

SUBJECT: CONSUMER PROTECTION – CHAIN DISTRIBUTOR SCHEMES
ATTORNEY GENERAL – PUBLIC PROTECTION UNIT
ADOPTED PURSUANT TO 9 V.S.A. SECTION 2453(c)

RULE CP 101
Effective Date: 1/14/72

CP 101.01 Unfair Trade Practice
CP 101.02 Definitions

CP 101.01 Unfair Trade Practice

The promotion or offer of, or the grant of participation in a chain distributor scheme in connection with the solicitation of investments from members of the public constitutes an unfair and deceptive trade act and practice in commerce under 9 V.S.A. Section 2453(a). When so used the scheme serves as a lure to improvident and uneconomical investment. Many individuals lack commercial expertise and anticipate unrealistic profits or economic gain through use of the chance to further perpetuate a chain of distributors, without regard to actual market conditions affecting further distribution and sale of the property purchased by them or its market acceptance by final users or consumers. Substantial economic losses to participating distributors have occurred and will inevitably occur by reason of their reliance on perpetuation of the chain distributor scheme as a source of profit.

CP 101.02 Definitions

(1) "Chain distributor scheme" is a sales device whereby a person, upon a condition that he make an investment, is granted a license or right to solicit or recruit for profit or economic gain one or more additional persons who also are granted such license or right upon condition of making an investment and may further perpetuate the chain of persons who are granted such license or right upon such condition. A limitation as to the number of persons who may participate, or the presence of additional conditions affecting eligibility for the above license or right to recruit or solicit or the receipt of profits therefrom, does not change the identity of the scheme as a chain distributor scheme.

(2) "Investment" is any acquisition, for a consideration other than personal services, of property, tangible or intangible, and includes, without limitation, franchises, business opportunities and services. It does not include sales demonstration equipment and materials furnished at cost for use in making sales and not for resale.