

## **SPECIAL CONSUMER ALERT FOR LDS MEMBERS**

### **New Developments and Frank Answers to Key Questions Regarding Multi-Level Marketing (MLM or Endless Chain Selling) Schemes**

By Jon M. Taylor, Ph.D., President, Consumer Awareness Institute – and Advisor, Pyramid Scheme Alert

#### **Objectives of this report**

➤ **New research and weakened laws** suggest an urgent need to warn against a growing source of impoverishment, distortion of gospel values, and strained or broken relationships among participating families.

*“. . . he commandeth you that ye suffer no ravenous wolf to enter among you, that ye may not be destroyed.”-Alma 5:60*

➤ To discourage members from initiating or getting involved in programs that defraud those not of our faith and to protect the image of the Church

➤ To urge Church units to avoid (in some cases discontinue) giving credibility to this class of consumer fraud.

#### **Background of the author – uniquely qualified to write on this topic**

##### **Business and professional experience**

➤ Specialized in marketing and direct sales – created sales programs, recruited and trained sales persons

➤ Entrepreneur responsible for 40+ business startups

➤ As adjunct college instructor, taught classes in entrepreneurship, business ethics, and related topics

➤ Worked on administrative staff at BYU and at the “U”

##### **Experience in consumer advocacy**

➤ Performed extensive research on profitability/legitimacy of MLM schemes and published the results

➤ Author of the (LDS) book *The Network Marketing Game: Gospel Perspectives in Multi-level Marketing*

➤ Presenter at National White Collar Crime Center, Economic Crime Summit Conference, Senior Fraud Summit Conference, and Conference on Product-based Pyramid Schemes for federal and state regulators

➤ Analyzed compensation plans of over 250 MLM programs and offered evaluations and guides for consumers worldwide. Receiving about 300,000 hits/month to our web sites from over 120 countries

➤ President, Consumer Awareness Institute – and Advisor, Pyramid Scheme Alert (both non-profit)

➤ Lobbied to protect Utah’s Pyramid Scheme Act

➤ **Education**– BS in education and MBA from BYU, PhD in applied psychology from the University of Utah

##### **Church experience**

➤ Served two full-time missions plus part-time missions

➤ Taught seminary (CES) full-time for two years

➤ Served in numerous teaching and leadership positions

**NOTE:** In presenting these findings, I am speaking for myself on behalf of consumers and not assuming to speak for the Church or for its leaders.

#### **1. Isn’t the legitimacy of MLM merely a matter of opinion? What research supports your conclusions?**

These are not mere opinions. Anyone willing to examine recent independent research with an open mind will likely agree with these conclusions. My confidence is based not only on the experience and evidence gathered by others, but on my own twelve years of research including:

➤ Financial records of publicly traded MLM firms and marketing materials used in recruiting

➤ Internal documents of MLM company officials

➤ Court records from cases against MLM firms

➤ Consumer surveys on MLM recruitment and product usage

➤ Surveys of tax professionals on income of MLM promoters and participants

➤ Surveys of executives of 60 leading MLM firms

➤ Review of compensation and marketing plans on web sites and literature for over 250 MLM’s

➤ Thousands of inquiries and over 300,000 hits per month to our web sites from 130 countries

➤ Attendance at dozens of MLM “opportunity meetings”

➤ Interviews with hundreds of “distributors” and ex-distributors from a wide variety of MLM’s

➤ Consultant and expert witness in public and private MLM court cases

➤ One-year test of a major MLM program founded, managed and promoted by LDS members – followed by publication of the book about my experience and research related to Latter-day Saints – *The Network Marketing Game*

For free downloads of reports on the relevant research, go to – [www.mlm-thetruth.com](http://www.mlm-thetruth.com)

---

*“A member of the Church ought always . . . to judge the professions of man against the revealed word of the Lord.” – Elder Boyd K. Packer*

September 14, 2006

© 2006 Jon M. Taylor

## 2. Why is the issue of MLM legitimacy important to Latter-day Saints?

Twelve years research leads to the conclusion that nearly all “multi-level marketing” (a.k.a., “MLM,” “network marketing,” etc.) programs are inherently fraudulent pyramid or endless chain selling schemes, promising substantial ongoing income, but *leading to losses for at least 99% of participants – while a few at the top profit hugely. An unusually high percentage of MLM leaders and participants are LDS.*

Such MLM programs have been called “product-based pyramid schemes,” or “recruiting MLM’s” (“MLM” or “MLM’s” for short) – referring to schemes that are characterized by *multi-level endless chain selling to participants as primary customers*. These schemes are technically illegal in many jurisdictions, but law enforcement has failed to contain them.

*Many Latter-day Saints are uniquely and powerfully affected by MLM schemes, and a high percentage of these MLM’s, especially those based in Utah, are headed up by church members.* Though President Hinkley has spoken out against “get-rich schemes and other entanglements which are nearly always designed to trap the gullible” (April 2003 conference), few in MLM saw this advice as applying to them. Most MLM promoters are too clever to use appeals to riches as the only carrot.

Most MLM participants are not seeking an “opportunity,” but are recruited by someone close to them. It is sold as a legitimate home business to “earn a little money” to pay off debts, to support missionaries or college students, to keep Mom home, to donate to worthy causes, etc. The reality is far different – as infinite (endless chain) recruitment programs in finite markets, *they mathematically doom the vast majority to financial loss.* This is proven by recent surveys and by public and private records. And some lose far more than money.

So considering the promises and hope held out by MLM promoters, and the reality of losses experienced by almost all participants, MLM can be characterized as inherently fraudulent schemes. *To those familiar with the relevant independent research, MLM’s are not legitimate businesses by any reasonable measure.*

---

*“MLM, or endless chain selling, is based on deceptive and faulty premises and promises. Research demonstrates what many have long suspected: Except for those at the top of a pyramid of participants, nearly all recruits (99%) end up worse off than before.”*

– JMT

## 3. What is the harm in participating in MLM?

MLM is *insidious* in its apparent innocence, but *pernicious* in its inevitable impoverishment of nearly all participants to the degree of their investments. While losses are minimal for most participants, harm to some can be great, including overextended credit card and other debt, home foreclosures, unemployment and/or career disruptions, and bankruptcy. In fact, the loss rate from nearly all MLM’s is far worse than for no-product pyramid schemes and worse than for many games of chance in Nevada (see Exhibit A). World wide, losses total tens of billions of dollars annually.

MLM is *pervasive* in being spread through endless chain recruitment to millions of families worldwide, including large numbers of Latter-day Saint families.

Even more serious than financial setbacks is the intense focus on MLM at the expense of gospel values, loss of church activity, damage to self-esteem, and family breakups. In every ward I have attended, I have encountered at least one divorce in which MLM was a factor. And those of us who have observed MLM addiction by some victims (referred to as “MLM junkies”) see similarities to gambling addiction.

MLM fraud is perpetuated by deception (see Exhibit B for typical misrepresentations) and an endless chain of recruitment, motivated by pay plans that reward crass materialism and other behavior that contrast sharply with principles of honesty and love.

Recruiting MLM’s are extremely profitable for a few participants at the top of a hierarchy of “distributors,” at the expense of thousands of downline recruits who become its victims. To read the report “*Who Profits from Multi-Level Marketing? Preparers of Utah Tax Returns Have the Answer.*” Go to the research page of our web site at – [www.mlm-thetruth.com](http://www.mlm-thetruth.com)

You should also read “*5 Red Flags of a Product-based Pyramid Scheme, or Recruiting MLM,*” prepared for the National White Collar Crime Center. This and related reports can be downloaded from our web site.

For confirmation of these findings, read the excellent report titled “*The Myth of ‘Income Opportunity in Multi-level Marketing’*” by Bob Fitzpatrick, which can be downloaded from his site at – [www.falseprofits.com](http://www.falseprofits.com).

Based on worldwide feedback and company financial reports, it is estimated that tens of thousands of church members are defrauded of tens of millions of dollars through MLM’s every year – *likely exceeding all scams taken together to which church members are susceptible.* And church members who promote these programs have defrauded millions of people outside the Church out of *billions* of dollars – especially in Asia.

#### **4. But MLM has gained legitimacy among the general public. Are you saying MLM is not a legitimate business model? And are there any legitimate MLM opportunities?**

Let me answer the question with a question. Would you consider a company legitimate if it had no real customer base, and if it was totally dependent on a network of distributors – 99% of whom lose money?

After study of the compensation plans of over 250 current MLM companies and resultant loss rates, it can be concluded that MLM is not any more legitimate as a business model than gambling, illegal naked no-product pyramid schemes, and Ponzi schemes. In fact, the success rates for the latter three are much higher than in all the MLM companies we have studied, based on reports by the MLM companies themselves. We now know that it makes no more sense to present MLM as a business opportunity than it does to place “Business Opportunity” signs above gaming tables in Las Vegas.

Having taught entrepreneurship and initiated or consulted on many business startups, I have observed that in a legitimate enterprise, the more a person invests in money, time, effort, and skill, the more he/she is likely to profit. But thousands of letters from victims of MLM programs convince me that the more one invests in MLM, the more he/she loses – with the notable exception of those at the top of the pyramid.

Out of 250 MLM companies studied, only about 1% could be considered equitable enough to be considered a legitimate income opportunity. And *these are acceptable only to the extent they are not at all like the typical MLM*; i.e., they reward sales to customers not a part of the network more than they reward the building of a downline. Their compensation plans allocate the bulk of commissions to front line sales people with only a small residual income (less than a total of 50% of total company payout) to no more than four levels of upline distributors. And purchases (that would wipe out profits) are not required to advance in the scheme.

However, I believe it is best not to identify these “retail MLM’s” because even the most respected MLM’s have eventually resorted to heavy “pay to play” requirements, leaving distributors to assume inventory risks, thereby causing loss rates to skyrocket – as happened with Avon and Mary Kay. The difficulty of educating the public to discern the complex differences is so daunting that I am convinced it is best to encourage consumers to avoid ALL MLM or chain selling schemes. This includes new chain selling programs that technically may not be classified as MLM, such as “Australian 2-up” programs, for which new recruits forego commissions on the first two sales in order to qualify for commissions on downline sales thereafter.

#### **5. If MLM’s are inherently fraudulent, why don’t regulators stop them?**

Years of consulting with federal and state law enforcement officials convince me that *regulators lack the skills, resources, public pressure, and prosecutorial will to halt MLM abuses*. Few regulators understand the fraud inherent in complex MLM compensation plans.

Out of hundreds of abusive MLM’s, only a handful has been successfully prosecuted. Regulators who attempt actions against them are outfoxed and outgunned by well-financed and superior legal teams. And regulators are inundated with easier cases to prosecute and which get higher priority. One state regulator told me it would take 20 times the resources to prosecute an established MLM like Amway/Quixtar as it would the typical cases brought to them.

One of the few major MLM’s that law enforcement has shut down in the past few years was Equinox, and it took the combined efforts of eight states and the FTC to stand up to Equinox’s legal team and force them out of business. The case was merely settled, and founder Bill Gould managed to get away with about eight million dollars of the take from his scheme. And one of the terms of the settlement was that he did not have to admit blame!

Legislation is weak and inconsistent over jurisdictions. And in the last few years, the Direct Selling Association (DSA), which has become the MLM lobby, has been successful in getting cleverly worded laws passed in a handful of states that exempt MLM companies from prosecution as pyramid schemes. This makes it very difficult for victims to seek recovery of damages through the courts. One of these states is Utah, which has the highest per capita concentration of MLM programs in the nation. Others are Idaho and Washington and several states further east. So MLM victims are virtually without consumer protection in a growing number of states.

The DSA/MLM firms of the DSA engage in blatant influence peddling, which happened in the 2006 Utah legislative session, where SB182 was passed, weakening Utah’s Pyramid Scheme Act. Few legislators understood the intent or potential impact of the bill; i.e., millions of consumers defrauded of billions of dollars every year – without statutory protection! (See #8 for more on DSA)

Legislators deferred to Attorney General Mark Shurtleff for advice, and he strongly supported the bill as helping to protect against the worst pyramid schemes – a blatant falsehood for those who understood it. Later inspection of the record of his campaign contributions showed that his lead corporate contributors were beneficiaries of the bill (MLM’s), one of whom (a \$50,000 campaign donor) has been found guilty in at least one court of conducting an illegal pyramid scheme! So in 2006 we had the specter of witnessing Utah’s top law enforcement officer lobbying for Utah’s top lawbreakers!

This influence peddling occurs right up to the FTC, whose former Director of Consumer Protection is now working for the legal firm representing Amway/Quixtar/Altacore, and whose chief economist was on the legal team of Equinox! Space does not permit the extensive contributions to the party in power, and the contributions to visible causes that lend legitimacy to MLM.

Also, since MLM's rapidly transcend jurisdictional boundaries, they quickly become unmanageable by local authorities. Federal agencies find other economic crimes easier to deal with and more publicly acceptable to prosecute. For example, in 1994 the FTC ordered Nu Skin leaders to stop misrepresenting earnings of its distributors, but failed to enforce its own Order, in spite of evidence brought before it of blatant and ongoing violations.

Compelling evidence for this is found in the 70-page "Report of Violations" of the FTC Order by Nu Skin, which is very instructive. Incidentally, the last two Nu Skin CEO's have been attorneys. If Nu Skin were a legitimate direct sales company, as its promoters claim, one would expect the top executives to have a sales background. But legal leadership was more critical.

And again, to understand the fraud inherent in MLM, read "5 Red Flags of a Product-based Pyramid Scheme or recruiting MLM," prepared for the National White Collar Crime Center. Both this report and the Nu Skin report can be downloaded from the law enforcement page on our web site at – [www.mlm-thetruth.com](http://www.mlm-thetruth.com).

## 6. Why do MLM victims so seldom file complaints with law enforcement?

In law enforcement, the squeaky wheel gets the grease. So a primary reason for lack of enforcement is the lack of public outcry against MLM's. In fact, much public pressure is in the opposite direction. Participation in these schemes often leads to widespread criticism for shutting down a program before participants can get their turn to "cash out" by reaching the top of the pyramid.

Even victims suffering huge losses seldom complain to authorities, fearing self-incrimination (since in endless chains every major victim recruits to recoup investments) and consequences from or to their upline, which could be a friend or relative. Also, MLM victims have been conditioned to blame themselves for their "failure." And they naively assume that if MLM were illegal, they would have been shut down by authorities.

*Since so few complaints of MLM abuse are received by law enforcement agencies, and because of unbridled influence peddling and endless chain MLM recruitment, this class of fraud spreads virtually unchecked.*

**NOTE:** For the same reasons, it is likely that church leaders seldom hear of the damages suffered by LDS families from MLM participation. They would be shocked if they read the feedback we receive in thousands of e-mail communications worldwide.

## 7. If MLM's are merely disguised pyramids or chain selling schemes, won't they collapse on their own?

Recruiting MLM's are the most enduring of all types of pyramid schemes. Complex compensation plans obfuscate the fraud so that only the most sophisticated of analysts can see through the maze of deceptions, making it possible for the programs to defraud on a massive scale without being recognized or stopped by authorities.

When recruitment in a given area dries up, MLM promoters move on to another area. Recruits in each area are told that the real opportunity lies in \_\_\_ (the next fresh market, often a vulnerable country overseas). When the worldwide market peaks and begins to slide, the company opens a new product division and begins the same cycle all over again, as Amway has done with Quixtar and Nu Skin has done with its Big Planet and Pharmanex divisions.

Since these are endless chain selling schemes, powerful incentives are in place to continue recruiting to replace those who have lost money and dropped out. Misrepresentation becomes a way of life for them to keep going. If the truth were known about their abysmal odds of success, these programs would collapse like a house of cards.

## 8. MLM's claim to be legitimate direct sales programs. How is this deceptive?

Legitimate direct sales programs are NOT

- (1) recruiting participants in an endless chain of recruiters recruiting recruiters,
- (2) requiring advancement by recruitment, rather than by appointment,
- (3) requiring or using powerful incentives for ongoing purchases in order to qualify for commissions and to advance in the scheme,
- (4) paying overrides on more levels of participants than are functionally justified – except to guarantee excessive enrichment for top-of-the-pyramid promoters at the expense of thousands of downline participants, nearly all of whom lose money, and —
- (5) offering excessive incentive to recruit, combined with inadequate incentive to sell products to bona fide customers.

*One survey in Utah County found one MLM customer for every four distributors!* In MLM, the sellers are the buyers, and the buyers are the sellers – with no clear distinction between the two.

Taken together, the above five "red flags" signal a product-based pyramid scheme, or recruiting MLM – not a direct sales program. (See summary on the "5 Red Flags" in Exhibit D.) *The loss rate is worse than for illegal no-product pyramid schemes. Recent surveys of*

*tax preparers and research into court records, public filings, and internal documents of MLM companies have led to calculations that approximately 999 out of 1,000 participants lost money in these schemes – after subtracting all expenses, including product purchases to “work the business!”*

Surveys show little direct selling to persons outside the MLM network. Compensation plans enrich the top people in the hierarchy by extorting as much money as possible from recruits in product purchases with incentives to qualify for commissions or advancement in the scheme. Participants are slowly bled of their funds by being sold auto-ship monthly purchases paid for by automatic bank draft. Purchases are disguised pyramid scheme investments.

As further evidence that MLM’s engage in deception and misrepresentations, one can observe the tactics of DSA (Direct Selling Association), the lobbying organization for MLM’s, including many in Utah directed by Latter-day Saints. In promoting its agenda, the DSA, essentially taken over in recent years by the MLM “industry,” regularly engages in deceptive practices, such as the following:

In recent years, the DSA has lobbied for legislation that would “clarify” laws against pyramid schemes and increase the sanctions from civil to criminal penalties for perpetrators. While this sounds laudable to uninformed legislators, skillfully hidden in the legislation is an exemption from prosecution for firms that offer products; i.e., all MLM firms! So the legislation has the effect of exacting criminal penalties for the least damaging pyramid schemes and exempting the most damaging pyramid schemes – recruiting MLM’s. Several states, including Utah and Idaho, have so far fallen for this ruse and passed their legislation. Congress is also being aggressively lobbied by the DSA to pass legislation exempting MLM’s nationwide from prosecution as pyramid schemes.

The FTC is reviewing public comments on a proposed business opportunity rule that would require disclosure of average earnings of participants, litigation against leaders, etc. It is not surprising that the DSA and its MLM member firms are vigorously opposing meaningful disclosure that may reveal the underlying falsity of their claims.

DSA’s deceptive tactics on the Internet also deserve mention. Sites owners (all volunteers) who are trying to expose MLM fraud are harried by DSA lawsuits against them and by DSA’s diversion of web surfers from anti-MLM web sites to the DSA site - by registering domain suffixes for sites owned by these volunteers and directing visitors to the DSA site. This is the web version of identity theft.

## **9. You keep referring to deceptive marketing practices engaged in by MLM promoters. Can you more specific?**

This is an inherent problem with MLM. From direct observation and from feedback from thousands of participants worldwide, *we have observed at least 30 typical misrepresentations that are used in every MLM recruitment campaign.* MLM promoters are seldom aware of how deceptive are their appeals to recruitment prospects. For a list of typical misrepresentations used in MLM recruiting, see Exhibit B.

In a one-year test of the Nu Skin program, I observed first hand that to be successful in a highly leveraged MLM endless chain selling program, one must (1) be deceived (believe it is legitimate), then (2) maintain a high level of self-deception, and finally (3) aggressively deceive others when recruiting them. This is because the compensation plan is heavily weighted in favor of recruitment, not legitimate product sales. Yet, I can’t recall one participant who was aware that they were engaging in deceptive marketing practices.

Since that time, several years of diligent research on hundreds of other MLM’s has confirmed my conclusions. But the insights I have gained in unmasking the many deceptions in MLM would not have been possible without that direct experience.

MLM is the perfect con game. Many of the very persons who are out promoting the scheme are themselves victims – eventually running out of money and dropping out. They just absorb their losses – often substantial. And since they seldom complain to authorities (see #6 above), the game goes on!

I am not alone in these conclusions about MLM deceptions. Many other experts are donating their time to warn consumers about the harm of participating in MLM programs. Reports and insights that I would recommend can be found on the following web sites, along with many others:

[www.pyramidschemealert.org](http://www.pyramidschemealert.org) – a web clearing house to expose and prevent pyramid scheme abuse worldwide

[www.merchantsofdeception.com](http://www.merchantsofdeception.com) – by a former federal auditor who rose high in Amway before exposing the fraud

[www.falseprofits.com](http://www.falseprofits.com) – by Robert Fitzpatrick. Read “The Myth of ‘Income Opportunity’ in Multi-level Marketing”

[www.mlmwatch.org](http://www.mlmwatch.org) – by Dr. Stephen Barrett, an expert on health quackery and MLM’s with health products.

<http://www.vandruff.com/mlm> – Dean VanDruff’s classic article “What’s Wrong with Multi-level Marketing”

[www.thepinkingshears.org](http://www.thepinkingshears.org) – for former Mary Kay people

[www.mlmsurvivor.com](http://www.mlmsurvivor.com) – site for MLM victims

## 10. If typical MLM's are not legitimate businesses, what could we call them?

- *“Recruiting MLM's,”* where commissions are drawn primarily from sales to downline participants.
- *Product-based pyramid schemes*, since MLM's have been found to be the most extreme of all classes of pyramid schemes by any measure – loss rate, aggregate losses, and number of victims. An MLM or chain selling company may offer good products, but that does not remove it from classification as a pyramid scheme.
- *Predatory chain selling* – aggressive recruitment of an endless chain of participants as primary customers, where recruitment often becomes predatory in nature
- *Simple fraud*, since participants are defrauded of their money by deceptive marketing practices. This was the term suggested (to describe MLM's) by state and federal regulators at one conference at which I spoke.
- *Theft by deception*, since MLM recruitment campaigns garner investments (laundered through product purchases) on the basis of a whole set of misrepresentations – as many as 30 of them!

The problem with the last two terms is that they imply *intent to defraud*. But most MLM promoters are in extreme denial about the harm they are doing and do not believe they are defrauding by deliberate deception.

- *White collar crime*, defined by Michael Hines (*Other People's Money*) as having three elements: (1) non-violent, (2) conducted for financial gain, and (3) obtained through means of deception. Recruiting MLM's easily meet these criteria. Fraudulent MLM's were discussed as a class of white collar crime at a seminar at the National White Collar Crime Center in 2002 and at the Economic Crime Summit Conference in 2004. MLM firms, which fit this classification, include “recruiting MLM's” such as Nu Skin, Neways, Usana, Melaleuca, Morinda (TNI/Noni), and Amway/Quixtar.
- *Entrepreneurial quackery combined with health quackery*. Dr. Stephen Barrett, an expert on health quackery, points out that many MLM's use questionable “potions and lotions” as their investment vehicle
- *The Book of Mormon* told of “*secret combinations built up to get gain*” which could apply in some ways to the modern terms “*scheme*” or “*system*” [*fraud- see below*].

It would be difficult to point to single individuals as villains, since the primary cause of MLM fraud is not the leaders, but a *deceptive compensation system which rewards MLM chain selling to distributors as primary customers*. So one of the most appropriate terms is –

- **SYSTEM FRAUD**. It is the *inherently fraudulent system itself* that defrauds, more than the people involved – though *unwitting participants* are the usual vehicles for transmitting the deceptions underlying the system. Either way, we should not excuse any fraud or be a party to giving it credibility as Latter-day Saints.

## 11. Why are LDS church members more attracted to MLM than are other people?

Many have observed a high rate of participation in MLM by LDS members. In one randomized survey, we found Latter-day Saints participating in MLM at triple the rate of the general population. This could be partly explained by powerful appeals to Latter-day Saints to get out of debt, to keep Mom home, to gain “time freedom” from having to work long hours (allowing more family time) – which MLM promoters exploit.

I believe that the high levels of MLM participation or vulnerability of church members is rooted in characteristics found deeply ingrained in LDS culture and even in uncanny similarities to its doctrine:

(1) Latter-day Saints “network” in church service, extended families, home and visiting teaching, and even associations with those not of their faith. (“Every member a missionary.”) And because of the powerful networks of association within the priesthood and auxiliary organizations of the Church and the high level of trust developed within these networks, MLM is often promoted between members under pressure to build a “downline,” to advance in the hierarchy of participants.

(2) Latter-day Saints, with an extraordinarily expansive view of families and of eternity, think big. Our own scriptures speak of “worlds without number,” of eternal families, and of infinite opportunity for eternal progression. So promises that may seem preposterous to others (“six-figure income working part-time from your home”) may seem plausible to some Latter-day Saints.

(3) The endless chain of recruitment is analogous to the chain of patriarchal priesthood going back to Adam, the knowledge of which has been restored; i.e., temple work for the living and the dead.

(4) In some ways multi-level marketing programs resemble the greatest multi-level program in the world – the plan of salvation for families within the framework of the gospel of Jesus Christ. As Latter-day Saints, we place great emphasis on our genealogy, eternally linking our ancestral lines – analogous to an upline chain of participants. And our expanding posterity is analogous to an MLM downline. In fact, *MLM promoters often refer to their downline as their “genealogy.”* Conversely, I have heard family history researchers refer their ancestry as their “upline.”

So *MLM mirrors the plan of salvation* – the one focuses on the salvation of souls, the other on money. One focuses on eternal truths, while the other (MLM) is dependent on misrepresentations and deceit. One is an infinite program in God's infinite universe, the other an infinite program in a finite market of victims. As my discerning wife put it, “Satan has his counterfeits.”

## 12. How are missionary work and the image of the Church affected by MLM programs led by church members?

*As a result of heavy MLM involvement by church members and local leaders, the Church is perceived by some as fostering gullibility in its members and fraud against non-members. I have received disturbing reports of missionary work being impacted negatively – such as converts being approached by an LDS person “at water’s edge” to join an MLM program. One very aggressive MLM “networker,” who was successful at member missionary work, tied his missionary efforts directly to his MLM recruitment, so that if a person joined the Church they were also signed up in his MLM downline. Aggressive recruitment into MLM programs can impact negatively on example setting, friendship and fellowship – all vital to missionary success.*

MLM schemes have proliferated among predominantly LDS communities (especially Utah County) to the point that Utah leads all other states in per capita sponsorship of MLM programs. (See Exhibit C.) And no other county in the country comes even close to the concentration of MLM companies headquartered in Utah County (at least partly facilitated by BYU giving so much credibility to MLM – see #15). This is a major reason for Utah’s reputation as “the scam capital of the world.” Unfortunately, many outside the Church realize that most of these perpetrators are Latter-day Saints.

We are sometimes asked by persons outside the Church why so many leaders of these MLM’s are LDS. “Don’t you Mormons believe in being honest?” is a question I have a hard time answering to persons who understand MLM fraud. When I tell them about our 13<sup>th</sup> Article of Faith (“We believe in being honest”), they are amused at what to them is obvious hypocrisy.

## 13. Church leaders have spoken out against gambling. Is MLM even worse?

For Latter-day Saints, I believe it is. Consider –

☞ MLM is more pernicious in that a higher percentage of participants lose money – a proven fact.

☞ MLM is more insidious because it is accepted by many as an innocent home business, when in fact it is not. And because of the endless chain of recruitment, it spreads like a fast-growing cancer.

☞ MLM appeals to many Latter-day Saints and permeates our LDS culture to an amazing degree (See #11 above and #15 below), impoverishing and dividing families; and impacting negatively on church activity, missionary success, and the image of the Church.

☞ Gambling is honest (you know when you are gambling), while MLM is built on deception.

☞ Gambling is regulated. For all practical purposes, MLM is not. Consumer protection is weakening at the same time that MLM fraud is spreading worldwide.

## 14. How could good Latter-day Saints promote schemes that deceive people?

*While many MLM leaders are also active church members, during the week they may be directing MLM programs which defraud thousands of recruits out of millions of dollars. I have seen MLM officials come up with very clever rationalizations for what they do.*

In 1994, I was recruited by active church members who were Nu Skin distributors. After saying “no” several times, I signed up and gave it my all for a year – to prove to myself and to others whether or not it was legitimate. After a year, I was spending \$1,450 a month, but getting commissions of only \$250 a month – even though I was in the top 1% of all distributors! To climb the mega-pyramid (in a highly leveraged breakaway compensation plan) to the top position of Blue Diamond – who receive most of Nu Skin’s commissions – I would have had to recruit by deception a downline of thousands, 99.9% of whom would lose money! So I quit.

Though the FTC had ordered Nu Skin promoters to stop misrepresenting earnings of its distributors, this did not stop them – they had to misrepresent if they were to survive and grow. If prospects knew the truth about the abysmal odds of success, no one would join, and the program would collapse like a house of cards.

*Latter-day Saints who promote these programs are often “naïve perpetrators” of MLM system fraud – but the damage is the same as if the fraud were deliberate. MLM leaders with whom I have communicated have shown extreme denial of the harm they are doing. They interact with those at the top of recruiting pyramids and are oblivious to the extent of the damages to participants lower in the hierarchy, the vast majority of whom lose money and drop out, never to be heard from again.*

## 15. How do BYU and other Church units unwittingly contribute to the proliferation of fraudulent and exploitive MLM’s?

Granted, *none of the officers of Church units intentionally aid and abet chain selling, product-based pyramid scheme (MLM) fraud, or deceptive marketing practices.* But accepting highly visible donations from, or involvement with, MLM firms has greatly enhanced their credibility among church members.

*Unfortunately, some Church-sponsored units have allowed the name of the Church to become visibly associated with MLM programs, or product-based pyramid schemes. A glaring example is the “Nu Skin Big Screen” scoreboard at the Lavell Edwards Football*

*Stadium at BYU.* At the time the scoreboard was built, Nu Skin officials did not disclose either their deceptive marketing practices or the many enforcement actions against them that could damage the image of BYU or of the Church. *BYU officials were misled.*

☞ *The “Nu Skin Big Screen” scoreboard is a monument to deception, as evidenced by a long litany of complaints and actions against Nu Skin by federal and state authorities and in private class actions – mostly centered on misrepresentations and on violations of laws against pyramid schemes and/or deceptive marketing practices. Though the Lord may not care a great deal about the final score at football games, He surely cares about the standard of honesty upheld at BYU and among church members. Towering to the sky, The Nu Skin Scoreboard stands out in sharp contradistinction to the Honor Code expected of its students. (See Exhibit E.)*

☞ Nu Skin’s political contributions are carefully placed, influential political figures (Jake Garn, Paula Hawkins) serve on its Board of Directors, and ex-BYU officials are brought into management, which lends it legitimacy and helps insulate Nu Skin against media scrutiny, consumer criticism, and regulatory action.

☞ Nu Skin is recognized as a sponsor of worthy and visible causes through its “Force for Good Foundation,” which has partnered with various LDS/BYU and other humanitarian programs. Such largesse leads students and members to believe that Nu Skin’s deceptive practices, *likely costing over four million victims at least ten billion dollars* since its founding in 1984 (a fact not generally known), is acceptable!

To some, the generosity of Nu Skin is seen as a reason to forgive its transgressions. It was as if a thief were to steal a million dollars from a bank and then give \$100,000 to charity – with the public (and recipient charities) overlooking the source of the ill-gotten gain. This happened with the Salt Lake Olympic Committee, which accepted Nu Skin as a sponsor, even though SLOC was presented with evidence of the company’s use of the Olympic logo in deceptive worldwide recruitment.

A review of Nu Skin reports and LDS Humanitarian fund donations reveals that the amount taken from unwitting victims (mainly in Asia) by Nu Skin through its predatory scheme (since 1984) exceeds by several times the total financial contributions of the entire Church to the Humanitarian Fund! Nu Skin’s giving is a token amount compared to the amount it has taken by fraud.

Other items related to BYU include:

☞ Nu Skin and other Utah County MLM’s have hired large numbers of students and offered internships and scholarships to students at LDS schools.

☞ BYU Television shows have occasionally given recognition to Nu Skin Enterprises as a sponsor.

☞ Blake Roney, founder and Chairman of the Board of Nu Skin Enterprises, Inc., is listed as

Entrepreneurship Founder of the BYU Center for Entrepreneurship and National Advisory Council of BYU’s Marriott School of Management. He has also spoken at the Executive Lecture Series.

☞ Rex and Ruth Maughan are listed as friends of the Harold B. Lee Library and sponsor of the BYU Family History Archive. Rex is credited on the its web site as President of (MLM) Forever Living Products.

☞ A recent review of the web site for BYU Center for Entrepreneurship showed “What’s New as the Center” featuring a “Business Quickstart Packet” with a section on “Multi-level Marketing.” At least one instructor has taught how to start an MLM business!

*Putting this all together, is it any wonder that a high percentage of founders and officers of new MLM programs are LDS/BYU graduates and that Utah County leads the nation in sponsorship of recruiting MLM companies? And is it any surprise that the question has been asked, “Has BYU (unwittingly) become an incubator of pyramid scheme fraud (or ‘system fraud’)?” (see #10 above.)*

## **16. What steps can church members take to avoid being defrauded by MLM?**

I feel the following are worthy of consideration by Latter-day Saints, and I trust that under the influence of the Spirit of the Lord, readers will take appropriate action:

1. Because of the complex web of deceptions used in MLM recruitment and the passivity of law enforcement, church members recruited by MLM promoters should not expect to get truthful information from the MLM company in order to “study it out” on their own – or to “check it out” with their state consumer protection agency or the Better Business Bureau with any confidence that they will be provided with valid and helpful information. Most MLM programs use compensation plans that are too complicated to identify the fraud without expertise that goes beyond typical consumer protection resources. I have found that much of the information given out by such agencies has been provided by the DSA and is misleading. They will do better seeking evaluation assistance from independent web sites, such as –

[www.mlm-thetruth.com](http://www.mlm-thetruth.com) or [www.pyramidschemealert.org](http://www.pyramidschemealert.org)

2. *Recognize that MLM poses a unique and insidious class of consumer fraud that separates it from all other types of “get-rich-quick schemes,”* most of which are minuscule in terms of participants’ aggregate losses. Though most MLM promoters do not see themselves as perpetrators of fraud, and though victims seldom file complaints with regulators, the harm to serious participants can be devastating – financial loss, bankruptcy, divorce, career disruptions, etc. MLM addiction and emotional breakdowns from the stress of

meeting accelerating incentives, built into the compensation plan, have also been reported.

3. Church members should avoid derailment of their financial and spiritual progress through participation in *any MLM or chain selling scheme* with built-in incentives to profit from others by recruiting them into one's downline – whether or not products are offered and regardless of the supposed integrity of the program's leaders – including members. Even dear friends or relatives who mean well in trying to recruit them are likely victims themselves – which will be proven in time, whether or not they want to admit it.

4. Pres. Boyd K. Packer counseled, “A member of the Church ought always . . . to judge the professions of man against the revealed word of the Lord.” (*Let not your Heart Be Troubled*, p. 101) It would be helpful to apply this to the tenets of MLM. Let us make these distinctions clear:

➤ “Time freedom,” or the freedom from having to trade time (work) for money in order to have more time for family and leisure, is one of MLM's most enticing allures. In fact, the opposite happens – recruits are on a perpetual treadmill meeting ever-ascending payout level requirements. *Many prophets have taught that work is honorable, not to be despised or mocked – as often happens at MLM opportunity meetings.* Pres. McKay taught: “Too much leisure is dangerous. Work is a divine gift.” (*Gospel Ideals*, p. 497)

➤ The principle of charity precludes many of the practices of MLM, such as exploiting family, friends, and other church members in order to enrich ourselves. Elder Antoine R. Ivins said, “I believe that we should lay special stress upon the necessity of honesty in our dealings with one another, for *the love of a man for his fellowmen cannot be fostered when he takes advantage of him in business relations or social contact.*” (October 1941 Conference) We should not seek to get money out of people without giving something in return.

➤ *Honesty in all our business dealings should include avoiding all forms of deception or misrepresentation for gain.* The challenge of my great-grandfather, President John Taylor, to the Saints in 1875 applies today: “We have [had] introduced among us, all kinds of chicanery, deception, and fraud. It is time that these things were stopped, and that matters assumed another shape.”

➤ Placing an extreme priority on worldly riches over more enduring values, is spiritually counter-productive.

---

*“I believe that we should lay special stress upon the necessity of honesty in our dealings with one another, for the love of a man for his fellowmen cannot be fostered when he takes advantage of him in business relations or social contact.”*

– Elder Antoine R. Ivins

## 17. Conclusion: This paper supports the “Proclamation on the Family.”

When the “Proclamation on the Family” was published to the Church and the world, it closed with the statement “We call upon responsible citizens and officers of government everywhere to promote these measures designed to maintain and strengthen the family as the fundamental unit of society.” This document and efforts to discourage all forms of endless chain selling in and out of the Church is in complete harmony with that instruction. MLM/chain selling is currently one of the most insidious and pernicious of the influences impoverishing families of their resources and in many cases destroying precious family relationships.

This has been a frank portrayal of MLM or network marketing as a seemingly innocent home business model, but which I conclude is in fact an extremely clever con game that dupes millions of unwitting victims out of billions of dollars every year. Yet for the reasons discussed above, it has generally evaded law enforcement. It is growing at an alarming rate; while at the same time, laws are being weakened and law enforcement is essentially inert in dealing with this class of “system fraud.”

Of course, anyone can choose to disagree, but I am certain that careful study of recent research by honest and open-minded persons will lead to acceptance of these conclusions. For details on the relevant research, go to our web site at – [www.mlm-thetruth.com](http://www.mlm-thetruth.com)

I want anyone reading this to know that I have a firm testimony of the truth of the restored gospel and of this great Latter-day work. I love to read about the lives of Joseph Smith and other inspired leaders, past and present. I appreciate all that our leading Brethren do for us to guide and warn and lead us today.

In reporting this information I am not criticizing the Church itself, and I am saddened to have to report this insidious practice that has gained so much influence among many church members – even leading some members to use MLM to defraud millions of victims outside the Church – believing it to be acceptable, for the reasons discussed above. However, much fasting, prayer, and persistent promptings have led me to persist in bringing this evil to light.

But again, let me be very clear that in presenting these findings, I am not assuming to speak for the Church or for its leaders.

## Questions?

Most questions can be answered on our web site – [www.mlm-thetruth.com](http://www.mlm-thetruth.com). You may also contact Jon Taylor by e-mail at – [jonmtaylor@juno.com](mailto:jonmtaylor@juno.com).

## Exhibit A

# SOME SHOCKING STATISTICS

## Comparing Recruiting MLM's\* with No-product Pyramid Schemes\*\* and with Gambling\*\*\*

These estimates are based on careful analysis of published reports by Jon M. Taylor, Ph.D., President, Consumer Awareness Institute, and Director, Pyramid Scheme Alert

The odds of profiting by investing in a *clearly illegal no-product pyramid scheme\*\** (with all winners re-investing) is –

- 667 times as great as the odds of profiting from enrolling as an Amway/Quixtar “distributor”
- 111 times as great as the odds of profiting from enrolling as a Nu Skin “distributor”
- 69 times as great as the odds of profiting from enrolling as a Melaleuca “distributor”

The odds of winning with a *roll of snake eyes in a game of craps* in Las Vegas\*\*\* is –

- 323 times as great as the odds of profiting from enrolling as an Amway/Quixtar “distributor”
- 54 times as great as the odds of profiting from enrolling as a Nu Skin “distributor”
- 25 times as great as the odds of profiting from enrolling as a Melaleuca “distributor”

The odds of winning from a *single spin of the wheel in a game of roulette* in Las Vegas\*\*\* is –

- 286 times as great as the odds of profiting from enrolling as an Amway/Quixtar “distributor”
- 48 times as great as the odds of profiting from enrolling as a Nu Skin “distributor”
- 22 times as great as the odds of profiting from enrolling as a Melaleuca “distributor”

**CONCLUSION: The worst pyramid schemes are product-based – or recruiting MLMs\*, such as these three. One can do better in Las Vegas.**

\* A recruiting MLM is a multi-level marketing program that uses a compensation plan that allocates the majority of its payout to participants to those who recruit a large downline of participants, rather than to front-line sales persons for sales to persons not participating in the scheme. The vast majority of MLMs are recruiting MLMs, in which participants must recruit aggressively to profit. Based on available data from the companies themselves, the loss rate for recruiting MLMs is approximately 99.9%; i.e., 99.9% of participants lose money after subtracting all expenses, including purchases from the company.

\*\* The odds of profiting from a classic 1-2-4-8 no-product pyramid scheme increases from 6.7% to 12.5% for those who drop out after completion of a pyramid cycle; i.e., without reinvesting in a new pyramid. For references and public records used as bases for these calculations, see the author's research reports, including “5 Red Flags of a Recruiting MLM, or Product-based Pyramid Scheme,” and “Which Does the Greater Harm?” which is available on the web site listed below.

\*\*\* Gambling statistics were obtained from Caesar's Palace in Las Vegas, April 6, 2001.

For more information, go to – <http://www.mlm-thetruth.com>  
Or e-mail to [jonmtaylor@juno.com](mailto:jonmtaylor@juno.com)

## Exhibit B: Typical Misrepresentations Engaged in by Recruiting MLM's\*

By Jon M. Taylor, Ph.D., Consumer Awareness Institute

Typical MLM enticements, all of which are misrepresentations	The truth or actual realities about “recruiting MLM's,”* or product-based pyramid schemes
Presented as a great “income opportunity,” with huge incomes reported for many.	Recruiting MLM's nearly always lead to certain loss for new recruits. A few are at the top of a pyramid of participants are enriched at the expense of a multitude of downline participants, at least 99% of whom lose money.
“Everyone can do this” – and earn a good income.	Holding up top earners as examples of what others can do is deceptive. It is unfair to sell tickets when – for nearly everyone – the ship has left the port.
Average earnings statements on official reports make MLM's appear highly profitable.	Reports of average incomes are full of deceptions – (Example - 20 on one page for Nu Skin's report of “Actual Average Incomes.” See “Report of Violations” of the FTC Order for Nu Skin to cease misrepresenting earnings of distributors.)
Products can be resold at retail prices for a handsome profit	Products are high priced and sold primarily to recruits to “do the business,” rather than to persons outside the network of participants.
Presented as a legitimate business – “not a pyramid scheme”	Product-based pyramid schemes have been found to be the most extreme of all the types of pyramid schemes, with the highest loss rates (approximately 99.9%) – far worse than for no-product schemes, or even than most games of chance in casinos.
Work for only an hour or two a day, and build up a “residual income” that will allow you the “time freedom” to quit your job and spend more time with your family or do whatever you want.	To profit at a recruiting MLM, one must work long hours and be willing to continue to recruit to replace dropouts. One must also be willing to deceive large numbers of recruits into believing it is a legitimate income opportunity. Recruits are only fattening their upline's commissions. And is there anything immoral about hard work for honest rewards?
“The job market is not secure.” The stock market is even shakier. MLM offers a much more secure and permanent (residual) income.”	MLM is far more risky than either the stock market or the job market. It even makes gambling look like a safe investment by comparison. Residual income for almost all MLM recruits is a myth.
Standard jobs are not rewarded fairly. In MLM, you can set your own standard for earnings.	Fair? Most MLM compensation plans are weighted heavily towards those who got in early or scrambled to get to the top of a pyramid of participants.
“If not legal, the program would have been shut down long ago.” MLM's have survived legal challenges. The fact that they are still around tells you they are legitimate.	Consumer protection officials are reactive, not proactive. Since victims rarely file complaints, law enforcement rarely acts against even the worst schemes. Why don't victims complain? They blame themselves for their “failure” and they fear consequences from or to their upline or downline.
If you fail at this program, it is because you failed to properly “work the system.”	The system itself is inherently flawed – endless chain recruitment and selling to participants as primary customers. The vast majority will always lose money.
“In any businesses, one must invest time and money to be successful.” (Committed MLM participants may continue investing thousands, and even tens of thousands of dollars, over many years before running out of money or giving up.)	In recruiting MLM's, the more one invests in time, money and effort, the more he/she loses – unless willing to deceive enough people to rise to the top of a pyramid of victims. In legitimate companies, sales persons are not expected to stock up on inventory or subscribe to monthly product purchases. But in recruiting MLM's, incentivized purchases (purchases required to participate in commissions and/or advancement) are often merely disguised or laundered investments in a pyramid scheme.
“It takes time to build any business.” “This is not a get-rich-quick scheme, but a ‘get-rich-slow’ program.” “Don't expect instant success,” etc.	MLM promoters sell recruits on their programs as a business, but defend it to authorities as a “direct selling” opportunity. However, In legitimate direct sales programs, sales persons earn commissions right away and don't have to wait months or years for commissions to exceed expenses.
In MLM, no selling is required. Apply the principle of duplication (getting others to do what you do)	Selling is done by recruiting new recruits who make ongoing purchases to “play the game.” You are not only duplicating; you are deceiving others.
MLM is the “wave of the future.” In fact, “Our MLM is experiencing phenomenal world-wide growth,” etc. “So get in on the ground floor of this great growth opportunity.”	MLM's have been saying this for twenty years, but MLM still accounts for less than ½ of 1% of consumer purchases – in spite of the fact that the number of MLM companies has numbered in the thousands. MLM's come and go, as do new recruits, 99.9% of whom drop out. Long-term MLM growth is a myth.
Saturation never happens. Turnover, as in any business, is a reality that assures an ample supply of available prospects.	With few real customers, MLM products are sold by recruiting a revolving door of new “distributors” who buy products to “do the business.” And since people perceive the opportunity as dwindling with each new “distributor,” de facto saturation requires promoters to recruit elsewhere. So MLM's quickly evolve into Ponzi schemes, requiring the opening of new markets and/or new product divisions to repay earlier investors, as has happened with Amway (now Quixtar) and Nu Skin (which became IDN, then Big Planet and Pharmanex). It's not turnover, but continuous churning of new recruits to replace dropouts.

*Generic Misrepresentations Engaged in by Recruiting MLM's, continued*

Take advantage of “momentum” and “windows of opportunity.”	In any endless chain scheme, the momentum cannot continue indefinitely, leaving those who come in later in a loss position, which is at least 99% of recruits. Only by lying about this fact can recruiting be successful.
In this new (MLM) program, you can be the master of your destiny.	You will be a slave to the phone, to meeting the qualifications for commissions and bonuses, and to continual pressure to recruit new participants to replace those who drop out.
The demand for these MLM products are growing at a rapid rate. “They literally sell themselves.”	The sale of products is distributor-driven, not market driven. Most products are sold to new participants to get in on this “ground floor opportunity.”
Unlike franchises, business startups, or sales of existing businesses, you can start an MLM business with very little capital.	MLM’s typically bleed new recruits of their funds by inducing them to buy products on a subscription basis, to pay for ongoing training, and otherwise draining them of their resources until they run out of money or give up.
The report of “Actual Income” of distributors states “.16% of active distributors have achieved the level of Blue Diamond,” etc. This appears to be respectable odds of success. (See “How to Lie with Statistics”)	When statistics are presented without deception, the “opportunity” is not so attractive. The “.16” should be preceded by a “0” (0.16% – or odds of 0.0016), and ALL who signed up should be factored in. So with 10% remaining after 5 or 10 years, the number should be reduced by 90%. This leaves odds of <b>0.00016</b> of becoming a “Blue Diamond.” This looks far worse than “.16%”
Fear of loss (of potential income by not recruiting aggressively) is a great motivator.	If MLM participants understood what is happening to them, they would fear accumulating further losses by continuing to invest in the MLM.
You will belong to a great support team. In MLM, you have a whole network of people willing to help you succeed and be your friends.	Some MLM’s operate like a cult with an “us vs. them” mentality. Watch how quickly the team ostracizes you when you quit or discover contrary information about the legitimacy of the program.
You will be offering people you care about the very best products available for promoting their health and well being.	No matter how high the quality of the products, investment in products for which you do not have orders in hand becomes a cleverly disguised means of laundering investments in a product-based pyramid scheme.
Our products are unique and consumable – perfect for repeat business.	MLM products are typically “potions and lotions.” The secret formulas are a cover for the fact that they are priced too high to compete in standard markets.
Products are less expensive through MLM because you cut out the middleman.	MLM creates thousands of middlemen, with few real customers outside a bloated network of “distributors.” And typically, they are not inexpensive.
Build your business by duplication. Buy five of these “business in a box” packages now, sell them to five people, and ask each to do the same, etc. Be a “product of the products” by signing up for monthly shipment of these items. Soon you will be reaping huge commission checks.	This is how recruiting MLM’s earn fortunes for their top recruiters. Commissions from initial and ongoing purchases by new “distributors” (in hopes of profiting) is the life blood of their business. The promised rewards never come, except to those who recruit their way to the top of a pyramid of participants. Take away inducements for participant purchases, and these companies would fall like a house of cards.
Our “tools for success” are unbeatable. Sign up for our seminars and conferences, and buy our books and tapes to assure your success in this business.	In at least one major MLM, the “tools business” is a pyramid within a pyramid. Hardly anyone makes money selling products, so a lucrative source of income for those at the top is the sale of “success tools” to supposedly assure the success of their downline – who are in fact only further victimized when they buy these motivational items.
MLM is like insurance, investing, inventing, acting, and writing in that hard work at the outset yields residual income for the rest of your life. This is done by “leveraging” the efforts of your downline. So you can retire early, travel, etc.	MLM is more like gambling than legitimate residual income. It appeals to the “something for nothing” mentality. MLM addiction has been observed in some “true believers.” The large residual incomes reported are more the result of time of entry and willingness to deceive prospective recruits than of payoff for hard work. To succeed in MLM, one must leverage one’s deceptive recruiting through others who can be persuaded to do the same..
Very reputable people are involved in MLM.	This credibility argument has been the underpinning of many scams.
You will be helping your friends and family by recruiting them into your downline.	You are exploiting those you care about the most. In other words you are squandering your social capital.

\* Recruiting MLM’s are multi-level marketing programs that reward aggressive recruitment far more than direct sales of products to legitimate customers. This makes them technically illegal pyramid schemes.

**CONCLUSION: The appeal in MLM promotions and the revenues reported on typical MLM financial statements have been obtained by misrepresentations and by deceptive sales practices. The degree of deception, if not the total amounts, exceed the deceptions reported in the Enron stock scandal – which later led to similar findings in the reporting by WorldCom and Global Crossing. In short, the typical MLM is a lie and engages in massive theft by deception. Exceptions to this are the extremely rare “retail MLM” like Avon, which does not expect their distributors to buy products, except to fill actual orders in hand – and offers greater rewards for selling than for recruiting.**

## Exhibit C: Recruiting MLM\* Companies In Utah By Location

By Jon M. Taylor, Ph.D., President, Consumer Awareness Institute

**AT LEAST 21 ACTIVE MLM'S IN UTAH COUNTY (pop. 368,536 – 2000 census) – 1 for every 17,549 people, the highest density of recruiting MLM's of any county in the U.S.A.**

Qing Mei – American Fork

Native American Nutritionals – Lehi  
Young Living Essential Oils – Lehi

Zija- Linden

Earth Essence – Orem  
Monarch Health Sciences – Orem  
EnvisionCC – Orem  
Team Everest – Orem  
Synergy Worldwide (bought by Nature's Sunshine – Orem)  
Unity Network – Orem (Enrich & Rexall merged)

Heritage Makers – Provo  
Innerlight International, Inc. – Provo  
Nu Skin Enterprises, Inc. – Provo  
Tahitian Noni International (Morinda) – Provo  
The Brain Garden – Provo  
Agel – Provo  
Heritage Makers – Provo  
Nature's Sunshine – Provo

Neways – Salem

Sweet Living – Springville  
E. Excel International – Springville

**AT LEAST 13 ACTIVE MLM'S IN SALT LAKE COUNTY (pop. 898,387 – 2000 census) – 1 for every 69,107 persons**

XanGo – Draper

Top Line Creations – Salt Lake City  
Sevea – Salt Lake City  
BookWiseBooks – Salt Lake City  
SendOutCards – Salt Lake City

4Life (herbal products) – Sandy  
Sibu – South Jordan

Essante – West Valley City  
USANA Health Sciences – West Valley City

**AT LEAST THREE OTHER ACTIVE MLM'S IN OTHER UTAH COUNTIES**

I Spring Wellness – Centerville  
Hunt'n & Fish'n – Heber City  
ONYX International – Ogden

**One MLM not classified as a recruiting MLM**

Stampin' Up – Riverton

**MLM's not classified – unable to obtain compensation plan for evaluation**

Forever Green - Orem  
Equity Now America - Sandy

**Total recruiting MLM's in Utah – at least 37 (pop. 2,233,169 – 2000 census) – 1 for every 60,356 persons, the highest density of recruiting MLM's of any state in the U.S.**

\* **Recruiting MLM companies** are multi-level marketing (network marketing, consumer direct marketing, etc.) companies that recruit participants using compensation plans that reward (through downline sales) recruiting participants far more than direct sales of products and services to non-participants. Technically, they meet the legal standard of an illegal pyramid scheme in most states; i.e., income is derived primarily from recruiting new participants into the scheme, and not from sales directly to end users who are not a part of the scheme. They tend to meet all five red flags of a product-based pyramid scheme, or recruiting MLM. See “The 5 Red Flags for Identifying Exploitive Product-based Pyramid Schemes, or Recruiting MLM's” (one page summary report) or the full report entitled “The 5 Red Flags: Five Causal and Defining Characteristics of Product-Based Pyramid Schemes, or Recruiting MLM's.” Both are linked to the research page at the following web site – [www.mlm-thetruth.com](http://www.mlm-thetruth.com)

**NOTE:** Many MLM companies start up quickly and almost as quickly collapse or fade away when they have run their course – similar to a no-product pyramid scheme. So some of the MLM companies on this list may have disappeared from the MLM landscape since the last printing of this list. And new ones have likely sprung up.

## Exhibit D

# R R R **The 5 Red Flags** R R

## for Identifying Exploitive Product-based Pyramid Schemes, or Recruiting MLM's\*

By Dr. Jon M. Taylor, President, Consumer Awareness Institute and Director, Pyramid Scheme Alert

Recruiting MLM's require extensive recruiting before realizing actual profits. Retailing is not significant. Recruiting MLM's typically display five features:

R **1. Recruiting of participants is unlimited in an endless chain of empowered and motivated recruiters recruiting recruiters.**

*Ask: Is unlimited recruiting allowed, and are those who are recruited empowered and spurred on by incentives (such as overrides from downline purchases, advancement, etc.) to recruit additional recruiters, who are likewise empowered and motivated to recruit still more recruiters, etc. – so that the effect is an endless chain of recruiters recruiting recruiters? This leads to a perception that a given market is saturated (“de facto saturation”), and the program must move on to another location or introduce new products or divisions to continue. The opportunity for each new person to make money becomes less and less as this endless chain or pyramid of participants continues to expand.*

R **2. Advancement in a hierarchy of multiple levels of “distributors” is achieved by recruitment, rather than by appointment.**

*Ask: Does a participating “distributor” advance his/her position (and potential income) in a hierarchy of multiple levels of “distributors” by recruiting other “distributors” under him/her, who in turn advance by recruiting distributors under them, etc.? If so, the result is self-appointment through recruitment to ascending payout levels in the distributor hierarchy. If the only way a person can profit significantly in the scheme is through recruiting to advance to higher payout levels (or to buy another's downline), this strongly suggests a pyramid scheme.*

R **3. “Pay to play” requirements are satisfied by ongoing “incentivized purchases\*\*.”**

*Ask: Are “distributors” encouraged to make significant purchases when recruited? That is, are they encouraged to make sizable investments in*

*“incentivized purchases\*\*” in order to take advantage of the “business opportunity,” and later to continue qualifying for advancement in – or overrides from – the MLM company? Watch out for minimum quantity purchases of products or services over time – where you must “pay to play” the game – to qualify for commissions or advancement. **Be wary when you are asked to sign up for continuing product purchases on auto-ship through an automatic bank draft**, rather than making occasional purchases as needed. Such “pay to play” or “incentivized” purchase requirements may be disguised investments in a product-based pyramid scheme, or a clever system of laundering pyramid investments in the form of product purchases. Few make sufficient commissions to cover the cost of these expenses.*

R **4. The company pays commissions and/or bonuses to more than five levels of “distributors.”**

*Ask: Does the company pay overrides (commissions and bonuses) to distributors in a hierarchy of more levels than are functionally justified; i.e., more than five levels? Even in major corporations, the entire world marketplace can be covered in five levels of sales management – branch, district, regional, national, and international sales managers. Paying commissions and bonuses on more than five levels in an MLM program primarily enriches those at the top at the expense of those at the bottom. You would be wise to avoid any program that pays overrides on more than five levels. Breakaway compensation systems are particularly exploitive, as payments are on a hierarchy of “breakaway” organizations of whole groups of participants, not just individuals – creating an extraordinarily high loss rate, except for those at the top of a “mega-pyramid of pyramids.”*

R **5. Company payout per sale for the total of all upline participants equals or exceeds that for the person selling the product, creating inadequate incentive to retail and excessive incentive to**

**recruit – and an extreme concentration of income at the top.**

Ask: *Would a “distributor” purchasing products “for resale” receive about the same total payout (in commissions, bonuses, etc.) from the MLM company as participants several levels above who had nothing to do with the sale?* If so, the company’s payments to the person retailing the product would be pitifully small, while those at the top in his upline can compound the small commission per sale by the sales of hundreds or even thousands of downline distributors. This is great for that upline person, but lousy for those attempting retail sales. **Avoid any MLM company that pays less than half of all distributor payout to the person actually selling products to customers outside the network of distributors.**

**You should not accept income projections of retail sales at full retail prices, especially for products that are overpriced and not competitive in the marketplace.** Also be wary when an MLM promoter asks you to choose between two options or “tracks” – one for those who want to “retail” the products and another track for those who are serious about “building the business.” If the incentives are heavily weighted towards recruiting, this is a moot question.

**While no one of these red flags by itself constitutes an exploitive pyramid scheme, taken together they create enormous leverage, enriching those at the top of the pyramid at the expense of a huge downline of unwitting victims of the scheme.** Where valid data has become available, recent research has demonstrated that **when all five of these red flags are found in an MLM, the percentage of participants who lose money is approximately 99.9% – far worse than the 87.5–93.3% loss rate for classic, no-product pyramid schemes and for many games of chance in Las Vegas.**

#### **SUMMARY:**

A “recruiting MLM” is a multi-level (or network) marketing system that depends upon recruitment of new distributors to replace a continuously collapsing base of new participants in a pyramid of recruits. As such, it constitutes an endless chain scheme of marketing by recruitment of distributors as primary customers.

A recruiting MLM, then, is a pseudo-business with no significant customer base and is dependent on a large network of distributors, approximately

99% of whom lose money from investing in products and services (including “success tools”) offered by the sponsoring MLM company.

The extremely high loss rate and aggregate losses make recruiting MLM’s, or product-based pyramid schemes, the worst of all types of pyramid schemes.

Thus, recruiting MLM’s are inherently flawed systems that promise ongoing residual income, but deliver very little except financial loss at the least, and loss of treasured relationships and values of honesty and integrity at the worst. They maintain themselves by continuous recruitment of new recruits, as investing participants give up or run out of funds and leave the system, seldom understanding what happened to them – even blaming themselves for their “failure.” Victims of MLM programs are seldom aware enough to file complaints with authorities, so law enforcement rarely takes action.

So – to be successful in a recruiting MLM, one must first be deceived, then maintain a high level of self-deception, and finally go about deceiving others. Some would label this “theft by deception,” except that few of those doing the deceiving are aware that they are deceiving and defrauding those they are recruiting. They may even put on a display of being “successful,” by buying expensive cars and homes and inviting others to be like them.

For a more complete report or for research, consumer guides, or MLM statistics, go to the web site: [www.mlm-thetruth.com](http://www.mlm-thetruth.com)

More information can be found on the web site — [www.pyramidschemealert.org](http://www.pyramidschemealert.org)

E-mail: [jonmtaylor@juno.com](mailto:jonmtaylor@juno.com)

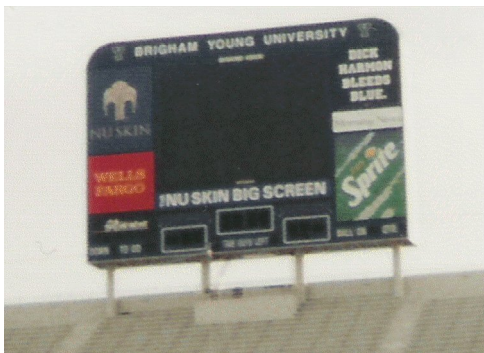
\* a.k.a. multi-level marketing, network marketing, consumer direct marketing, etc. Recruiting MLM’s can be distinguished from retail MLM’s, in which the company pays generously for retailing products without the necessity of recruiting large downlines.

\*\* “Incentivized purchases” are purchases of goods and services from the MLM company that are tied to qualifications for commissions or to advance through ascending levels in the hierarchy of participants. If such purchases are required to fully participate in the “business opportunity,” then whether they are used, sold, given away, or stored is irrelevant – they should be considered a cost of doing business.

## Exhibit E

### Is the Nu Skin Big Screen scoreboard consistent with BYU's standard of truth?

*South side of Lavell Edwards stadium*



#### The “Nu Skin Big Screen scoreboard – an icon of deceit

#### Legal actions and complaints against Nu Skin – all centering around misrepresentations:

► In 1991, following an investigation by the Attorney General of Michigan, a Cease and Desist Order was filed ordering Nu Skin to change the way it conducted business in Michigan or face prosecution as a (fraudulent) pyramid scheme.

► In 1992, Nu Skin entered into agreements with the Attorneys General of Michigan, Pennsylvania, Florida, Illinois, and Ohio to modify pyramid aspects of its marketing plan and to refrain from making deceptive earnings claims. Other states, including Georgia, Connecticut, Texas, and Utah have also undertaken investigatory or enforcement action against Nu Skin.

► In 1993, Natalie Capone on behalf of distributors in Canada, entered a class action against Nu Skin for violations of the Utah law against pyramid schemes (based on the endless recruit of sales reps) and deceptive sales practices and for violation of the Securities Act of 1933 and of the Securities Exchange Act of 1934. It was alleged that the Defendants' sales activities are commonly characterized by misrepresentation and omission of material fact. The case was settled in 2001.

► In 1994 the FTC issued a Consent Order for Nu Skin to stop misrepresenting earnings of its distributors.

► In December of 2000, Pyramid Scheme Alert (PSA) filed a petition with the FTC to enforce its Order for Nu Skin to stop its misrepresentations, finding in Nu Skin's "1998 Actual Average Incomes" report 20 misrepresentations and omissions on a single page! After the petition was posted on the PSA web site, 38 victims (representative of millions) signed complaints of misrepresentations by Nu Skin.

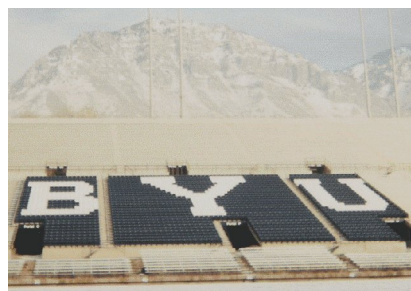
► In 1998, as part of an Assurance of Voluntary Compliance with the State of Pennsylvania, Nu Skin agreed to donate \$1,000 to the National Fraud Information Center and agreed not to make further misrepresentations about resale of electric service.

► Nu Skin is the only company to be fined twice by the FTC for over \$1 million for making false and misleading claims about its products and the income of distributors.

► From 2000-2003 PSA and CAI (Consumer Awareness Institute) received numerous complaints from Nu Skin recruits in Singapore and Malaysia about Nu Skin's making promises it could not keep regarding future markets in Indonesia and China that suggested Ponzi-like country-to-country recruitment, as had occurred in Hong Kong, Korea, Japan, Thailand and the Philippines.

► In 2003, CAI received 24 inquiries from ex-distributors in Utah regarding Nu Skin's misrepresentations in its Big Planet and Pharmanex Divisions. 15 of these ex-distributors signed a joint complaint against Nu Skin for its misrepresentations with Utah's Div. of Consumer Protection, and two filed separate claims.

*In sharp contrast, on the East side of the Stadium*



#### BYU – a standard of truth

► BYU upholds a *strict honor code* that requires academic honesty (no plagiarism, cheating, fabrication or falsification), honesty in civil and family disputes, honesty in usage of BYU computers and other equipment, and no tolerance for theft, lying, deception, or fraud. Violations can lead to dismissal.

–Church Education. System Honor Code

► “The substantive standards of academic honesty stated . . . apply *a fortiori* to faculty. Indeed, all members of the BYU community are expected to act according to the highest principles of academic integrity.”

–Church Education. System Honor Code

► “Honesty is the foundation of all organizations and all personal relationships. . . Honesty and truthfulness are not valuable unless they are absolute” –Elder Dallin H. Oaks, apostle and former president of BYU (BYU Devotional, Jan. 30, 1973)

► “We believe in being honest . . .” –13<sup>th</sup> Article of Faith

► “Woe to those who profess to be Saints and are not honest.” –Brigham Young

***Must the Nu Skin Big Screen scoreboard  
continue towering to the sky  
at the BYU stadium?***