



DCCA NEWS RELEASE

BUSINESS REGISTRATION DIVISION

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DEPARTMENT OF COMMERCE WARNS PUBLIC TO BEWARE OF ILLEGAL PYRAMID INVESTMENT SCHEMES

Honolulu, Hawaii (November 1, 2002) - Ryan Ushijima, Hawaii's Securities Commissioner of the Department of Commerce and Consumer Affairs, wants the public to beware of illegal pyramid investment schemes.

In its purest form, a pyramid investment scheme is a plan or program in which people invest in the right to sell the investment. Members make money by selling this right to new investors, down the pyramid, who in turn sell the right to those ever lower in the chain. The scheme is called a "pyramid" because the structure grows like a pyramid as each new level of participants must be greater than the previous level for the program to sustain itself. The pyramid eventually collapses as the ever-increasing number of new participants, who are trying to recover their initial investment, attempt to recruit the ever-decreasing number of prospects available in a particular area. A few people besides the promoters can make money if they get in on the game early enough. But the other would-be participants lose their money with no chance of collecting as the pyramid collapses when the program reaches the point where necessary further recruitment becomes impossible.

Under State securities laws, memberships or interests in a pyramid investment program can constitute an investment contract, which is defined by statute to be a "security". State securities laws require that such investments – as well as the individuals and companies soliciting their sale – be registered with the State. Neither the investments nor the individuals and entities named here are registered with the State. State securities laws also prohibit fraud in connection with the offer or sale of a security. A pyramid investment program is, by its very nature, a scheme to defraud as participants swindle the public by using the lure of quick and easy profits to recruit new investors into a program which will eventually collapse and fail, causing the loss of their entire investment.

The Hawaii Securities Commissioner strongly cautions Hawaii residents not to participate or become involved in any investment which appears to be an illegal pyramid scheme. Many illegal pyramids attempt to establish their legitimacy by purporting to sell a product. What distinguishes these schemes from legitimate multilevel marketing businesses is that a pyramid concentrates mainly on the quick profits to be earned by recruiting others to invest, who in turn, will recruit others, and so on. The merchandise or service to be sold is largely ignored and generally of only nominal value.

DEPARTMENT OF COMMERCE & CONSUMER AFFAIRS

BENJAMIN J. CAYETANO, Governor

KATHRYN S. MATAYOSHI, Director

NOE NOE TOM, Deputy Director

To avoid getting burned in a pyramid scheme, consider the following;

- Avoid any plan that offers commissions to recruit new members.
- Beware of plans that ask you to spend money on costly inventory or paying for multiple memberships or “spots”.
- Be cautious of claims that you will make money by recruiting new members instead of on sales you make yourself.
- Beware of promises about high profits or claims about “miracle” products.
- Be cautious about references and testimonials; these “decoy” references may be paid by the promoter to describe their fictional success in earning money through the plan.
- Don’t pay money or sign contracts in a high pressure situation.
- Do your homework. Check out all offers with your local Better Business Bureau and the Securities Enforcement Branch.

The Hawaii Commissioner of Securities cannot tell you whether a particular multi-level marketing or network marketing plan is legal. Nor can it give you advice about whether to join such a plan. You must make that decision yourself. However, the Commissioner suggests that you use common sense and consider these tips when you make your decision.

After considering these tips, you find this information helpful in deciding about participation in one of these plans, you could be doing your friends and family a favor by sharing this information with at least five of them. Then ask each of them to share it with five more people, and suggest they tell each of them to share it with five more...

For further information, contact the Securities Enforcement Branch of the Department of Commerce and Consumer Affairs at 586-2740 on Oahu. The toll free numbers for the neighbor islands are as follows:

Big Island:	974-4000, then enter 62740 and hit #
Kauai:	274-3141, then enter 62740 and hit #
Maui:	984-2400, then enter 62740 and hit #
Molokai & Lanai:	1-800-468-4644, then enter 62740 and hit #.