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18 UNITED STATES DISTRICT COURT
19 NORTHERN DISTRICT OF CALIFORNIA

20 Jeff Pokorny and Larry Blenn
21 on behalf of themselves and those similarly
situated,
22 Plaintiffs,
23 v.
24 Quixtar, Inc., James Ron Puryear Jr., Georgia
Lee Puryear, and World Wide Group, L.L.C.,
25 Britt Worldwide L.L.C., American Multimedia
26 Inc., Britt Management, Inc., Bill Britt and
Peggy Britt,
27 Defendants.

CASE NO. _____
COMPLAINT AND DEMAND FOR JURY TRIAL
CLASS ACTION

FILED

JAN 10 2007

RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

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Filing

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C 07 0201

1 CLASS ACTION COMPLAINT

2 Plaintiffs Jeff Pokorny and Larry Blenn on behalf of themselves and those similarly
3 situated, sue defendants Quixtar, Inc. ("Quixtar"), Ron Puryear, Georgia Lee Puryear, World
4 Wide Group, L.L.C., Britt Worldwide L.L.C., American Multimedia Inc., Britt Management,
5 Inc., Bill Britt and Peggy Britt, and allege as follows:
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7 Nature of Action

8 1. This is an action to recover damages caused by defendants' operation of a
9 pyramid scheme. This pyramid scheme is fraudulent because it induces individuals to invest in
10 products and marketing tools and to recruit new victims into the scheme with the false promise
11 of enormous profits. The pyramid scheme here consists of two separate, but related
12 businesses: Quixtar, Inc., a multilevel marketing business, and the "Kingpins Corporations,"
13 which are a group of businesses that sell purported motivational materials and services to
14 distributors of Quixtar's products. New entrants into the pyramid scheme are effectively
15 required to invest money to buy products from Quixtar and "tools and functions" from the
16 "Kingpin Corporations." Because Quixtar distributors (euphemistically referred to as
17 "Independent Business Owners" (or "IBO's" by Quixtar)) most often do not sell products to
18 consumers who are not also distributors, they can obtain a return on their investment in the
19 Quixtar program only by recruiting new distributors who will then buy products (and recruit
20 more distributors who will buy products), which purchases result in "bonuses" to the recruiting
21 distributor.

22 Type of Action

23 2. This is an action brought, on behalf of a national class of distributors, pursuant
24 to the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. § 1961 *et seq.* ("RICO")
25 and, on behalf of a California class of distributors, pursuant to the California Business and
26 Professions Code §§ 17200, *et seq.* and 17500, *et seq.*
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Parties

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2 3. Plaintiff Jeff Pokorny ("Pokorny") is, and at all material times was, an
3 individual who resides in the county of Alameda, in the state of California. Pokorny entered
4 into a Registration Agreement with Amway and became an Amway distributor on or about
5 October 1994. He later became a Quixtar distributor when the Amway organization launched
6 Quixtar, at which time all Amway distributors in the United States were converted to Quixtar
7 distributors. While a distributor, Pokorny was in the World Wide DreamBuilders' "line of
8 sponsorship" run by defendants Ron Puryear and Georgia Lee Puryear. Pokorny operated his
9 Quixtar distributorship under the name "Pokorny Enterprises."

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11 4. Plaintiff Larry Blenn ("Blenn") is, and at all material times was, an individual
12 who resides in the county of San Joaquin, in the state of California. Blenn entered into the
13 Quixtar Registration Agreement with Quixtar and became a Quixtar distributor on or about
14 January 2005. While a distributor, Blenn was in the World Wide DreamBuilders' "line of
15 sponsorship" run by defendants Ron Puryear and Georgia Lee Puryear. Blenn operated his
16 Quixtar distributorship under the name "Blenn Enterprises."

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18 5. Defendant Quixtar, Inc. ("Quixtar") is, and at all relevant times was, a
19 corporation organized under the laws of the state of Virginia, with its principal place of
20 business in the state of Michigan, and doing business regularly throughout the United States,
21 including in the state of California. Quixtar transacts its business in the Northern District of
22 California in accordance with 18 U.S.C. § 1965(a) and (b) and California Code of Civil
23 Procedures § 410.10. Quixtar is the successor-in-interest of the Amway Corporation
24 ("Amway"), which did business in the state of California and in this District.
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26 6. Defendant World Wide Group, L.L.C. ("World Wide Group") is, and at all
27 relevant times was, a corporation organized under the laws of the state of Washington, with its
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principal place of business in the state of Washington and doing business regularly in the state of California. World Wide Group transacts its business in the Northern District of California in accordance with 18 U.S.C. § 1965(a) and (b) and California Code of Civil Procedure § 410.10. Defendant World Wide Group is in the “tools and functions” business and sells its products to distributors, including plaintiff. World Wide Group also does business under the name of World Wide Dream Builders.

7. Defendant Ron Puryear is, and at all relevant times was, an individual residing in the county of Spokane, in the state of Washington. Defendant Ron Puryear is an owner of World Wide Dream Builders and/or World Wide Group and individually does business in California. Ron Puryear transacts his business and promotes the World Wide Dream Builders “line of sponsorship,” as explained further herein, in the Northern District of California in accordance with 18 U.S.C. § 1965(a) and (b) and California Code of Civil Procedure § 410.10.

8. Defendant Georgia Lee Puryear is, and at all relevant times was, an individual residing in the county of Spokane, in the state of Washington. Defendant Georgia Lee Puryear is an owner of World Wide Dream Builders and/or World Wide Group, which does business throughout the state of California and individually does business in California. Georgia Lee Puryear transacts her business and promotes the World Wide Dream Builders “line of sponsorship,” as explained further herein, in the Northern District of California in accordance with 18 U.S.C. § 1965(a) and (b) and California Code of Civil Procedure § 410.10.

9. Defendant Britt Worldwide L.L.C. (“Britt Worldwide”) is, and at all relevant times was, a corporation organized under the laws of the state of Washington, with its principal place of business in the state of Washington and doing business regularly throughout the state of California. Defendant Britt Worldwide is the upline “line of sponsorship” to defendants World Wide Group, Ron Puryear and Georgia Lee Puryear. In other words, defendants World

1 Wide Group, Ron Puryear and Georgia Lee Puryear report to and work with Defendant Britt
2 Worldwide to promote their "tools and functions" businesses. Defendant Britt Worldwide is in
3 the "tools and functions" business and sells its products to distributors. Defendant Britt
4 Worldwide transacts its business in the Northern District of California in accordance with 18
5 U.S.C. § 1965(a) and (b) and California Code of Civil Procedure § 410.10.

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7 10. Defendant American Multimedia Inc. ("American Multimedia") is, and at all
8 relevant times was, a corporation organized under the laws of the state of North Carolina, with
9 its principal place of business in the state of North Carolina and doing business regularly
10 throughout the state of California. Defendant American Multimedia is in the "tools and
11 functions" business and sells its products to distributors. Defendant American Multimedia
12 transacts its business in the Northern District of California in accordance with 18 U.S.C. §
13 1965(a) and (b) and California Code of Civil Procedure § 410.10.

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15 11. Defendant Britt Management, Inc. ("Britt Management") is, and at all relevant
16 times was, a corporation organized under the laws of the state of Nevada, with its principal
17 place of business in the state of Nevada and doing business regularly throughout the state of
18 California. Defendant Britt Management, Inc. is in the "tools and functions" business and sells
19 its products to distributors. Defendant Britt Management transacts its business in the Northern
20 District of California in accordance with 18 U.S.C. § 1965(a) and (b) and California Code of
21 Civil Procedure § 410.10.

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23 12. Defendant Bill Britt is, and at all relevant times was, an individual citizen
24 residing in the county of Orange in the state of North Carolina. Defendant Bill Britt is an
25 owner of Britt Worldwide, American Multimedia and Britt Management, which are in the
26 "tools and functions" business and which all do business throughout the state of California.
27 Defendant Bill Britt is the upline "line of sponsorship" to Ron Puryear and Georgia Lee
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Puryear. In other words, Defendant Bill Britt advises and works with Ron Puryear and Georgia Lee Puryear to promote their "line of sponsorship" and their "tools and functions" business. Defendant Bill Britt transacts his business and promotes his "line of sponsorship" in the Northern District of California in accordance with the 18 U.S.C. § 1965(a) and (b) and California Code of Civil Procedure § 410.10.

13. Defendant Peggy Britt is, and at all relevant times was, an individual citizen residing in the county of Orange in the state of North Carolina. Defendant Peggy Britt is an owner of Britt Worldwide, American Multimedia, and Britt Management, which are in the "tools and functions" business and which all do business throughout the state of California. Defendant Peggy Britt is the upline "line of sponsorship" to Ron Puryear and Georgia Lee Puryear. In other words, Defendant Peggy Britt advises and works with Ron Puryear and Georgia Lee Puryear to promote their "line of sponsorship" and their "tools and functions" business. Defendant Peggy Britt transacts her business and promotes her "line of sponsorship" in the Northern District of California in accordance with the 18 U.S.C. § 1965(a) and (b) and California Code of Civil Procedure § 410.10.

14. All of the above named defendants had sufficient and continuous contact with the Northern District of California in that, among other things, the defendants have been actively promoting the pyramid scheme through the use of mails and wires in the district, selling products in the district, promoting their "tools and functions" businesses in the district, and promoting their "lines of sponsorship" in the district.

Jurisdiction and Venue

15. The defendants are subject to the jurisdiction of this Court. The corporate defendants at all relevant times have been engaged in continuous and systematic business in this State, have designated agents for service of process in this State, and/or have committed

1 tortious acts in this State. The individual defendants have at all relevant times been engaged in
2 continuous and systematic business in this State and/or have committed tortious acts in this
3 State. The actions giving rise to this lawsuit were taken by defendants at least in part in
4 California. Plaintiffs Pokorny and Blenn are citizens of California. In accordance with 18
5 U.S.C. § 1965(a) and (b), the defendants are subject to this Court's jurisdiction in that they
6 "transact affairs" in the Northern District of California and "the ends of justice require that
7 other parties residing in any other district be brought before the Court, the Court may cause
8 such parties to be summoned, and process for the purpose may be served in any judicial district
9 of the United States by the marshal thereof." 18 U.S.C. § 1965(a) and (b). In accordance with
10 California's long-arm statute, California Code of Civil Procedure § 410.10, this Court has
11 personal jurisdiction over the defendants.
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14 16. Because plaintiffs Pokorny and Blenn assert claims pursuant to the Racketeer
15 Influenced Corrupt Organizations Act ("RICO"), 18 U.S.C. §§ 1961 – 1968, this Court has
16 jurisdiction over this action pursuant to 28 U.S.C. § 1331. Because plaintiffs Pokorny and
17 Blenn assert state law claims under the California Business and Professions Code, this Court
18 may exercise supplemental jurisdiction pursuant to 28 U.S.C. § 1367.
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20 17. Venue is proper in this District pursuant to 28 U.S.C. § 1391(b) and (c) and 18
21 U.S.C. § 1965(a) and (b) because a substantial number of the acts and transactions that gave
22 rise to the claims of the plaintiffs and the plaintiff class occurred within this District;
23 defendants did, or solicited, business, and transmitted communications by mail or wire relating
24 to their illegal pyramid in this district; transacted their affairs, and/or resided within California
25 and this judicial district; plaintiff Pokorny is a resident of this district, and defendants'
26 wrongful acts occurred in this District and have directly impacted the general public of this
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1 district; and the ends of justice require that parties residing in other districts be brought before
2 this Court.

3 The Arbitration Agreement

4 18. Before becoming Quixtar distributors, prospective distributors, including
5 plaintiffs and members of the class, were required to sign Quixtar's Registration Agreements.
6 In very small print buried in the Registration Agreement there is an arbitration provision. The
7 arbitration provision is provided on a "take-it-or-leave-it" basis with no opportunity for
8 negotiation. The prospective distributors received no explanation of the arbitration provision
9 and would not have been permitted to become Quixtar distributors unless they signed the
10 Registration Agreement which contains the offending and unenforceable arbitration provision.
11 As a result of the unequal bargaining positions, the hidden terms and the overall harshness of
12 the adhesive arbitration provision, Quixtar's arbitration provision is procedurally
13 unconscionable. Plaintiffs do not assert that the entire Registration Agreement is
14 unconscionable; rather they assert that the arbitration provision contained in Quixtar's
15 Registration Agreement is unconscionable.
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18 19. Quixtar's arbitration provision is also permeated with substantively
19 unconscionable terms as demonstrated by the following examples, which are not exhaustive.

20 20. The arbitration provision incorporates Quixtar's Rules of Conduct. *See* Exhibit
21 1, Quixtar's IBO Registration Agreement ("Authorization and Agreement"). The Rules of
22 Conduct grant Quixtar the power to unilaterally modify the arbitration provision at anytime,
23 thereby rendering the arbitration provision illusory. More specifically, the Rules of Conduct
24 provide that "[i]n order to preserve the goals and purposes of the IBO Plan, the corporation
25 reserves to itself the sole right to adopt, amend, modify, supplement or rescind any or all of
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1 these Rules” Quixtar’s unilateral right to modify renders the arbitration agreement
2 substantively unconscionable.

3 21. Quixtar’s arbitration provision is also substantively unconscionable to the extent
4 it provides arbitrators biased by virtue of Quixtar’s ability to “train” the arbitrators who are to
5 resolve disputes.

6 22. Quixtar’s arbitration provision subjects distributors to prohibitively expensive
7 arbitration fees thereby rendering the agreement substantively unconscionable. Quixtar’s
8 arbitration agreement requires an individual to pay “location” costs for the arbitration and
9 hearing costs that total \$18,000.00 for a three day trial. These excessive hearing fees work to
10 preclude distributors from vindicating their rights. While rules do provide for indigent relief,
11 the likelihood of being able to establish indigency is difficult and the decision rests with the
12 Case Administrator.

13 23. The Quixtar arbitration agreement arbitrarily provides a two year statute of
14 limitation for any claims brought by a distributor against Quixtar. This provision severely
15 limits a distributor’s right where, as in this case, the plaintiffs are seeking relief under a federal
16 statute that provides a four year statute of limitations.

17 24. In addition, Quixtar’s arbitration provision purports to restrict a distributor’s
18 right to bring a class action. This class action restriction further renders the arbitration
19 provision substantively unconscionable.

20 25. Finally, Quixtar’s mandatory pre-arbitration “conciliation” process also renders
21 the arbitration provision substantively unconscionable. This lengthy and onerous process is
22 designed to stifle claims against Quixtar. In fact, the Rules of this “conciliation” process
23 require the distributor to submit his claim to Quixtar to allow Quixtar, the offending party, to
24 resolve the claim.
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1 expectation of recouping it to some degree via recruitment are bound to be disappointed.”

2 *Omnitrition* at 782.

3 31. The Ninth Circuit has adopted the *Koscot* standard and has held that “the
4 operation of a pyramid scheme constitutes fraud for purposes of several federal antifraud
5 statutes.” *Omnitrition* at 782.

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7 32. California law also renders pyramid schemes illegal. California Penal Code §
8 327 defines an endless chain (or pyramid scheme) as follows:

9 any scheme for the disposal or distribution of property whereby a participant pays a
10 valuable consideration for the chance to receive compensation for introducing . . .
11 additional persons into participation in the scheme or for the chance to receive
12 compensation when a person introduced by the participant introduces a new participant.
13 Compensation . . . does not . . . include payment based upon sales made to persons who
14 are not participants in the scheme and who are not purchasing in order to participate in
15 the scheme.

13 **Quixtar and the Kingpins Operations Constitute a Pyramid Scheme**

14 33. Quixtar, the Kingpin Companies, and the individual defendants operate a
15 fraudulent pyramid scheme. The defendant companies and individuals recruit people to
16 become Quixtar distributors, entice them to purchase Quixtar products and related “tools and
17 functions” through material false statements and omissions, and then distribute the proceeds of
18 product sales to new recruits based almost exclusively on participants’ recruitment of new
19 victims, rather than on the sale of products to retail users of Quixtar’s products. As a result of
20 investing in the scheme, plaintiffs and the class have suffered millions of dollars in losses.

22 34. The defendants have operated and promoted the fraudulent scheme through the
23 use of the United States mail and interstate wire communications. Through their creation and
24 operation of the pyramid scheme, defendants specifically intended to, and did in fact, defraud
25 the distributors, including plaintiffs and the members of the class.

26
27 35. The first part of the illegal pyramid scheme consists of a multi-level marketing
28 business run by Quixtar. At the bottom rung of the operation is a network of so-called

1 independent distributors, euphemistically referred to as IBOs. Quixtar induces new recruits to
2 join the Quixtar program through material false representations that such recruits will be able to
3 re-sell Quixtar products for a profit. Quixtar purports to sell its consumer products through the
4 IBOs, but in fact few of Quixtar's products are ever sold to anyone other than the IBOs, and
5 IBOs are not financially rewarded by Quixtar or its affiliated companies for selling the products
6 to consumers. The prices IBOs pay for Quixtar's products (and associated costs) are so high
7 that any profit on retail sales is virtually impossible. In practice, 95% of Quixtar's products are
8 not sold to retail consumers, but rather to the IBOs. Because the IBOs are Quixtar's actual
9 customers and consumers of its products, Quixtar requires an ever expanding network of so-
10 called distributors (IBOs) in order to keep Quixtar afloat.

12 36. Quixtar's lowest level distributors are instructed not to waste their time on
13 marketing and selling the Quixtar products to actual retail consumers, but instead to focus on
14 consuming the products themselves and recruiting others to be distributors. Quixtar provides
15 its distributors with lists of products they should purchase for their own use in order to turn
16 their home into a "300 PV Home" (a PV is point system by which distributors earn "bonuses").
17 See Exhibit 2, The 300 PV Home flyer. Quixtar products would be difficult to sell to
18 consumers unaffiliated with Quixtar in any event because they are sold by Quixtar at inflated
19 prices when compared to similar products sold in the retail marketplace.

21 37. New distributors are assigned to an existing "line of sponsorship" to which the
22 recruiting distributor already belongs. The lines of sponsorship include a hierarchy of
23 distributors that start with the newly-recruited distributors and proceed by seniority up to a
24 senior distributor who heads the line of sponsorship. The most senior distributor who heads a
25 line of sponsorship is known as a "Kingpin." Junior (or "downline") distributors purchase
26 products from more senior (or "upline") distributors within their line of sponsorship, as well as
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1 the "tools and functions" described below. Bonuses are paid to upline distributors based on
2 sales of Quixtar products and "tools and functions" to downline distributors.

3 38. According to Quixtar's website, there are currently sixteen lines of sponsorship:

- 4 a. World Wide DreamBuilders;
5 b. Yager (InterNET Services);
6 c. Britt;
7 d. Network 21;
8 e. Team;
9 f. InterNet Associates (INA);
10 g. eFinity;
11 h. International Connection;
12 i. International Leadership Development (ILD);
13 j. MMP (MarkerMan Productions);
14 k. proalliance;
15 l. Interbiz;
16 m. IBO Alliance;
17 n. GlobalNet;
18 o. ProSystemOne; and
19 p. GBO Alliance.
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23 *See Exhibit 3, Quixtar Facts, available at <http://www.quixtarfacts.com/quixtarandloas.html>.*

24 39. The second part of the defendants' pyramid scheme consists of a group of
25 businesses that sell "tools and functions" purportedly to help downline distributors sell the
26 Quixtar products. These "tools and functions" businesses are operated by the Kingpins and are
27 referred to herein as "Kingpin Corporations."
28

1 40. The "tools and functions" businesses sell "tools" that purport to help market and
2 sell Quixtar products and "functions" that consist of motivational meetings and events. The
3 tools include tapes, CDs and videos, which contain information that Kingpins and Kingpin
4 Corporations, with Quixtar's knowledge and consent, represent are essential to success as a
5 distributor. Although the Kingpins are Quixtar distributors and are compensated on Quixtar's
6 sales of products to other lower level distributors within their lines of sponsorship, the majority
7 of their revenue is derived from the "tools and functions" business of their Kingpin
8 Corporations. Lower level distributors in the lines of sponsorship are effectively required to
9 purchase the "tools and functions" from the Kingpin Corporations. Distributors are told that
10 the "tools and functions" are necessary to help them become successful Quixtar distributors.
11 For example, the starter kit for new IBOs, which is distributed by Quixtar, states unequivocally
12 as follows:

13 As with any business, there will obviously be an investment involved. You will need
14 "tools" to build your business successfully.

15 See Exhibit 4, IBO Starter Kit at p. 15 (emphasis added). The starter kit provided by Quixtar to
16 new distributors includes a list of tools that are recommended for purchase by all new
17 distributors. The total cost of this initial set of tapes and materials is \$434.94. *Id.* at p. 16.
18

19 41. In truth, the defendants' statements about the need for tools and functions are
20 materially false. These "tools and functions" do not help the distributors sell Quixtar products
21 to end consumers at retail. Few Quixtar products are sold to consumers; instead, most are
22 purchased by Quixtar distributors for their own use, and to the extent distributors do sell the
23 Quixtar products, any profit is eliminated by the costs of buying the "tools and functions."
24

25 42. The only value of the "tools and functions" products to lower level distributors
26 is that some of the material teaches them how to recruit new distributors, to whom they can sell
27 Quixtar products and, thus, from whom they can earn "bonuses." In fact, the IBO Starter Kit
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1 sold by World Wide Group contains a section specifically designed to teach IBOs how to
 2 recruit new IBOs. For example, the section "Invite Your Prospects" provides:

3 Inviting your prospects is where it starts to get fun...

4 Tips: Be in a hurry and keep it simple. The most common mistake is saying too much
 5 ... "Hi _____ this is _____. Are you going to be home tomorrow night? Great I
 6 just got back from a seminar that explained how to create an income by using the
 7 technology of the internet. I grabbed you some information (tape/video/CD) because I
 8 thought you might be interested...."

9 See Exhibit 4, IBO Starter Kit at p. 11.

10 43. In truth, distributors are recruited to Quixtar because Quixtar omits to inform the
 11 distributors that they are entering into an illegal pyramid scheme, and that the overwhelming
 12 majority of distributors lose money, rather than earn money. These are material omissions.

13 44. The ownership of the "tools and functions" businesses demonstrates the close
 14 association between the Quixtar Kingpins, their "tools and functions" businesses, and Quixtar's
 15 lines of sponsorship:

<u>Tools & Functions Business</u>	<u>Kingpin Owners</u>	<u>Affiliated Line of Sponsorship</u>
World Wide Dream Builders	Ronald and Georgia Lee Puryear	World Wide Group
Internet Service Corporation	Dexter and Birdie Yager	Yager
Marker Man Productions	Jody and Kathy Victor	Yager
American Multimedia, Inc.	Bill and Peggy Britt	Britt
Network 21	Jim and Nancy Dornan	Network 21
TEAM	Orrin and Laurie Woodward	Team
INA	Jim and Margee Floor	InterNET Associates (INA)
eFinity	Group of leaders	eFinity
International Connection	Brian and Marg Hays	International Connection
International Leadership	Jack and Rita Daughery	International Leadership

<u>Tools & Functions Business</u>	<u>Kingpin Owners</u>	<u>Affiliated Line of Sponsorship</u>
Development (ILD)		Development
MMP (MarkerMan Productions)	Jody and Kathy Victor	MMP (MarkerMan Productions)
Pro Alliance	Group of leaders	proalliance
Interbiz	Brad and Vera Doyle	Interbiz
IBO Alliance	Group of leaders	IBO Alliance
GlobalNet	Leif and Bonnie Johnson	GlobalNet
ProSystemOne	Joe and Dawn Pici	ProSystemOne
GBO Alliance	Carl and Marsha Reardon	GBO Alliance

This group of “tools and functions” businesses will be collectively referred to as “Kingpin Corporations” and the distributors who own those businesses are collectively referred to as “Kingpins.”

45. While Quixtar and the Kingpins (and their Kingpin Corporations) independently perpetrate a fraud on distributors, they also have a symbiotic relationship that furthers their ability to carry on the pyramid scheme and have agreed to work together to promote and perpetuate the pyramid scheme.

46. By way of example, Quixtar’s “Achieve Magazine,” which is distributed by Quixtar to distributors through the United States mail, promotes the Kingpins’ tools business. The January 2001 issue of Achieve Magazine contains a joint promotional statement by Kingpin defendants Ron and Georgia Lee Puryear, who head the World Wide DreamBuilders line of sponsorship, and Doug DeVos Quixtar’s Chief Operating Officer. The joint statement provides:

We are now more convinced than ever that the largest business is yet to be built We believe it could just as easily be someone who possesses a dream and reads this Achieve Magazine for the first time, perhaps listens to a motivating tape, attends a

1 function and begins to build their dream by showing the plan and sharing their dream
2 with others.

3 See Exhibit 5, Achieve Magazine, January/February 2001 issue at p.3. The following pages of
4 the Quixtar Achieve Magazine promote the World Wide Group's "tools" business with
5 advertisements for tapes, books and videos sold by the defendant Puryears and the World Wide
6 Group. *Id.* at p. 14.

7 47. Plaintiffs scheme violates the federal RICO and mail and wire statutes and the
8 California Penal Code § 327 because it is a fraudulent pyramid scheme or "endless chain."
9 Accordingly, even if defendants can establish compliance with the FTC's decision in *In re*
10 *Amway Corp.*, 93 F.T.C. 618 (1979), which they cannot as explained below, the scam
11 nevertheless violates the federal mail and wire statutes and the California Penal Code § 327.

12 48. The defendants and others have attempted to mask their criminal conduct behind
13 a 25 year old FTC order, in *Amway*, which held that Quixtar's predecessor company, Amway,
14 was not a pyramid scheme. Quixtar and its associates actions do constitute a scheme to defraud
15 under federal law, and do not even meet the requirements described in the *Amway* order.
16

17 49. In *Amway*, the FTC ruled that Amway was not a pyramid scheme because it
18 adopted and purportedly enforced certain rules that were intended to avoid the characteristics of
19 a pyramid scheme.
20

21 50. The FTC held that a direct marketing business like Amway would not be
22 considered a pyramid scheme if the sponsor of the business did not violate the "initial
23 investment" rule, the "70%" rule, the "buyback" rule, and the "10 customer" rule, all of which
24 are described in more detail below.
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26 51. The FTC reasoned in *Amway* that the company's operations did not constitute a
27 pyramid scheme because:
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BOIES, SCHILLER & FLEXNER LLP
OAKLAND, CALIFORNIA

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The Amway system is based on retail sales to consumers. Respondents have avoided the abuses of pyramid schemes by (1) not having a 'headhunting' fee; (2) making product sales a precondition to receiving the performance bonus; (3) buying back excessive inventory; and (4) requiring that products be sold to consumers Amway's buy-back, 70% and ten customer rules deter unlawful inventory loading

Id. at 107-109. Accordingly, if any one of these rules is not followed, then the business at issue may be deemed a pyramid scheme.

52. On its website, Quixtar denies that its business is an illegal pyramid scheme, citing the FTC in *Amway*. See Exhibit 6, Quixtar's Pyramid Web Page available at <http://www.ibofact.com/Quixtar-Questions-22QuixtarQuestions.htm#question%205>. Contrary to the pronouncements on its website, Quixtar operates a pyramid scheme, and its rules and policies are a sham, meant to give the appearance that Quixtar complies with the rules described in *Amway*, but which are routinely ignored in practice.

53. **The Initial Investment Rule:** The FTC decision noted that pyramid schemes involve a payment or initial disbursement by a new participant in exchange for the right to sell products and the right to receive rewards, in return for recruiting other participants into the program and which are unrelated to sale of product to the ultimate user. The FTC found that Amway did not require such an investment because "the Amway system does not involve an 'investment' inventory by a new distributor. A kit of sales literature costing only \$15.60 is the only requisite." *In re Amway Corp.*, 93 F.T.C. 618, [107] (1979). Today, however, Quixtar and the other defendants require a significant investment by a new distributor. Each new Quixtar distributor is effectively required to make an initial investment of thousands of dollars through the purchase of Quixtar products and through the purchase of the "tools and functions" materials. For example, the starter kit for new IBOs, which is distributed by Quixtar, states unequivocally: "As with any business, there will obviously be an investment involved. You will need 'tools' to build your business successfully." See Exhibit 4, IBO Starter Kit at p. 15