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## State of New Hampshire

### Department of State Bureau of Securities Regulation

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**FOR IMMEDIATE RELEASE**

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### **NH BUREAU OF SECURITIES REGULATION: BEWARE OF PYRAMID SCHEMES POSING AS MULTI-LEVEL MARKETING PROGRAMS**

**CONCORD, NH (December 4, 2013)** - The New Hampshire Bureau of Securities Regulation is warning individual investors about pyramid schemes, a type of investment scam that fraudsters often pitch as a legitimate business opportunity in the form of multi-level marketing programs.

Barry Glennon, Director of the New Hampshire Bureau of Securities Regulation, asked, "Have you ever been tempted by an advertisement or offer to make 'easy money' or 'online income' out of your own home? If so, you must be very careful as New Hampshire citizens have been taken advantage of in these kinds of offers." Multi-level marketing ("MLM") programs are promoted through Internet advertising, company websites, social media, presentations, group meetings, conference calls, and brochures. In an MLM program, you typically get paid for products or services that you and the distributors in your "downline" (*i.e.*, participants you recruit and their recruits) sell to others. However, some MLM programs are actually pyramid schemes -- a type of fraud in which participants profit almost exclusively through recruiting other people to participate in the program.

Glennon said, "Pyramid schemes masquerading as MLM programs often violate federal and New Hampshire securities laws, such as laws prohibiting fraud and requiring the registration of securities offerings and brokerage firms and their agents." In a pyramid scheme, money from new participants is used to pay recruiting commissions (that may take any form, including the form of securities) to earlier participants, in much the same way that classic Ponzi schemes use money from new investors to pay fake "profits" to earlier investors. Recently, the Bureau has

taken enforcement actions against alleged operators of pyramid schemes disguised as MLM programs for violations of the New Hampshire and federal securities laws.

When considering joining an MLM program, beware of these hallmarks of a pyramid scheme:

- **No genuine product or service.** Legitimate MLM programs involve selling a genuine product or service to people who are not in the program. MLM programs should be approached with caution if there is no underlying product or service being sold to others or if what is being sold is speculative or appears inappropriately priced.
- **Promises of high returns in a short time period.** Be leery of pitches for exponential returns and "get rich quick" claims. High returns and fast cash in an MLM program may suggest that commissions are being paid out of money from new recruits rather than revenue generated by product sales.
- **Easy money or passive income.** Be wary if you are offered compensation in exchange for little work, such as making payments to the operator, recruiting others, and placing advertisements.
- **No demonstrated revenue from retail sales.** Ask to see documents, such as financial statements audited by a certified public accountant (CPA), showing that the MLM company generates revenue from selling its products or services to people outside the program.
- **Buy-in required.** The goal of an MLM program is to sell products. Be careful if you are required to pay a buy-in to participate in the program, even if the buy-in is a nominal one-time or recurring fee (*e.g.*, \$10 or \$10/month).
- **Complex commission structure.** Commissions should be based on products or services that you or your recruits sell to people outside the program. If you do not understand how you will be compensated, be cautious.
- **Emphasis on recruiting.** If a program primarily focuses on recruiting others to join the program for a fee, it is likely a pyramid scheme. Be skeptical if you will receive more compensation for recruiting others than for product sales.

**-END-**

Glennon warned, “Pyramid schemes cannot be sustained and always eventually collapse. You should protect yourself and your money by steering clear of any ‘opportunity’ bearing warning signs of a pyramid scheme.”

You can contact the New Hampshire Bureau of Securities Regulation to learn more about pyramid schemes, the licensing and backgrounds of investment professionals, products being offered or to report suspicious activity by calling the Bureau at 271-1463 or its 24 hour Hotline at 1-800-994-4200, or visiting the Bureau’s website at [www.sos.nh.gov/securities](http://www.sos.nh.gov/securities).

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