



UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, DC 20580

Office of the Director
Bureau of Consumer Protection

July 26, 2013

William W. Keep, PhD
Dean
The College of New Jersey
PO Box 7718
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Dear Dr. Keep:

Thank you for your letter to Chairwoman Edith Ramirez regarding your concerns about the direct selling industry and the existence of pyramid schemes hiding in that industry. Specifically, you encourage the Commission to provide additional, clearer guidance to the industry about what constitutes a pyramid scheme and to make public its investigational findings in pyramid scheme matters to make such schemes more identifiable. Chairwoman Ramirez forwarded your letter to the Federal Trade Commission's Bureau of Consumer Protection and asked me to respond. I apologize for my delay in replying.

I appreciate your past work in assisting the government in cases involving pyramid schemes. The Commission shares your concerns about the harm illegal pyramid schemes have on consumers and legitimate industry. As you know, the Commission has taken enforcement action against alleged pyramid schemes, most recently in our case against Fortune Hi-Tech Marketing, Inc. and related entities. *See* FTC v. Fortune Hi-Tech Marketing, Inc., 13-CV-578 (N.D. Ill. Jan. 24, 2013). In that case, the FTC alleged, among other things, that the defendants operated an illegal pyramid scheme and falsely claimed consumers would earn significant income for selling various products and services. In reality, the FTC charged that nearly all consumers who signed up with the scheme lost more money than they ever made. The FTC further alleged that to the extent consumers could make any income, it was mainly for recruiting other consumers.

In addition, just last year, the FTC won a victory in another case: *FTC v. BurnLounge*, No. 2:07-03654 (C.D. Cal. June 6, 2007). The FTC charged BurnLounge, Inc. and its top promoters with operating a deceptive pyramid scheme, making deceptive earnings claims, and failing to disclose that most consumers who participated in the scheme would not receive substantial income, but instead would lose money. In March 2012, a judge for the Central District of California entered a final judgment and order against BurnLounge, Inc. and several of its promoters. The final order requires the defendants to pay close to \$17 million for consumer redress. The final order also prohibits the defendants from engaging in pyramid, Ponzi, or chain letter schemes or any schemes in which compensation for recruitment is unrelated to the sale of product to customers who are not participants. Among other things, the order also bars misrepresentations about multi-level marketing operations or business ventures. The case is currently on appeal to the United States Court of Appeals for the Ninth Circuit.

Cases such as these can provide guidance to the public to help identify illegal pyramid schemes. Evaluating the difference between legitimate multi-level marketers and illegal pyramid schemes is a fact-specific inquiry. Although revealing the Commission's findings from investigations may provide additional guidance to the public, this course of action would not be possible because all Commission investigations are non-public.

I appreciate your interest in this matter, and I have shared your letter with the relevant staff within the Bureau of Consumer Protection.

Sincerely,



Laura DeMartino
Chief of Staff