

# FINAL BILL REPORT

## SB 6416

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Synopsis as Enacted

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

**Sponsors:** Senators Keiser, Hewitt, Rockefeller, Kohl-Welles, Prentice, Finkbeiner, Parlette, Sheldon, Deccio, Shin, Esser and Rasmussen.

**Senate Committee on Labor, Commerce, Research & Development**

**House Committee on Commerce & Labor**

**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 into 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:** A pyramid scheme is defined as an enterprise in which a person pays something for the right to receive compensation that is derived primarily from the recruitment of other persons as participants in the enterprise. Enterprises where participants' compensation is based on the bona fide sale of goods, services, or intangible property to others is not a pyramid scheme. Payments by participants for goods, etc. to be sold by the participants do not constitute "consideration," if the goods, etc. are subject to a repurchase agreement.

Establishing, promoting, operating, or participating in a pyramid scheme violates the CPA.

The statutes defining and prohibiting chain distribution schemes are repealed.

**Votes on Final Passage:**

Senate	43	0
House	97	0

**Effective:** June 7, 2006