

# SENATE BILL REPORT

## SB 5211

---

---

As Reported By Senate Committee On:  
Labor, Commerce, Research & Development, February 14, 2005

**Title:** An act relating to prohibiting pyramid promotional schemes.

**Brief Description:** Prohibiting pyramid promotional schemes.

**Sponsors:** Senators Keiser, Hewitt, Prentice, Mulliken, Sheldon, Finkbeiner, Shin, Franklin, Rockefeller and Kohl-Welles.

**Brief History:**

**Committee Activity:** Labor, Commerce, Research & Development: 2/10/05, 2/14/05 [DP-WM].

---

### SENATE COMMITTEE ON LABOR, COMMERCE, RESEARCH & DEVELOPMENT

**Majority Report:** Do pass and be referred to Committee on Ways & Means.

Signed by Senators Kohl-Welles, Chair; Franklin, Vice Chair; Parlette, Ranking Minority Member; Hewitt, Honeyford and Keiser.

**Staff:** John Dziedzic (786-7784)

**Background:** A chain distribution scheme involves: (1) a person making an investment to obtain the right to recruit others; (2) new recruits who are also required to make an investment to obtain the right to recruit others in the program; and (3) a person previously investing in the program receiving money or something of value when new recruits enter the program.

A chain distribution scheme is an unfair and deceptive practice under the Consumer Protection Act (CPA). Generally, under the CPA, a court may issue an injunction to stop the scheme, impose penalties, and order restitution to injured parties, court costs, and attorney fees.

**Summary of Bill:** A pyramid promotional scheme is a program where participants pay for the right to receive compensation primarily based on the recruitment of others. Pyramid promotional schemes violate the CPA. The chain distribution statute is repealed.

A program is not a pyramid promotional scheme if participants receive compensation based upon purchases of goods and services for consumption or resale, and participants are: (1) not required or encouraged to purchase more inventory than can be reasonably used or sold in a reasonable amount of time; and (2) allowed to return some or all of their unused inventory to the program at commercially reasonable terms when the business relationship between the participant and the program is terminated.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** The current law is outdated, and needs to be modified to address the challenges and realities of the current economy. The proposed language has been adopted in several other states and is included in the 2004 volume of Suggested State Legislation published by the Council of State Governments.

**Testimony Against:** None.

**Who Testified:** PRO: Senator Keiser, prime sponsor; Misty Fallik, Direct Selling Assn.; Bryan Harrison, Alticor; Kevin McMurray, USANA Health Sciences; Mark Myers, Sensaria Natural Bodycare.