

## **Raymond Lee Organization, Inc. v. Division of Securities (1976)**

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## **Raymond Lee Organization, Inc. v. Division of Securities (1976)**

**Case:** Raymond Lee Organization, Inc. v. Division of Securities (1976)

**Subject Category:** State cases, Colorado, Securities

**Agency Involved:** Colorado Securities Commissioner/Division of Securities

**Court:** Supreme Court of Colorado

**Case Synopsis:** Raymond Lee Organization, Inc. charged independent investors to bring inventions to market. Inventors could submit their inventions to Raymond Lee Organization, and in exchange for both a fee and a percentage interest in the invention, Raymond Lee Organization would perform patent research, develop the product, prepare a patent application, sales letter and prospectus, negotiate with manufacturers and market the invention. The Colorado Securities Commissioner determined Raymond Lee Organization was selling investment contracts, and therefore unregistered securities, because the Raymond Lee Organization was a common enterprise in which a person invests money and expects a return based upon the efforts of another. The Commissioner issued a cease and desist order for selling unlicensed securities, and Raymond Lee Organization challenged the order.

**Legal Issue:** Are the inventors who submit their inventions and Raymond Lee engaged in a "common enterprise?"

**Court Ruling:** No. The court ruled that Raymond Lee Organization was not a common enterprise because no inventor/contractee or Raymond Lee Organization acquired any interest in, or received a direct benefit from, the invention of any other inventor/contractee, and the fortunes of the individual inventors did not necessarily rise and fall with the fortunes of Raymond Lee Organization. Therefore the contracts were not investment contracts or securities and the Commissioner lacked jurisdiction.

**Practical Importance to Business of MLM/Direct Sales/Direct Selling/Network Marketing/Party Plan/Multilevel Marketing:** Isolating the profits and fortunes of downline distributors from the success of the overall company and other distributors will make a company less likely to be found engaged in a "common enterprise" and therefore regulated by securities laws.

**Raymond Lee Organization, Inc. v. Division of Securities (1976)**, 192 Colo. 112; 556 P.2d 1209: Raymond Lee Organization, Inc. charged independent investors to bring inventions to market. Inventors could submit their inventions to Raymond Lee Organization, and in exchange for both a fee and a percentage interest in the invention, Raymond Lee Organization would perform patent research, develop the product, prepare a patent application, sales letter and prospectus, negotiate with manufacturers and market the invention. The Colorado Securities Commissioner determined Raymond Lee Organization was selling investment contracts, and therefore unregistered securities, because the Raymond Lee Organization was a common enterprise in which a person invests money and expects a return based upon the efforts of another. The Commissioner issued a cease and desist order for selling unlicensed securities, and Raymond Lee Organization challenged the order.

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