



**For Release:** August 9, 1999

## **FTC, Six States Sue Equinox International; Law Enforcers Ask Court to Halt Illegal Pyramid Operation**

The Federal Trade Commission and law enforcement authorities from Hawaii, Maryland, Nevada, North Carolina, Pennsylvania and South Carolina have asked a U.S. District Court in Las Vegas to halt the allegedly illegal operations of Equinox International Corporation; Advanced Marketing Seminars, Inc.; BG Enterprises, Inc.; and William Gould, their principal. In a suit filed jointly with the states, the FTC alleged that the defendants operated an illegal pyramid scheme, made deceptive earnings claims, and provided distributors with the means and instrumentalities to violate federal law. State law enforcers alleged violations of state securities laws, deceptive trade practices laws, false advertising laws, pyramid laws, and licensing requirements laws. At the request of the FTC and state enforcers, District Court Judge Johnnie B. Rawlinson has issued a Temporary Restraining Order, frozen the defendants' assets and appointed a receiver, pending trial. The law enforcers have asked the court to enjoin the alleged illegal pyramid operations permanently and order consumer redress. Five states also have asked the court to award civil penalties for violations of state laws.

The companies and their principal are based in Las Vegas, Nevada.

According to allegations in the complaint filed with the Court, Equinox operated a multi-level marketing company which offered distributorships for products including water filters, vitamins, nutritional supplements, and skin care products. Equinox distributors ran classified ads in the "Help Wanted" sections of newspapers which implied that a salaried position was being offered. Persons who responded to the ads were instead given a sales presentation designed to recruit new distributors. The complaint further alleges that Equinox told the recruits that they could earn money by selling products or recruiting but emphasized that the real way that Equinox distributors make money is through recruiting, not through sales. New recruits were encouraged to purchase \$5,000 worth of products so they could enter the program at the manager level, to rent desk space for \$300 to \$500 a month, to subscribe to a phone line so they could begin recruiting others, and to attend seminars designed to train them. The seminars cost between \$300 and \$1000 and stressed that distributors could make substantial amounts of money. The complaint alleges that a very small percentage of distributors who became participants in the Equinox program actually made more money than they expended for front-end expenses, and that a vast majority of distributors discontinued their participation in the program with little or no earnings. The complaint also alleges that while Equinox purported to link compensation to retail sales, it did not enforce the policies and requirements ostensibly designed to assure such sales. "The result of the structure and operation of the program is that financial gains to Equinox participants are primarily dependent upon the continued, successive recruitment of other participants, and retail sales are not required as a condition precedent to realization of such financial gains," the complaint says.

The FTC alleged that the deceptive earnings claims made by Equinox are false and misleading and violate federal law. By furnishing distributors with promotional materials that contain false and misleading information, including the deceptive earnings claims, Equinox has supplied the means for the distributors, themselves, to violate federal law. The defendants represented that everyone who participates in the program will receive substantial income, instead of disclosing that many participants will not. That material misrepresentation violates federal law, according to the complaint. Finally, the FTC and states alleged that the program is actually a pyramid scheme and violates the FTC Act.

The FTC and state enforcers have asked the court to permanently enjoin the defendants' operation and order consumer redress. The states of Hawaii, Maryland, Nevada, and North Carolina, and the Commonwealth of Pennsylvania also have asked the court to order civil penalties.

The complaint was filed in U.S. District Court for the District of Nevada, in Las Vegas, on August 3, under seal. The seal was lifted August 6.

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**NOTE:** The Commission authorizes the filing of a complaint when it has "reason to believe" that the law has been, or is being, violated, and when the Commission also believes that a proceeding is in the public interest. The complaint is *not* a finding or ruling that the defendants actually have violated the law. The case will be decided by the court.

Copies of the complaint are available from the FTC's web site at <http://www.ftc.gov> and also from the FTC's Consumer Response Center, Room 130, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580; 877-FTC-HELP (877-382-4357); TDD for the hearing impaired 1-866-653-4261. To find out the latest news as it is announced, call the FTC NewsPhone recording at 202-326-2710.

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(FTC File No. 992 3105)  
(Civil Action No. CV-S-99-0969-JBR-RLH)

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