

Kentucky AG and FTC Press Conference On Fortune Hi-Tech Marketing

Kentucky Attorney General Jack Conway: Good afternoon, around 10am this morning agents with the FTC as well as agents with the Kentucky office of the attorney general while be escorted by Lexington Police, took control of the headquarters of Fortune Hi-tech Marketing here in Lexington. It was done pursuant to a court order that was entered in a lawsuit in Chicago, Illinois, by the FTC with co-plaintiffs the Commonwealth of Kentucky, the State of North Carolina, and the State of Illinois. I want to thank the Lexington Police Department for their assistance in this effort this morning. Agents were also escorted by the Kentucky State Police in Danville to take control of a warehousing operation in Fayette County. I want to thank again the City of Lexington and the police department for hosting us here today.

Fortune Hi-tech Marketing is an alleged global pyramid scheme and it's been operating right here in the Commonwealth of Kentucky it's been operating out of these Lexington headquarters since 2001. A receiver as I mentioned, Robb Evans and Associates, have been appointed by the U.S. District Court for the Northern District of Illinois, and that receiver is now holding the assets of Fortune Hi-tech marketing. The receiver will review the company's financials and report back to the court with its findings. We think today's actions are the beginning of the end for one of the most prolific pyramid schemes operating in North America.

This is the result of a lawsuit that was filed last Thursday, as I mentioned by my office, two AG colleagues, and the Federal Trade Commission. Chicago was chosen because its Midwest operations are headquartered there; the court is familiar with these issues; and there has been significant Fortune Hi-tech marketing activity in the area. The judge did issue a temporary restraining order against the company, which required Fortune Hi-tech Marketing to immediately cease all operations. Our investigation into Fortune Hi-Tech started in the summer of 2010 after we were aware of regulatory actions taken against by the Attorney General of North Dakota and the State Auditor of Montana. Subsequently, the Attorney General of Texas also reached a settlement with Fortune Hi-Tech Marketing.

Our office at that time had received about a dozen complaints regarding Fortune Hi-Tech Marketing. As I said we issue a subpoena in the summer of 2010 and another subpoena was issued under the Kentucky Consumer Protection Act in the summer of 2011. After our office began reviewing the documents, we believed that Fortune Hi-Tech Marketing was operating a massive pyramid scheme that involved more than 100,000 people across the United States and in several other countries. And we think the damage to consumers is in the hundreds of millions of dollars.

At that point, to confirm our initial analysis, we contacted the Federal Trade Commission; we contacted the Federal Trade Commission for two reasons in particular; one their expertise in their area and their ability to put a stop to it; and two, they have the economic analysts and experts to really go through the information that was gleaned, and to make the appropriate assessments. At that time we also decided to work along with the Attorney General of North Carolina, Roy Cooper, and the Attorney General of Illinois, Lisa Maddigan, who I spoke with late last week about this obtaining action.

Fortune Hi-tech distributors only receive pennies only receive pennies for selling multi-year service contracts, but they receive significant payments for signing up new members. Legitimate multi-level marketing companies reward distributors based on product sales, not on signing up individuals, thus the key test as to whether or not you have a pyramid scheme or you have legitimate direct marketing. And I think some of the numbers as they pertain to Fortune Hi-Tech Marketing are illustrative. 99% of Fortune Hi-Tech Marketing members are at the lowest two levels of the company. According to the FTC's financial expert, 96% of people that sign up with Fortune Hi-Tech should expect to lose money. 90% of Fortune Hi-Tech Marketing members earn \$15 a year or less, yet by time you pay the initiation fee and the package fee for products it costs about \$1500 a year to be a member of Fortune Hi-Tech Marketing. And 94% of members quit after one year.

I want to invite up to the podium now someone who's been a real partner and a pleasure to work with in this investigation. I've often said at these press conferences that when we in the office of the Attorney General partner with federal agencies or when we work together we can get a lot more done and we're joined here today by the Midwest Director of the Federal Trade Commission who has been helping oversee this operation here this morning. Please welcome Steve Baker

FTC Midwest Director Steve Baker: It is a pleasure, thank you for having me General Conway and it's always great to visit the state of Kentucky and it's really wonderful we can work together. There's so much stuff going on in the consumer protection world we certainly can't do it ourselves and it really takes partnerships like this and I think we can really do some good for the public.

Let me tell you a little about pyramid schemes and the specifics of this case, talk about the victims, and then describe what may come next. Pyramid schemes have been around for at least 100 years, you all have heard about them I'm sure. In a simple pyramid scheme each person that signs up has got to pay money upstream and then has got to recruit several other people who pay. So if I join and pay, and then I've got to sign up three more people, I get a cut of any money they pay up. The hard central problem of all these pyramids is no matter how big they are and no matter what point in time, way more people have lost money than can ever make money. So I like to say, that even though you talk about these things as pyramids, they're really way more like an iceberg because you know an iceberg has only got a tiny percent that's ever above water, I mean whether it's a big iceberg or a small iceberg, the proportions of it are going to stay the same.

And that's the problem with pyramids, and I think that's what we've got here. In other words, most people are going to stay underwater. Of the question with these multi-level marketing things is whether they're pyramids or they're just another method of selling products to people that want them. The real question, as General Conway said, is whether the emphasis is on selling products to independent third parties and if the investigation concluded that they are, then their found that they're not a pyramid. But, when the main thing people buy is the right to recruit outsiders into the thing, we've taken legal action against them.

Now, this is about recruiting, not products. This is an international operation, they go extensively in the United States and Canada, they also operate in Puerto Rico and the United Kingdom. In fact, even the United States we think they've made a very big emphasis on selling to Spanish speaking consumers, especially in urban areas. A lot of the materials, if not all of them, are translated into Spanish, so they've been concentrating on those.

It's not cheap to join Fortune, there's a \$295 signup fee, and then recruits usually buy a bundle of products from Fortune that are shipped to them automatically each month and automatically charged to their credit card, so the yearly cost to be part of this is easily \$1500. Now in recruiting, Fortune has told people the products are one that people already have: dish network, cell phone service, and there's demand for those. But those types of products are really only a small percentage of the things people have to at least buy and theoretically sell from Fortune. There's no special deals on getting Dish through them, and people don't really don't make a lot even if they sell them. A rep that sells a Dish Network package for \$50 dollars a month with a two year commitment makes a commission of 43 cents. So you're not making a lot. Instead, they're selling things mainly of dubious value; these include their own link of organic shampoos and pills. Here's a couple bottles of some of the stuff people have. This one's call fruit essentials, this is call vegetable essentials, you can take a look afterwards, but we think this is what people are buying and that they're mainly buying, just so they can take part in Hi-Tech, not because that this is anything that they especially want. There's no real emphasis on selling these products to people. You can't advertise and you can't sell them on the Internet with banners, you can't sell them on Craigslist, there's no training or emphasis on the virtues of these products or how to sell them, and we don't think any of them are any special bargains. In fact, we think people buy them only so they can take part in making commissions from signing up other people. Now Fortune says that you've got to sell 70% of the products you buy from them to somebody outside the pyramid. But there's absolutely no effort to really control that, to make sure that's happening, it's just a pro forma promise that just seems to be a wink-wink, nod-nod. So in other words, there's really no effort to sell things, instead its people buying stuff, paying back up to a smaller number of people.

As you can see, the recruiting is rife with testimonials of talkers talking about incredible sums they've made. There's YouTube videos out there, I'm sure that some of you in the press are going to be taking a look at those. A very small group of people may well be making a lot of money, but we're alleging that what they're telling people is that anyone that's willing to work hard can make substantial money, and that they can't and that they don't. They probably have 100,000 people involved in this now, they've had lots of people who've dropped out, as General Conway has said, 99% of people are in the bottom two categories, Manager and Regional Sales Manager. When you really parse through the footnotes and stuff in the income disclosure statement that Fortune Hi-Tech puts out, and it takes some work to do that, you find that 93% of their first line people don't even make \$15 a month, despite paying hundreds of dollars for these products, and over half of the regional sales managers, the next step up, don't even make \$15 a month. Huge percentages drop out each year.

Now I've got a word to the people who are currently signed up for Fortune Hi-Tech Marketing. We believe you've been victims of a rigged game. Many of you have dropped out, or probably concluded that you didn't work hard enough, that you didn't try hard enough, but that most people were doing pretty well with Fortune Hi-Tech, but that's not true. No matter how hard you work or have worked, there's very little chance that people can even break even. In fact, even when people are doing their best, the plan is set up so that 96% of people must lose money to keep this whole enterprise functioning. Fortune knows that and has set this company up to produce just those results. So we've asked the court to freeze the company's assets, so that they can go back to the people who they belong to, people who've spent money on Fortune Hi-Tech. We'll gather what we can, any money that we can recover from this will go back to victims, the Federal Trade Commission itself with never see a penny, have any of this money, but the idea is to grab the assets, to preserve them, hold on to them, so if the court decides refunds are appropriate at the end of this case, they'll be able to do that. And we will sure take your questions at this point.

Kentucky Attorney General Jack Conway: A couple more comments please, as Mr. Baker said, this is quite a pyramid scheme, as I mentioned earlier, it's one of the largest we've ever seen in North America. The vast majority of people lost money; we're going to try our best to get it back. If consumers or Fortune Hi-Tech employees have questions about the lawsuit, they can call the FTC's hotline that has been set up, that is (202) 326-2643, that's (202) 326-2643. The hotline has information available in English and in Spanish. It is my understanding this morning when agents arrived that Paul Orbison and Thomas Mills were present. They were informed of what was going on, the receiver is there, some employees were sent home but the receivers also engaged in trying to assess the IT of the company, what assets are there, so employees are being interviewed for help with taking control of the company. In addition to the civil nature of this suit, it is a Class C Felony to violate Kentucky's Pyramid Sales Act, and I have had a conversation with the Commonwealth Attorney here in Fayette County and we do expect to forward some of our results on to him.