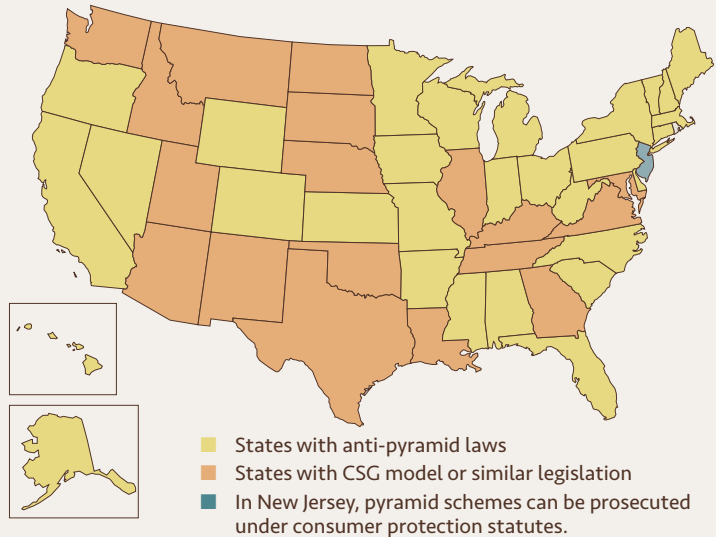
Forty-nine states have pyramid scheme laws on the books, and 18 of those are grounded in model legislation recommended by the Council of State Governments (CSG) that clearly defines schemes and discusses enforcement. Case law from state and federal judicial decisions adds additional clarity, helping prosecute illegitimate companies, which protects consumers.

State Statutes

In 2004, the CSG recommended that every state adopt model legislation that defines and prosecutes pyramid schemes. In the last 30 years, 18 states have passed legislation consistent with components from the CSG model or similar legislation.

Federal

- Section 5 of Federal Trade Commission (FTC) Act
- The Securities and Exchange Commission prosecutes pyramids as unregistered securities and frauds.
- The US Postal Service prosecutes pyramids as unlawful lotteries and frauds.



Prosecution of Pyramid Schemes

States and federal governments have prosecuted and shut down dozens of pyramid schemes in the past by establishing that the frauds primarily compensate parties for recruitment rather than sales to actual users.

In the following cases, state and federal agencies successfully took action against pyramid schemes; these will continue to provide guidance to regulatory bodies and law enforcement.

<p>1992</p> <p>SEC v. International Loan Network</p>	<p>1998</p> <p>SEC v. Better Life Club, Inc.</p> <p>SEC v. International Heritage</p> <p>State of Nebraska v. Irons</p> <p>People of the State of Illinois v. Bartlett</p> <p>In. Re: Disposition of Property Held by Geauga, OH</p>	<p>1999</p> <p>People v. Sanchez</p> <p>US v. Gold Unlimited</p>	<p>2001</p> <p>FTC v. Big Smart</p>	<p>2009</p> <p>SEC v. WMDS, Inc. One Universe Online, Inc.</p> <p>People of the State of CA v. YTB.com</p>	<p>2013</p> <p>FTC v. Fortune Hi-Tech Marketing with attorneys general from three states</p> <p>SEC v. CKB168</p>
<p>1997</p> <p>FTC v. Futurennet</p> <p>FTC v. Jewelway</p> <p>FTC v. Worldclass Network</p> <p>People v. Fortune in Motion (WI)</p>	<p>2000</p> <p>FTC v. Equinox</p> <p>FTC v. Five-Star Auto Club, Inc.</p> <p>FTC v. Rose Creek Health Products</p>	<p>2002</p> <p>FTC v. Trek Alliance, Inc.</p>	<p>2003</p> <p>FTC v. SkyBiz.com, Inc.</p>	<p>2010</p> <p>US v. James Ray Phipps</p>	<p>2014</p> <p>FTC v. BurnLounge</p> <p>People of the State of California v. Sweeny</p>
			<p>2005</p> <p>FTC and State of Maryland v. Jacobson</p>	<p>2011</p> <p>Commonwealth v. Johnson (MA)</p>	