

# Illegal Pyramid Schemes Abound in Corner

By ROBERT CUMMINGS

Lakeville Journal Staff

Investigations into a rash of pyramid schemes across the state have reached the borders of Litchfield County and might continue into the Northwest Corner, according to officials of the Connecticut State Department of Consumer Protection.

Meanwhile, at least one pyramid scheme, variously known as Climb the Corporate Ladder or Airplane, appears to be thriving in the Tri-State area.

One area business reportedly distributed a memo among its managers warning that the scheme is illegal and advising employees not to become involved.

Despite repeated tips from those in the Northwest Corner who claim to know about the games, to date no participant has volunteered to come forward with details. Nevertheless, a great deal of information about the schemes and how they operate is known to state law enforcement agencies as a result of other investigations conducted in the southern part of the state earlier in the spring.

"We had and we do have ongoing investigations in the Waterbury area and Danbury area," said Clifford Deegan, chief of the Frauds Division of the Department of Consumer Protection. Mr. Deegan would neither confirm nor deny the existence of an investigation in Litchfield County, but another member of the department acknowledged that the northwest part of the state is involved.

"We have an ongoing investigation in Northwestern Connecticut," said Kathleen Curry, Consumer Affairs bureau chief. Both officials are prohibited from revealing the details of active investigations, but said they would pursue leads as they developed.

In other parts of the state, investigations are under way. In Hartford, Attorney General Joseph

Lieberman's office has fined one individual \$2000 and is pressing further civil actions. In Stamford, two city officials have been implicated in the scheme, as inquiries continue.

"I won't speculate as to who's doing it, but I have heard that there are some prominent citizens involved," said James McClary, president of the Canaan Bank. "I have heard rumors about people making \$10,000, \$20,000 and \$30,000 in these things," he said. Mr. McClary also noted that the pyramid games are illegal and that

no one in the Canaan Bank was involved.

A prominent Sharon businessman who spoke on condition of anonymity took a more positive view of the moneymaking schemes. "If they're run properly, they can be a fantastic investment," he said. "Some friends of mine have made a lot of money."

The businessman brushed aside suggestions that the pyramid may have reached the point of saturation in the community. "The possibility exists of this thing continuing on forever. It's all over New England, in

Florida and Texas," he said. He pointed out that games are available for several different income levels, with entry fees ranging from \$100 to \$6000. He warned that a newspaper story about the scheme would "lose a lot of money for a lot of people."

Similar warnings in the past about chain letters cautioned participants not to break the chain lest they suffer dire consequences.

Master Sgt. Ray Augustyn of the Connecticut State Police at Canaan Barracks said that his department is not investigating the pyramid

schemes. "We haven't come across it," he told *The Journal* last week.

## How They Work

Pyramid schemes are a redistribution of wealth. No new capital is created, so the financial health of the pyramids, or grids, rests on their continued growth. Once the influx of new money stops — once the market for potential investors has been saturated — the game folds and the last group of investors is left holding an empty bag.

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## • • • Pyramid

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At the top of the pyramid is the chairman of the board. Below the chairman, the next rung down on the corporate ladder, are two presidents. Below the presidents are four executive vice-presidents and eight vice-presidents.

*How To Climb The Corporate Ladder For Fun And Profit*, a xeroxed prospectus that *The Lakeville Journal* has obtained, states: "You must pay to play. The investment is \$1500, payable in shares delivered within 24 hours of commitment in plain white envelope with the name of your 'company' to the retiring chairman of the board. At the time of the delivery of the shares, they must be counted by the chairman, in the presence of the new vice-president."

Amounts involved in each game vary, but a popular version of the pyramid scheme can be entered for an initial investment of \$1500. When the eighth vice-president (or most recent investor) contributes his \$1500 to the "company," the pyramid splits and the chairman walks away with \$12,000.

After the split, everyone moves up a rung. So the two presidents both become chairmen of their own pyramids, the four executive vice-presidents become presidents in their respective pyramids and the eight vice-presidents all get promoted to executive vice presidents. Then the members of the two pyramids must find 16 new investors to fuel another cycle of payoff-split-advancement.

Although in theory, everybody should win eventually, the likelihood of that happening is scant because the game grows exponentially: by the 10th split, 8192 new players are needed; by the 20th split, over 4 million new investors must be found to keep the corporate structure from caving in.

According to one Sharon resident who asked to remain anonymous, the

scheme came to Sharon from towns to the south.

"They run for three or four days and then it splits and splits," she said of the pyramids' rapid expansion. She also said two local businessmen had received payoffs and stated that a less expensive version of the pyramid was receiving heavy play at a local hospital.

A hospital employee who also asked not to be identified confirmed that the pyramid was popular among staff members. Even so, the director of personnel at the hospital said that he did not have any knowledge of it.

## The Legalities

Many of the people who are involved with the pyramid schemes believe the game is legal. In fact, pyramid and related schemes are illegal under at least three statutes in the state of Connecticut.

According to Assistant Attorney General William Rubenstein, the scheme is illegal under: The Contingent Transaction Statute (42-145 of the General Statutes), Connecticut Fair Trades Act (42-110B) and The Uniform Securities Act (Title 36).

"And we allege," Mr. Rubenstein said, "that the game also violates the state gambling statutes."

In the Stamford area, where at least two city officials and allegedly much of the police department was involved, the Attorney General's investigation is at a standstill.

Stamford Deputy Police Chief George Mayer would not comment on the investigation.

In Hartford area, the Attorney General's office has issued a court order and a \$2000 fine to one individual and is pursuing others. The Hartford version of the game was known as "Airplane."

According to a bulletin issued by the Connecticut Department of Banking, "most state laws prohibit a program where profit potential comes not primarily from the sales of products to consumers, but from the inducement of other investors to join the scheme."

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Rubenstein noted that pyramid schemes are an old con. "Ten years ago, it was called the Circle of Gold," he said. An older generation might know the pyramid as a Ponzi scheme, named for Charles Ponzi, the Bostonian who is credited with inventing the scheme in 1919.

Why would people would take advantage of their friends and neighbors for a quick payoff? Rubenstein replied, "There's a little bit of greed and a little bit of larceny in all of us."

and \$30,000 in these things," he said. Mr. McClary also noted that the pyramid games are illegal and that in the community. "The possibility exists of this thing continuing on forever. It's all over New England, in Connecticut State Police at Canaan Barracks said that his department is not investigating the pyramid (See PYRAMID, Page A-2)