Investor Education

Securities Division, Maryland Attorney General's Office

Multilevel Marketing Plans

If you are thinking about joining a multilevel marketing plan, you should know that Maryland has a Maryland Multilevel Distribution Companies Law, Title 14, Subtitle 3, Business Regulation Article, Annotated Code of Maryland (2004 Repl. Vol.) (the "Maryland Multilevel Marketing Law"). Multilevel marketing plans also are known as "multilevel distribution companies," "MLMs," or "network" or "matrix marketing programs."

Multilevel marketing plans generally provide a way of selling goods or services through distributors. These programs typically promise you that if you sign up as a distributor, you can earn commissions from sales of products or services that you make, and from sales made by other people that you recruit to join the program. Multilevel marketing plans often promise to pay commissions through two or more levels of recruits, called the distributor's "downline."

Be Careful of Unlawful Pyramid Schemes

If you are considering participating in a multilevel marketing plan, be aware that some multilevel marketing plans, in reality, may be illegal pyramid schemes if participants earn money primarily from the recruitment of others into the plan, rather than from the sale of a product or service. Pyramid schemes are illegal in Maryland and every other state. Anyone who establishes, promotes or advertises an illegal pyramid scheme in Maryland is committing a crime that may result in a fine or a prison sentence, or both. The Maryland Securities Division publishes a brochure entitled "Pyramid Schemes: Investor Beware!" http://www.oag.state.md.us/Securities/PyramidBrochure.pdf with more information about how to distinguish an illegal pyramid scheme from a multilevel marketing plan.

The Maryland Multilevel Law's Requirements

Under the Maryland Multilevel Law, a multilevel marketing company must allow a participant to *cancel* his or her contract ***for any reason*** within the first 3 months after receiving any goods or services.

If participants are required to purchase products or services in order to participate in a multilevel marketing plan, the Maryland Multilevel Law requires the company to ***repurchase***, at 90% of the original purchase price, *all resalable goods* within 3 months of delivery.

The Maryland Multilevel Law also ***prohibits a multilevel marketing company from making any earnings representations or projections*** to

prospective participants, unless the representations or projections accurately reflect the average earnings of a substantial number of participants who are similarly situated to the prospective participant.

Remedies for Law Violations by Multilevel Marketing Plans

Multilevel marketing companies are not required to be registered in Maryland. Further, no Maryland governmental agency "approves" or reviews any multilevel marketing plan for legal compliance before it is offered in this state. For those reasons, *it is difficult for this Office to give advice about the legality of specific multilevel marketing companies. Potential participants should be aware that in many cases, a multilevel marketing company may have written documentation describing how its plan is intended to operate, but individuals offering the plan to the public may be doing so contrary to the written description.* The Maryland Attorney General's Office or your county's State's Attorney's Office, after conducting a thorough investigation, may go to court to stop a company from violating a provision of the Maryland Multilevel Law. If you participate in a multilevel marketing program and then have a dispute with the company, you may need an attorney to handle your case. Only a judge can order a company that is violating the law to return any money.

For more information or to check on any investment opportunity, contact the Maryland Securities Division, by calling 410-576-6360 or by e-mailing securities@oag.state.md.us.

Call us. We're here to help.

The Maryland Securities Division
410-576-6360
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