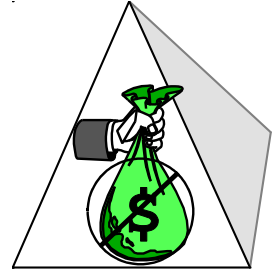


A Message From The Office of the Maryland Attorney General

PYRAMID SCHEMES: INVESTOR BEWARE

Many people are looking for ways to earn extra money to make ends meet. Some are attracted to “pyramid schemes” that promise impressive profits for little effort. However, pyramid schemes are risky, and they are **illegal** in Maryland and most other states.

To participate in a typical **pyramid scheme**, a person usually must pay a set amount to the promoter to join the pyramid and then convince others to do the same. Each person supposedly will have the opportunity to advance to the top position in the pyramid and receive payments from numerous other persons. These scams are called pyramids because part of each new participant’s investment goes to other earlier investors. There are often several levels of investors, with only a few investors at the top level, and an increasing number of investors in the newer, lower levels. In order for everyone in a pyramid scheme to profit, there would have to be a never ending supply of new participants who are willing, ready and able to pay money into the scheme. Inevitably, however, the scheme runs out of potential participants, leaving a large number of investors empty-handed.

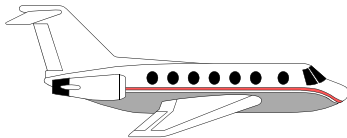


Anyone who establishes, promotes or advertises a pyramid scheme in Maryland is committing a **criminal offense** that may result in a fine of up to \$10,000 or a prison sentence of up to one year.

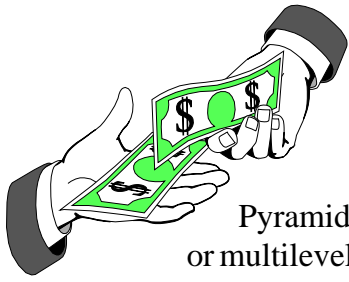
Pyramid schemes can take several different forms. Here are some common examples:

“**Chain letters**” are pyramid schemes in the purest sense. You may receive a letter that urges you to send \$1, \$5, or more to persons named on a list in the letter, to add your own name to the list, and then copy and send out the letter to others. The chain letter often claims that it is legal. It also may try to disguise its true nature by instructing you to mail a copy of a bogus “report” or a recipe along with your money. These chain letters are simply pyramid schemes.

“**Airplane clubs**” are a type of pyramid scheme that was popular during the 1980s. In this scam, an investor pays money to become a “passenger” on an airplane, along with other “passengers,” “flight attendants” and “co-pilots.” After a “pilot” collects money from passengers, that pilot “cashes out,” and then each co-pilot becomes a pilot and takes half of the passengers to a new plane. Each passenger has to recruit more passengers in the hope of becoming a pilot. Those who become pilots early in the scheme may profit, but many more passengers will be left on the plane when it crashes and will lose their investment.



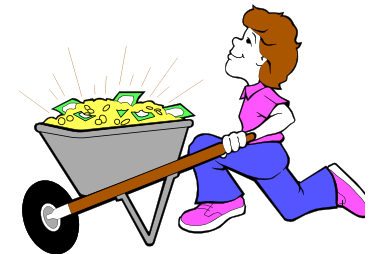
“**Ponzi Schemes**” and “**Giving Clubs or Networks.**” These clubs are structured to pay off early investors with money coming in from later investors. Because there is no source of funds other than



money from new investors, and because the number of new investors eventually dries up, these clubs eventually collapse.

Pyramid schemes may pass themselves off as **legitimate network marketing companies** or multilevel distribution plans. The promoter may even offer a product or service for member to sell to the public. But the plan is a pyramid scheme if participants earn money *primarily* from the recruitment of others into the plan, rather than from the sale of a product or service. It may be difficult to determine in advance whether something calling itself a multilevel distribution company is in reality a pyramid scheme. Here are some warning signs:

- The company employs hard sell tactics or group psychology to pressure new recruits to sign up.
- Seminars and meetings resemble old time revivals with stories of great wealth and promises of easy money for all, with very little effort required.
- New members are required to pay substantial initial fees or to purchase a large amount of product or inventory up front.
- Promoters show off large commission checks or luxury items earned by other participants.
- The products or services offered may be cheap or useless, or they may be offered at a price that is higher than retail. In other cases, the products often have no established market value, like miracle cosmetics, exotic vitamins and new inventions.
- The plan stresses recruitment of new members rather than the sale of the company's product or service.



If you are thinking about joining a multilevel marketing company, watch out for these signs. The plan may be nothing more than a pyramid scheme. If you join, you may not only lose your money, you also may be violating the law.

Be particularly cautious about any investment opportunity that promises a high rate of return in a short amount of time with little or no effort on your part. If you are suspicious about any investment opportunity, or if you would like more information about pyramid schemes and multilevel marketing, contact the **Maryland Attorney General's Office, Division of Securities at (410) 576-7042** before you pay any money or sign any contract.