FTC v. BurnLounge: Final Press Release

For Release: 03/14/2012

FTC Action Leads to Court Order Shutting Down Pyramid Scam Thousands of Consumers Burned by BurnLounge

At the request of the Federal Trade Commission, a U.S. district court judge has ordered the operators and top promoters of a deceptive pyramid scheme to pay a total of $17 million to refund consumers who were burned by the scam. The court order permanently halts marketing methods used by the operation known as BurnLounge, which lured more than 56,000 consumers from around the country by masquerading as a legitimate multi-level marketing program and making misleading claims about earnings to be made.

The FTC filed a complaint against BurnLounge in 2007 as part of its ongoing efforts to protect consumers from fraud and deception. BurnLounge had touted itself as a cutting-edge way to sell digital music through multi-level marketing, but music sales accounted for only a small percentage of its sales. The agency charged that BurnLounge recruited consumers from across the country by telling them that participants earned huge incomes. Investors could buy into the BurnLounge organization for prices ranging from $29.95 to $429.95, plus monthly fees. While participants were compensated for music and album sales, most compensation came from recruiting others into the plan.

The FTC charged the defendants with operating an illegal pyramid scheme, with making deceptive earnings claims, and with failing to disclose that most consumers who participated in pyramid schemes wouldn't receive substantial income, but instead would lose money. The agency charged that the practices violate federal law.

The court's final judgment and order bars the defendants from engaging in pyramid, Ponzi, or chain letter schemes or any schemes in which compensation for recruitment is unrelated to the sale of product to customers who are not participants. The order bars misrepresentations about multi-level marketing operations or business ventures, including misrepresentations about sales, income, profitability, or legality of the operations. If the defendants make claims about earnings, sales, or profits, the order requires them to disclose the number and percentage of participants in the business venture who have earned, sold or profited that much.

Finally, the court ordered the defendants to pay, collectively, close to $17 million for consumer redress. BurnLounge, Inc., and Juan Alexander Arnold were ordered to pay $16,245,799. John Taylor was ordered to pay $620,138 and Rob DeBoer was ordered to pay $150,000. Standard bookkeeping and record keeping requirements in the order will allow the FTC to monitor compliance.

In June 2007, another defendant in the pyramid scheme, Scott Elliott, settled the FTC's charges against him. The settlement barred him from participating in any pyramid scheme or other prohibited marketing scheme, barred false earning claims, and required him to give up $20,000 in ill-gotten gains.

This case was filed in U.S. District Court for the Central District of California, Western Division.

The Federal Trade Commission works for consumers to prevent fraudulent, deceptive, and unfair business practices and to provide information to help spot, stop, and avoid them. To file a complaint in English or Spanish, visit the FTC's online Complaint Assistant or call 1-877-FTC-HELP (1-877-382-4357). The FTC enters complaints into Consumer Sentinel, a secure, online database available to more than 2,000 civil and criminal law enforcement agencies in the U.S. and abroad. The FTC's website provides free information on a variety of consumer topics. Like the FTC on Facebook and follow us on Twitter.

MEDIA CONTACT:
Claudia Bourne Farrell,
Office of Public Affairs
202-326-2181

STAFF CONTACT:
Chris M. Couillou,
FTC's Southeast Region
404-656-1353

(Civil Action No. CV 07-3654 GW FMOx)
(Burnlounge settlement)

Jeffrey A. Babener, of Portland, Oregon, is the principal attorney in the law firm of Babener & Associates. For more than 25 years, he has advised leading U.S. and foreign companies in the direct selling industry, including many members of the Direct Selling Association. He has lectured and published extensively on direct selling and many of his writings will be found at www.mlmlegal.com, of which he is Editor. He is a graduate of the University of Southern California Law School, where he was an Editor of the USC Law Review.

Main Library || **MLM Legal** || **Babener & Associates** || **MLM Articles** || **Power Index**