



*A Report From the
Federal Trade Commission Staff
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The FTC's First Five Years

*Protecting
Consumers
Online*

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ROBERT PITOFSKY, *Chairman*

SHEILA F. ANTHONY, *Commissioner*

MOZELLE W. THOMPSON, *Commissioner*

ORSON SWINDLE, *Commissioner*

THOMAS B. LEARY, *Commissioner*

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Executive Summary

In September 1994, the Federal Trade Commission brought its first law enforcement action against a fraudulent online operator. In September 1999, it brought its 100th case to stop an Internet scam. During these five years, the Internet came of age, taking consumers, businesses, and law enforcement officials into a marketplace that offers unprecedented challenges and opportunities.

The Commission's experience in bringing consumer protection to cyberspace began with self-education and discussion. Through a series of workshops and hearings, the FTC explored the remarkable benefits of the new medium, the emerging consumer protection issues, and the art of the possible: that is, how to address the issues in the most practical and effective ways. There was considerable agreement on the broad issues, namely that basic consumer protection principles should apply online, that government should tailor its efforts to avoid unnecessary burdens that could hinder the development of the new marketplace, and that the public and private sectors should partner where possible.

From this foundation, the Commission drafted the blueprint for its role in the nascent marketplace. The overall goal: to protect consumers in an atmosphere that promotes the growth of e-commerce. The tools: traditional law enforcement under existing statutes and rules; consumer and business education; support of self-regulation; and the development of policy in areas that raise new consumer protection concerns, such as online privacy and global electronic commerce.

The FTC has targeted its online law enforcement efforts at fraud and deception. To maximize its resources, it pioneered the use of the Internet as a law enforcement tool, and it has shared its technology-based initiatives with law enforcers both across the nation and across our borders. For example, it created *Consumer Sentinel*, now the largest database of consumer fraud complaints in North America. Over 200 law enforcement partners in the U.S. and Canada have free access to the data through a secure, searchable Web site, enabling more coordinated and comprehensive law enforcement efforts aimed at the most prevalent frauds. In addition, the Commission's use of the "Surf Day" to find online scams has led to the identification of over

4,000 Web sites with dubious claims. First used by the FTC in 1996, “Surf Days” are *de rigueur* at the Commission and other law enforcement agencies. Indeed, in the last three years, the Commission has conducted 18 surfs with over 150 partners around the world.

With data from *Consumer Sentinel*, Surf Days, and other sources, the Commission has successfully targeted its law enforcement efforts at the most egregious scams. Not surprisingly, the Internet has been a fertile ground for fraud: it allows fraud promoters to mimic legitimate business more convincingly -- and reach potential victims more efficiently and at far less cost -- than any other medium. The Commission’s cases reflect the broad range of illegal activity online, from traditional scams like pyramids, medical quackery, and bogus investments to high-tech frauds like “modem-jacking,” “page-jacking” and “mouse-trapping.” In addition, the Commission has pursued online practices that violate traditional advertising principles, such as the requirement for clear and conspicuous disclosures of material information. The goal of the Commission’s law enforcement efforts is to ensure that existing consumer protection principles apply to evolving forms of online advertising.

To date, the Commission’s 100-plus Internet-related cases have involved actions against nearly 300 businesses and individuals on behalf of millions of consumers online. Each case was supported by an active and creative consumer and business education program. For many consumers, the Web continues to be an unfamiliar place, which makes practical, plain English information on how to navigate safely especially important. Among the “products” the Commission has spearheaded are “teaser” sites – Web sites that mimic scam sites but also alert consumers to the telltale signs of fraud as they browse for products and services online. The Commission also led the effort to establish **consumer.gov**, a one-stop Internet site that provides access to consumer information from over 60 federal agencies. The FTC’s consumer and business education publications have been online since February 1995, and have racked up over five million page views since then.

The Commission also has extended its business guidance program to online marketers. Many entrepreneurs, new to the Internet and to marketing, are unfamiliar with consumer protection laws. And more experienced businesses face some novel issues in applying traditional consumer protection laws in the online environment. The Commission made it a priority to

provide business guidance to online entrepreneurs and has used a variety of approaches to get the word out, including brochures (all downloadable), speeches, and email messages.

A major Commission policy initiative has been to address consumer concerns about privacy online. After holding six public forums, conducting a major survey of online information collection practices, and researching and writing four reports on the subject, the Commission has become a credible source of information and a participant in task forces, working groups, and international forums. In 1998, the Commission recommended legislation to protect the privacy of children online; Congress responded by enacting the Children's Online Privacy Protection Act. The Commission has continued to support self-regulation to protect online consumer privacy generally, and continues to monitor the progress of self-regulatory efforts.

The increasing globalization of e-commerce presents one of the next major challenges in consumer protection. With respect to cross-border Internet fraud, the Commission has built on its international experience in telemarketing fraud to improve information-sharing and coordination among nations. The Commission also is playing an active role in fostering dialogue and formulating policies needed to protect consumer transactions in the global marketplace.

A sage once said that predictions are difficult to make, especially when they are about the future. Nevertheless, the Commission expects that as technology thrives and e-commerce flourishes, consumer protection will be even more critical. Building on its five years of experience, the FTC will continue to work with public and private sector partners to anticipate and meet the challenges of the online marketplace.

In the Beginning . . .

*Given the rapid pace of change, the window of opportunity to prepare for [the] emerging challenges may be narrow. Government, consumer, and business leaders need to move quickly. If they do, there is some chance to get ahead of the problems. **Global Hearing Report**¹*

A Blueprint for the Commission

In the spring of 1995, the Internet was in its infancy as a commercial medium. Still, it seemed likely that it would bring about revolutionary changes. When the staff of the FTC's Bureau of Consumer Protection held an informal workshop to learn more about the Internet, the Commission's efforts to educate itself about the online world were underway.²

In the fall of 1995, the Commission held extensive hearings on the implications of globalization and technological innovation for both competition and consumer protection. In four days of hearings on consumer protection, the Commission heard from members of the information industry and online business community, privacy and consumer advocates, government representatives, and experts in interactive technology. Consensus emerged on several broad issues:

- basic consumer protection principles should apply in the electronic marketplace;
- government should tailor its efforts to avoid undue burdens on business and technology;
- effective self-regulation should be encouraged; and
- the public and private sectors should work together where possible.

These hearings, as summarized in the staff report, *Consumer Protection Policy in the New High-Tech, Global Marketplace*,³ provided a guide for the Commission in drafting its approach to commerce in the new medium.

Rapid Changes in the Marketplace

Unique in many respects, the new marketplace is complicated by the astonishing pace of growth and change. When the Commission brought its first Internet case in 1994, the electronic marketplace was minuscule. Today, more than a third of all U.S. households are online,⁴ and more than 80 million American consumers -- 40 percent of U.S. adults -- are accessing the Internet.⁵ Children and seniors, two of the demographic groups most vulnerable to fraud, also are going online in increasing numbers.⁶

The online medium has changed since 1994 and the advent of commercially-available Web browsers, evolving from a source of unadorned information used mainly by scientists and the military to a rich, slick, interactive environment with music, video, 3D, voice, cameras, and animation. An explosion in online advertising has accompanied these changes: online ad revenues in the U.S. grew from \$300 million in 1996 to almost \$2 billion in 1998.⁷ Industry observers expect that global online advertising will expand at a similar pace.⁸ Online advertising revenues exclusive of the U.S., estimated at slightly over \$500 million for 1999, are expected to reach \$11 billion by 2004.⁹

The speed at which U.S. consumers have embraced the new technology has been nothing short of extraordinary. To reach audiences of 50 million Americans, radio took 38 years, network television took 13 years, and cable television took 10 years.¹⁰ Yet, once the first Web browser became widely available, it was a mere three years before the Internet counted 50 million domestic users.¹¹ The growth in Internet users worldwide also has been explosive. An estimated 171 million people use the Internet worldwide, up from 121 million only a year ago.¹² An estimated 46 percent of Internet users reside outside North America, up from 35 percent in 1998.¹³

The reasons for the boom are well-documented. Hardware and software are more powerful, less expensive, and easier to use. The 24-hour nature of the Internet has revolutionized the way consumers seek and obtain information, goods and services. The result: consumers are online at their convenience, searching for entertainment, information, and advice on everything from health and investments to vacation destinations and automobiles. Shopping has become a major online activity. More than two-thirds of online consumers are using the Internet to

research products or services that they buy offline, but more than a quarter have purchased goods or services online.¹⁴ Consumer online sales, estimated at over \$7 billion for 1998, are projected to reach \$12 billion to \$18 billion this year.¹⁵

Still, the marketplace poses new risks for consumers. It is just as attractive to the fraudster as it is to the legitimate business. It is cheap and easy to enter, and it enables a worldwide reach. It offers anonymity and easy exit, often before authorities have the chance to detect wrongdoing. The challenge for law enforcement is to identify and stop wrongdoers before they can harm individual consumers and undermine confidence in the marketplace.

Stopping Fraud, Deception and Unfair Practices

*There is no sign that low-tech scams will go away, and strong evidence that “next tech” scams will increase and be more difficult to detect and track across international borders. **Global Hearing Report**¹⁶*

Technology as a Tool

In the electronic marketplace, frauds can appear suddenly, spread rapidly, and disappear without notice or warning. Law enforcement has to be just as fast. The FTC uses technology-based tools -- some of which it pioneered -- to protect consumers. Among these tools are *Consumer Sentinel*, Internet “Surf Days,” and the Internet Lab.

Consumer Sentinel

In 1997, the Commission established *Consumer Sentinel*, a consumer fraud complaint database available online to law enforcement officials across the U.S. and Canada. *Consumer Sentinel* is a “first” in the use of technology to achieve consumer protection.¹⁷ Through a secure Web site, law enforcement officials can access data that provide information about particular wrongdoers and show trends at the local, national and international levels. The site also offers members access to a wealth of other information,¹⁸ a secure way to communicate with one another online, and automatic updates.¹⁹ The data and services are upgraded as technology and resources allow, and are provided free to *Consumer Sentinel* members.

With over 200,000 complaints, *Consumer Sentinel* is the largest North American consumer fraud database. It is likely to maintain that position. During the first nine months of 1999, for example, the number of complaints in the database increased on average by 6,000 a month. Most fraud data are supplied by consumers who call the FTC’s toll-free telephone number or use its online complaint form,²⁰ and by law enforcement agencies and consumer organizations such as the National Fraud Information Center, a project of the National Consumers League, members of the Better Business Bureau, and Canada’s PhoneBusters. The number of organizations contributing data -- and the number of law enforcement agencies

retrieving data -- continue to grow.²¹ More than 210 officials are members, including State Attorneys General, U.S. Attorneys, local district attorneys and sheriffs, the FBI, the U.S. Postal Inspection Service, and the Royal Canadian Mounted Police.

Consumer Sentinel demonstrates how Internet technology is changing the way law enforcement is done. It enables a fast and well-coordinated response to the most serious fraud problems across North America, and it has the potential to allow us to meet some of the most vexing challenges of the increasingly global marketplace. Two recent initiatives are noteworthy:

- *Rapid Response:* To pursue the most pernicious schemes, the Commission created an Internet Fraud Rapid Response Team. It monitors the complaint database, spots emerging frauds, and puts matters on a fast track for litigation or settlement. In *FTC v. Benoit*, the team's first case, the FTC obtained an injunction to stop a scheme dealing with deceptive spam within three weeks of identifying it on the Internet.²²
- *Global Information Sharing:* To address the increasing problem of "borderless" Internet fraud that can quickly affect consumers in every corner of the globe, the Commission has begun to share information from its database when requested by enforcement officials around the world. Such information sharing among countries is essential to the success of efforts to coordinate law enforcement.

Internet Lab

To keep pace with rapidly changing Internet-related technology, the Commission established an Internet Lab in 1999. Equipped with state-of-the-art personal computers, the Lab is a resource for ongoing efforts to educate ourselves about the new media and to search for fraud and deception in a secure environment. It provides the necessary equipment and software to capture Web sites and preserve them as evidence for presentation in court.

The Lab also provides the latest tools for staff to track how technology is changing the way commercial information is transmitted to consumers. Unlike advertising in traditional media, advertising in electronic media may vary in content and appearance depending on the appliance and Web browser used by the consumer. Commission staff analyze these

developments as they attempt to ensure that traditional consumer protection principles are applied in this ever changing medium.

Surf Days

The Commission devised the Internet “Surf Day” in 1996 as an efficient way to look for pyramid schemes online. Since then, the law enforcement Surf Day has become a popular tool for the Commission and other agencies to identify online scams of all kinds. In the past three years, the Commission has participated in some 18 Surf Days with over 150 agencies in the U.S. and 25 other countries, identifying an estimated 4,000 commercial Web sites making apparently false or misleading claims. The Commission also has used Surf Days to get a snapshot of other online practices, such as the posting of privacy policies and the nature of information about Y2K compliance. FTC Surf Days have focused on:

- *Health Claims.* In 1997 and 1998, the Commission participated in two Surf Days with officials from 25 countries to learn about Web sites promoting products to treat six major diseases.²³ In just a few hours, law enforcement agents were able to identify approximately 800 Web sites and Usenet newsgroup messages making questionable claims.
- *Pyramids.* In 1996 and 1999, two Surf Days with dozens of states, the SEC, and the U.S. Postal Inspection Service found over 1,000 Web sites promoting apparently unlawful pyramid schemes.
- *Business and Investment Opportunities.* In 1997 and 1998, Surf Days with participation by more than 50 federal and state agencies identified over 600 Web sites making questionable business and investment opportunity claims.
- *Junk Email.* The FTC browsed its own enormous database of unsolicited email -- which the Commission had invited consumers to forward -- and found over 1,000 of them problematic.

An efficient tool, the law enforcement surf accomplishes two objectives: it provides a window for law enforcement to learn about online practices,²⁴ and it provides an opportunity for the FTC to alert Web site operators -- some of whom are new entrepreneurs unaware of existing

laws -- if their sites appear to violate the law. This is done by emailing messages to the operators of sites with problems, explaining why their sites may violate the law and providing a link to the FTC Web site, where more information is available. Follow-up visits reveal that of the operators who are notified that their sites may violate the law, 20 to 70 percent improve or remove their sites. Web site operators who continue questionable practices may become the subjects of FTC law enforcement efforts.

Law Enforcement

Since September 1994, the Commission has used its law enforcement authority to bring over 100 Internet-related cases. (See Appendix 1.) In every case, the Commission stopped the illegal conduct. Where possible, assets were recovered to redress consumer losses.

Many of the Commission's Internet cases are characterized as old wine in new bottles. They involve traditional scams that simply changed venues -- for example, bogus investments, sure-fire cures, and "guaranteed" money-making opportunities. Increasingly, however, scams involve the use of technology to create devious new ways to cheat consumers. Whether traditional or new, scams using the Internet spread quickly and can do enormous damage. For this reason, the Commission has placed identifying and stopping online fraud on its list of top law enforcement priorities.

Legitimate companies, of course, also run afoul of consumer protection laws, and as the Web becomes a mainstream market, the number and types of online violations increase. The FTC has brought cases that establish that traditional consumer protection principles, as well as the Commission's Rules and Guides, apply to advertising and marketing on the Internet. Where unique features of online advertising raise new legal issues, the Commission has provided important guidance.

The FTC's authority to challenge online practices of both fraudulent actors and mainstream advertisers stems from its broad jurisdiction under the FTC Act, which prohibits unfair and deceptive acts or practices.²⁵ To stop scams, the Commission seeks injunctions and other equitable relief in federal court.²⁶ Often, the Commission first obtains a temporary restraining order that freezes the company's assets and appoints a "receiver" to temporarily take

over the business. As the case proceeds, the Commission seeks preliminary and permanent injunctions that bar the challenged practices and may require refunds to consumers injured by defendants. Many cases are settled early in the litigation.

Depending on the nature of the alleged law violation and in cases where immediate injunctive relief is not needed, the Commission proceeds under its administrative authority.²⁷ Commission staff typically contact the subjects of an investigation to obtain information and often attempt to settle the case before the Commission formally issues an administrative complaint.

Some of the Commission's most significant Internet-related law enforcement initiatives follow.

Technology-Based Scams

Technology-based scams not only cheat consumers, but also undermine confidence in e-commerce.

Hijacking. Scams involving hijacking modems and Web sites, which are unique to the Internet, exploit its special features to trick consumers.

- *FTC v. Carlos Pereira* Defendants in Portugal and Australia “captured” unauthorized copies of U.S.-based Web sites and produced look-alike versions that were indexed by major search engines. This process diverted unsuspecting consumers to a sequence of pornography sites from which they could not exit, essentially “trapping” them at the site. The FTC obtained a court order stopping the scheme and suspending the defendants’ Web site registrations.
- *FTC v. Audiotex Connections; Beylen Telecom* The defendants used software on their sites that silently hijacked consumers’ modems as they downloaded information from the sites; the consumers were disconnected from their local Internet service providers without their knowledge and connected to another provider at costly international telephone rates to Moldova. The defendants made their money through “kickbacks” from foreign telephone companies. The FTC obtained full redress of \$2.1 million for over 25,000 consumers.

Spam. Unsolicited commercial email is a cheap and anonymous way to reach huge numbers of consumers quickly. In the past two years, the Commission has targeted cases involving deceptive spam, including:

- *FTC v. Benoit (originally FTC v. One or More Unnamed Parties)* The defendants sent consumers emails stating that their “order” had been received, that their credit card had been charged \$250 to \$899, and that to cancel the order, they could call a specified number. The email was a ploy to dupe consumers into making an expensive international call. The fraudsters got a “kickback” on each international call. The Commission obtained preliminary relief; the case continues in litigation.
- *FTC v. Internet Business Broadcasting; LS Enterprises* The defendants in these two cases used spam to sell work-at-home and business opportunity schemes. The Commission obtained orders barring the conduct in the future and providing additional equitable relief, including \$613,000 in consumer redress in the *Internet Business Broadcasting* case.
- *FTC v. Dixie Cooley; U.S. v. A. James Black* The defendants used spam to promote bogus services to repair credit reports that contain negative, but accurate, information. Injunctions and consumer redress were obtained in both cases.

“Web Cramming.” The practice of billing for unauthorized services, cramming first emerged in connection with billing for telephone services. The Commission successfully brought a number of cases to stop the practice. When fraudsters began billing for unauthorized Internet-related services, the Commission acted again:

- *FTC v. J.K. Publications* Eleven defendants were charged with billing consumers’ credit or debit cards for Internet services they had never heard of, let alone ordered. The Commission obtained an order enjoining the practices and contempt orders against several defendants for failing to disclose or repatriate assets of over \$8 million. One defendant was incarcerated. Litigation continues.
- *FTC v. U.S. Republic* Defendants were charged with billing small businesses for Web site services after promising a “free trial period” during which no charges

would be billed without affirmative authorization. The settlement prohibits the defendants from cramming and misrepresenting Web site services and requires U.S. Republic to notify and offer refunds to as many as 124,000 small business and organizations. As security for victims, the order requires U.S. Republic to maintain a \$1.8 million letter of credit payable to the FTC during the redress process.

- *Small Business Sweep* In four separate cases, the FTC charged 19 defendants with defrauding small businesses by billing for services the defendants had promoted as “free.” The services involved creating Web sites. Litigation is ongoing.

Traditional Scams

Many scams with long histories offline have moved online, where they spread quickly across the U.S. and around the world.

Pyramid Schemes. The Internet has become an especially fertile ground for pyramid schemes. To stop these schemes, the Commission is leading a coordinated effort with the states to continue the crackdown. Cases and initiatives include:

- *FTC v. Fortuna Alliance* The defendants used a high-tech chain letter scheme to recruit at least 25,000 consumers around the world. The FTC obtained an order for \$5.5 million in refunds for over 15,500 consumers in the U.S. and 70 foreign countries.
- *FTC v. FutureNet* The defendants ran a multi-level marketing operation. The FTC obtained an order requiring the defendants to pay \$1 million in consumer redress and to post a sizeable bond before they engage in any future multi-level marketing operation.
- *FTC v. Nia Cano* The defendants used live sales presentations to recruit new members, who in turn used the Internet to try to recruit other members downline. The FTC obtained an order requiring \$2 million for consumer redress.

- *FTC v. Equinox International* and *FTC v. Five Star Auto Club* In these recent cases involving multi-million dollar pyramid operations, the courts ordered preliminary relief with asset freezes and appointment of receivers pending trial.
- *The Rolling Internet Pyramid Sweep* This FTC-led initiative with state and federal partners has produced 33 law enforcement actions against 67 defendants in 1999 alone. Joint law enforcement efforts will continue.

Credit scams. Perpetrated mostly by small operators, credit scams also have proliferated on the Internet. The FTC has brought over 25 cases, including:

- *FTC v. Corizine* The Commission's first Internet case, brought in September 1994, involved a defendant who promoted credit repair kits online. After the FTC obtained preliminary relief, the case settled.
- *Operation New ID/Bad Idea I & II* These FTC-led law enforcement sweeps, involving more than a dozen federal, state, and local law enforcement agencies, produced 59 cases which involved false claims that consumers could clean up their credit histories by obtaining a new identification number, such as a taxpayer I.D. number.

Auctions. Complaints to the Commission about online auctions soared in 1999 -- increasing from an average of 50 a month to 1,000 a month.²⁸ Most complaints involve failure to deliver the merchandise: consumers "win" the auction, send their money, but never receive the goods. The sellers often are individuals or small operators located across the country. The Commission has tailored its initiatives to fit these circumstances.

- *FTC v. Hare* The Commission's first online auction case involved a defendant who used various Internet auction houses to sell computers and computer-related equipment that he did not have. The Commission obtained an order banning the defendant from selling online and referred the case to the U.S. Department of Justice for criminal prosecution. The defendant pled guilty to wire fraud, was sentenced, and has been ordered to pay consumer redress.
- *Operation Safebid* In 1999, the Commission initiated a law enforcement program with local, state, and federal agencies to prosecute Internet auction fraud where

the wrongdoers are located. The Commission has conducted four training sessions involving over 100 enforcement officials, and shared complaint data from *Consumer Sentinel*. To date, these efforts have resulted in two civil and three criminal prosecutions; a number of cases are under investigation.

Business and Investment Opportunity Scams. Amid the daily news reports about the Internet's astonishing growth and the potential of startup "dot com" companies, consumers are especially susceptible to scams involving technology and Internet-related business and investment opportunities. The Commission has stopped a number of such scams through law enforcement actions:

- *FTC v. Intellicom Services* The Commission charged the defendants with deceptively promoting partnership interests in hi-tech ventures involving Internet access and Internet shopping malls. Settlements involving 27 defendants included over \$24 million in monetary judgments.
- *Project NetOpp* The Commission brought five cases involving false earnings claims in selling business opportunities for hi-tech products and services such as computer kiosks, Web site design and development, and Internet access. The cases, which involved 27 defendants, resulted in over \$3.5 million in redress. Many of the defendants are banned from marketing any business opportunities in the future or required to post substantial bonds before doing so.
- *FTC v. iMall* The defendants were charged with making false earning claims in promoting opportunities to sell Web sites on the iMall site and advertising in its Internet Yellow Pages. Three respondents agreed to pay \$4 million in redress.
- *FTC v. Infinity Multimedia* In promoting a CD-ROM display rack business, the defendants made unsubstantiated earnings claims. In the first case to apply the FTC's Franchise Rule to online marketing, the Commission obtained an order requiring \$340,000 in consumer redress.
- *FTC v. World Interactive Gaming Corp.* The defendants were charged with making false investment claims in marketing shares in an Internet gambling

casino. About 200 consumers invested \$2 million in the venture. Litigation is ongoing.

Health Claims. Consumer online searches for health information are increasing dramatically; it is predicted that 30 million Americans will seek health information online by 2001. The Commission has made the burgeoning number of false or unsubstantiated health claims online a law enforcement priority.

- *Operation Cure.All* The Commission brought four cases against the marketers of products such as magnetic therapy devices, shark cartilage, and CMO (cetymyristoleate) for their claims that these products could cure a host of serious diseases, including cancer, HIV/AIDS, multiple sclerosis, and arthritis. All the companies, which used Web sites to market the products and recruit distributors, entered into settlements with the Commission.
- *FTC v. Slim America, Inc.* The defendants were charged with falsely advertising that their weight loss product would produce dramatic weight loss results. After a trial, the Court ordered the defendants to pay \$8.3 million in consumer redress and ordered the individual defendants to post multi-million dollar bonds before engaging in the marketing of weight loss or other products and services.
- *FTC v. American Urological Clinic* The defendants touted “Vaegra,” a sham “Viagra” and other impotence treatment products, claiming that the products had been developed by legitimate medical enterprises and proven effective. The Commission obtained an \$18.5 million judgment that requires the defendants to post a \$6 million bond before they promote any impotence treatment in the future.
- *FTC v. Rose Creek Health Products* The Commission charged the defendants with making false claims that its “Vitamin O” added oxygen to the bloodstream and could cure or prevent cancer, heart disease, and lung disease. The Commission obtained preliminary relief, and litigation continues.

Traditional Advertising

While fighting fraud is a major law enforcement priority, the Commission also has focused resources on the application of traditional advertising law and its Rules and Guides to online marketing by national advertisers. It has brought a number of law enforcement actions and reviewed a number of Rules and Guides to clarify the fact that the fundamental principles of consumer protection apply online. The cases involve an array of practices, including the alleged deceptive promotion of online services, hidden contract terms, and deception in the collection and use of personal information.

- *America Online; CompuServe; Prodigy* In 1997, the Commission challenged the leading Internet service providers for using misleading promotions to recruit consumers going online. Among the practices alleged were the deceptive use of the term “free trial,” inadequate disclosures about cancellations, and the unauthorized debiting of consumer accounts. The companies agreed to consent orders that prohibit misrepresentations about the terms of trial offers and require clear disclosures about electronic fund transfers from consumers’ accounts.
- *Dell Computer; Micron Electronics* In advertising their computer leasing plans online, these companies placed material cost information in inconspicuous areas, or omitted the information altogether. The Commission obtained consent orders requiring the companies to clearly and conspicuously disclose all material leasing terms in their Internet and other advertising.
- *GeoCities* In its first Internet privacy case, the Commission charged the company with misrepresenting the purpose for which it was collecting information from children and adults. Under a settlement, the company agreed to post a prominent privacy notice and obtain parental consent before collecting information from children under age 13.
- *Liberty Financial* The FTC charged the company with falsely representing that personal information collected from children on its Young Investor Web site would be maintained anonymously. Under a settlement, the company agreed to

post its privacy policy on its Web sites and get verifiable parental consent before collecting information from children under age 13.

Rules and Guides

As part of a systematic review of its Rules and Guides to determine whether they are still relevant or should be modified or rescinded, the Commission has analyzed them one-by-one to consider their applicability to online marketing. Where appropriate, the Commission has amended a Rule or Guide to clarify that the scope reaches electronic media, including the Internet.²⁹ The Commission also has taken steps to ensure compliance with its Rules and Guides so that consumers who shop online are afforded the same protections they enjoy offline.

Examples include:

- *FTC v. Brandzel* In its first case involving promotions in Usenet newsgroup messages and online bulletin boards, the Commission charged the defendants with violating the Mail Order Rule for failing to deliver computer memory chips it sold consumers. The Commission obtained a permanent injunction.
- *U.S. v. Iomega Corp.* The Commission charged this large manufacturer of data storage products such as the “Zip Drive” with failing to deliver cash rebates and product premiums advertised online. In the settlement, the defendant agreed to pay \$900,000 in civil penalties, the highest penalty the FTC has ever obtained for non-fraudulent violations of the Mail Order Rule.
- *Wal-Mart; Burlington Coat Factory Warehouse; Delia’s; Woolrich; Gottschalks; Bugle Boy Industries* The FTC alleged that these apparel sellers violated the origin disclosure requirements of the revised Textile and Wool rules in their online catalogs. The companies entered into consent agreements, ensuring that consumers will receive the same information no matter how they do their shopping.

Some aspects of the electronic medium -- hyperlinking, scrolling, banners, and animation -- raise novel questions about the interpretation of common legal terms, such as requirements that disclosures be “clear and conspicuous” and that information be “written,” “in writing,” or

“printed.” To seek guidance in this area, the Commission held a Public Workshop on the Interpretation of Rules and Guides for Electronic Media.³⁰ Representatives of the advertising industry, online businesses, and consumer groups and technology experts discussed the application of particular legal requirements in the online environment in light of technological developments, the way that consumers use the Internet to shop online, and the practical implications of various approaches. A staff report on the Workshop is forthcoming.

Education

For Consumers

Acting on the belief that the most effective consumer protection is education, the FTC seeks to alert as many consumers as possible to the telltale signs of fraud, the importance of privacy in the information age, and other critical consumer protection issues. Use of the Internet to develop and disseminate information about fraud and technology-related matters is integral to the FTC’s education, deterrence, and enforcement efforts and has allowed the agency to reach vast numbers of consumers and businesses quickly, simply and at low cost. Indeed, using links, “teaser” Web sites and tutorials, the Commission has been at the forefront of using the Internet to educate and empower consumers.

Dissemination. More than 200 of the consumer and business publications produced by the FTC’s Bureau of Consumer Protection are available on the agency’s Web site. Indeed, the difference in the number of publications viewed online in 1995 and 1999 (62,783 page views vs. 2.5 million page views) tells the story of the Internet’s coming of age as a mainstream medium and its importance to any large-scale dissemination effort. (See Appendix 2.)³¹ The Commission also has developed interactive puzzles and games to reinforce the concepts spelled out in its brochures, one-page “news you can use” consumer alerts, and graphics. In addition, to support the first National Consumer Protection Week, the Commission created a newsletter featuring an online crossword puzzle, a true-false quiz and a word find that focused on credit terms. It was distributed electronically to consumer agencies, law enforcement officials and corporations.

Teaser Sites. Among the education challenges the Commission faces is how to reach consumers before they fall victim to a fraudulent scheme. Knowing that many consumers use the

Internet to shop for information, agency staff have developed “teaser” sites that mimic the characteristics that make a site fraudulent. Metatags embedded in the FTC sites make them instantly accessible to consumers who are using major search engines and indexing services as they look for products, services, and business opportunities. Within three clicks, the “teaser” sites link back to the FTC’s site. There, consumers can find the practical, plain English information they need to learn to recognize fraudulent claims. The agency has developed 13 such “teaser” sites on topics ranging from health care products to scholarship services to vacation deals and investments, and feedback from the public has been overwhelmingly positive. Many visitors express appreciation -- not only for the information, but for the novel, hassle-free and anonymous way it is offered.³²

Partnerships. The Commission actively encourages partners – government agencies, associations, organizations, and corporations with an interest in a particular subject – to link to FTC information from their sites and to use the banner public service announcements the Commission makes available. Links from the banners allow visitors to click through to the FTC site quickly to get the information they are looking for exactly when they want it. Among the varied organizations that have helped drive traffic to the consumer information on **www.ftc.gov** are Yahoo!, American Express, Circuit City, AARP, North American Securities Administrators Association, the Alliance for Investor Education, the Better Business Bureau, CBS, the Motley Fool, the U.S. Patent and Trademark Office, Shape Up America!, the National Institutes of Health, and the Arthritis Foundation.

Consumer.gov. Armed with a vision of the Internet as a powerful tool for consumer education and empowerment, the Commission convened a group of five small federal agencies in 1997 to develop and launch a Web site that would offer one-stop access to the incredible array of federal consumer information. On the theory that consumers may not know one federal agency from another, the information is arranged topically. Federal agencies and consumers have responded well to **www.consumer.gov**. The site now includes contributions from more than 60 federal agencies, and racks up some 50,000 user sessions a month that last an average of over 4 minutes each. The site also houses special initiatives: a Y2K consumer information site on behalf of The President’s Council on Y2K Conversion; a site on health care quality on behalf of

the Quality Interagency Coordination Task Force; and a site supporting the **kNOw Fraud** initiative, the public-private campaign that involves sending postcards about telemarketing fraud to 115 million American households. The original **www.consumer.gov** team received the Hammer Award for its efforts, and the Commission continues to maintain the site.

For Business

As part of its mission, the Commission provides guidelines to online marketers on how to assure that basic consumer protection principles apply in cyberspace. Many of these Internet entrepreneurs are new to marketing in general and may be unfamiliar with consumer protection laws. With even experienced marketers raising novel issues in their efforts to apply traditional consumer protection laws to the online environment, the Commission has used a variety of approaches to get its consumer protection messages out to the business community, including compliance guides, brochures, speeches at industry and academic meetings and conferences, emails and Web-based public service announcements, staff advisory letters on **www.ftc.gov**, the trade press, and posting the transcripts of workshops.

Protecting Consumers' Privacy Online

*New technologies are pushing some new issues - - such as privacy, security and marketing to children - - to the forefront of public debate. **Global Hearing Report**³³*

One of the Commission's major policy initiatives has been to address online privacy -- an area of considerable concern to consumers. Technology has made it possible to collect, store, and market personal information on an unprecedented scale.³⁴ Indeed, it is possible to collect information in ways that may not be evident to the average consumer³⁵ and to collect it from children in ways that circumvent the traditional gatekeeping role of parents.³⁶

One recent survey found that 87 percent of experienced Internet users were somewhat or very concerned about threats to their privacy online.³⁷ Another revealed that consumers who do not use the Internet ranked concerns about privacy as the top reason for not going online.³⁸ And when it comes to children, privacy concerns are greater still: 97 percent of parents whose children are online believe that sites should not sell or rent personal information relating to children, while 72 percent object to any collection of the names and addresses of children, even if the information is only to be used internally.³⁹ Online privacy concerns businesses, too: If the new marketplace doesn't have the confidence of consumers, it will not develop to its fullest potential.

The Commission has explored the need for new policies and legal principles that will address consumer concerns and support the development of e-commerce. Activities include:

- *Public Forums* Since 1995, when online commerce was just taking off, the Commission has held six public forums exploring privacy issues. Representatives of a wide range of interests discussed how – and how much – information is being collected, the level of consumer concern, the special case of children's privacy, the proliferation of spam, individual reference or “look-up” services, the role of self-regulation, and technology-based solutions, among other topics.

- *Web Survey* In March 1998, the Commission staff surveyed more than 1,400 Web sites, including over 200 sites directed to children, to learn about online information practices. Among the findings: the vast majority of sites collected personal information;⁴⁰ a small percentage provided a privacy policy notice;⁴¹ and only a small fraction of children’s sites provided for parental consent prior to the collection or disclosure of children’s information.⁴²
- *Legislative Recommendations* In its June 1998 report, *Privacy Online: A Report to Congress*, the Commission concluded that self-regulation had not yet taken hold and that legislation to protect the online privacy of children was warranted. It deferred judgment on the need for broader privacy legislation. Four months later, Congress passed the Children’s Online Privacy Protection Act (COPPA),⁴³ which requires operators of Web sites directed to children to give parents notice of their information practices and get verifiable consent to collect and use their children’s personal information, among other provisions. The law’s “safe harbor” provision allows industry groups to follow self-regulatory programs that meet the standards of the statute and have the approval of the Commission.
- *Rulemaking* COPPA mandated that the Commission issue a rule to implement the statute within one year of its enactment. The Commission published a proposed rule for comment in April 1999, and three months later, held a workshop to discuss some of the more challenging issues, such as how to implement the Act’s requirement for verifiable parental consent. The final rule was issued on October 20, 1999 and becomes effective on April 21, 2000.
- *Policy Recommendations* In 1999, industry funded two surveys of Web sites. Both showed that the number of sites giving notice to consumers about information practices had increased substantially since the Commission’s survey a year earlier. On the basis of the industry surveys and in light of other self-regulatory efforts, a majority of the Commission concluded that while much remained to be done, industry leaders were demonstrating effort and a commitment to fair information practices and that legislation was inappropriate at

the time.⁴⁴ In July 1999, the Commission published *Self Regulation and Privacy Online: A Report to Congress*, renewing its call for vigorous industry efforts to expand and improve self-regulatory programs and its commitment to monitoring self-regulatory programs.⁴⁵

- *Next Steps* In congressional testimony in the summer of 1999, the Commission outlined its privacy agenda for the next year. Among the initiatives is a Commission survey to reassess progress in Web sites' implementation of fair information practices, the results of which will be reported to Congress.

Globalization

*Business and consumer groups have encouraged the Commission to be more pro-active on the international scene in promoting both its consumer protection standards and its market-based approach to regulation. **The Global Hearing Report**⁴⁶*

Still another major challenge for consumer protection stems from the increasing globalization of the electronic marketplace. Globalization offers businesses a bigger market and consumers more choice, but it also presents more risk. Cross border fraud is harder to discover and stop, redress for consumers is more difficult to achieve, and legitimate companies face uncertainty about the legal standards that apply to global transactions. As e-commerce goes global, the Commission is involved on two fronts: law enforcement and policy development.

Law Enforcement Across Borders

Increasingly, Internet fraud involves operators located in distant places. The FTC's pagejacking case, for instance,⁴⁷ involving defendants in Australia and Portugal, may become more typical.⁴⁸ To address this phenomenon, the Commission is developing new ways to share information and cooperate in law enforcement initiatives:

- *International Web Site* The Commission led the development of **imsnricc.org**, a Web site for the International Marketing Supervision Network. The IMSN is a membership organization of the trade practices law enforcement authorities of more than two dozen countries, most of which are members of the Organization for Economic Cooperation and Development (OECD). The Web site, portions of which are accessible only to members, provides information about Internet developments affecting consumers, legal issues, and investigations. The Commission assumes the presidency of the IMSN in the fall of 2000.
- *International Surf Days* The FTC has participated with over 25 countries in surfs of the Internet. These activities have uncovered fraud that is worldwide in nature. Such joint efforts will continue with even more countries.

- *Consumer Sentinel* Complaint data, currently shared with Canadian officials, now is being provided to other countries on a case-by-case basis.
- *Case Cooperation* More and more, the Commission is assisting and receiving help from law enforcement agencies around the world. Cooperation ranges from complaint sharing to coordinated law enforcement actions.
- *International Consumer Redress* When scams occur, the Commission seeks redress for all injured consumers, no matter where they live. Thus far, five Internet-related Commission cases have involved redress for foreign consumers in over 70 countries.⁴⁹ No doubt, this number will grow as the volume of international consumer transactions skyrockets.

Developing Policies for E-Commerce

Increasingly, the Commission is active in the public policy debate on the international consumer protection principles that should govern the new global marketplace.

- *International Guidelines* The Commission heads the U.S. delegation to the OECD's Consumer Policy Committee, which is developing international guidelines for consumer protection in electronic commerce.
- *International Workshop* The Commission held a workshop in July 1999 to further the dialogue on issues raised by the guidelines. Over a hundred participants attended and explored questions of jurisdiction, conflicts of laws and the roles of the private sector and international bodies in addressing consumer protection issues.
- *International Forums* The Commission is participating in a broad range of forums examining issues affecting e-commerce, including the Transatlantic Business Dialogue, the Transatlantic Consumer Dialogue, the Global Business Dialogue on e-Commerce, the Free Trade Area of the Americas, the Asian Pacific Economic Conference, and the European Commission.

Conclusion

With the rapid growth and change in online technology, the need for consumer protection online continues. Indeed, consumer protection is the cornerstone for consumer confidence in the e-marketplace. Building on its long history of protecting consumers offline and its recent experiences protecting consumers in cyberspace, the Commission looks forward to continuing its efforts with public and private sector partners to meet the challenges of the online marketplace.

Endnotes

1. FTC Staff Report, *Anticipating the 21st Century: Consumer Protection Policy in the New High-Tech, Global Marketplace* (May 1996) at 45 [hereinafter “Global Hearing Report”] (available on the Commission’s Web site at <http://www.ftc.gov/opp/global.htm>).
2. Since the spring of 1995, there have been seven workshops and hearings related to the Internet. They focused on a range of issues including online privacy, global e-commerce, and the application of existing rules to online transactions. These discussions have proved invaluable to the Commission as it has carried out its mission under the Federal Trade Commission Act to protect consumers in the electronic marketplace from unfair or deceptive acts or practices.
3. See *supra* note 1.
4. Nielsen/Net Ratings (Nielsen Media Research and Net Ratings, Inc.), *March 22, 1999 press release* (available at <http://www.nielsenmedia.com>).
5. Intelliquest Information Group, Inc., *Worldwide Internet/Online Tracking Service 1st Quarter 1999 Report* (available at <http://www.intelliquest.com>).
6. Almost 9 million children age five through twelve are estimated to be online. Jupiter Communications, Inc./NFO Interactive, *Consumer Survey* (June 7, 1999). Seniors are among the most active purchasers of goods online according to a recent study. Greenfield Online, *Surfin Seniors Study* (Aug. 1999). The study found that 78% of online seniors had bought online, and that the number of seniors purchasing books, computer hardware and software, and clothing was about twice that of all Internet users. *Id.*
7. Internet Advertising Bureau, *Internet Advertising Revenue Report* (May 1999); Jupiter Communications, Inc., *1998 Online Advertising Report* (available at <http://www.jup.com/jupiter/press/releases>).
8. Throughout the world, almost 11 million domain names were active as of September 1999, of which almost 7 million were for the .com domain (figures are from data automatically generated on a daily basis from NameCrawler database operated by NetNames International Ltd.). Over 56 million “hosts,” or uniquely reachable computers, were hooked into the Internet, representing an astonishing growth of over 800% from the 6 million “hosts” connected to the Internet in 1995. Internet Software Consortium/Network Wizards, *Internet Domain Survey* (July 1999 and January 1995).
9. See Forrester Research, Inc., *Internet Advertising Skyrockets* (Aug. 1999).

10. Morgan Stanley Dean Witter, *The Internet Company Handbook* at 205 (June 1999) (available at <http://www.msdw.com/techresearch/netcomhdbk/info.html>).
11. Intelliquest Information Group, Inc., *Worldwide Internet/Online Tracking Service 4th Quarter 1997 Report* (available at <http://www.intelliquest.com>).
12. CommerceNet and CommerceNet Global Partners, *World Wide Statistics*. Europe and Asia account for the largest increases outside the U.S. and Canada.
13. *Id.*
14. Intelliquest Information Group, Inc., *Worldwide Internet/Online Tracking Service 1st Quarter 1999* (results available at <http://www.intelliquest.com>).
15. Jupiter Communications, Inc., *1999 Online Shopping Report* (available at <http://www.jup.com/jupiter/press/releases>); Forrester Research, Inc., *Report: Retail's Growth Spiral* (Nov. 1998).
16. Global Hearing Report, *supra* note 1, at ii..
17. In 1998, this initiative was awarded the Interagency Resources Management Conference Award.
18. Among other things, Consumer Sentinel gives members the ability to search the National Tape Library, a clearinghouse of undercover tape recordings of telemarketing sales calls, and to obtain a tape request form online; it also provides an Internet resource bookmark list, a library of pleadings, newsletters, and other information of value to law enforcement officials.
19. *Consumer Sentinel* allows members to submit an "Auto Query" on scams or possible targets and to get emailed reports whenever relevant new complaints are entered in the database.
20. In the fall of 1998, Congress appropriated funds for a toll-free number. The number, 1-877-FTC-HELP (1-877-382-4357), was announced on July 7, 1999. In 1998, the Commission began accepting complaints electronically. The online complaints now are averaging 1,000 a week, which also is the number of letters the Commission receives in a week; telephone calls are averaging 6,000 a week.
21. Other complaint data contributors have included, the AARP, Xerox Corporation, Yellow Pages Publishers Association, federal, state and local agencies, and others.
22. This case is described more fully at p.9. Since it began operation in the spring of 1999, the Rapid Response Team has brought five federal court cases.

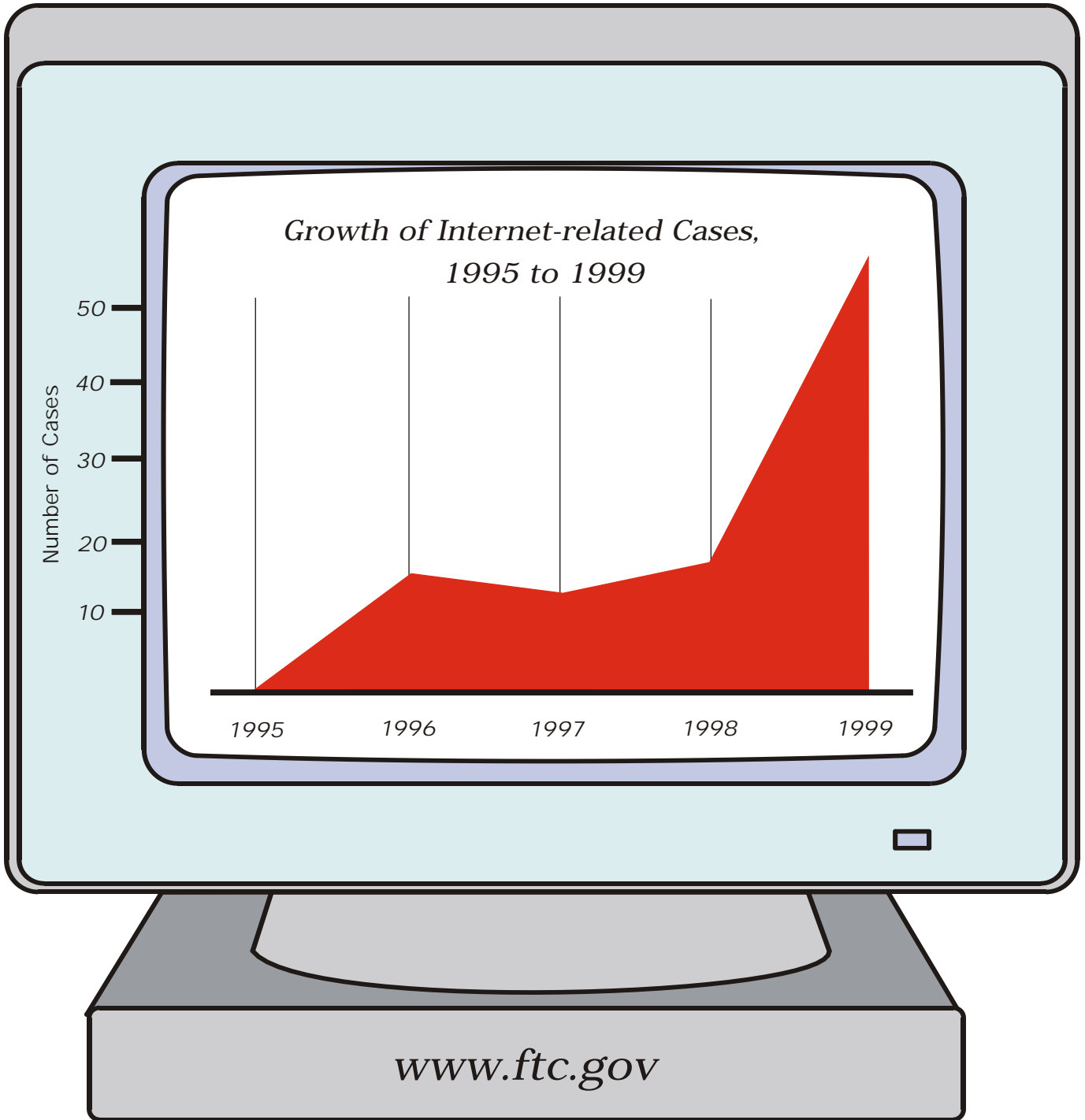
23. The Surf Days focused on products for treating heart disease, cancer, AIDS/HIV, diabetes, arthritis, and multiple sclerosis.
24. To surf, the FTC identifies a type of deceptive practice that warrants investigation. It then recruits law enforcement partners to search the Web for a specific period of time using a protocol tailored to the Surf Day's subject matter. Sites with troubling claims are identified, preserved, and forwarded to the FTC for review.
25. 15 U.S.C. § 45(a). It is under this broad mandate, which covers entities engaged in or whose business affects commerce, that the Commission has authority over consumer protection online. There are some entities that are wholly or partially exempt from Commission jurisdiction, e.g., banks, savings and loan associations, and common carriers, as well as the business of insurance. *See* Section 5(a)(2) of the FTC Act, 15 U.S.C. § 45(a)(2), and the McCarran-Ferguson Act, 15 U.S.C. § 1012(b).
26. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b) states that "in proper cases the Commission may seek, and after proper proof the court may issue, a permanent injunction." Routine fraud cases qualify as a "proper case" for injunctive relief under Section 13(b). *FTC v. H.N. Singer*, 668 F.2d 1107, 1113 (9th Cir. 1982); *FTC v. Gem Merchandising Corp.*, 87 F.3d 466, 469 (11th Cir. 1996); *FTC v. World Travel Vacation Brokers, Inc.*, 861 F.2d 1020, 1028 (7th Cir. 1988); *FTC v. Evans Products Co.*, 775 F.2d 1084, 1086 (9th Cir. 1985).
27. Under Section 5(b) of the FTC Act, 15 U.S.C. § 45(b), the Commission can issue a complaint when it has reason to believe an unfair or deceptive act or practice, in violation of Section 5(a) of the FTC Act, has occurred.
28. *Consumer Sentinel* data showed 300 complaints in the first half of 1998, and 6000 in the first half of 1999.
29. For example, in 1994, the Commission amended the Mail and Telephone Order Rule to include transactions completed through a modem, thus covering Internet purchases. 16 C.F.R. Part 435.
30. The transcript of the Workshop and other related materials are available at <http://www.ftc.gov/bcp/rulemaking/electmedia/index.htm>.
31. The 2.5 million page views are in addition to the 6 million print publications distributed each year to organizations that disseminate them on the FTC's behalf.
32. The titles of the teaser sites are: Looking for Financial Freedom?; The Ultimate Prosperity Page; Nordicalite Weight Loss Product; A+ Fast Ca\$\$h for College; EZTravel: Be an Independent agent; EZTravel: Certificate of Notification; EZToyz Investment Opportunity; HUD Tracer Association; CreditMenders Credit Repair; NetOpportunities: Internet is a Gold Mine; National Business Trainers Seminars; VirilityPlus: Natural

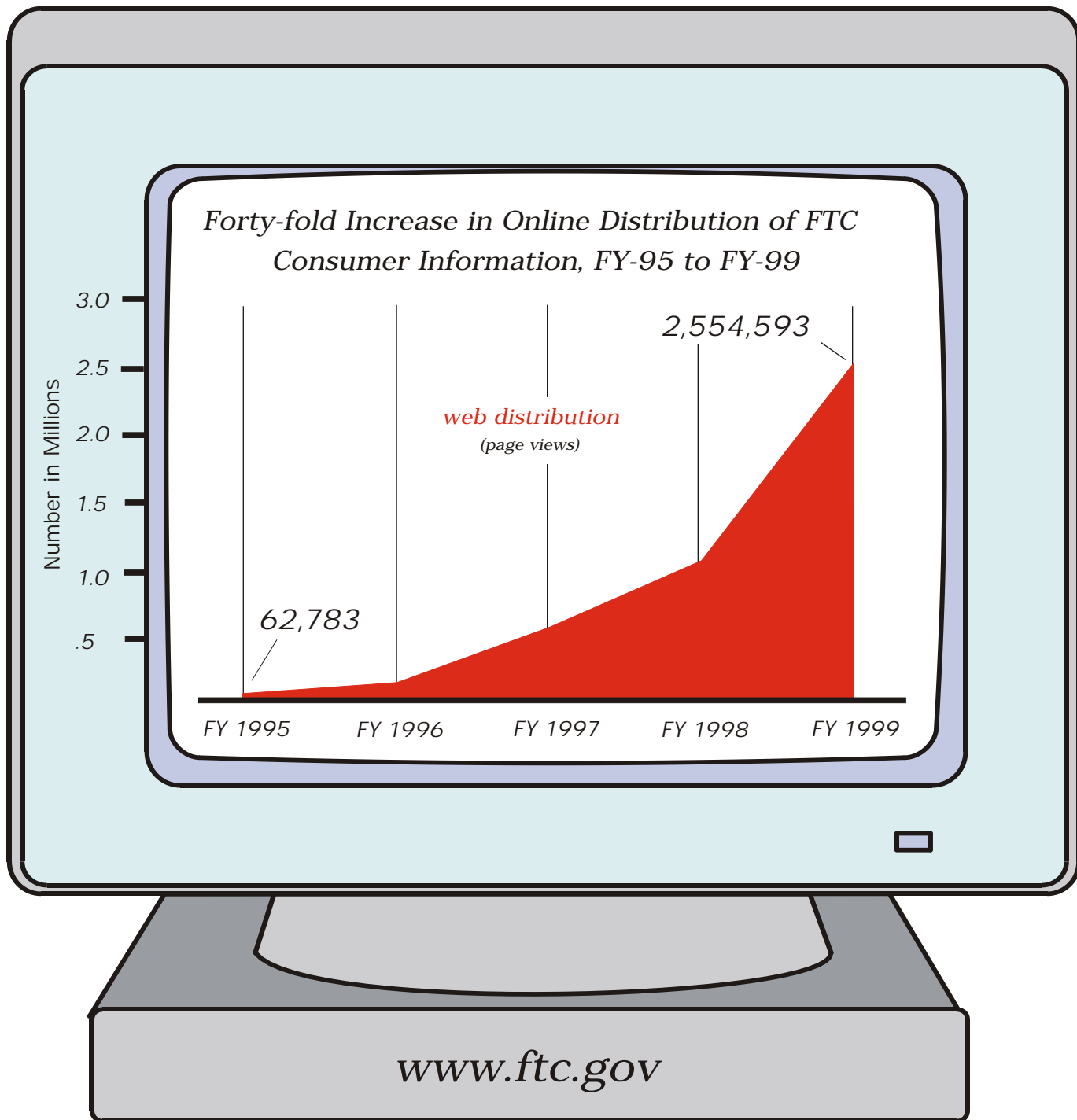
Alternative to Viagra; ArthritiCure: Be Pain-Free Forever.

33. Global Hearing Report, *supra* note 1, at ii.
34. FTC Staff Report: *Public Workshop on Consumer Privacy on the Global Information Infrastructure*, December 1996, at 1 (available at <http://www.ftc.gov/reports/privacy/privacy1.htm>).
35. *Self Regulation and Privacy Online: A Report to Congress* (July 1999) at 2 [hereinafter 1999 Privacy Report] (available at <http://www.ftc.gov/os/1999/9907/index.htm#13>).
36. *Privacy Online: A Report to Congress* (June 1998) at 5-6 [hereinafter 1998 Privacy Report] (available at <http://www.ftc.gov/reports/privacy3/index.htm>).
37. 1999 Privacy Report, *supra* note 35, at 2 (citing Lorrie Faith Cranor, et al., *Beyond Concern: Understanding Net Users' Attitudes About Online Privacy*, 1999).
38. *Id.* at 3 (citing *Business Week/Harris Poll: Online Insecurity*, Business Week, March 16, 1998).
39. 1998 Privacy Report, *supra* note 36, at 6 (citing testimony of Alan Westin's testimony at the Commission's Public Workshop on Consumer Information Privacy, June 10-13, 1997).
40. The survey found that 92% in the Comprehensive Sample collected personal information. *Id.* at 23. The survey found 89% of the children's sites collected personal information. *Id.* at 31.
41. Only about 2% of the sites collecting personal information in the Comprehensive Survey had such a notice. *Id.* at 27. Among the children's sites, the figure was 24%. *Id.* at 35.
42. Only 1% of the children's sites required parental consent before the information was collected. *Id.* at 38.
43. 15 U.S.C. §§ 6501-6506.
44. Commissioner Sheila F. Anthony agreed with the Report's conclusions that self-regulation should continue to be encouraged, but disagreed with the majority's decision not to recommend legislation. Commissioner Anthony's Statement Concurring in Part and Dissenting in Part is included in the 1999 Privacy Report, *supra* note 35. Also included is The Separate Statement of Commissioner Orson Swindle expressing his view that the Report did not present a clear and complete picture of the substantial progress industry had made in the previous year.
45. *Id.* at 13-14.

46. The Global Hearing Report, *supra* note 1, at 44.
47. See *FTC v. Carlos Pereira*, described at p.8.
48. Fortunately, authorities in both Australia and Portugal provided invaluable assistance in the case. Thus far, seven of the Commission's Internet cases have involved foreign countries.
49. In addition to these five Internet-related cases, the Commission has obtained redress benefitting foreign consumers in 45 other cases. The Commission's international law enforcement efforts are not limited to foreign defendants and foreign consumers. The Commission also has succeeded in repatriating foreign assets for consumer redress. For example, in *FTC v. Fortuna Alliance*, the FTC froze \$2.8 million in ill-gotten gains that had been laundered in Antigua, West Indies, and returned those funds to victims of Fortuna's online pyramid scheme.

Appendix 1





CHRONOLOGY OF FTC INTERNET INITIATIVES

1994

September

FTC v. Corzine, Case No. CIV-S-94-1446 (E.D. Cal. filed Sept. 12, 1994)

- credit repair kits advertised online
- injunction; consumer redress

1995

March

Web Site: www.ftc.gov launched

April

Public Workshop: Consumer Protection and the Global Information Infrastructure

August

Consumer Education Publication: Online Scams: Road Hazards on the Information Superhighway

November

Commission Hearings: Consumer Protection in the New High-Tech, Global Marketplace

1996

March

First Sweep of Online Marketers:

- Nine small marketers charged with credit repair, business opportunity and equipment supply scams - all advertised on Web sites
- Consent orders or injunctions
- *Martha Clark d/b/a Simplex Services*, Docket No. C-3667
- *Brian Coryat d/b/a Enterprising Solutions*, Docket No. C-3666
- *Lyle R. Larson d/b/a Momentum*, Docket No. C-3672
- *Rick A. Rahim d/b/a NBDC Credit Resource Publishing*, Docket No. C-3671
- *Timothy R. Bean, d/b/a D.C. Publishing Group*, Docket No. C-3665

- *Robert Serviss, d/b/a Excel Communications*, Docket No. C-3669
- *Sherman G. Smith, d/b/a Starr Communications*, Docket No. C-3668
- *Randolf D. Albertson, d/b/a Wolverine Capital*, Docket No. C-3670
- *FTC v. Brandzel, Case No. 96 C. 1440* (N.D. Ill. filed Mar. 13, 1996)

FTC v. Consumer Credit Advocates, Case No. 96 Civ. 1990 (S.D.N.Y. filed Mar. 19, 1996)

- credit repair promotion posted in thousands of Usenet groups
- injunction; consumer redress

Consumer Education Publication: *Online Scams: Potholes on the Information Highway*

April

Zygon International, Docket No. C-3686

- health claims made on Web site
- consent order; consumer redress

May

Staff Report: *Consumer Protection in the New High-Tech Global Marketplace* reporting on the November 1995 hearings

FTC v. Fortuna Alliance, Case No. C96-799M (W.D. Wash. filed May 23, 1996)

- pyramid investment scheme
- injunction; \$5.5 million in consumer redress to over 15,000 consumers in the U.S. and 70 foreign countries

June

FTC v. Infinity Multimedia, Case No. 96-6671-CIV-Gonzalez (S.D. Fla. filed June 24, 1996)

- business opportunity advertised on Web site
- injunction; consumer redress

Public Workshop: Consumer Privacy on the Global Information Infrastructure

Consumer Education Publication:

Cybershopping: Protecting Yourself When Buying Online (produced jointly with American Express)

November

The First “Surf Day”: a search for illegal pyramid schemes

FTC v. The Mentor Network, Inc., Case No. SACV96-1104 LHM (EEEx) (C.D. Cal. filed Nov. 5, 1996)

- pyramid investment scheme marketed on Web sites
- injunction; consumer redress

FTC v. Global Assistance Network for Charities, Case No. 96-02494 PHX RCB (D. Ariz. filed Nov. 5, 1996)

- pyramid scheme marketed on Web site purporting to raise money for charities
- injunction; consumer redress

December

Staff Report: Public Workshop on Consumer Privacy on the Global Information Infrastructure reporting on the Commission’s June privacy workshop

1997

January

FTC v. Slim America, Inc., Case No. 97-6072 (S.D. Fla. filed Jan. 27, 1997)

- products marketed via Internet and magazines touting rapid weight loss
- \$8.3 in consumer redress ordered after trial; defendants must post multi-million dollar bond before selling weight loss and other products and services

February

FTC v. Audiotex Connections, Inc., Case No. CV-97-0726 (E.D.N.Y. filed Feb. 13, 1997)

- hijacked Internet connection modems to rack up expensive, international calls
- injunction; redress of over \$2.1 million to more than 25,000 consumers

March

Business Opportunity Surf Day: search for sites making exaggerated earning claims

Credit Repair Surf Day: search for sites making false promises to clean up consumer credit reports

May

FTC v. America Online, Inc., Docket No. C-3787

FTC v. Compuserv, Inc., Docket No. C-3789

FTC v. Prodigy Services, Corp., Docket No. C-3788

- “free trial” offers for online services
- consent orders

June

“Field of Schemes” Investment Fraud Sweep

- **FTC v. Intellicom Services, Inc.**, Case No. 97-4572 TJH (Mcx)(C.D. Cal. filed June 23, 1997)
 - investment partnerships in Internet shopping malls and Internet access providers
 - injunctions; consumer redress in excess of \$24 million
- **FTC v. JewelWay Int’l, Inc.**, Case No. CV97-383 TUC JMR (D. Ariz. filed June 24, 1997)
 - pyramid scheme marketed on the Internet
 - injunction; \$5 million in redress
- **FTC v. Dayton Family Productions, Inc.**, Case No. CV-S-97-00750-PMP (LRL) (D. Nev. filed June 20, 1997)
 - investment in low-budget, family films touted through telemarketing, Web site and other promotions with promise of lucrative returns
 - consent orders against defendants with injunctions and bans from engaging in telemarketing
- **FTC v. Rocky Mountain Int’l Silver and Gold, Inc.**, Case No. 97-WY-1296 (D. Colo. filed June 23, 1997)
 - pyramid scheme marketed on the Internet
 - injunction; defendants banned from pyramid schemes

July

Global World Media Corp. and Sean Shayan, Docket No. C-3772

- dietary supplement claims made on Internet and targeted to youth
- consent order

August

Coupon Surf Day: a search for coupon-related business opportunity scams

“Internic” copycat

- Joint efforts of Australian officials and the FTC to stop a false Internet domain name registry.
- Refunds for as many as 13,000 consumers in at least nine countries

October

Kids' Privacy Surf Day: survey of information practices of child-oriented sites

FTC v. Nia Cano, Case No. 97-7947 CAS (AJWx) (C.D. Cal. filed Oct. 29, 1997)

- pyramid scheme promoted through spam
- injunction; \$2 million in redress

North American Health Claims Surf Day: search for sites making deceptive claims about treatments for six serious diseases

November

Beylen Telecom, Ltd., Docket No. C-3782

- hijacked Internet connection modems to rack up expensive, international calls
- consent order

HUD Tracer Surf Day: a search for sites making misrepresentations related to a refund program of the Department of Housing and Urban Development

Consumer Education Publication: *Virtual Treatments Can Be Real World Deceptions*

International Surf Day: a search for pyramids and business opportunity scams.

December

Commission Report: *Individual Reference Services: A Report to Congress* on industry principles to protect privacy and limit distribution of sensitive information

RN database (containing registered identification numbers on textile labels) placed on FTC's Web site and linked to Canadian RN database, making information instantly available to businesses and consumers

Junk Email Harvest: a surf of the FTC's database of unsolicited commercial email, finding 1,000 to be problematic

Consumer database: Consumer Sentinel is made accessible to U.S. and Canadian law enforcement partners on a secure Internet site created by the FTC.

Web Site: www.consumer.gov established in partnership with other federal agencies, providing a gateway to consumer information from over 60 agencies.

1998

January

Consumer Education Publications: *Trouble @ the In-Box* and *How to be Web Ready*

February

"Project Net Opp" Sweep of Internet-related business opportunity schemes

- **FTC v. Hart Marketing Enterprises Ltd., Inc.**, Case No. 98-222-CIV-T-23E (M.D. Fla. filed Feb. 2, 1998)
 - computer kiosk offering Internet access
 - injunctions; consumer redress
- **FTC v. TouchNet, Inc.**, Case No. 98-0176 R (W.D. Wash. filed Feb. 11, 1999)
 - business opportunity to design Web pages for businesses
 - injunction; rescission of contracts
- **FTC v. FutureNet, Inc.**, Case No. 98-1113 GHK (AIJx) (C.D. Cal. filed Feb. 17, 1998)
 - Internet access business opportunity
 - injunctions; consumer redress
- **FTC v. Inetintl.Com, Inc.**, Case No. CV 98-2140 CAS (CWx) (C.D. Cal. filed Mar. 25, 1998)
 - Internet access and computer-related business opportunities
 - injunction; consumer redress

FTC v. Internet Business Broadcasting, Inc., Case No. WMN-98-495 (D. Md. filed Feb. 19, 1998)

- business opportunity claims involving Internet newspaper sites marketed via spam and Web sites
- injunction; consumer redress

Consumer Education Publication: *Net-Based Business Opportunities: Are Some Flop-Portunities?*

March

FTC v. Dixie Cooley, d/b/a DWC, Case No. CIV-98-0373-PHX-RGS (D. Ariz. filed Mar. 4, 1998)

- credit repair service marketed via spam
- injunction; consumer redress

FTC v. Craig Hare, Case No. 98-8194 CIV HURLEY (M.D. Fla. filed Mar. 30, 1998)

- failure to deliver goods purchased in online auctions
- injunction banning defendants from online commerce

Privacy Surf: a survey of 1,400 sites to assess fair information practices.

Consumer Education Publication: *Online Auctions: Going, Going, Gone*

April

Commission Report: *Fighting Consumer Fraud: New Tools of the Trade* on use of the Internet by fraud artists and the FTC's law enforcement and education efforts

May

FTC v. GreenHorse Communications, Inc., Case No. CV-98-245-M (D. N.H. filed May 4, 1998)

- Web site development business opportunity
- injunction; refunds and contract cancellations

June

Commission Report: *Privacy Online: A Report To Congress* on results of FTC online privacy surf, and recommending legislation to protect children's online privacy

FTC v. U.S. Consumer Protection Agency, Case No. 5:98cv00160 (N.D. Fla. filed June 8, 1998)

- promotion via the Internet of franchise as a government consumer agency
- injunction

Consumer Education Publication (with the National Association of Attorneys General): *Site-Seeing on the Internet*

Business Education Publication: *Advertising and Marketing on the Internet: The Rules of the Road*

TrendMark International, Inc., Docket No. C-3829

- weight loss programs marketed via Web site and spam
- consent order

July

Consumer Education Publications:

FTC names its Dirty Dozen: 12 Scams Most Likely to Arrive Via Bulk E-Mail and Shop Safely Online

Kalvin P. Schmidt, Docket No. C-3834

- pyramid and chain marketing schemes via Web sites and spam
- consent order

August

FTC v. American Urological Clinic, Case No. 1:98-CV-2199 (JOS) (N.D. Ga. filed Aug. 6, 1998)

- impotence treatments marketed via the Internet
- injunction; consumer redress

FTC v. World Interactive Gaming Corp., Case No. CV 98 5115 (E.D.N.Y. filed Aug. 11, 1998)

- investment in gambling Web site
- injunction; litigation ongoing

GeoCities, Docket No. C-3849

- collection of personal information from children and adults by Web site
- consent order requiring privacy notice and parental consent before collecting information from children

Textile and Wool Labeling Surf: survey to assess online compliance with FTC Rules under Textile and Wool Acts

September

United States v. PVI, Inc., Case No. 98-6935 (S.D. Fla., filed Sept. 1, 1998)

- business opportunities involving digital photo sticker vending machines marketed via email
- consent order and civil penalty

Web Site: www.imsnrice.org established by FTC for the International Marketing Supervision Network, a organization of trade practices law enforcement authorities in 25 countries, to foster information-sharing among members

Y2K Surf Day: a survey of Y2K compliance information on sites marketing consumer electronic products and other appliances

October

International Health Claims Surf Day: a search for deceptive advertising of health products and services

November

Investment Opportunity Surf Day: a search for phony claims about investments

December

Consumer Education Publication: Online Investment Opportunities: 'Net Profit' or 'Net Gloss'

United States v. Iomega Corp., Case No. 1:98CV00141C (D. Utah filed Dec. 9, 1998)

- cash rebate and merchandise premium marketed online
- consent order; \$900,000 civil penalty

American College for Advancement in Medicine, Docket No. C-3882

- chelation therapy for disease treatment marketed via Web site
- consent order

Jewelry Guides Surf Day: a survey to assess online compliance with the FTC's Jewelry Guides

1999

January

FTC v. J.K. Publications, Inc., Case No. CV-990004 ABC (AJWx)(C.D. Cal. filed Jan. 5, 1999)

- "cramming" Internet services on credit/debit cards
- preliminary injunction; asset freeze and receiver
- individual defendant held in contempt and incarcerated over failure to repatriate assets, including \$6.2 million held in Cayman Islands

February

Operation New ID – Bad IDea

- online promotion of new credit identity

- settlements obtained in 11 cases; litigation ongoing in remaining cases
- **FTC v. Mehmet Akca a/k/a Matt Akca also d/b/a AKCA,** Case No. 99-S-204 (D. Colo. filed Feb. 1, 1999)
- **FTC v. All About Communications USA, Inc.,** Case No. 99-6122-CIV-FERGUSON, (S.D. Fla. filed Feb. 1, 1999)
- **FTC v. Cliff Cross and d/b/a Build-It-Fast,** Case No. M099CA018 (W.D. Tex. filed Feb. 1, 1999)
- **FTC v. Kevin Drake d/b/a New Credit '98,** Case No. 3-99 CVO213-R (N.D. Tex., filed Feb. 2, 1999)
- **FTC v. David E. Dunn d/b/a Pro Se Publications,** Case No. 3-99 CVO 211-G (N.D. Tex., filed Feb. 1, 1999)
- **FTC v. Edward Lane d/b/a Edward Lane & Associates,** Case No. CY-99-3005-WFN (E.D. Wash. filed Jan. 29, 1999)
- **FTC v. Ross Sanford Leiss, d/b/a RLeiss & Associates,** Case No. 99-102-A (E.D. Va. filed Jan. 29, 1999)
- **FTC v. Michael Lyons d/b/a Lyons Publishing,** Case No. 99 CV 6049 (W.D.N.Y. filed Jan. 29, 1999)
- **FTC v. Ralph Lewis Mitchell, Jr.,** Case No. CV 99-984 TJH (BQRx) (C.D. Cal., filed Jan. 29, 1999)
- **FTC v. Frank Muniz,** Case No. 4:99-CV-34-RD (N.D. Fla. filed Feb. 1, 1999)
- **FTC v. Philip D. Miller d/b/a New Start,** Case No. WMN 99-251 (D. Md., filed Jan. 29, 1999)
- **FTC v. Patrick R. Kelly d/b/a Patrick R. Kelly Enterprises and P.R.K. Enterprises,** Case No. 99 CIV 562 (E.D.N.Y. filed Jan. 29, 1999)
- **FTC v. Steve Neizianya d/b/a Standard Business Services,** Case No. 3-99 CV0214-L (N.D. Tex. filed Feb. 2, 1999)
- **United States v. A. James Black,** Case No. 99-113 (M.D. Fla. filed Feb. 2, 1999)

Business Education Publication: Selling on the Internet: Prompt Delivery Rules

March

Hammer Award: sixteen government employees from the FTC and four other agencies recognized for www.consumer.gov

FTC v. Five Star Auto Club, Inc., Case No. 99-1693 (S.D.N.Y. filed Mar. 8, 1999)

- pyramid scheme promoting free auto ownership marketed via Internet
- preliminary injunction; asset freeze; litigation ongoing

FTC v. Rose Creek Health Products, Inc., Case No. CS-99-0063-EFS (E.D. Wa. filed Mar. 11, 1999)

- “Vitamin O” supplement marketed as serious disease cure on Web site
- preliminary injunction; litigation ongoing

Mislabeled Clothes Marketed Via Online Catalogs

- alleged failure to state country of origin of items advertised online, as required under Textile and Wool Acts
- six consent orders

- **Wal-Mart Stores, Inc.**, Docket No. C-3870
- **Burlington Coat Factory Warehouse Corp.**, Docket No. C-3872
- **Delia’s Inc.**, Docket No. C-3875
- **Woolrich, Inc.**, Docket No. C-3873
- **Bugle Boy Industries, Inc.**, Docket No. C-3871
- **Gottschalks, Inc.**, Docket No. C-3878

April

FTC v. iMall, Case No. 99-3650 HLH (C.D. Cal. filed Apr. 8, 1999)

- business opportunity selling Web sites and advertising space on iMall Web site
- injunction; \$4 million consumer redress

FTC v. TradeNet Marketing, Inc., Case No. 99-944-CIV-T-24B (M.D. Fla. filed Apr. 21, 1999)

- laundry products marketed via Internet
- stipulated injunctions; monetary judgment

FTC v. James J. Rapp and Regana L. Rapp, d/b/a Touch Tone Information, Inc., Case No. 99-WM-783 (D. Colo. filed Apr. 21, 1999)

- alleged deception by information broker to obtain and sell consumers’ personal financial information, and market it through Web site
- preliminary injunction; litigation ongoing

LS Enterprises, LLC, Docket No. C-3884

- work-at-home businesses, including bulk-email programs, marketed through spam
- consent order

Operation New ID – Bad IDEA Part II

- seven follow-up credit repair cases offering “new credit identity”
- settlements obtained in four cases; litigation ongoing in remaining cases

- **FTC v. Donna Payne, d/b/a Strategic Information Services**, Case No. 1:99 CV 936 (N.D. Ohio filed Apr. 21, 1999)
- **FTC v. Frederick P. Ray, d/b/a F.P.R.**, Case No. 99-04703 SVW (RNBx)(C.D. Cal. filed Apr. 30, 1999)
- **FTC v. James Fite, d/b/a Internet Publications**, Case No. 99-04706 JSL (BQRx)(C.D. Cal. filed Apr. 30, 1999)
- **United States v. David Story, d/b/a Network Publications**, Case No. 3-99CV-0968-L (N.D. Tex. filed Apr. 29, 1999)
- **FTC v. John Williams, d/b/a Speed Credit**, Case No. H-991325 (S.D. Tex. filed Apr. 30, 1999)
- **FTC v. Eric Volkert and Cynthia Volkert, d/b/a Fresh Start Publication**, Case No. H-99-1326 (S.D. Tex. filed Apr. 30, 1999)
- **FTC v. West Coast Publications, LLC**, Case No. 99-04705 GHK (RZx)(C.D. Cal. filed Apr. 30, 1999)

May

FTC v. Benoit (originally FTC v. One or More Unnamed Parties), Case No. 3:99 CV 181 (W.D.N.C. filed May 11, 1999)

- anonymous emails sent to consumers designed to get them to call an expensive, international telephone number
- injunction

Public Workshop: Interpretation of Rules and Guides for Electronic Media

Liberty Financial Companies, Inc., File No. 982-3522

- personal information collected from children visiting Young Investor Web site
- consent order requires privacy notice and parental consent

FTC v. Screen Test U.S.A., Inc., Case No. 99-2371 (WGB)(D. N.J. filed May 24, 1999)

- screen test for children marketed via extensive Web site
- preliminary injunction; asset freeze; litigation ongoing

Coupon Surf Day II: a search for coupon-related business opportunity scams

Fitness Quest, Inc., Docket No. C-3886

- fitness equipment and weight loss claims marketed via the Internet, infomercials and retailers
- consent order

Consumer Education Publication (with America Online): *Guide to Online Payments*

Dell Computer Corporation, Docket No. C-3888
Micron Electronics, Inc., Docket No. C-3887

- computer leasing ads on Internet
- consent orders requiring clear information about leasing terms

June

Small Business Sweep: Web Site Cramming Cases

- promotion of “free” Web site services to small businesses
- preliminary injunctions; litigation ongoing
- **FTC v. Shared Network Services, LLC**, Case No. CIV. S-99-1087 WBS JFM (E.D. Cal. filed June 2, 1999)
- **FTC v. WebViper, LLC**, Case No. 99-T-589-N (M.D. Ala. filed June 9, 1999)
- **FTC v. Wazzu Corporation**, Case No. SACV-99-762-AHS (C.D. Cal. filed June 7, 1999)

Public Workshop: U.S. Perspectives on Consumer Protection in the Global Electronic Marketplace

Business Education Publication: Web Site Woes: Avoiding Web Service Scams

Operation Cure.All

- health claims for varied products, from shark cartilage to magnets touted on the Internet
- consent orders
- **Magnetic Therapeutic Technologies, Inc.**, Docket No. C-3897
- **Pain Stops Here!, Inc.**, Docket No. C-3898
- **Melinda R. Sneed and John L. Sneed d/b/a Arthritis Pain Care Center**, Docket No. C-3896
- **Body Systems Technology, Inc.**, Docket No. C-3895

July

FTC v. OneSource Worldwide Network, Inc., Case No. 3-99 CV 1494-L (N.D. Tex. filed July 1, 1999)

- laundry product marketed on Internet
- injunction; monetary relief

FTC v. Web Valley, Inc., Case No. 99-1071 DSD/JMM (D. Minn. filed July 14, 1999)

- cramming of Internet Web site design and hosting services marketed as “free”
- preliminary injunction; litigation ongoing

FTC v. David Martinelli, Jr., Case No. 3:99 CV 1272 (CFD)(D. Conn. filed July 7, 1999)

- pyramid work-at-home scheme promoted via spam
- preliminary injunction; litigation ongoing

Commission Report: Self-Regulation and Privacy Online: A Federal Trade Commission Report to Congress assessing self-regulatory efforts since the Commission’s 1998 Web survey

Public Workshop: On proposed regulations to implement the Children’s Online Privacy Protection Act

Operation Trip Trap - Online travel scams

- vacation packages touted on Internet
- litigation ongoing
- **FTC v. American Int’l Travel Services, Inc.**, Case No. CIV-99-6943 (S.D. Fla. filed July 27, 1999)
- **FTC v. Cerkenik-Anderson Travel, Inc.**, Case No. 99-CV-1374 RGF (D. Ariz. filed July 29, 1999)

August

FTC v. Equinox Int’l Corp., Case No. CV-S-99-0969-JBR-RLJ (D. Nev. filed Aug. 3, 1999)

- large-scale pyramid scheme marketed on Internet
- joint action with five states; preliminary injunction; asset freeze; litigation ongoing

FTC v. Credit Nat’l, Inc., Case No. CV 99-07989 GHK (CTx)(C.D. Cal. filed Aug. 5, 1999)

- advance fee loan and credit card scheme
- preliminary injunction; litigation ongoing

September

FTC’s 100th Internet-related case: FTC v. Carlos Pereria, W.T.F.R.C. Pty Ltd., and Guiseppe Nirta, Case No. 99-1367-A (E.D. Va. filed Sept. 14, 1999)

- Web page “hijacking” and “mouse trapping” to divert consumers from legitimate sites to defendants’ pornographic sites
- injunction and order suspending defendants’ domain registrations; litigation ongoing

Internet Lab: public announcement of FTC laboratory designed to support training and law enforcement

October

Children's Online Privacy Protection Rule

- final rule implementing the Children's Online Privacy Protection Act
- effective date April 21, 1999

FTC v. U.S. Republic Communications, Inc., Case No. 4:99-CV-3657 (S.D. Tex. filed Oct. 21, 1999)

- Web site services marketed to small businesses
- injunction; defendants will offer refunds to 124,000 small businesses

November

Public Workshop: FTC and Department of Commerce workshop on "online profiling"

FTC v. AST Nutritional Concepts, Case No. 99-WY-2197 (D. Colo. filed Nov. 15, 1999) ***and***

FTC v. MET-Rx USA, Inc., Case No. SACV-99-1407-DOC (Anx) (C.D. Cal. filed Nov. 15, 1999)

- Dietary supplements containing androgen steroids and, in some cases, ephedra and caffeine stimulants, marketed via Internet and promoted as able to increase strength and muscle mass safely and with minimal or no side effects
- Consent orders requiring disclosure of possible side effects resulting from use of androgen supplements

FTC v. Cyberlinx Marketing, Inc., Case No. CV-S-99-1564-PMP-LRL (D. Nev. filed Nov. 6, 1999)

- Marketing via Internet of HIV test kits for home use which gave inaccurate results
- Consent order banning defendants from marketing HIV home test kits and requiring refunds to consumers who purchased their kits

FEDERAL TRADE COMMISSION - FOR THE CONSUMER

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