

## **Why Zen Rewards is not a Pyramid Scheme**

As a multilevel marketing (MLM) program, we are occasionally asked by people interested in joining Zen Rewards if we are a pyramid scheme or, put another way, what is it that differentiates Zen Rewards from pyramid schemes. It is unfortunate, but because there have been so many pyramid schemes posing as MLMs over the years, this is a completely legitimate question that we are happy to answer. We would not want to join a pyramid scheme and completely understand why you may be asking this question.

### **A. What is a Pyramid Scheme?**

A pyramid scheme is a program in which participants (distributors, for example) primarily make money from recruiting other participants (e.g., distributors), rather than from the sale of genuine products or services to real customers.

Under applicable legal standards, a pyramid scheme exists where people pay for the opportunity to receive compensation that is derived primarily from recruitment instead of bona fide retail sales.

The key characteristics of a pyramid scheme often include:

- Rewards (e.g., bonuses or commissions) are tied mainly to recruiting;
- Little or no emphasis on sales to customers;
- Participants (e.g., distributors) buy products or services primarily to qualify for commissions (this is sometimes referred to as inventory loading); and
- Compensation flowing upward through the recruitment chain.

A typical example of an MLM company that is disguised as a pyramid scheme is a program where the distributors for the MLM are required (or heavily incentivized) to purchase the company's products/services and then to recruit other folks to do the same. There often is no incentive or requirement for the distributors to make sales to non-distributor customers. In addition, the products or services are typically overpriced (when compared to the overall marketplace), making it even more difficult for distributors to attract customers.

### **B. What is a Legitimate MLM Program?**

In contrast to an illegal pyramid scheme, legitimate MLM programs are characterized by compensation that is driven by genuine sales to "ultimate users" or retail customers. An ultimate user is a buyer (including distributors) whose motivation for buying the MLM's

products or services is driven by consumer demand and not by financial incentives attached to the compensation plan.

Multilevel compensation structures are generally lawful in the United States when compensation is driven primarily by genuine product or service sales to real customers. MLMs tend to cross over to pyramid scheme territory when they have very little in the way of sales to retail customers and distributors are buying to meet qualification quotas for the payment of commissions and bonuses.

### **C. Zen Rewards**

Zen Rewards differs from the characteristics commonly associated with pyramid schemes in several important respects. Indeed, several aspects of the Zen Rewards program demonstrate that purchases through the platform are driven by genuine consumer demand rather than recruitment incentives:

- Purchases are made from independent third-party merchants (Sam's, Target, etc.);
- The products and services are ordinary consumer purchases;
- Purchasers receive rebates and discounts providing standalone consumer value;
- Associates are not required to make purchases to participate in the compensation plan;
- Qualification requirements may be satisfied entirely through purchases made by personally enrolled Customers rather than by Associate self-purchases;
- Compensation paid to Associates is funded from rebates generated through purchases with participating merchants, not from payments made by newly recruited Associates; and
- Associates are not compensated for the mere act of recruiting other Associates.

In addition, Customers who participate solely for rebate and discount purposes and who do not participate in the compensation plan are genuine retail customers using the platform for discounts and rebates rather than for participation in the compensation plan. Importantly, there is no fee to become a Zen Rewards Customer.