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FEDERAL TRADE COMMISSION

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FEDERAL TRADE COMMISSION

IN RE:)
PROTECTING CONSUMERS)
IN THE NEXT TECH-ADE) Matter No.
) P064101
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MONDAY, NOVEMBER 6, 2006

GEORGE WASHINGTON UNIVERSITY
LISNER AUDITORIUM
730 21st Street, N.W.
Washington, D.C.

The above-entitled workshop commenced,
pursuant to notice, at 9:00 a.m., reported by Debra L.
Maheux.

P R O C E E D I N G S

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MS. HARRINGTON: Good morning, and welcome to Protecting Consumers in The Next Tech-Ade. It's my privilege to introduce our Chairman, Deborah Platt Majoras, who is leading the Federal Trade Commission into the next Tech-ade. She has been incredibly supportive of all of the efforts to make these hearings happen, and I'm just very proud that she's our boss, and I'm very happy to introduce her to kick things off. Thank you.

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CHAIRMAN MAJORAS: Thank you very much, and good morning, everyone. It is a great pleasure to welcome those of you who are gathered here at George Washington University in Washington, D.C., this morning, and to extend a special welcome to those who are watching us from places around the globe. We welcome you to Protecting Consumers in the Next Tech-ade.

Our distinguished panelists have come from across the nation and around the world to share their extraordinary expertise on a wide range of technology and consumer protection issues, and we are deeply appreciative. Your time and efforts will assist the Federal Trade Commission and other policymakers in serving consumers.

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1 That technology is changing rapidly is no
2 secret. It is simply transforming the way we live, and
3 in such a dynamic environment, developing sound public
4 policy can be a daunting challenge. These hearings are
5 a key part of the FTC's response to this challenge. No
6 doubt many of you have been to conferences at which the
7 focus has been on how technology itself may change, and
8 I anticipate that we will learn about a da ling array
9 of ama ing and startling technologies, many of which you
10 can perhaps see for yourself at the Tech Pavilion, but
11 our primary focus will be different.

12 Over the next decade or tech-ade, as we have
13 dubbed it, these technologies and others undoubtedly
14 will have a tremendous impact on how we live our lives.
15 This week we will focus not only on how technology might
16 change, but on how it will impact consumers every day
17 and how consumer protection policy most therefore adapt
18 in response.

nives.

1 create.

2 Our hearing, s built on a solid foundation
3 erected through past Federal Trade Commission, s efforts.
4 In the mid 1990s, then Federal Trade Commission chairman
5 Robert Pitofsky recogni ed that we were entering an era
6 in which technology was changing at an increasingly
7 rapid pace and that this could have a profound impact on
8 consumers.

9 He also recogni ed the importance in such an
10 environment of reviving the FTC, s historical role as an
11 agency that analy es and reports on novel and difficult
12 consumer issues; thereby assisting policymakers in their
13 legislative, regulatory and law enforcement decisions.

14 So in 1995, the FTC held hearing entitled
15 Protecting Consumers in the Global High Tech
16 Marketplace, more commonly known as the Global Hearings,
17 and for the Commission and the public, the Global
18 Hearings served two important functions. First, they
19 ushered in a new era in which the agency has engaged in
20 significant policy study, analysis and reporting, a role
21 that we have continued and expanded over this past
22 decade.

23 Second, the Global Hearings provided much of the
24 framework for our consumer protection agenda for this
25 past decade, a result that we hope to replicate for the

1 next decade through these hearings.

2 Following the Global Hearings, Commission Staff
3 issued a report in 1996 concerning technological
4 advances and the future of consumer protection policy,
5 and some of the key conclusions were that new
6 technologies were developing at a rapid pace and that
7 these were going to result in significant marketplace
8 changes for consumers, that new technologies were being
9 used to perpetuate old-fashioned scams. New
10 technologies were elevating some policy issues, privacy,
11 security, and protecting children to the forefront of
12 public debate, that the challenge for consumer
13 protection agencies which respond at a time when
14 resources were stretched thin.

15 As the new marketplace took shape, that both
16 private and public sector interests would be served by
17 making sure that sound consumer protection principles
18 were already in place, and finally, that consumer
19 protection was most effective when government, business
20 and consumer groups could all play a role together.

21 Now, a decade later these predictions may seem
22 obvious, but that, s because their insights turned out to
23 be correct. Our agenda, for instance, is now heavily
24 focused on privacy and security concerns and the
25 protection of children. Privacy and security issues

1 have become such a key part of fulfilling our consumer
2 protection mission that we recently created a new and
3 separate division within the Bureau of Consumer
4 Protection, the division of privacy and identity
5 protection, and it focuses exclusively on these issues.

6 Of course the 1996 Global Hearings Report did
7 not predict all consumer protection problems that the
8 technology would create. For example, it did not
9 foresee consumer protection problems like spam and
10 spyware and viruses. Still, the fact that many
11 predictions broadly have been proven to be true creates
12 confidence that these hearings similarly will be
13 valuable in helping us develop good policy going
14 forward.

15 Given the passage of more than a decade since
16 the Global Hearings, the time has come to undertake
17 another comprehensive and systematic assessment of
18 potential technological developments and their
19 implications for consumer protection policy. As we scan
20 the horizons to perceive consumer protection challenges,
21 we look to the wisdom of the past to inform us for the
22 further.

23 Across the street from my office stands the
24 National Archives with its inscription "the past is
25 prologue," and as it teaches, understanding our past

1 experience with technological advances and consumer
 2 protection, both our successes and our failures, can
 3 provide valuable insight into where we go from here. As
 4 philosopher George Santayana once warned: "Those who do
 5 not learn from history are doomed to repeat it."

6 There are at least four lessons from the past
 7 that we should bring to bear as we consider the
 8 implications of technological innovation for consumer
 9 protection policy: First, that technological change is
 10 difficult to predict; second, vigorous competition in
 11 the marketplace is necessary to ensure that consumers
 12 obtain the maximum benefit from new technologies; third,
 13 the consumer protection concerns that technological
 14 advances create often can be addressed with existing
 15 legal tools and without the need for new laws and
 16 regulations; and fourth, there is a powerful
 17 relationship between technology and consumer
 18 expectations.

19 Baseballer; 5 1 asblf-time philosopherYlog.
 210 Berrna once exltained: "Ttinse arehardt to predid,
 2 1 sxpeibalyt thefutsurt."

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1 internal company memorandum opined that "this telephone
2 has too many shortcomings to be seriously considered as
3 a means of communication."

4 In the 1920s, an investment banking firm advised
5 its client not to invest in radio because "the wireless
6 music box has no imaginable commercial valuable. Who
7 would pay for a message sent to no one in particular?"

8 In 1927, H.M. Warner, the founder of Warner
9 Brothers Movie Studios responded to the prospect of
10 movies with sound by quipping, "who the hell wants
11 actors to talk?"

12 In 1932 Albert Einstein held forth that "there
13 is not the slightest indication that nuclear energy will
14 ever be obtainable. It would mean that the atom would
15 have to be shattered at will."

16 In the 1930s, Lee de Forest, a famous inventor,
17 said: "That while theoretically and technically
18 television may be feasible, commercially and financially
19 it is an impossibility."

20 In 1943 Thomas Watson, then chairman of IBM,
21 offers his insight that "there is a world market for
22 maybe five computers."

23 And finally in 1977, Ken Olsen, the president,
24 chairman and founder of Digital Equipment Corporation
25 opined that "there is no reason that anyone would want a

1 It is the ultimate consumer protection, and
2 consumers can have a particularly potent impact on
3 competitors and competition in high tech markets. On
4 the Internet, consumers appear to reign supreme. They
5 can be very powerful and tough customers as I am certain
6 many of the people from businesses who will be speaking
7 to us will let us know.

8 A recent example involving Facebook.com, a
9 social networking web site, demonstrates the effect that
10 empowered consumers can have. Members of Facebook post
11 information about themselves on their web pages, and
12 then the friends they identify can read the information
13 that they post if they go to these pages.

14 On Tuesday, September 5 of this year, Facebook
15 announced a new feature that monitored the activity on
16 web pages of members, for example, noting a change in
17 whether the member was in a certain romantic
18 relationship or a listing of a new favorite song, and
19 then this information would go immediately and
20 automatically to all the friends of the member.

21 Well, consumer reaction to this new feature was
22 swift and angry. That very day Facebook began to
23 receive a barrage of consumer complaints, and the
24 company's president and his programmers immediately
25 began working on a fix. By Thursday, only two days

1 after the feature was announced, over 600,000 members
2 had joined a protest group on the site. 80,000 had
3 electronically endorsed a petition objecting to the new
4 feature, and a massive member boycott had been
5 scheduled.

6 So at 2:48 a.m. on Friday morning, Facebook's
7 president published a contrite, open letter on his blog
8 which began with the candid acknowledgment "we really
9 messed this one up," and to its credit, Facebook
10 implemented its fix for the new feature at 5:00 a.m. on
11 Friday after working all night to get it done.

12 This experience illustrates vividly the power
13 that consumers have to change business behavior and
14 affect markets on the Internet. Consumers believe quite
15 strongly that it is their Internet, and they will have a
16 strong voice in how it is developed and used.

17 Consumers though often don't receive enough
18 credit, but as all policymakers consider new proposals
19 and actions, we must be mindful of the power of the
20 collective voice of these online consumers. Even as we
21 work to protect consumers from harm by, for example,
22 challenging deceptive online claims and harmful spyware
23 downloads, the power of the collective consumer voice to
24 cause changes in business behavior and move markets must
25 be considered in assessing what policies to adopt.

1 While interested parties will always lobby for
2 policies that benefit them, we do consumers the best
3 service when we ensure that markets are competitive and
4 do not impose unnecessary barriers or restrictions on
5 free competition through our own policies.

6 Past experience also teaches that at the advent
7 of new technology, there will be an ever present
8 temptation to pass new laws or issue new regulations
9 that specifically target that very problem. Through law
10 enforcement experience though we know that the
11 Commission's existing legal authority often is
12 sufficiently elastic to allow the agency to address
13 consumer protection concerns that new technologies may
14 raise without the need for new statutes and regulations.

15 Carefully adapting existing legal standards
16 ensures that we can keep up with new consumer protection
17 problems and decreases the risk that new laws for new
18 technologies will create unintended negative
19 consequences for consumers.

20 In 1938, the FTC was given authority under
21 Section 5 of the FTC Act to prevent unfair or deceptive
22 acts and practices, and since that time we've seen the
23 development and deployment of many new technologies that
24 have a profound effect on consumers, television, mobile
25 phones, the Internet and on and on, and notwithstanding

1 these tremendous changes in the products, in the
2 technology, the elasticity of the concepts of unfairness
3 and deception, while not unlimited, have allowed us to
4 readily apply them to new technologies, and spyware
5 provides a good example.

6 As I mentioned earlier, in 1996, we weren't even
7 talking about spyware as a potential problem at those
8 hearings, but when it emerged, we determined that we
9 needed no new statute or regulation to begin combating
10 the scourge. Rather we were able to mount an aggressive
11 law enforcement program against spyware under our

1 consumer protection concepts and apply them to this new
2 problem.

3 Now, although we often do not need new laws to
4 challenge harmful problems that are arising from new
5 technologies, nonetheless, when Congress provides new
6 tools for us, we vigorously use them, and spam is a good
7 example of that. As I mentioned earlier, spam is not
8 one of the consumer protection problems that the FTC
9 staff saw in 1996.

10 The extremely low cost of sending Email has made
11 an appealing market channel for even legitimate
12 companies, but unfortunately this low cost, combined
13 with anonymity of Email has made spam an ideal vehicle
14 for con artists, and in the late 1990s, consumers began
15 to be deluged with spam, threatening to undermine their
16 confidence in the online world.

17 Recognizing this risk, FTC rapidly commenced a
18 concerted effort to combat spam. The Commission brought
19 63 spam related cases under Section 5 of the FTC Act,
20 and to enhance our ability to fight spam though,
21 Congress in 2003 enacted the CAN-SPAM Act, which
22 prohibits specific practices related to the
23 dissemination of spam and which mandates that the FTC
24 issue and enforce rules.

25 Since the CAN-SPAM Act took effect in 2004, the

1 Commission has brought 25 law enforcement actions
2 alleging that spam distributors violated CAN-SPAM and
3 the FTC's rules, so in total that brings us to nearly 90
4 spam cases against some 240 individuals and companies.
5 Spam, of course, remains a serious problem for
6 consumers, but nonetheless our aggressive law
7 enforcement has been instrumental in attacking spam, and
8 we will continue to vigorously enforce all the laws at
9 our disposal.

10 Now, the final lesson from our past experience
11 that I will discuss today is the effect that
12 technological advances have in increasing consumer
13 expectations. Myself, growing up in Meadville, a town
14 of about 13,000 in north western Pennsylvania, we valued
15 convenience and choice. I still remember going to the
16 bank during its limited workday hours and withdrawing
17 the money we needed to make our purchases, and we
18 shopped at local stores, selecting products from the
19 choice that the local merchants were able to offer us
20 with one exception, and that was when the big beautiful
21 thick Christmas catalogs from Sears and JCPenney's
22 arrived in the mail at the beginning of every December
23 showcasing more toys than we ever thought were
24 imaginable. So this is what convenience and choice
25 meant to us at that time. I won't tell you how long ago

1 it was though.

2 Consumers in Meadville still value convenience
3 and choice, as do consumers throughout our nation, but
4 technologies has had a profound effect on what these
5 terms mean. Without even leaving home, they now use the
6 Internet to find competing products from sellers located
7 around the world, dramatically changing expectations as
8 to the convenience and choice that sellers should offer,
9 and likewise they now can use a variety of options to
10 pay for the items that they purchased.

11 The era of merchants telling customers "in God
12 we trust, everyone else pays cash" is long gone.

1 will have during these hearings will be productive and
2 will provide us with a firm foundation for developing
3 the next decade of consumer protection policy.

4 I, ll ask you one favor. If you enjoy these
5 hearings, if you think they are valuable, then seek out
6 a few FTC people I can,t resist mentioning here, Katie
7 Harrington-McBridge, Dave Robbins, Alicia A ara
8 (phonetic), Julian McFarland, of course Eileen
9 Harrington and their entire team. They have put such a
10 tremendous amount of work in, and while it has I know
11 been a labor of love, labor is still nonetheless labor,
12 and so we, re so appreciative.

13 Now, I often tell our staff that if we, re going
14 to be truly effective in protecting consumers, then we
15 have to hear what they have to say, so to start us off
16 this morning, let, s hear from some consumers. We
17 recently conducted some person on the street interviews
18 asking folks for their thoughts about technology and
19 some of the issues that it raises, and here is what they
20 had to say.

21 (Whereupon, a video was played for the
22 audience but not transcribed.)

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25

1 PANEL 1: KEY CHANGES PREDICTED IN THE NEXT TECH-ADE.

2 MODERATOR: LYDIA B. PARNES, Bureau of Consumer
3 Protection, FTC

4 PRESENTERS:

5 FREDERICK W. HOLLMANN, Demographer, Population
6 Projections Branch, Population Division, U.S. Census
7 Bureau

8 JOSEPH BATES, Director of Research, Consumer Electronics
9 Association

10 ALAN SCHULMAN, Chief Creative Officer, Brand New World

11 FRED H. CATES, Distinguished Professor and Director,
12 Center for Applied Cybersecurity Research, Indiana
13 University School of Law

14

15 MS. PARNES: Great. Good morning, everyone.

16 I'm Lydia Parnes from the FTC, and I have the pleasure
17 of introducing our first panelists.

18 We have with us Dr. Fred Hollmann. He is a
19 demographer with the U.S. Census Bureau, and his work
20 focuses on projecting population projections for the
21 United States by race, age, sex and Spanish origin, and
22 Fred will be talking to us about who we are, who we will
23 be in the next tech-ade; then Joseph Bates, who's the
24 director of research with the Consumer Electronics
25 Association will be talking about what we'll be buying

1 in the next tech-ade; Alan Schulman, the chief creative
2 officer of Brand New World, a creative agency
3 specializing in emerging media, and Alan will be
4 discussing how we'll be advertising the things that
5 we're buying in the next tech-ade.

6 Finally, we'll end up with Professor Fred Cate,
7 a distinguished professor and director of the Center For
8 Applied Cybeseurity Research at Indiana University
9 School of Law who will be discussing the security and
10 privacy challenges in the coming tech-ade, and with
11 that, we're going to jump right into our panel. So
12 Fred?

13 DR. HOLLMANN: Here we are. Thank you very
14 much, Lydia, and thank you for the invitation to speak
15 to you today.

16 I am a demographer. I work for the U.S. Census
17 Bureau, and we project population. That's my principal
18 role. In that vein, I would like to start out working
19 from the large to the small with some very big numbers.

20 The U.S. population reached 300 million
21 inhabitants on October 17, 2006. We claim it happened
22 at quarter of eight in the morning. Of course we don't
23 really know. By July 1, 2016, we will have reached 325
24 million roughly, so we're still growing. It's not
25 rapidly growing, but it is certainly galloping along

1 compared to many of our other friends in the
2 industrialized world.

3 There we go. Some trends, among others. Years
4 of education have increased. The educational status of
5 the U.S. population measured by years of completed
6 schooling is increasing to the point that by 2004, 28
7 percent of the population 25 and over had seen four or
8 more years of college. Labor force participation of
9 women 60 and over has reached a level 59 percent
10 compared to 73 percent for men, after decades of
11 gradually narrowing the gap.

12 There have been steady increases in
13 unconventional and multigenerational households. With
14 the increasingly elderly population and the increased
15 presence of divorce and the factor of marital
16 dissolution, households involving unconventional family
17 relationships, especially grandparents and
18 grandchildren, have increased. The increase in the
19 elderly population has also resulted in more single
20 family households.

21 Related to this, there is a steady and ongoing
22 rise in the demand for healthcare services as the
23 population ages, and finally the foreign born population
24 increases steadily as immigration of slightly over a
25 million per year brings in more people of other language

1 and cultures.

2 Within the big numbers, I want to talk about two
3 macro demographic phenomena. First of all, our
4 population is aging. Second of all, we are becoming
5 more racially and ethnically diverse. I refer to these
6 phenomena as macro demographic, because they are trends
7 which are very large trends, and they're very visible.
8 With regard to visibility, I wager that while many of us
9 may not spend hours pouring over census volumes or even
10 searching our wonderful web site, better yet, you are
11 nevertheless familiar on some level with both of these
12 issues.

13 Let's start by looking inside the aging
14 phenomena with a few charts. First of all, total
15 population under 50 and 50 and over. In this chart I
16 show the trend in population groups over time, but so as
17 not to allow large groups, like the total population to
18 dominate the chart, I am indexing the trend, setting the
19 level in July 1, 2006, to a hundred, and calculating the
20 trends relative to the 2006 level. That is the reason
21 that all of the lines come together in the middle of the
22 diagram. I think it got ahead of me. Here we go.

23 The heavy blue line in the middle shows that the
24 population of the United States had reached 93 percent
25 of the 2006 level by July 1, 2000, and the growth is

1 predicted to continue to about 113 percent of its 2006
2 by July 1, 2016.

3 The green and red line show us that the
4 population 50 years and older is growing quite a bit
5 more rapidly than the population under 50. The older
6 segment passed mid 2000 at only 87 percent of 2006,
7 level reaching 125 percent by 2016. This means that
8 this population is growing by a quarter in the next ten
9 years.

10 The under 50 had already reached 98 percent of
11 its 2006 level by 2000 and will only be at 102 percent
12 of that level by 2016. While certainly not a decline,
13 this implies a much slower rate of growth.

14 I need to get back. There we go. Why do older
15 population groups outgrow younger ones? There are three
16 reasons. First of all, declining mortality at advanced
17 ages causes people to live longer, boosting the growth
18 of older categories. Births were once on the rise, and
19 the increase ended or slowed. In some cases,
20 immigration can play a major role as well.

21 Only the first two are really relevant to the
22 current aging of the population. With regard to the
23 first point, we need only note that life expectancy at
24 birth for both men and women has been on the rise
25 throughout most of the 20th century and into the 21st.

1 65 and over increases more gradually until 2011, when
2 the boom cohort of 1946 reaches age 65 and continues to
3 rise rapidly through 2016 and beyond. The 65 plus
4 population will be at 129 percent of its 2000 level by
5 2016 according to this projection.

6 The age group of small children, tweens, age 8
7 to 12, and teens were or will be born during a period
8 without major trends in childbearing levels as we
9 project its continued stability, however much the
10 population of childbearing women fluctuates.

11 The brown line corresponding to age 13 to 19,
12 it's actually kind of reddish brown there anyway, while
13 it has been rising somewhat more slowly than the
14 population overall, it is nevertheless projected to
15 decline from 2014. How can we foretell a shift in
16 trend? The answer lies in what we know about the birth
17 of their mothers. A 15 year old at the end of 2006, for
18 example, was born in 1991. At this time, the
19 involvement of the post war Baby Boom and the population
20 of childbearing women was near its peak. A 30 year old
21 mother in 1991 was indeed born about 1961.

22 By contrast the tweens, the 8 to 12 years old,
23 the green line, declines from 2001 to 2008 should
24 increase almost at pace with the total population for
25 the years following. Children under 7 grow steadily

1 because we're assuming that childbearing among women
2 doesn't change too much.

3 The 20s follow. The total population, ages 30
4 to 49, decline. People 30 to 49 will be increasingly
5 dominated by the post boomers born after the late 1960s.
6 Young adults 20 to 29, would fall behind, but are
7 bolstered by the effects of immigration.

8 MS. HARRINGTON: Fred, I have an announcement in
9 the current tech-ade. If you just point your clicker to
10 the right, that's all you have to do, and we have a
11 screen for you to watch right there and for all of our
12 panelists. We didn't give you current tech information
13 for.

14 MS. PARNES: Thank you very much.

15 DR. HOLLMANN: Thank you very much. The 25 year
16 old around 2006 was born in 1981. There was little
17 growth in the number of births in the early 1980s.
18 However, the effects of immigration hit this group
19 causing some growth. The 30 to 49 year groups staggered
20 primarily because of the backside of the Baby Boom in
21 spite of some boost from immigration.

22 Well, are we becoming a nation of old people?
23 Yeah. In a word, no. There we go. Population aging,
24 while a near universal attribute of industrialized
25 society in these decades, does not happen overnight, nor

1 is anything we are observing in the U.S. without
2 precedent.

3 In this chart, I am comparing the under 20, 20
4 to 64 and 65 and over populations in the U.S. in 2006
5 and projected to 2016 with population estimates for the
6 United Kingdom and Japan in 2006. Both have higher
7 proportions 65 and over in 2006 than what is projected
8 for the United States in 2016. The UK is slightly ahead
9 of us. Japan, a population of 127 million, is far less
10 in this regard.

11 Notably, the proportion 20 to 64, while it
12 declined somewhat over our ten-year period is not far
13 from current levels in the UK and Japan at around 60
14 percent. A larger number of elderly in the UK, Japan
15 and Europe for that matter comes at the expense of
16 children and teens, largely because of the birth trend
17 that these countries have experienced in recent decades.

18 The second big macro is demographic phenomena.
19 We are becoming racially and ethnically more diverse.
20 The Hispanic population is increasing rapidly in both
21 numeric and percentage terms. The Asian population,
22 while smaller than the Hispanic population, is growing
23 rapidly in percentage terms.

24 We see that the non Hispanic white population
25 remains the largest category through 2016 by a long

1 shot. We foresee it dropping below 50 percent in fact
2 around mid century, around 2050. The growth of the
3 Hispanic population as projected is apparent, but the
4 comparative trends are clearer if we look at the numeric
5 change from year to year.

6 The big growth story is the Hispanic origin
7 population which persists at a growth rate well over 2
8 percent per year, nearly 1.2 million change, even though
9 it is a rather large group at the beginning. The black
10 population, close to the same size at the start, grows
11 at about 1.4 percent per annum, almost half a million
12 per year. This is well above the growth rate for the
13 entire population. Asians are increasing at the highest
14 percentage per year, although they are a smaller group
15 than either blacks or Hispanics. With future revisions
16 of projections to reflect current immigration levels,
17 the growth of the Hispanic population may become even
18 more impressive.

19 Finally, some cautions and reassurances.
20 Population projections are grounded on assumptions about
21 fertility, mortality and international migration that
22 can be proven wrong, and believe me they have.
23 Nevertheless, we're pretty comfortable of projections in
24 the older population primarily because we know most of
25 them from our last census.

1 Projections of young adult and also those of
2 immigrant background, Asians and Hispanics are more
3 tenuous because of the difficulty of foreseeing changes
4 in international migration. Major changes in fertility
5 have belied projections in the past, especially of
6 children. The Baby Boomers were rather notorious in
7 this regard.

8 Concluding thoughts: The age, race and ethnic
9 composition of our population is changing, but we should
10 beware of the tendency to impose a demographic
11 determinant and assumption of trends. As demographers,
12 we talk about cohort imperial phenomena. While some
13 phenomena are age related, such as healthcare, others
14 relate to when we were born and grew, such as computer
15 literacy and demand for cutting edge technological

Applfore.) Concluding t2f young adultMS. PARNESc

1 up.

2 While we're giving you some time to do that, I
3 actually have a quick question. One of the things that
4 I was wondering about in listening to your presentation,
5 and particularly with what you mentioned about your dad,
6 I'm wondering that in the next decade, will this be a
7 different older population, a population that's kind of
8 grown up or at least grown up in its older years knowing
9 and using technology?

10 DR. HOLLMANN: Certainly it will, and this is

11 verpr1 ve anu mentioned aboutropostTjTmyiondt in the u gotlowf

1 us here. CEA is delighted to share some of the thoughts
2 and the data that we have on the products that we're
3 currently buying as well as the products that you all
4 will buy over the next coming ten years. So this must
5 be an IR remote instead of an RF so I'm going to have to
6 do this.

7 So today I'll briefly talk about the industry
8 overview of the consumer electronics industry and how we
9 got to where we are today in terms of the products that
10 we have in our homes and that we're buying, and the past
11 is the future, and I'll talk about that when we get
12 there, and then the crystal ball, what's going to happen

1 last ten years or so, and we complete about 30 a year
2 right now. We have a factory to dealer sales program,
3 so it tells us how many DVD players are shipping every
4 week from manufacturers to dealers and retailers and
5 other products as well. We also have a research library
6 that our members can contact if we have questions, and
7 it's free to our members.

8 So again here's just a very small smattering of
9 some of our members. It's pretty impressive when you
10 try to fit all their logos on one slide, and of course
11 these are just a few, and we thank all of them for their
12 participation in our industry.

13 So a little bit about the industry. The
14 consumer electronics industry is a very healthy
15 industry. Our growth rates have been well above that of
16 the national GNP over the last several years, and in
17 2006 we expect to see at least a 9 percent growth rate
18 over 2005, and data that we've been receiving
19 lately indicates that it may in fact be higher than
20 that, so a very bright spot in the industry.

21 The consumer electronics industry employs about
22 1.9 million Americans, and that's a 19 percent increase
23 since 1991, so again nice bright spot in the economy.
24 Consumers love consumer electronics products. They own
25 an average of 26 per household, and that's up from 14

1 only ten years ago. They spend an average of \$1,500 a
2 year, which is up from \$800 a year ten years ago. CE
3 products, an ultimate value category for consumers,
4 every year our products get cheaper and they get better.

5 So how do we get to where we are today? From
6 the start consumer electronics products have changed the
7 way that Americans live and communicate. We saw this
8 with the CE industry when it first began. It began 90
9 years ago with the dawn of commercial radio and soon
10 followed with commercial television in the late 1920s.
11 News and information can now be spread around the
12 country in a matter of minutes to millions of
13 individuals.

14 The pace of technology, the pace of development
15 has grown exponentially in the last four decades. After
16 the advent of the radio and the television, we have seen
17 other electronics products such as the VCR, the personal
18 computer in the 1970s, portable music players, cell
19 phones, CD players. All of these were actually
20 introduced to the consumer over 20 years ago.

21 After this initial burst of flurry in the late
22 , 70s and early , 80s, we then again saw another explosion
23 of technologies in the 1990s. So here we see digital
24 audio technology in 1990, satellite TV in , 94, DVD
25 player in , 96, we're actually ten years out from a DVD

1 player now if you can believe that, high definition
2 television in 1998 and so on, and you can see just from
3 part of this list with satellite radio in 2000 or before
4 that the numbers have been dramatically increased, and
5 these are just the major products.

6 The Consumers Electronics Show, which is
7 produced by the Consumer Electronics Association, is
8 where most of these technologies have been introduced,
9 and these technologies are becoming more and more
10 familiar to all of us in our every day lives.

11 Now, it's important to remember though that
12 technology takes time to diffuse into the marketplace,
13 so we see that things like the DVD player while they
14 were introduced, while it was introduced years ago, and
15 it was in fact the most successful product in the
16 history of consumer electronics, it has taken ten years
17 for it to reach the vast majority of consumers.

18 Other technologies such as the cell phone, which
19 was introduced back in the ,80s, took more like 15 years
20 to really catch on, so technologies that are being
21 introduced today may in fact not really catch on until
22 ten years from now.

23 So that gets me to my first point which is the
24 past is in fact the future, and really it's the more
25 recent past, so let's look at the fastest growing

1 technology products from 2005, and these are based on
2 shipment revenues. So we see the portable MP3 player is
3 the number 1 category in terms of growth, so year over
4 year growth, 224 percent increase.

5 Other technologies such as stand-alone monitors
6 in cars, satellite radio tuners, DVD recorders, high
7 definition television, and on this screen you'll see
8 that it resides under LCD TV, which is number 6, and
9 plasma TV, which is number 9, and down at the bottom
10 digital TV, digital video recorders. So one thing
11 you'll notice is that all these products are digital,
12 and in fact digital transition, and on this 3-Tturr j0 aa0 g0 Tc0 etal,

1 coming years.

2 Digital cameras, again you can see this
3 wonderful growth rate and a leveling off and that
4 leveling off is really where you begin to see the uptake
5 is slow, so we're rounding the bend on that curve, the
6 product introduction curve and life circle, but
7 nonetheless, there's a lot of product that's being
8 shipped and a lot of people that are buying these
9 products.

10 Digital recording is also something that has
11 been big in the last year and will continue to be big as
12 we go forward, not only with DVD recorders but also with
13 digital video recorders, and these digital video
14 recorders that you see up here on the screen do not
15 include cable and satellite video recorders that are
16 integrated in set top boxes. These are just stand
17 alone. When you add the numbers that the satellite and
18 the cable companies are putting out in the marketplace,
19 that growth rate is going to be very huge.

20 Lastly, an example of digital television, 2006
21 was a banner year in that we have surpassed -- digital
22 division shipments have surpassed analog television and
23 with the change over, the transition in February 17 of
24 2009, we will no longer have analog over the broadcast,
25 and those consumers, albeit a small number who have

1 television and receive it over the air, they will then
2 need to have a digital television or a converter, so we
3 see all these digital technologies, and that's where the
4 past is the future. We're going from analog to digital.

5 So the crystal ball. First of all, we're going
6 to have very, very healthy replacement markets. People
7 who have purchased wireless phones are going to continue
8 to buy them. They will upgrade them as new features are
9 included and enabled. Cordless telephones at home,
10 believe it or and not, one of the biggest categories
11 that we have and we track, 50 million a year, so these
12 are millions per year of unit; televisions, almost 30
13 million per year; game consoles, PCs, DVD players, all
14 20 million or more units per year, and keep in mind that
15 we haven't got 111 million households in the U.S. right
16 now, so a very large percentage of households will be
17 buying these product as replacements.

18 DVD players, even home audio, maybe it's a
19 smaller category than some of these others, but it's
20 becoming bigger and bigger. As people are buying HD
21 sets and putting them in their living rooms and creating
22 this wonderful video experience, we're finding that
23 consumers also are realizing that when they plug in
24 additional audio components they get a much better
25 experience.

1 In addition to the replacement markets, what
2 else are we going to see? Well, I think the defining
3 slogan for in the home will be "what I want when I want
4 it." Consumers are going to be moving into time
5 shifting and play shifting, and at the home it really
6 comes down to time shifting so that, s the new pyridine
7 with respect to technology.

8 Now, in the past it, s been governed by ease of
9 understanding, so how easy is it to understand a
10 product, and will it make my life easier or simpler or
11 does it make something more convenient. This is what, s
12 really governed consumer technology in the past. As we
13 go forward, consumers want to take control of what they
14 are watching and what they are doing and when they are
15 doing it.

16 So home entertainment, home theater will
17 continue to increase. We, ll see the digital transition
18 finish, and then high definition will begin to take
19 hold, and the expanding number of products connected to
20 the Internet will increase. In terms of entertainment,
21 we, ll see media center PCs. We, ll see home theaters,
22 digital video recorders as I mentioned, high definition

1 networks that are enabled by wireless technologies such
2 as Wi-Fi and also Internet enabled services such as
3 Internet TV as well as Internet television.

4 In terms of making life easier, we'll see an
5 increase in on demand content, downloadable content as
6 well as streaming real time content. We'll see a move
7 towards digital content, storage and acquisition on
8 those media center PCs. We'll also see robotics, maybe
9 not the George Jetson stuff yet, but those of you who
10 are familiar with the Roombot, which goes around and
11 sweeps up things on the floor, that is a robot, and
12 these robots will be increasingly seen in the homes.

13 We also see convergence of consumer technologies
14 with home appliances, what we typically call white
15 goods, so brown goods which are consumer electronics
16 products, will merge together with white goods, and
17 we'll see Internet enabled devices of all sorts, not
18 just televisions, but refrigerators and ovens.

19 At the international CES in 2005, there was a
20 refrigerator oven that was on display for the low, low
21 price of \$4,000, and you could call it up on your cell
22 phone and tell it to start cooking whatever was
23 refrigerated from that morning, so you're going to see a
24 lot of these products entering the home.

25 And don't forget the consumers as creators. As

1 they take control of the content that they are acquiring
2 and using, they'll begin creating more and more and
3 having what they create put up for others to see, and
4 this is their right.

5 As I mentioned you will see an increasing number
6 of products connected to the Internet. In one of our
7 recent surveys, we asked consumers, what do you
8 currently have connected to the Internet in your home
9 and what you would like to see connected in the future,
10 so you will see that while very few consumers currently
11 have televisions or digital video recorders, media
12 servers, security systems or appliances connected, they
13 would like to do so in the future, and in the future we
14 phrase that just as the future. We don't know the exact
15 time frame, but we do know that consumers tend to think
16 in five to ten-year periods, if less than that, so these
17 are all technologies and products that consumers are
18 going to want to connect to the Internet as they are
19 using more Internet enabled services.

20 So on the go. We're also going to see
21 technology really firmly taking hold more so than it has
22 today, and the slogan that's going to be -- the
23 predominant slogan is "what I want, when I want it,
24 where I want it," and some of the areas within the
25 communications on the go, hand-held communications

1 devices, cell phones, BlackBerrys, and there will be
2 other devices like them to come.

3 Hand-held entertainment, including audio and
4 video, we have the iPod, which will continue to evolve,
5 and other competitors such as Microsoft's Zoom Player
6 and other players that have been out in the, market like
7 the Creative ZEN player and so these, the communication
8 aspect and the entertainment aspect are going to
9 converge together so that you will very likely see cell
10 phones that are able to download MP3s, which they
11 currently are, and video which they currently are, and
12 you'll see MP3 players that do the opposite, so huge
13 convergence in this area on the go.

14 Also don't forget automotive as the second home.
15 You will see Internet access in the car. You will see
16 entertainment becoming widespread in the vehicle with HD
17 or satellite radio, mobile entertainment and navigation
18 systems. You will see telematics which really is a
19 smart car. Telematics are things such as the GPS
20 enabled devices or services, so you know or somebody
21 knows where your car is. You've allowed them to track
22 you, and they will tell you at the next exit what is
23 available for eating. It will tell you where the next
24 rest room is, things like that. They will be enabled
25 with security features such as the current OnStar, but

1 more advanced.

2 In addition to these location based services,
3 we'll see wireless broadband so connection anywhere, any
4 time, and products will be moving up and down the age
5 spectrum. As consumers get older who are familiar with
6 technology they will have these products, and younger
7 consumers are really baiting in it.

8 So to conclude, the fact that technology is
9 changing consumer behavior means the business models are
10 also going to be changing for content providers.
11 Watching live TV may in fact be a thing of the past in
12 the next few years, and this means that advertisers will
13 have to change their business models, and content
14 creators and distributors will need to change theirs as
15 well.

16 We'll see uses of technology continuing to
17 expand. Consumers will use their cell phones as credit
18 cards. They will have RF ID tags that will allow them
19 to checkout without waiting in line at the grocery
20 store. Functionality for any given device will grow, as
21 I mentioned convergence within the handheld
22 communication is in the change arena.

23 And finally, we believe, CEA believes that the
24 role of the government is to protect the fair use rights
25 of the consumer in this digital age. If consumers are

1 not allowed to use their lawfully acquired devices with
2 lawfully acquired content in the ways that they want to,
3 innovation will be stifled, the industry will suffer,
4 and consumers will be denied the advances that consumers
5 electronics products have made throughout the past
6 century.

7 Thank you.

8 (Applause.)

9 MS. PARNES: If I cooked, I would be incredibly
10 excited about the oven that you could call.

11 MR. BATES: My wife is a personal chef, and she
12 really liked the idea until I told her how much it
13 costs.

14 MS. PARNES: Right. Do you have a sneak preview
15 for us about what the great new product will be in
16 January at the CEA convention?

17 MR. BATES: You know, we probably don't even
18 know what it's going to be yet. There are literally
19 tens of thousands of new products introduced at the
20 Consumer Electronics Show every year, and inevitably
21 several bubble to the surface.

22 MS. PARNES: We'll all be looking forward to
23 that. Alan, it's kind of like we've got a perfect segue
24 here now because we heard that we'll be watching
25 television kind of when we want it, so now we'll hear

1 about what advertisers are going to do about that.

2 MR. SCHULMAN: Good, digital stuff. Here we go.
3 Good morning everyone, and thank you for having me down
4 from New York. I want to talk a little bit about the
5 period of chaos that the advertising community is in at
6 the moment, and it's not necessarily a bad thing. It's
7 just a lot of these digital devices are challenging us
8 to think about, amidst these emerging technologies,
9 emerging ways of sending messages across those
10 technologies.

11 I work for a company that specializes in that
12 from the creative standpoint so I'm going to talk about
13 some of the trends that are happening in creative
14 messaging beyond the 30 second commercial today and what
15 effects those are having. And it's interesting, back in
16 the late '60s, a director by the name of Stanley Kubert
17 made a film called 2001 Space Odyssey, and in that movie
18 he sort of projected that in the year 2001, advertisers
19 would be delivering their message across a video phone,
20 if you remember that scene in the movie.

21 Fast forward to 2001, and there was a film
22 released called Minority Report starring Tom Cruise that
23 actually featured Tom walking through a mall where
24 billboards were actually speaking to him, and I'm
25 certain that while we haven't gotten to that oTY we haven't gotten

1 maybe Tom has in its own mind, but we haven't gotten to
2 the point yet where billboards are actually talking to
3 you, and I think that the point is, there are a lot of
4 predictions about what the future of messaging in
5 advertising is going to be to the consumer, I certainly
6 hope we don't get to the point where we're retinally
7 scanning people's eyeballs and delivering advertising
8 messages to them on a one to one basis.

9 So with that, I'll get very quickly into what I
10 want to talk about here this morning. There is a
11 di ying array of technologies, as the gentleman who
12 preceded me, Joe, talked about here with regard to
13 things that are happening in the marketplace, and if
14 you're Madison Avenue, what happens is your client wakes
15 up and reads The Wall Street Journal in the morning and
16 then says Bluetooth, what's Bluetooth, calls the agency,
17 so we get a phone call that says, Is this something we
18 need to know about, is this something that's going to
19 affect how we message, and the answer is many of these
20 things in fact do and will eventually affect how we
21 message because as was just stated before me these
22 digital platforms are mobile. They're untethered.
23 They're always on, and that's going to require that we
24 change the means in which we create our messages.

25 I want to talk about what that's done to the

1 media landscape from a series of shifts that are really
2 seismic and from the standpoint of what it's done to our
3 messaging, so I want to talk about some of these trends
4 and what effect it's having on the creative community.

5 The first one is that we've gone from a mass
6 marketing world to a micro marketing world, and
7 basically that means that we used to place one phone
8 call to a network and be able to place \$5 million to \$15
9 worth of advertising in one phone call, and essentially
10 now what's happened is we are now marketing to micro
11 audiences as opposed to mass audiences. We still
12 obviously in TV can reach a lot of people, but what we
13 have to do now is reaggregate audiences according to
14 their affinities, so what that means is we look for
15 places to reach influencers within smaller groups.

16 And for those of you who have read Malcolm
17 Gladwell's book "To Pinpoint or Blink," you know that he
18 talks about this notion of the influencer or it may have
19 been the person within the smaller group influences
20 those around him, or what we call word of mouth or
21 viral, whatever you want to call it. Those are all bu
22 words within Madison Avenue, so basically it suggests
23 that we're trying to hit that person who will reach
24 other people within the group.

25 And essentially what happens is then that will

1 push the marketplace outward, so as Joe showed you in
2 terms of technology adoption, what happens is that that
3 early adopter gets that digital device and then exposes
4 lots of others of you to that digital device, and then
5 hopefully the market spreads outward, not just for the
6 device, but from our standpoint the market for reaching
7 those people spreads outward as well.

8 So in the old days, as I said we used to craft
9 one message, and we distribute it to a mass audience.
10 Now the name of the game for us is to create a
11 compelling story for our brand advertisers and then push
12 it out to the sums and hoping through word of mouth and
13 some of the new user generated platforms online, the
14 name of the game is to try to see how far and wide that
15 message can be distributed, so our model is changing,
16 and the way we communicate that model is changing as
17 well.

18 There are examples of this, the subservient
19 chicken for those of you who are familiar with this
20 online was an example of a chicken who could behave
21 however you directed it to behave online, and this was
22 pushed around the Internet millions of times. We also
23 have new technologies that are enabling us to target
24 audiences at what we call the sub DMA level. That means
25 your cable operator, we're not really at the point where

1 we are reaching you on a one to one basis through your
2 cable box, nor do I think we will be at a point when
3 we're even interested in the efficiency of creating a
4 singular message for a singular household. It's just
5 not going to be efficient.

6 That said, we do have technologies available
7 like Visible World that will enable us as we work to
8 protect or reach again a micro segment of a Zip Code,
9 and that doesn't have anything to do with your name or
10 your address or your phone number or any personal
11 information about you. It's just that what the cable
12 operator can do is deliver a commercial to a set area,
13 and it used to be the network television had to buy a
14 whole city. Now we can shave that down into smaller
15 areas.

16 Lastly, there's emerging things like podcasting
17 and things that some of you may be familiar with, which
18 gives us opportunities to really get more finite about
19 targeting people that are interested in certain
20 subjects, so naturally there are podcasts about
21 virtually every subject out there, and that gives the
22 advertiser an opportunity to say, We know that if you're
23 a Harley Davidson fan, you know, and we're sort of
24 pushing certain types of content that's consistent with
25 the life-style of the owner of the Harley Davidson bike,

1 that these types of podcasts and things give us an
2 opportunity to really focus in on niche audiences in new
3 and different ways.

4 The implication for the advertiser is that
5 clearly what we want to do is evolve messages from an
6 era of mass reach to networks of personal relevance, and
7 whether that's recommendation engines through things
8 like Amazon based on things that you buy, the name of
9 the game for us right now is to aggregate those
10 audiences of personal relevance, and many of the
11 researchers on Madison Avenue are engaged in this
12 practice right now, which is: How do we reaggregate
13 audience in ways for advertisers that enables us to hit
14 groups of sums as opposed to groups of things?

15 The second shift is that sort of the networks
16 with a capital N are replaced by networks with a small
17 N, and what I mean by that is it used to be that you
18 used to tune into one network, and that network would
19 push its message out, whether it was ABC, NBC, CBS, and
20 basically what we have now is you as the consumer are in
21 the middle, and you basically have a network of devices,
22 some of which talk to each other, and as Joe said
23 before, the name of the game is you probably have a PC
24 or a laptop. You have a cable box at home. You have a
25 cell phone. You might have an MP3 player or an iPod,

1 and you might have a PDA.

2 Well, now you have your own personal network of
3 devices which many of the enabling technology companies
4 are trying to link, so the name of the game is: How do
5 we link those things up, whether you're a network or
6 whether, as you'll here Albert Cheng from the Disney
7 Company talk about in a few minutes, how do we aggregate
8 these digital platforms together and deliver content to
9 you in a singular manner so that you can get the brand
10 where it is, whenever it is and whatever it is that
11 you're looking for?

12 So as we look at experiences like that, it's
13 about the advertiser taking what used to be their
14 traditional on air sponsorship, and in addition to the
15 on air sponsorship posting ads online, synchronous to
16 the on air brand, placing contests that let you vote
17 like American Idol where you can actually live use your
18 tedious text messaging or use interactive services on
19 your television to be able to get you to opt in and
20 vote.

21 So those kind of 360 degree network experiences
22 are the things that advertisers are looking to do more
23 of, and the future is going to belong to those brands
24 who are able to essentially migrate to wherever the
25 customer is moving, and that's what brands are looking

1 to do is to be able to aggregate those platforms.

2 So another shift is that with these digital
3 devices, you know how frustrated you are when you can't
4 get cell service, consumers now looking at instant
5 gratification as kind of a behavioral dynamic. Through
6 the course of the day, from digital device to
7 divestiture, there's an expectation from the consumer
8 that all this stuff has to work right now all the time,
9 and for advertisers, what we're looking at is how from
10 a.m. through p.m. can we be adjacent to some of these
11 experiences in a way that's not intrusive to the
12 consumer and do it in a way that is sort of out of the
13 way and adjacent to the experience but still relevant.

14 Some of those is actually we've raised the
15 generation of younger people to press a button and have
16 something happen, so from an advertiser's perspective,
17 that means that we're looking for those places where we
18 can deliver shorter form message and endorse those
19 experiences without shoehorning our way into them in an
20 intrusive manner, and that includes everything from the
21 ATM to more advanced ATMs to things that are happening
22 in the marketplace like QR codes in Japan.

23 What this looks like is kind of a Chuck Close
24 kind of a painting, but it's actually the UPC code of
25 the future. Right now UPC codes look like this. Quick

1 Response Codes, which is the mosaic on the right which
2 exists in Japan, that's actually a Northwest Airlines on
3 an outdoor billboard in Tokyo. If you point your cell
4 phone at that and you press a button, it actually gives
5 you the schedule of flights and fares for Northwest
6 Airlines that day.

7 So you're actually opting in to the technology
8 that if you point it at it, advertisers are using
9 technologies like this today in Japan to be able to

1 information.

2 So advertisers are leveraging these
3 advertisements, and I think we're looking at ways to
4 supercede the consumer, all based on the ability to
5 opt-in, and again it's not a matter of pushing messages
6 at you. It's giving you greater, deeper, richer tools
7 as a result of the technologies to do so.

8 So what we're looking at with things like QR
9 codes is could this be the next ad that we see in the
10 states? Could this be the next billboard? Could this
11 be the next thing at the point of sale when you walk
12 into your CVS that you use to get more information about
13 products? In an age of declining television viewership,
14 technologies like this are helping us deliver consumer
15 messages in ways that enable them to have the control
16 over what they see and when they see it.

17 So one of the things that happens when you have
18 PVRs and declining viewership is with the consumer in
19 control, basically you have categories of content that
20 are personal or perishable. That means that there are
21 things like sports scores that once you know the score,
22 what's the use of keeping the game unless you're a fan
23 of that team and you want to hold on to that team.

24 What we find is there's a keep it or trash it
25 mentality, particularly in the younger demographics, and

1 what advertisers are doing is saying, It's probably
2 better for me to spend my advertising dollars on the
3 Harry Potter DVD because that's going to stay in the
4 household for a long time versus sponsoring a newscast
5 where my commercial might be appearing in the newscast
6 but eventually it's going to go away after that newscast
7 is over and then I've spent my money, and that content
8 doesn't stick around, whereas a DVD set from a very
9 famous television series, if I'm a sponsor of that and
10 my sponsorship package includes something that's going
11 to stay in the household, that's a much more efficient
12 way for me to stick around in digital technologies for
13 the DVD market than strictly over the air.

14 The implication there is is that advertisers
15 need to align their sponsorship messages as we are with
16 those digital types of content that are going to stick
17 around as opposed to just the linear broadcast where
18 we've spent tens of thousands or even hundreds of
19 thousand of dollars in a place like the Super Bowl for
20 one message, and then it's not going to be seen again,
21 so we're getting smarter in that area as well.

22 This is probably the main one as a result of
23 things like YouTube, and that is that in the old model
24 Hollywood was the gatekeeper to the content that you saw
25 on television, and now we live in a world where actually

1 the new model is the consumer is in control. The
2 consumer creates a video for YouTube, posts it up
3 online, and millions of people see it.

4 So the question for advertisers is: How do we,
5 in light of that massive shift, align ourselves with
6 user generated content in a way that protects our
7 advertisers, brands, and there are plenty of examples of
8 social networking where content is being shared
9 illegally as well as legally, and examples of things
10 that are essentially showing that the cream rises to the
11 top. Lonely girl video on YouTube, tens of million of
12 views. Why? It's sort of an enigma to everybody, isn't
13 it, why some many people watch the video?

14 And the name of the game for advertisers is to
15 sort of look at that marketplace and say: How do we
16 participate in that? One of the outcomes of this though
17 is the digital rights piece. How much of this content
18 on MySpace and how much of this content on some of these
19 social peer-to-peer platforms is copyrighted content?
20 And as advertisers, we have no interest in aligning
21 ourselves with places where there's violations of
22 copyright laws, so we have to be very careful about
23 participating along side user generated content because
24 of the digital rights management issue.

25 As you know the SAG AFTRA negotiations this year

1 cases, the nuclear family as a result of things like
2 peer-to-peer networks, we're finding that kids are,
3 through things like Friendster and Flickr and other
4 platforms like MySpace, P-to-P social networks are
5 creating new networks of friends and community that
6 rivals that of family.

7 So rather than the kid coming upstairs for
8 dinner, the kid would rather stay in the basement, and
9 whether it's blogging communities or Sims communities or
10 things like Friendster and Flickr, it's a real concern
11 from an advertiser standpoint that we don't find
12 ourselves in places where one of the byproducts of just
13 being in these environments is that we're detracting
14 from some of the other media we're investing in in live
15 television. So these are very careful considerations
16 that we have to be aware of.

17 MS. PARNES: The last point?

18 MR. SCHULMAN: My last trend before I open it up
19 to questions, and I'll fly through this last one here,
20 is that the search engines like Google are creating
21 algorithms that are enabling tag words to be able to
22 pull things like Blue Dot and del.icio.us, for those of
23 who you are aware of those applicants, they're enabling
24 Google and other search engine algorithms to have
25 advertisements and text messages appear in new places.

1 Some people say this poses a threat to the traditional
2 ad model right now. We're just figuring out ways in
3 which we can get national brands into these
4 environments.

5 So to summarize, I would say a lot of
6 technological trends. The main thing we're doing is
7 producing both shorter and longer forms of messaging
8 than the 30 second commercial to meet with some of these
9 digital platforms, and as such, the challenge for us
10 will be to migrate our messaging from narrative
11 storytelling in a 30 second commercial which has a
12 beginning, a middle and an end, to both shorter form
13 messaging, 5, 10, 15, second form, as well as longer
14 form messaging that can appear in places like Video on
15 Demand and other long form platforms.

16 So while it's a time of chaos, it is also very
17 much a time of opportunity. Thank you.

18 MS. PARNES: Great. Thank you.

19 (Applause.)

20 MS. PARNES: Now it's time for our ask the
21 audience. This is our first polling opportunity. I'm
22 thinking that the pole should be up there. There we go.
23 The pole is up there. Everybody has a device, and you
24 see the questions, and you can just plug in what you
25 think the marketing method that will have the most

1 success in the next ten years is. You've got 15 seconds
2 left to vote, and then we'll see the results.

3 And because time is at a premium here, Fred,
4 this is terrific. If you can start your presentation
5 that will would be great. Thank you.

6 MR. CATE: I want to know what the answer to the
7 question is.

8 MS. PARNES: It's targeting technology.

9 MR. CATE: Lydia, thank you very much, and let
10 me say, Chairman Majoras and members of the Commission,
11 it's really a privilege to be here. It's striking at
12 all that has happened in the past ten years. Since the
13 last hearing like this was held, we've heard a lot about
14 the technology, and we're going to talk about some of
15 the legal and other issues now, but one of the most
16 striking things is that frankly ten years ago, it was
17 not clear whether the FTC was going to be the primary
18 agency with jurisdiction in this area.

19 And on questions of privacy and security and
20 their implications for consumers, I think now that
21 question is resolved, and so at least we know what we're
22 doing here together and the framework in which we're
23 looking at this issue for the next decade.

24 Now, if I can get my slides up here. I think
25 this is a control probably beyond my capacity.

1 Excellent. That, s who I am. This is my two points.
2 Then you, ll know we, re done.

3 I was thrilled when I got asked to talk about
4 the challenges ahead relating to security and privacy,
5 and then I was told I had ten whole minutes to do it in,
6 and I wondered what I was going to do with the extra
7 time that would be left over at the end. I, ve worked
8 and worked to come up with ten points, and finally by
9 dividing them into two categories unevenly, I, ve managed
10 to do so.

11 Let me just tell you as a starting point, it
12 seems like the message is technology is extremely
13 important. Technology may very well exacerbate these
14 issues. Frankly I don, t think I, m going to touch on a
15 single issue that isn, t already in existence and that is
16 not driven solely by technology, so we make a mistake to
17 think of these just as technology issues.

18 The first of the six security and privacy issues
19 that I would like to talk about are the changing fraud
20 and security threats. Whatever the case today with
21 identity theft and other types of threats, we know from
22 the data that, s being collected about fraud and the data
23 collected by industry, that those fraud patterns are
24 changing, that they are moving increasingly into more
25 organi ed types of fraud, that we, re seeing a greater

1 role of organized crime, that we are seeing data being
2 obtained from individuals in more and more creative
3 ways, so instead of just rummaging through trash or
4 stealing wallets, which up until now have been very
5 popular methods of obtaining information, we see
6 phishing becoming more effective, many more aggressive
7 and devious ways of obtaining data.

8 And frankly probably the greatest concern, here
9 we see something which so far is being called synthetic
10 identity theft, identity theft based upon the creation
11 or the aggregation of an identity rather than simply
12 taking somebody else's identity, and this of course
13 poses significant issues in terms of identifying that or
14 tracking it down.

15 We, of course, see a range of issues related to
16 location information, both privacy and security, and
17 here I refer not to just cell phones and RF ID tags and
18 the increasing numbers of computers in our cars, not
19 just auto navigation systems, but computers that monitor
20 are engine, our tires and so forth. We're not just
21 talking about them, about the law surrounding how this
22 information is protected but also the whole range of
23 privacy and security issues. It's frankly difficult to
24 imagine notice and consent, notice and choice, however
25 well that has worked in other settings, and you know I'm

1 dubious of that -- it's hard to imagine that working
2 terribly well in a setting where the device has no
3 screen or where there may be no contract. There may be
4 no opportunity to provide any form of notice or opt-out
5 or opt-in.

6 A third issue that has already shown great
7 importance, and I think we will see even more so in the
8 decade ahead, has to do with information aggregation,
9 very controversial today, even though we know that
10 information aggregators provide data and provide
11 services based on data for a wide variety of roles, all
12 the way from marketing, what we typically focus on, to
13 other uses such as verifying identity or keeping
14 identity straight in trying to match data, even managing
15 things like privacy opt-out lists, and to date, we
16 simply don't have a very thoughtful way of thinking
17 about information aggregation.

18 Our traditional ways of thinking in terms of
19 notice and choice, and again these legal doctrine that
20 assumed there's some sort of face-to-face relationship,
21 just don't work very well when there is no relationship
22 whatsoever, and we have seen this as well in the area of
23 security breach notices. To get a notice from someone
24 who you didn't even know had your data creates a set of
25 issues that frankly are going to have to be addressed in

1 the next decade.

2 One of the most significant and in many ways I
3 think this list is ramping up towards great more
4 significant issues, are those dealing with global data
5 flows and outsourcing. We have, up until this point,

1 Transparency is one of those, and we tend to think -- I
2 think most of us tend to think that it's an essential
3 part of making accountability meaningful.

4 Nevertheless, we have not done a very good job
5 with accountability, and increasingly we see what a
6 major issue it continues to be so that under safe harbor
7 or in other issues, the question of how is
8 accountability going to be carried out, how was there
9 going to be enforceability or how would consumer rights
10 be protected continues to remain a forefront issue.

11 Let me conclude with four broader issues, what I
12 think as obstacles to addressing these issues. The
13 first is that we have focused so much on individuals as
14 potential victims in fighting fraud, and there are a
15 number of issues that this raises. Let me just touch on
16 two.

17 One is that individuals have shown a remarkable
18 reluctance to use the tools we give them, so Congress

1 on fighting fraud by looking at individual victims to
2 tell us about it, we are going to be missing a growing
3 category of the fraud.

4 The second issue, I was just thinking about
5 there, s a guy back there typing these for us as we go,
6 we focus so much on notice and choice to protect
7 privacy, I would argue it has not worked well. There, s
8 no one in America that, s read a privacy notice who
9 wasn, t paid to do so, and it, s difficult to believe that
10 we can call it a great success, although I, m sure we, ll
11 find a way to somehow, but even if the model has worked
12 very well in the past, I think there, s a lot of reasons
13 to think it may not work terribly well in the future,

1 Third, we have this incomplete or incoherent
2 frame work of privacy laws, different laws for different
3 types of data enforced by different agencies subject to
4 different norms, even though to consumers it all looks
5 the same. The data passes across our lives, and we
6 don't understand why these different and confusing
7 regulatory environments.

8 This is going to again become more of a problem
9 as we see technologies integrate these issues. We have
10 already seen the issue with the Fourth Amendment
11 providing no barrier to government access to this data.
12 Again it's just simply difficult to explain why the
13 Supreme Court believes that once you've disclosed data
14 to your telecommunications carrier, you have no further
15 privacy interest in it.

16 Finally, we have the broad set of issues dealing
17 with shifting privacy norms, and just take my word,
18 that's what the next bullet says, yeah, norm, like
19 person's name, exactly. Again here we could lump a
20 number of issues under this. One is of course that as
21 we come to accept greater incursions on privacy or we
22 accept greater laxity with regard to security, we begin
23 to think that is normal, and that seems a particular
24 risk in light of the national security and law
25 enforcement issues.

1 A second issue is of course the reality, which I
2 think we all know that these things, once given up, are
3 very hard to get back. It is very hard to work our way
4 back to serious protection from privacy once we get used
5 to not having it, but finally, shifting privacy norms in
6 the context that privacy is not the only issue here, and
7 for example both of the prior presenters talked about
8 the demand for convenience, for instant gratification,
9 for what I want, when I want it, where I want it. These
10 are things which can only be provided with great amounts
11 of information.

12 This is the way it's going to have to work. We
13 don't have any other way to tailor but through
14 information, and therefore we have still not done a good
15 job balancing or creating a regulatory system that helps
16 us balance the various demands for convenience, for
17 safety, for respite from the technologies with our
18 interests in privacy and security at the same time.

19 With that, I am done. Thank you.

20 (Applause.)

21 MS. PARNES: Thank you. I want to thank our
22 panelists, and I know that we have a lot of interesting
23 questions, but because of time constraints, we're going
24 to have to find some other way to get these questions to
25 you and get answers back out to our audience, and I'm

1 certain that we, ll be able to do that.

2 I would also ask everybody to be back in five
3 minutes. Five minutes, and Katie has an announcement.

4 MS. HARRINGTON-MCBRIDE: Hello, everyone. Thank
5 you very much for coming. I wanted to let you know that
6 we have some refreshments on the lower level in the
7 foyer, and you re welcome to get them very quickly and
8 come back to your seats.

9 We have some plasma screens so if you want to
10 linger over a doughnut, please feel to do that and then
11 come back in when you re ready. We will be starting
12 promptly.

13 (A brief recess was taken.)

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1 PANEL 2: THE CHANGING INTERNET

2 OPENING REMARKS: COMMISSIONER JON LEIBOWITZ, FTC

3 MODERATOR: KARA SWISHER, Technology Columnist, The Wall
4 Street Journal

5 PRESENTERS:

6 SUSANNAH FOX, Associate Director, Pew Internet and
7 American Life Project

8 DR. VINTON G. CERF, Vice President and Chief Internet
9 Evangelist, Google

10 PETER CULLEN, Chief Privacy Strategist, Advanced
11 Strategies & Policy, Microsoft Corporation

12 DR. WILLIAM T. EDWARDS, Senior Vice President and Chief
13 Innovation Officer, AMD

14 ALBERT CHENG, Executive Vice President, Digital Media,
15 Disney-ABC Television Group

16 SAFA RASHTCHY, Senior Research Analyst, Piper Jaffrey

17

18 MS. SWISHER: If everyone can get seated, it
19 would be terrific because we're working on Internet time
20 here, not analog. Close the doors. Great.

21 Thanks for coming back. Our next panel is about
22 the changing Internet, and we're going to begin by
23 commissioner Jon Leibowit giving a short introduction.

24 (Applause.)

25 COMMISSIONER LEIBOWITZ: Thank you so much,

1 Kara. You know, can you hear me? Can you hear me?

2 Good.

3 You know, it's hard to predict the future, and
4 even the brightest people don't always get it right.
5 Take Woodie Allen, for example. In his 1973 film
6 Sleeper, he played a health food restaurant owner who's
7 cryogenically frozen and defrosted centuries later. In
8 Woodie Allen's vision of the future, scientists have
9 learned that cream pies and hot fudge are actually good
10 for you. Of course we have higher expectations about
11 our experts' predictions today.

12 Now, this is the second time that the Commission
13 has gathered the best and the brightest to tell us where
14 the web is going. In 1995, as you heard before, the
15 agency held similar hearings. The Commission's report
16 was surprisingly precious. It warned that it unless
17 controlled, spam threatens to hinder the healthy growth
18 of the Internet.

19 It pointed out difficulties for law enforcement
20 in identifying and locating mal factors in the anonymity
21 of cyberspace. Now, the Internet though was a little
22 different than. Fewer than six million Americans, six
23 million American households had Internet access, dial up
24 of course. Web based retail sales amounted to a
25 whopping \$39 million annually. That's approximately

1 what Sergei Brynn and Larry Page made this morning.
2 That was a joke.

3 By way of comparison, the Census Bureau's last
4 estimate at Ecommerce retail sales was more than \$26
5 billion, a billion dollars just last quarter so here we
6 are, 11 years later, and the future of the Internet
7 shines brightly. Just as an example, I got a chance the
8 other day to watch a portly young man in a bikini
9 vamping it up in a satire of a Shaker Video. Let me
10 show you a clip.

11 (Whereupon, a video was played.)

12 COMMISSIONER LEIBOWITZ: I'm told those guys now
13 have an agent by the way. Think about it, more than 12
14 million people around that world have watched a video
15 that a bunch of kids, not a major movie studio, filmed
16 in a single afternoon. User generated content like this
17 one is one of the many small miracles, some might say
18 tasteless miracles, but clearly one of the many small
19 miracles that the Internet serves up daily.

20 One of the goals of these hearings is to
21 anticipate the problems that new technologies can create
22 for consumers. Take the clip, for instance. Is there a
23 rating system to tell me whether it's appropriate for my
24 young daughters? Of course they saw it anyway, before I
25 had seen it and decided they could see it, and how can

1 we make sure that we continue to foster an opportunity
2 where the next YouTube is able to flourish without
3 confronting new tools along the Internet highway.

4 From a law enforcement perspective, the global
5 nature of the Internet poses one of our biggest
6 challenges. The thorniest issues we face
7 cross international boundaries, spammers calling
8 Americans from abroad, spam and spyware most of which
9 comes from foreign sources, and data breaches at
10 overseas call centers.

11 Our challenge over the next decade is to figure
12 out what role government can play in this global
13 environment. To be certain, for many consumer
14 protection issues, private sector efforts are crucial,
15 companies that design secure software and firewalls,
16 ISPs that filter spam, organizations like Spamhaus,
17 StopBadware.org, the AntiSpyware Coalition, TRUSTe, and
18 the Anti-Phishing Working Group. These efforts aren't
19 limited by national boundaries, and they've benefitted
20 consumers around the globe.

21 But government is not irrelevant by a long
22 stretch, especially because it defines when conduct is
23 unacceptable. For instance, state laws requiring

1 screen. Just ask ChoicePoint.

2 When breaches never became public, there wasn't
3 much of an incentive to get the problems fixed, and in
4 the early days of the Internet, it wasn't clear that it
5 was illegal to send unsolicited commercial Email. The
6 CAN-SPAM legislation, brought by the FTC's own law
7 enforcement issues, made the ground rules crystal clear.

8 In the coming decade though, we in government
9 will have to be creative about reconciling the
10 borderless Internet with our bounded authority whether
11 through information exchanges, beefed up alternative
12 dispute resolutions, mechanisms or cooperation with
13 private groups working to fix the same problems.

14 But make no mistake, no matter what else
15 happens, the FTC's law enforcement role will be
16 critical. The civil penalty authority that Congress
17 granted us in CAN-SPAM gave our anti-spam efforts real
18 teeth. Sadly, in spyware cases, we don't yet have that
19 authority.

20 Why does this matter? Well, consider a company
21 like 180 Solutions, now calling itself Zango, which
22 placed more than 6.9 billion pop-up ads, 6.9 billion on
23 consumer's computers without notice or consent. Many
24 came from major corporations who, I hope, I believe
25 would be shocked and dismayed if they knew how their

1 Internet ads were reaching American consumers.

2 Now, right now in a case like that, and we
3 announced that case on Friday, all we can do is get some
4 disgorgement of profits, some. We can't find the mal
5 factors at all. What kind of deterrence is that?

6 If Congress really wants to enhance consumer
7 protection in the next decade, it needs to come up with
8 a consensus anti-spyware law that gives us the authority
9 to penalize the purveyors of spyware, and we at the

1 issues we're concerned about of course. If we in
2 America are truly to achieve the promise of the
3 Internet, people will need to have meaningful access to
4 the vast breadth of web based applications and content,
5 and that's why the net neutrality debate it seems to me
6 is so important.

7 So to those who ask: Why are we undertaking a
8 study of net neutrality at the FTC? I say how could we
9 not? Both consumer protection and competition issues
10 are at play here, a combination at the core of what the
11 FTC does. Some of the most important issues regarding
12 net neutrality involves transparencies in disclosures,
13 will carry block slower in your premium applications and
14 services applications or services? If so, will
15 consumers be told about all this before they sign up?

16 In my mind, failure to disclose these
17 limitations would be unfair or deceptive in violation of
18 the FTC Act. Net neutrality also invokes complicated
19 competition issues. The last mile of the Internet is
20 its least competitive. Nearly all the homes in the
21 U.S., upwards of 90 percent that receive broadband, get
22 it from their cable or telephone company.

23 Up until now, the relative talent of the
24 Internet has meant that competition and innovation
25 elsewhere in cyberspace has not been affected by the

1 market power of the telephone and cable companies, but
2 if these companies are able to discriminate treating
3 some bits better than others, then there's a danger that
4 their market power in the last mile can interfere with
5 the growth, the character and the development of the
6 Internet.

7 To be sure, there's another side to this debate,
8 the ability of providers to charge more for time
9 sensitive applications and content that takes up more
10 broadband may encourage them to make necessary
11 investments. That's a goal all of us should support.

12 Of course, I'm lucky, I can raise these
13 questions without providing answers, ones by the way
14 that I don't necessarily have. Like you, I'll be
15 looking for solutions for the problems of the future
16 from our panel of experts today. Hopefully Woodie Allen
17 will be proven right, they'll involve cream pie and hot

1 with a report of the future antitrust with Susannah Fox,
2 who's associate director of the Pew Internet and
3 American Life Project. She's going to be talking about
4 Internet usage trends, and we'll move into the various
5 panels.

6 Before you start, Susan, one of the things we
7 really want to get at is topically what's happening now
8 and what's going to be happening in the future with the
9 Internet, and just three observations I'm going to make
10 as we start and start to think about it for the
11 panelists.

12 When I hear about all these things, I walked in
13 and the guy was talking about that oven that you call
14 your cell phone. It doesn't work actually, and I don't
15 know why you would want to call your oven, but the fact
16 of the matter is a lot of what you're going to hear
17 today and throughout the next few days would be really
18 nice if it happens, but let's keep in mind a lot of this
19 technology doesn't work, and it's not your fault. As my
20 partner, Walt Mossberg, at the Wall Street Journal
21 always says, a lot of these things they talk about do
22 not work properly, they're not consumer oriented and
23 they are not made with consumers in mind. They're often
24 hoisted off into the public without a lot of testing,
25 and you become guinea pigs for technology companies.

1 So even though a lot of it should be working
2 well, it still doesn't, and it's really important for
3 this country for it to work properly, which gets into my
4 second point: That this country, whether you realize it
5 or not, is in fact the third world of technology. All
6 across the world, many countries much smarter than U.S.,
7 much less advanced than the U.S., have much better
8 technology systems and wireless and broadband, Korea for
9 one, Japan, all sorts of countries.

10 China is moving fast forward quickly, and it's
11 really important for our government to get much more
12 involved and not allow these backward movements in our
13 country, and I think just the difficulty of finding a
14 wireless access point or DSL being so slow is pretty
15 much appalling in this country, that most people don't
16 have quick Internet access.

17 The third point I want to make, I want to talk

1 we have to think about what that means because there
2 really is no privacy, and we have to think about what
3 that entails and how we do want to protect ourselves.

4 The last part, I'm sounding a little negative,
5 the trend is moving, spinning forward for the Internet I
6 think, and you cannot fight this trend in whatever
7 industry you're in. The Internet is a worldwide
8 communication system. I like to call it the board, it
9 is really centered at Google. I think we have to get
10 used to the fact that this is how we're going to
11 communicate in the future, and a lot of this, what's
12 happening is about -- I have a four year old and an
13 almost two year old.

14 In Internet terms everyone in this room is
15 pretty much dead. This is about our children and what
16 their lives are going to be like, which are going to be
17 a full digital universe of things, so with that.

18 (Applause.)

19 MS. FOX: All right. Well, maybe this is a
20 report from the undead. I'm going to talk about the
21 current realities of today's demographics and also spin
22 it forward a little bit into the future.

23 Just to introduce myself, in case you don't
24 know, the Pew Internet and American Life Project is a
25 nonprofit, nonpartisan research organization based here

1 in D.C. We are funded by the Pew Charitable Trust. We
2 study the social impact of the Internet, which means we
3 study who, s online and what they do, but also who, s not
4 online and why.

5 Most of our research is based on telephone
6 surveys which we feel provide a pretty accurate picture
7 of the changing population. All of our reports and our
8 data sets are available for free from our web site at
9 pewinternet.org.

10 Our current estimate is that 73 percent of
11 American adults go online. Age is a strong predictor
12 for whether you, re online or not. 88 percent of
13 Americans age 12 to 29 go online, and this is the
14 digital native group that we, ll hear more about this
15 afternoon.

16 What, s interesting to me is when you talk to the
17 12 percent in that young age group who are not currently
18 online, half have been online in the past. They just
19 don, t currently have access. That is not true when you
20 look at the senior demographic people, people 65 and
21 older, of whom only 32 percent are online.

22 If a senior is offline, they, re most likely part
23 of what we call the truly disconnected. They not only
24 have never been on line, they don, t live in a connective
25 household, and many of this group say that they don, t

1 even know anyone who goes online, so if there's
2 something on a web site that they need to access, they
3 probably wouldn't know where to start.

4 Health status is another demographic reality
5 that limits the Internet's reach. 17 percent of
6 American adults are living with a disability or a
7 chronic illness that limits their ability to participate
8 in work, school, housework or other activities pay. 51
9 percent of this group go online compared to 74 percent
10 of American adults who are not living with a disability
11 or a chronic illness.

12 Ethnicity is another demographic reality. 73
13 percent of white adults go online compared to 61 percent
14 of African American adults. We are going to be
15 releasing some data later this fall, a special survey of
16 Latinos that was conducted in Spanish and English. I
17 can tell you now that about three quarters of English
18 speaking or bilingual Latinos go online compared to only
19 about a third of Spanish dominant Latinos.

20 There are pockets of non Internet users in this
21 country, just as there are still pockets of people who
22 do not have a home phone. As Penn State scholar
23 Courtney Katrina Schmidt wrote in 1996, and it's still
24 true today: "Isolation is not distributed randomly.
25 Rather it is concentrated in certain groups so that they

1 suffer its consequences with intensity."

2 It's striking that despite a 10 point increase
3 in the percentage of adults who go on line over the last
4 three years, the percentage of those who are truly
5 disconnected remains 22 percent. They're overwhelmingly
6 over the age of 70 and have less than a high school
7 education.

8 At present when it comes to the Internet, if
9 you're on you're on and if you're off you're off, and
10 when we look forward into the future and see that

1 their social network online.

2 What we found is American communities are
3 transforming. People are not bound to one geographical
4 space, but instead are keeping in touch with many social
5 networks. It's friends and family and neighbors, but
6 also colleagues all across the country and across the
7 world. They're able to keep in contact with the si e of
8 the social networks using Email and IM and the Internet.

9 And contrary to what some of the people in the
10 early videos said about how it, s shutting down their

12 Internet users. They are not shut ins. They're not
13 people who are confining their social interaction to the
14 screen. We have actually found in our studies thad the
15 more you sociali e offline,ks usmore you use the phone

17 Internet.

18 So it has a positive effect on people, s social
19 interaction, and people are using their social networks
20 to solve real life problems. I want to give you two
21 examples. One is just last weekend I woke up with my
22 broken dishwasher, and I had thusmost disgusting
23 standing water, and I didn,t know what to do, seven
24 a.m., but I Emailed my neighborhood list serve.

25 Within five minutes, my friend Brian from down

1 the street Emailed me back, and he had this two prong
2 turkey baster it turns out that was the perfect gadget
3 to solve my problem. I never would have known that, but
4 it solved the problem that I needed.

5 Another way that Internet users solve problems
6 or choose products is to go through a search engine.
7 These days I'm starting to think about search engines
8 like public utilities of information. People go to
9 their kitchen faucet, turn on the tap and expect clean
10 water to come out. It's the same thing with search
11 engines.

12 Like it or not, Internet users expect clean
13 information to come pouring out of the search engine,
14 and they're relying on search engine information and
15 their social networks to make decisions in their lives,
16 again whether it's choosing what car to drive or what
17 treatment to give to their loved one who is ill.

18 We've also noticed that people are not really
19 thinking about going online anymore. They just are

1 Broadband is having an effect. We see between
2 2005 and 2006 that there's been an amazing increase in
3 broadband to people's homes, and it's actually being led
4 by people of middle income and African American
5 households, so there is the possibility for change.

6 Another trend to watch is cell phone
7 penetration. 50 percent of people 65 and older have a
8 cell phone, again while only about a third have the
9 Internet. 40 percent of Spanish dominant Latinos have a
10 cell phone. Again only a third have the Internet. The
11 Internet population is starting to look more like
12 America, but there are pockets of technology that are
13 not reaching these Americans.

14 Thank you.

15 MS. SWISHER: I'm going to ask Susannah a couple
16 quick questions, and anyone can jump in if anyone has
17 thoughts. When you talk about not online, a lot of
18 cities right now are trying to put wireless systems in
19 to blanket cities. I don't think D.C. is among that.

20 MS. FOX: Not yet.

21 MS. SWISHER: But what is that going to mean
22 from your perspective? I'm dubious about the systems to
23 be honest with you.

24 MS. FOX: Well, I think that it's going to bring
25 -- again like somebody said on the video that she wants

1 free wireless, I think that for people who are already
2 online and using the technology, it will deepen their
3 connection to it. It will be easier to again get GPS.
4 It will be easier to find things if you're already
5 online, but you need that device, and that's why I
6 brought up the cell phones.

7 MS. SWISHER: Right.

8 MS. FOX: For seniors a phone is a familiar
9 thing. A computer is not.

10 MS. SWISHER: Right.

11 MS. FOX: So I think --

12 MS. SWISHER: So in building these wireless
13 systems that governments are possibly wasting money, it
14 could be a bunch of yuppies jacking in instead of
15 Starbucks anywhere in the city. How do you get those
16 people on line, the people that most need to be online?

17 MS. FOX: In some ways I'm a bit pessimistic in
18 terms of it has to happen organically, that when you're
19 looking at the oldest old, these folks are resistant.
20 They don't want to go online.

21 That is very different from people with less
22 education or lower incomes who are already on. It's
23 amazing to look at the demographics of people under 30.
24 They are stretching their budgets to get broadband at
25 home, and as the price of broadband falls, we're going

1 to see more middle income, more ethnically diverse folks
2 getting broadband at home, stretching that budget just
3 as we do in many ways for cable television.

4 MS. SWISHER: So you're saving coming from
5 individual consumers rather than government or
6 companies? What do you think that's going to do? I
7 mean, I know Google is trying to do several wireless
8 mesh networks.

9 MR. CERF: Yes, although if I could clear things
10 up, we were asked to help out by the Mayor of San
11 Francisco. This isn't part of our business model, but
12 we're good neighbors, so we tried it out just to make
13 sure we knew what we were going to do, getting into
14 frankly, and proceeded with Earthlink to look at making
15 wireless available in San Francisco, but this was
16 essentially a good neighbor thing.

17 It's not part of our plan to unwire everybody,
18 although we certainly hope that that will be good
19 business models that will permit that to happen,
20 municipal networks for example.

21 MS. SWISHER: Now again getting people online,
22 what would be the thing that would be most important?
23 Is it that people will get through the cell phone? How
24 do you envision ten years -- there's a movie that's
25 really good, Minority Report where Tom Cruise was

1 holding up the newspaper, and it kept changing, or if
2 you watch Harry Potter, you know they would watch that
3 whatever their newspaper is in Harry Potter, but it
4 keeps changing and shifting and you see things. That, s
5 completely possible at this point with some
6 technologies, although it certainly is glitchy.

7 MS. FOX: It is possible. When you talk about
8 people who are offline, especially seniors or if you
9 talk to people who have just converted, they, ve just
10 gone online and you ask them why. A lot of it is
11 because of their social life. It, s their grandchildren.
12 To get those pictures of those grandchildren, they have
13 to be online.

14 So it, s often a very social decision, and that, s
15 why I think that you see so many young people because
16 it, s almost embarrassing if you, re under 30, and you
17 don, t have an Email address but it, s not embarrassing if
18 you, re over 60.

19 MS. SWISHER: Are you saying in your research,
20 Email, no matter how you slice it, it, s terrific, but
21 it, s a Neanderthal way of communicating. I think these
22 social networks could point away how people -- as silly
23 as MySpace looks, it really does represent a new
24 paradigm de 23 hat, s

1 has all sorts of crap on it.

2 The idea of online presence is really important,
3 where your presence is that you will have one going
4 everywhere you go. Do you see them moving out of the
5 Email space or --

6 MS. FOX: Well, there is content creation.
7 Content creation is starting to -- and that's how we
8 start of talk MySpace blogs, anything we hear should
9 have content, product reviews. It's dominated by young
10 people, but it is starting to flow through other
11 demographic groups as people get broadband frankly, and
12 it becomes easier to upload content, and becomes as
13 quick to upload content as it is to download.

14 MR. CERF: Can I interrupt for a second, Kara?

1 themselves as satisfactorily to the upload side as I
2 would wish. They, re mostly asymmetric. They, re

1 Soviet Ministries in this country. You can't get --
2 believe me, you talk to anyone in Silicon Valley and
3 they create jobs. I was at a conference I run with Walt
4 Mossberg, and he said -- we talked about whether he was
5 going to get in the cell phone business, and he said,
6 I'm not really good about it going through orifices.
7 And I think he was talking about what you holds us back,
8 and I'm curious what think holds us back. I don't think
9 people should have to stretch their budget to pay these
10 companies for it.

11 MS. FOX: It should be something that people
12 actually become a nation of broadband. How much they
13 pay for broadband and also what speeds they get and how
14 broadband is not in 2006, if you want to download a
15 report, and we are seeing that the prices are dropping,
16 and it seems that people are responding to the dropping
17 prices, and also Internet is just a feature that comes
18 along with the other things in your phone bill and your
19 cable bill, so I think that people are starting to make
20 that choice.

1 broadband and dial up is \$18 on average in our survey.

2 MS. SWISHER: It's still a high price.

3 MS. FOX: It's still a high price. It's still,
4 what is it, \$40?

5 MS. SWISHER: Should it be like the universal
6 telephone where everybody gets a telephone at a certain
7 lower level. Do you see that?

8 MS. FOX: I try not to advocate for Internet
9 access, and I've always said to people, don't go online
10 if you really don't feel you need to, but as I see more
11 services going online, the Medicare Part D was the one
12 that was starting to get -- I think about that and think
13 about the seniors who didn't have a chance to get the
14 right plan.

15 MS. HARRINGTON: I'm a surprise guest. We have
16 80 minutes of content and 60 minutes to get you in, and
17 we don't have a polling question for the audience on
18 whether they want to skip lunch, so I'm here to implore
19 us to keep moving.

20 MS. SWISHER: Absolutely.

21 MS. HARRINGTON: Thank you so much.

22 MS. SWISHER: The next panel is on changing
23 technologies and applications on the Internet, and we're
24 going to talk a little bit with Vint Cerf, who works at
25 Google now and who everyone should understand is

1 critical to the development of the Internet, if not the
2 father of the Internet certainly.

3 MR. CERF: One of them.

4 MS. SWISHER: One of the fathers, but an
5 important one, believe me. Everyone says that they're
6 the father of the internet, but that is the real thing.
7 We have Peter Cullen from Microsoft, and Billy Edwards
8 from AMD, a chip company.

9 Let's talk a little bit about -- if you want to
10 make little brief presentations, and if you can keep
11 them short, and then we'll discuss some trends that are
12 happening.

13 MR. CERF: Okay. I'll start here. Let me
14 suggest a kind of framework for thinking about what's
15 happening. We have built a road system that we're going
16 from the driveway to a super highway, but now in
17 addition to the technical rules of the road, which we
18 pretty much have, we need social and ethical rules of
19 the road and we need legal, and frankly they're still in
20 the middle of developing them, and that's why this
21 conference is so important.

22 The only other point I would like to make
23 briefly is that economics really count here, and the
24 things which drives people's interest in and use of
25 Internet is driven in part by the economics, and I will

1 say that the two things that are driving it most
2 importantly is the dropping cost of equipment to get on
3 to the net, memory, processors and so on, and the
4 reducing cost of high speed access, although frankly
5 we're a little behind in the United States when it comes
6 to having very competitive environments, so we could do
7 better.

8 On to you, and maybe we'll come back to this.

9 MS. SWISHER: Peter?

10 MR. CULLEN: So we talked a lot this morning
11 about technology, but in many respects we're talking
12 about access to information because that's what the
13 value is all about, and to add to what Vint is talking
14 about, about a8t t a8t t a8t t a8tint is talking

1 information hasn't quite kept up with our ability to
2 have developed social norms, norms around security,
3 privacy, identity, family controls, those sorts of
4 things.

5 And I think the last point I would like to make
6 is that we're at kind of an interesting point and I
7 believe this is in some respects driving perhaps the non
8 adoption of the Internet. Right now they've found this
9 weak spot, whereas as an industry we are still sort of
10 wrestling with the relevance kinds of things.

11 MS. SWISHER: Billy?

12 MR. EDWARDS: Well, I'm going to take it a
13 little bit different. I get asked the question a lot
14 about the future of being the chief innovation officer.
15 A little different angle in that, yes, people talk about
16 the maturity of the Internet in a lot of the countries.
17 We have a long way to go. There's a lot of innovation
18 still required, and as Vint said, how do you think of
19 the roads of infrastructure, how do you tailor this --
20 it's a classic Model T, as long as you want it black,
21 you're okay.

22 We're talking about everybody is getting much
23 more specific on what they want. The ability to tailor
24 what people want, tailor our offerings to them is just
25 beginning to blossom, but that's only for a small part

1 of the population of the world.

2 I spend most of my time outside the U.S. Yes,
3 we're talking about the FTC and so forth but the impact
4 of this group in the world is always there. Sometimes
5 it's a beacon. Sometimes it's less than that, but it's
6 always part of the discussion, and it's important
7 because we get to thinking like we're talking about the
8 cost of this.

9 17 percent of the world has access to the
10 Internet right now. That means 83 percent don't.
11 That's where we have to get to the cost. That's where
12 you've got to get to different devices. That's where
13 you have to get to what is the technology to how do we
14 make it useful for people.

15 The term we used is human centric computing and
16 keeping theirs accessible. This isn't just, Can I get
17 my hands on it, but can I afford it? It does not break
18 down on me because in a lot of these places you don't
19 have the neighbor or friend that can help you.

20 Does it have what I want, content? Does it have
21 all these things? And that's where we start getting
22 into true, true, true innovation, and that means
23 competition to get to that innovation, business models.
24 We're working with folks like Microsoft on how do you
25 think about a prepaid system?

1 Most people know what that is for cell phones
2 but outside the U.S., it's a massive thing. You get to
3 things like how do you kind of even think about a
4 business model of ad sponsored computing, somebody that
5 can't afford a computer, but if they'll look at the ad
6 we'll pay for the computer.

7 Now, we all can afford computers and the
8 broadband, so we say I don't want to put up with it.
9 Well, a lot of folks that can't afford it, I'll gladly
10 put up with that if it gets me access. So you really
11 have a challenge. How do you think about new devices,
12 new access points, new ways to get things in there, new
13 business models, and that's really going to be a lot of
14 that outside the U.S., driven by the U.S., enabled by
15 the U.S. but outside.

16 And that's where you have to take the broader
17 scope of what that might look like, how can we play a
18 role in it? The answer is a lot of different ways, and
19 really it's almost unlimited at this point looking
20 forward to what you can get in there, so it's all going
21 to be driven by innovation for those things and good
22 competition and to figure out what the best answer is.

23 You know what? It's going to be lots of
24 answers. Every region, every country, every group it
25 will be a little different, so wide open. Don't look

1 just to the U.S., you'll get skewed views, and a lot of
2 that will happen in the rest of the world and will come
3 flowing right back in.

4 And so the borders aren't what they used to be a
5 lot of times. In this world it's nothing. You have to
6 ignore them in a lot of respects.

7 MS. SWISHER: Great, terrific. Let's talk about
8 where -- we want to spin forward, but when you first
9 begin designing this with Bob Kahn, what did you imagine
10 it would be? Is this basically what you imagined?

11 MR. CERF: First of all, you need to remember
12 this was 1973. This was well before personal computers,
13 although Xerox Park had some things that could have been
14 called a personal computer. It was a \$50,000 work
15 station, not exactly affordable to everyone, but our
16 model was driven in part by the Defense Department.

17 Need and interest in having computers available
18 everywhere in the tactical and other environments,
19 strategic environments.

20 So we had to have networks that would work over
21 satellites and over mobile radios, so our thinking was
22 very much driven by that application space, but it was
23 implemented by people in computer science departments
24 around the United States and in some cases in Europe, so
25 the model there was sharing the information and sharing

1 computer resources.

2 As this all evolved, of course, new technologies
3 came along, and we took advantage of the strength, the
4 size and power requirements of computing devices to make
5 them more and more easily transported so finally we
6 approached this thing that we carry around that says
7 it's a phone, but in fact, it's a lot more than that.

8 MS. SWISHER: The computer?

9 MR. CERF: The general purpose computer, and I

1 BlackBerrys and cell phones, ubiquitous cell phones,
2 never using the pay phone again. What would you see as
3 the biggest and post important trend going forward?

4 MR. CULLEN: It's almost daunting to think
5 about.

6 MS. SWISHER: Given the fact that Microsoft was
7 built around the PC and about delivering information
8 throughout the PC.

9 MR. CULLEN: I think less and less around the PC
10 and more around connected devices, and I think that the
11 significant trend is the convergence of those devices,
12 which kind of, if I think about even where we're at
13 today and forecast forward, we're now starting to think
14 about the changing norms around what do we consider our
15 own information.

16 And if we think about the unfortunate example of
17 the AOL situation, that put into the public things like
18 our search results, our deepest thoughts, so we're
19 confronting not just this tension between exchange of
20 information for value but having to think about all
21 sorts of data, all sorts of information that may be
22 linked to us.

23 So I would like to think that by 2016 we will
24 have created a new social contract, new rules that will
25 allow us to comfortably benefit from all of that

1 information, all of that convergence in a way that we
2 also feel in control and protected.

3 MS. SWISHER: How does that happen, I mean,
4 because at this point it's almost -- I can't imagine
5 what's not out there among people.

6 MR. CULLEN: You know, all of the studies we've
7 done with users from IT pros in organizations to
8 consumers is that fundamentally we're looking for a
9 level of control. People are comfortable making that
10 benefit risk trade-off, but they're not comfortable
11 doing it in absence of control.

12 So in our belief this is the way that you have
13 to design access to information. It needs to be done in
14 a way that people do feel that they do have a say, that
15 they have some control.

16 MR. CERF: Can I test a theory with Billy?

17 MS. SWISHER: Sure.

18 MR. CERF: And I'm sitting here looking at this
19 little BlackBerry and thinking about the fact that most
20 of us interact with the Net one device at a time,
21 whether it's a laptop or BlackBerry or whatever PDA you
22 happen to have or desktop, but we don't necessarily
23 think about having multiple devices concurrently engaged
24 for us.

25 And I imagine maybe ten years from now that the

1 devices that we carry around could easily have
2 interfaces on them but then become routers, for example,
3 that your wireless access to the Internet, plugging
4 other devices in maybe with Bluetooth or something of
5 that sort, or maybe you walk into a hotel room and
6 there's this really beautiful, big display, that this
7 device now simply becomes your access device, and the
8 display now becomes the output, and then you mentioned
9 earlier about many devices showing up on the network and
10 being manageable that way.

11 Are we going down that path? Does that make
12 sense?

13 MR. EDWARDS: I hope so. I absolutely hope so.
14 One of the things I look at is, I know Albert is going
15 to talk about it in a few minutes, but there is an
16 explosion of people talking about today for what I will
17 call the content side in terms of the YouTubes of the
18 world and so forth, whether it's user created or a
19 variety of creation points for content, and that's
20 explosion.

21 What I really look forward to is how do we
22 foster, enable the innovation around I'll say delivery
23 mechanisms. I won't say pipes per se, but mechanisms
24 and in devices that are of that variety.

25 MS. SWISHER: There's been a lot of talk about

1 smart devices.

2 MR. EDWARDS: They're all smart. It's just a
3 relative level, how to retail that as to what you really
4 want. Why are there all the different kind of cars we
5 have today? Not everybody wants a sedan or pickup or
6 hybrid or whatever.

7 It's how do we start to learn more because users
8 are getting sophisticated? They know more and more
9 about what they want. In some cases they're just
10 learning, so as sophistication increases, how do you
11 tailor it to what you need?

12 So as a kicking point that I'll throw out,
13 that's a full fledged computer right there, and this is
14 not for anyone living near here, although a lot of
15 people want it. This is really designed for our 50 by
16 15 effort, which is how do we connect 50 percent of the
17 world's population to the Internet by 2015, so about the
18 same time frame.

19 The idea is to make it really cheap, and you can
20 throw this thing around, bang. Nothing comes loose,
21 there's no moving parts. It's a real product.

22 MS. SWISHER: So you know MIT just introduced
23 one --

24 MR. EDWARDS: That was another one. At one
25 point we and Google are involved with the One PC Or

1 Laptop Per Child and like right here, how do you move
2 forward with thinking about it from the human user
3 interface? The desktop model that we talk about on
4 computers, your point is, it doesn't really work on a
5 small screen.

6 People struggle with that. They've gone at a
7 different way with desktop interface that presumes
8 people. Kids in the middle of Nigeria don't know what a
9 desktop or a file folder is. How do you make it useful
10 for them?

11 MS. SWISHER: Let me give some background here.
12 A hundred dollar computer which actually costs \$130
13 right now?

14 MR. EDWARDS: The goal is a hundred.

15 MS. SWISHER: You'll get there.

16 MR. CERF: One laptop per child.

17 MS. SWISHER: It's essentially a small computer.
18 It has hand cranking for --

19 MR. EDWARDS: Let me back up. It's a small
20 computer. Target is a hundred dollars eventually, but
21 130 right now. The idea is it's a learning -- we're
22 trying to get away from saying computer in the sense
23 that people say PCs. It is a computer. It has a chip
24 in it. It has a screen but it's really a tool.

25 The interface is designed so kids can interact,

1 very, very collaborative interface, and it shocked me as
2 much as the first time I saw a AC or some of the people
3 at Park many years ago, I won't say how many.

4 It is really focused on collaboration, how
5 children interact and learn, and it is time to say
6 forget the technology.

7 MS. SWISHER: It's very simple. They're so
8 tiny, that actually a lot of people are going to want to
9 buy it. It's a significant little device that flips
10 around. It's made of rubber. You can throw it at
11 people's heads.

12 MR. CERF: This is very much along the lines of
13 Alan Cain who believes children and people naturally
14 explore, they're natural scientists and it has allowed
15 them to do it.

16 MS. SWISHER: Peter, Microsoft is well known for
17 dominating computing for awhile.

18 MR. CULLEN: Amazing.

19 MS. SWISHER: They're a very strong gun, so how
20 does that change for Microsoft? This is not the era of
21 domination anymore, even though people think Google is
22 ubiquitous by not controlling, and in the older era,
23 Microsoft dominated by being dominant.

24 How does that change at least one operating
25 system? The Internet is now the operating system I

1 interesting discussion about how technology can be
2 varied by an active consumer, and access can be provided
3 globally, but I,m wondering if there is some classes of
4 socioeconomic demographics in the IS, and if you look at
5 it globally in some countries, where that,s not going to
6 be sufficient for them to make use of it, that,s a great
7 place for computers, but don,t we need innovation and
8 content? If you think about it, isn,t the Internet
9 truly inherently a very complicated media? It is not
10 like TV where people turn it on and watch it. I,m
11 wondering about that there is a need for innovation and
12 content and innovation.

13 MS. SWISHER: You re saying essentially how does
14 it get easier because right now it still is very
15 difficult.

16 MR. EDWARDS: I don,t have all the answers.

17 MS. SWISHER: Why not? Jee .

18 MR. EDWARDS: Give me 24 hours. You re exactly
19 right. When we talk about the humans in computing and
20 look forward, accessibility is just one aspect of the
21 pu le. The other is content, and it,s not just the
22 content that you and I care about. We set up systems in
23 schools in South Africa or throughout Latin America or
24 different parts, what they care about when you go to
25 things that were done in basically very rural

1 communities -- what they care about is, they like to
2 hear the news, but that's not really it.

3 There's some basics that are always there like
4 education for my children. That one is always there.
5 Health care, how do I do something, get better
6 information? Jobs, how do I get a better job, improve
7 my job?

8 There are a bunch of others but those are three,
9 but what they care about relative to those is very
10 specific. Sometimes it's about how do I get more money
11 for my crops or how do I find out this information? So
12 the content, and this is referring to the explosion,
13 even here, it's going to happen elsewhere too, it's
14 got to be tailored to those needs, those specific
15 desires, and I think that's one of the things when we
16 think about innovation, the opportunity for vast amounts
17 and thus competition in my mind, that's wide open.

18 MR. CERF: I would like to improvise, and you're
19 very right, and it also implies information that's
20 local, but what we're looking for I think, and we're
21 taking advantage of, is the fact that Internet is
22 participation technology increasingly so.

23 We see higher memory with more capabilities and
24 cheaper computing systems with more ability to produce
25 content. We really need that diversity of input, and

1 one of the scary things about the media in general is
2 that there is a consolidation trend which is actually
3 eliminating a lot of the whole information which would
4 otherwise be valuable.

5 MS. WISHER: Put in by the Internet. What is
6 the greatest threat to that? To get to everyone else,
7 but the greatest theft to where this growth to the
8 Internet is happening? I mean, even though you talk
9 about media consolidation, there's now more voices than
10 ever in blogs.

11 MR. CERF: Two issues that I can see are
12 troublesome at least here in the U.S., one of them has
13 to do with the ability of the last mile provider to
14 interfere with the openness of the Internet. The
15 accessibility and consumer choice has gone with it for
16 all this time.

17 And the second one has to do with the general
18 media consolidation, which is going on changing and
19 rules of the FCC and the like has eliminated large
20 numbers, for example, of local radio stations whose
21 content would otherwise have been available.

22 So I think there's lots and lots of things that
23 we should be attentive to. Internet can facilitate the
24 creation of that local content, as long as it stays open
25 and neutrality accessibility.

1 MR. CULLEN: I was saying the same thing here,
2 but if you think about this -- the media side of things,
3 this is why we've seen the growth of the blogging, the
4 decline of newspaper reading, the growth of blogging

5 MS. SWISHER: The same thing, it's interesting.
6 I was with a bunch of students recently, and they said,
7 we don't read the newspaper. I said, where do you get
8 the news? Newyorktimes.com. I was like, it's the same
9 thing. It was really interesting.

10 MR. CERF: It wasn't the paper.

11 MS. SWISHER: It wasn't the paper. It's beyond
12 that. When you see the decline of local radios, there's
13 all these Internet radio stations. I mean, does that
14 make it?

15 MR. CULLEN: The obvious example of relevance,

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is reconf emergencyeyonhing. It was re2: ThIntern0sbeyond

1 read the stories about Katrina, you ll see in startling
2 amounts the utility of and the berth of local radios,
3 the big sales plan for local radios, but I want to say

1 So you want to make sure that we get the
2 competition, we get the innovation and we recognize that
3 we're going to have to keep ahead, keeping moving
4 forward recognizing.

5 MS. SWISHER: If we can move on to Albert's
6 presentation, what is to you the most exciting -- each
7 of you very briefly the most exciting trend happening
8 right now, the most exciting? Is it generated content,
9 online presence, if each of you can address that?

10 MR. EDWARDS: I'll go ahead and handle mine, and
11 that is the two go hand in hand. Online user generated
12 content because it gets down to what people care about
13 in combination with letting that content get to whole
14 new classes of individuals around the world.

15 That combination I think is just going to build
16 momentum and say, folks that never have touched the
17 Internet before, I can do this, I can do that, I can
18 bring that in. It will build on it itself, and that
19 over the next ten years will be massive.

20 MS. SWISHER: And you feel that that's the
21 important information rather than videos?

22 MR. EDWARDS: It's important for them to go on
23 in Brazil, but it will be important tonrrwiri e that

1 MR. CULLEN: Accessibility of destination
2 through convergence in an era where people control over
3 that, which I think is really just another way of saying
4 that I chose what I get, when I get it, and what device
5 almost becomes irrelevant.

6 MR. CERF: Actually this whole notion that
7 consumer control over things is quite an aversion from
8 the previous history of the mass media.

9 Frankly I think the most exciting trend from my
10 point of view is simply the increasing number of people
11 who have access to the Internet by any means whatsoever,
12 and the reason I'm excited about it is precisely because
13 of the information that they will put on the network and
14 share with other people.

15 I don't know if you're like me, but I am
16 astonished every time I go on the Net looking for
17 something, the Google search turns up incredible useful
18 information in zero time, and I think, my God, somebody
19 went to the trouble of putting this online and they
20 aren't necessarily getting paid to do it. They're doing
21 it because they thought it would be useful, and they
22 like the idea that somebody else used it and put it
23 online. This is an incredible.

24 MS. SWISHER: Incredible. Let's talk about some
25 things that television networks are doing. Albert is

1 going to make a presentation for us, and then we're
2 going to talk about it.

3 Albert is the executive vice president of
4 digital media at Disney ABC. I can tell you, ABC is
5 doing some of the most interesting stuff from a
6 television perspective. Right now the television
7 industry, just to give you a background, panicked about
8 the Internet and the decline of network television and
9 everything else, but some of them are sort of taking the
10 attitude that if someone is going to eat our lunch, it
11 might as well be us.

12 So ABC is doing some exciting things with
13 streaming shows on television, with selling over the
14 iPod. Now they're doing -- because of the link with
15 Pixar and Steve Johnson's Apple, selling shows like Lost
16 and others, and so it's pretty exciting, some of the
17 things they're doing. Albert?

18 MR. CHENG: Great. I think from our company's
19 standpoint, technology is definitely changing the way
20 consumers are submitting content, and I think of all
21 the companies being out in the industry being very
22 proactive and figuring out how do we make sure we're
23 reaching to consumers and adapting and meeting their
24 needs.

25 What I thought I would do is briefly go over how

1 we, as an entertainment company, look at how technology
2 is changing its business, and one of the first things I
3 want to do is first talk about the market evolution.
4 This is a typical chain, media value chain, how we get
5 content, and you can barely see that. I'm sorry, Vint.

6 MR. CERF: This is for the 26 year old.

7 MR. CHENG: Exactly, but if you can make out
8 whatever is up there, it's basically showing you how we
9 typically get content. It starts with the left-hand
10 side which is the content producer, film, television
11 studios. We're familiar with the idea of producing long
12 form content, and that's what we do today. Then that is
13 packaged together. They're bought by programs or
14 aggregators.

15 They essentially program it, hoping that they'll
16 program to an audience, and they'll show up. Then that
17 programming is then distributed over a technology.
18 We're familiar with over the air networks, cable
19 satellite delivery, and then at the end user, people
20 watch video over the television.

21 Now, what the digital media has done is
22 essentially created competition and a lot more choice in
23 all of these segments so let's start with the content
24 side. So no longer are there TV and film studios. Now
25 there are the video bloggers. They're the bloggers, the

1 video bloggers, the games producers, the interactive
2 applications companies. Not only is it creating the
3 individual the ability to create content and broadcast
4 it out to the world just from their own web site, but
5 they're also creating new forms of content, things that
6 compete with television, games, video games, interactive
7 applications. All these things have made more choice
8 for consumers.

9 When you then move on to the programming aspect,
10 the days of linear television is pretty much done. What
11 you have here is on demand services. Your cable
12 operators are putting together a huge platform to
13 deliver video on a nominator basis. You can ask or call
14 for any type of video given a certain amount of choice
15 that you have on the television screen to watch it any
16 time you want. TiVo, DVRs, these are all technologies
17 that allow you to program things on your schedule.

18 In addition, we also look at Internet web sites,
19 search engines. All of these things are ways of
20 producing very customi ed delivery of content. You no
21 longer are at the mercy of a schedule. You've decided
22 what you want to watch. You can ask and pull things
23 from any one of these access points and program to
24 yourself.

25 And one of the other things, mobile networks

1 too, with the advent of mobile video or cellular
2 networks, small starts-up are creating their own
3 networks with providing content, building little
4 networks that they can actually sell to the cell phones.

5 Then when you move on to the distribution
6 technology, we've also created more choice here too.
7 Not only do you have it out over the air, satellite, but
8 you also have telecoms giving you business and
9 delivering videos as well as broadband Internet now
10 being capable of delivering video to itself.

11 And lastly the mobile phone.
12 Wireless technology has also enabled you the ability to
13 get video just to your cell phone, and then there are
14 about two and a half million or three million or so
15 people who actually subscribe to services to watch video
16 over their cell phone.

17 Now, to the end of the chain. People are
18 watching video on any device, not only television but
19 you also have media devices. You have your computer.
20 All of these things have sort of added to the tool kit
21 for a consumer to get what they want.

22 So at the end of the day, what is happening is
23 it's creating competition because consumers can get
24 access to anything they want, when they want it, and
25 essentially we used to think that content is the king.

1 As long as we had great content, that was the way to
2 sort of survive in the media world, but at this point in
3 time, we actually have them on to the consumer's case,
4 because they're the ones who want to watch it when they're case,

1 That being said, there's also a quality of
2 content that can be developed by the individual person
3 whose video blogging are out there, and that's
4 incredible, but there's a difference between
5 professional, high production, value content and sort of
6 individual blogger, and there are definitely a market
7 for professional content, and that's why we want to make
8 sure where we're competitive and always creating good
9 story telling.

10 The next thing is creating great consumer
11 experience. That's sort of part of the DNA of our
12 company. Not only do you have great, great content, but
13 the way you deliver it has to be accessible, easy to use
14 and enjoyable. It's an entertainment medium that we're
15 trying to put out there, and we better make it easy to
16 use.

17 The next thing I usually like talking about is
18 redefining the network. Our business has always been
19 defined by the technology by which it was delivered.
20 ABC is a broadcast network. Disney Channel is a cable
21 network. New world digital, we actually have to think
22 broadly and not be confined to the original technology
23 platform on which our business was built. So we have to
24 think of ourselves as an entertainment network, a kid's
25 network that reaches kids and their shows across any

1 platform or in the case of absences, connecting our
2 viewers to the hit shows on any one device.

3 The next thing we also have to do is, 65 ?ldne device.

1 The next thing is being very flexible in
2 business models. We can't hold -- we just can't stick
3 to the ways of doing things the old way of doing things.
4 We have to be willing to experience. We're at a time
5 where there is an amazing emerging platform. We need to
6 make sure that how we're pricing our products, how we're
7 serving it up, monetizing it, can be done many different
8 ways, and we can't be held to one single way of doing
9 things.

10 Lastly, something that we hold ourselves to
11 which is establishing selective partnerships. Just
12 because we want to make sure that we are providing our
13 content anywhere, any time on any device doesn't mean
14 that we do any deal.

15 So out of a lot of our colleagues we're probably
16 one of the more conservative companies in doing certain
17 types of deals. We won't do deals with just anybody
18 because there's a certain set of criteria that we hold
19 ourselves to in terms of why we want to work with a
20 certain type of company, and a lot of times it comes to:
21 Is it a brand that we want to be associated with, do
22 they respect copyright and intellectual property and
23 DRM? Do they have a great financial terms? Do help us
24 market, and do they have a great consumer experience?
25 So all of these things we kind of measure and weigh to

1 day as well.

2 MS. SWISHER: Also stolen on LimeWire.

3 MR. CHENG: Yeah, exactly, stolen. And that's
4 one of the biggest issues Kara pointed out. We're
5 dealing with piracy which is the best business model out
6 there. It's free. It's great quality, and someone pays
7 for it so we need to make sure that we are being
8 proactive in the space to deliver our content in many
9 different ways that we can monetize and make it in a
10 secure environment.

11 The other on the outskirts are obviously
12 portability, portable media devices, and we look at all
13 these things playing into our entire ecosystem by
14 supporting the show, so when you finally see these shows
15 on these other platforms, one thing that you may or may
16 not notice is that they all point back to the network,
17 people love this series and what we always say is, Go
18 back to Lost to catch it first on broadcast. Watch Lost
19 Wednesdays at nine.

20 It's how we speak to the consumer. You will
21 always find a show premiering on broadcast television,
22 then pushed out to all the answering devices in order
23 for people to catch up, if they haven't been able to see
24 it, and then basically when you get the other devices,
25 it will push you back to the network to remind you if

1 you want to watch it first, you can go back to the
2 broadcast premier.

3 So let's look at cable VOD. One of the things
4 when we talk about branded programming services is make
5 to be sure when we have a deal with a cable operator,
6 when you look and see and try to find on demand
7 programming, that it is around random environments.
8 You're not going to go to Comcast on Demand and sort of
9 sift through a whole bunch of things and try to find
10 Lost there.

11 You will find it on ABC on Demand as one way, as
12 a primary way, and if you did have to go through a show,
13 I'm sure at some point there's a search engine that can
14 help you sift through and actually hopefully get you
15 straight to the title without having to sift through the
16 entire alphabet to get to it.

17 The next thing we want to do is broadband. And
18 we look at how do we create an asset that's branded in
19 our environment and really -- and one of the things that
20 we did this year was really think about how to look at
21 broadband web sites or web sites in general prior to the
22 broadband video wave we looked at .com as basically a
23 marketing platform.

24 Right now we have to look at these as more than
25 just a marketing platform but actual entertainment video

1 and all these things directly to the consumer on their
2 terms in an environment. We want them to enjoy and
3 monetize it somehow in this point, at the point it's
4 advertising so with all these web sites, that we have
5 that are TV based we're converting them all --
6 destinations.

7 We were the first network to decide to do full
8 episodes streaming online. In the past, if you go back

1 experience. This is where the summer experience comes
2 into play, why we're really, really a stickler on making
3 carousel cinematic points of view able to essentially
4 search and navigate to your favorite show.

5 We create a new commercial ad model too as
6 people who consumed video on Internet. We added the 15
7 second and 30 second pre roll. It was just annoying so
8 we decided, how do we create a whole new advertising
9 experience that could actually help the advertiser get
10 their message across but create a great consumer
11 experience?

12 In this case when you started a show, you would
13 get essentially just a ten second sponsorship message.
14 In this case Lost is sponsored by Visa and it was very
15 quick, a quick message and then basically you're into
16 the show. The show, we wanted to create a 16 by 9 so we
17 took a strong point of view that it had to be cinematic,
18 four by three aspect ratio. We went and tried to make
19 it look like a movie online, and we encoded it at a very
20 high bit rate.

21 We tried to use a lot of technology that we had
22 unfortunately in-house. We built everything from
23 scratch in about 60 days and probably the quickest
24 development in our company history of a product that was
25 launched to the public -- when you finally reached to a

1 MS. SWISHER: Thanks, Albert. Albert has such a
2 nice presentation. The fact of the matter is what
3 they're doing at ABC is quite innovative especially for
4 a traditional media company. I spent a lot of time
5 lately because I'm very interested in entertainment and
6 versions of technologies. It's a new, big thing I'm
7 focusing on.

8 It's kind of shocking what ABC is doing, and
9 it's very innovative. I have to say it's great, I'm
10 thrilled because most of the time when you talk to
11 anyone in Hollywood, the film companies, the music
12 companies which of course stabbed themselves in the
13 front and ruined their business because of lack of
14 innovation.

15 MR. CHENG: That comes -- that comes with time.
16 When you have Bob Eiger who is essentially pro consumer,
17 very technology savvy, and he understands that -- he's
18 sort of set the bar for when to say, look, you know
19 what, at the end of the day it's all about the consumer
20 and this is how they're behaving so we need to be
21 proactive and aggressive.

22 MS. SWISHER: Yet no one in Hollywood does that.
23 I think what's happening is they're beginning to
24 understand. They saw the lesson of the music industry
25 and saw how an industry could be almost disseminated and

1 collapsed, which I think the music industry is still in
2 a real free fall because of what's happening.

3 Despite the popularity of iPods, kids -- most of
4 the consumption of music is stolen and so you're giving
5 the alternatives. I urge you to go to ABC.com to look
6 at the approach that they've got. It's a really cool
7 version, so let's talk about what that means.

8 I mean, when you guys did for example the iPod
9 deals with the Pixar movies, the Disney movies which is
10 the next group of products that you sell, and you're in
11 the television group, but still it's the same idea. I
12 remember asking Bob Eiger, Now Wal-Mart is mad at you,
13 now your affiliates are mad at you, now everyone that is
14 a client that you happen to have, the head of Comcast
15 happened to be at that conference, he's furious at you
16 because he just gave you a billion dollars for some
17 things.

18 Where does that transition happen because it's
19 going to be a sort of bumpy road because you're
20 basically turning your backs on a lot of people that
21 handed you billions of dollars?

22 MR. CHENG: Ridkhcc-8ton of mrntm thheadve

1 MR. CHENG: It all goes back once again to
2 making sure we are reaching the consumer. We have
3 existing partners that we work with. They spend
4 billions of dollars putting our product on the shelves
5 to distribute to consumers.

6 I think how we manage that is, look, we do have
7 standing business relationships. We have been actively
8 working with them to figure out, well, how can we help
9 them migrate that to digital feature. Some respond to
10 it well, some don't, and the fact of the matter is is
11 that look, you either get on the train or sorry.

12 I think Bob has a point of view which is if our
13 partners really want to be pro consumer, they need to

1 and it just forces all of us to be more competitive, and
2 I think our message is, look, you have to be more
3 competitive. Let's figure out how you can do that and
4 we'll help you do that, but if you're just going to say,
5 I'm not going to pay for your content, then go ahead.
6 That's fine, if they don't want to buy it.

7 MR. CERF: Go ahead, make my day.

8 MR. CHENG: Exactly.

9 MS. SWISHER: Again to refresh this, do you feel
10 like Hollywood is there? I'm talking Hollywood film,
11 music all different things right now? Besides the
12 assault from user generated content, I mean YouTube and
13 the recent multi billion dollar purchase by Google is
14 something that they're embracing and horrified by.
15 They're all doing deals with YouTube because millions of
16 people watch these things, but at the same time
17 horrification that this probably could be happening.

18 MR. CHENG: Yeah. I can't speak for my
19 colleagues and how they view it.

20 MS. SWISHER: In general, do you feel Hollywood
21 is moving that way?

22 MR. CHENG: I think in general this is a very
23 confusing space. There's something new that happens
24 every day, and a lot of these things and innovations are
25 happening not within the industry. They happen in

1 Silicon Valley and outside, so I think what's happening

1 For YouTube, it may be a need like Ebay did,
 2 like some of the other companies which essentially
 3 connected the individual user to broad media,
 4 broadcasting medium or marketplace. They feel a need.
 5 It's definitely there to have people be able to put on
 6 their creative work and allow it to be showcased.

7 The flip side of that which is creating some of
 8 the scariness is a lot of stuff that's being uploaded is
 9 covered with content, so we're all for creating a
 10 marketplace or a broadcast medium that I, Albert Cheng,
 11 could put my home video and upload it and have people
 12 see. I think when you start looking at, Well, gee if a
 13 lot of it is uploaded, we have to figure out how do we
 14 deal with that.

15 MS. SWISHER: Let's deal with sort of notion of
 16 copyright and DRM, deals rights manager. I'm a believer
 17 of just removing it because it's kinfu03a --e it, r
 18 impossible to rotnec thmt.

19 In thewcast of bayar YouTube, I, lal ust a NBC.
 20 piecst of content, therewais a videoionSaturdbayNrigh.
 21 Ltive thatglot ne to YouTubr. Milltiost andmilltiost of
 22 peoplehow do noewatichSaturdbayNrigh Ltivewaticedf
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 25 ne YouTudmilltiost o peoplearvewaticvint, sothewrotnta4

1 letter to NBC and said, hey, do you want to push this,
2 do you want to do something with this? Didn't hear from
3 them, didn't hear from them until they got a letter
4 saying you have to take it down, even though lots of
5 people went to Saturday Night Live because of it.

6 What happens within the companies to get
7 there -- not have that reaction and to have a reaction
8 of millions of people are watching?

9 MR. CHENG: Yeah, I think with respect to
10 putting copyrighted material on up on YouTube and having
11 it been seen by many, I think there are pros and cons.
12 I think we're still struggling with what does it mean
13 exactly. I think as a company we believe in protecting
14 the rights of the content. That clearly for us is a
15 concern when something is being facilitated where
16 such -- that type of activity is being encouraged.

17 But at the same time especially when you're in a
18 position to try to promote your content, you're not
19 going to complain about a million people watching your
20 clip because actually is there a way -- I think we
21 should approach it as: Is there a way for us to
22 proactively figure out how it can be done legally?

23 MS. SWISHER: How do you professionalize it?
24 Because one of my feeling is it all is going to become
25 -- blogs are terrific. YouTube stuff is terrific, but

1 there is going to be professionalizations of it because
2 a lot of it is sewage essentially. It's kind of just
3 people will run out of interest in it. Does it have to
4 move up the food chain of professional content and who
5 is going to be doing it? Is it going to be like a

1 MR. CHENG: Well, I think the key thing --
2 promiscuous? I think the main thing is to make sure
3 we're on every platform.

4 MS. SWISHER: One more speciality question, and
5 then we'll ask Vint. At this moment who is the most
6 powerful player in this? If you had to pick one company
7 in the distribution and finding of content, who would
8 you pick?

9 MR. CHENG: Well, I would say the person, the
10 company that's -- I would say I would pick two, so two
11 different ways to look at it. I would say from our
12 company's standpoint because we are blessed with great
13 content so still content does drive a lot of this stuff,
14 so if you don't have great content, it's very tough to
15 generate an audience, no matter what platform you're on.

16 But then I also talked about right now just in
17 terms of pure eyeballs, I would say Fox.

18 MS. SWISHER: What about among the technologies
19 companies, who would you say is sort of moving needles
20 all over the place?

21 MR. CHENG: I think Google. I think Google is
22 driving a lot of innovation on the Internet, and they're
23 actually creating new models for us to -- everything
24 they do is forcing us to rethink, gee, how is this
25 working.

1

MS. SWISHER: What was your reaction to their

1 something came along, a whole new meaning and a whole
2 new technology that created new rights. Like the movie
3 rights to the book which didn't exist before there were
4 movies, so my suggestion is that there may be some
5 rights hiding in the digital presentation of things that
6 we don't normally know about.

7 Last point has to do with Video on Demand. Too

1 MR. CERF: Do I get to respond?

2 MS. SWISHER: No, no. I'm on your side.

3 MR. RASHTCHY: Let's see if we can get this
4 going.

5 MS. SWISHER: I'm sorry, Safa Rashtchy is a
6 senior analyst at Piper Jaffrey.

7 MR. RASHTCHY: I am pointing to the right. I
8 will try to do it as fast as possible which means given
9 the time that I was shown, five minutes, I'll skip a
10 number of slides, but let me tell you I was asked to
11 talk about the money flow.

12 I'm from Wall Street, and my presentation
13 actually is about where the status of the Internet is
14 because that's what investors and PCs are looking at.

15 Let me give you kind of the bottom line first.
16 Even though my presentation is set up for everyone, I do
17 think that this everyone excludes certain parts of the
18 population, and that's because the companies that make
19 money, companies like Google, Amazon, eBay and others
20 really can't monetize that statement.

21 So there's a segment that I think will be left,
22 and that's kind of the message I'll give, especially
23 given the mission of this panel.

24 I work for an investment bank, so I have to let
25 you read this about three times to make sure you know

1 everything, that I don't have any conflict of interest
2 on the stuff I'll talk about. I don't own Google. I
3 wish I did, but our company is an investment bank and
4 they make money by trying to do banking services.

5 So we'll go to the obvious. The Internet has
6 changed our lives already, but our assertion is that
7 companies that cover this is there are bigger changes
8 are yet to come.

9 Let's take a quick look at what happened to
10 Yahoo ten years ago, 1997, and today. There is how
11 Yahoo looks. Same thing with Amazon, except the speed
12 of this thing is not quite this year.

13 Okay. I think it's illustrative to see where we
14 are because it will show you where we're going. If you
15 look at who's online and where they're going, the
16 picture is even more interesting. Now, this is a sample
17 of the top site. Yahoo is still the top, but very
18 quickly, MySpace is gaining over. In fact, we think
19 MySpace will probably surpass Yahoo.

20 MySpace is in fact a new phenomena. It's a very
21 important phenomena that can be understated. It isn't
22 just about your teenagers going online to MySpace. It
23 is about real people. Why do they go online? Because
24 it's easy for them to re-express them self like this
25 woman here who is up there, who is giving all her

1 interests up there because there, s a need for people to
2 share these things, and until then there wasn, t an
3 efficient platform.

4 So that, s what, s happening with the traffic.
5 The traffic is going to Facebooks and MySpaces, not so
6 much the Yahoos and MSNs and Googles. They only have 1
7 to 5 percent over last year.

8 Let, s take a look at who, s on line today. This
9 stuff is really not as detailed as Susannha, and I
10 really respect what Pew does, so the statistics you
11 heard are fairly more accurate, but from what we gather
12 this is a rough breakdown of the population, but what I
13 really want to point your attention to is the largest
14 categories of Boomers, 38 percent of the population
15 online according to our estimate right now are between
16 that age.

17 Now, Internet today is widespread, and is going
18 across generation, but take a look at this chart. You
19 will see some interesting variations in age, that not
20 all age groups are online in the same amount, especially
21 over 65 years old where only half of them are online.

22 I, m going to read this very fast because of
23 time. If you want to get a copy of the presentation see
24 me afterwards.

25 So the digital divide still exists both racially

1 and economically, especially if you look at Hispanics,
2 for instance, they're highly underestimated, and
3 economically of course it's very interesting because
4 where the money is for the advertisers is where you have
5 users, and the least represented group are the ones
6 making under \$25,000.

7 I'm going to go through this very quickly, but I
8 wanted to go through what our the typical generations
9 that are considered by demographers, and as you can see
10 that the fastest growing segment is actually what's
11 called a solid generation, but the largest group at this
12 point are the Boomers so as much as you hear about Gen-Y
13 and MySpace, that's great, but it's possible to ignore
14 those two areas that are really growing fast and are
15 larger than these.

16 Internet is still two Internets that they call.
17 About 25 percent according to our estimates are what I
18 would consider advanced users. You see I work and live
19 in Silicon Valley. It's easy for us. Everybody reads
20 blogs. Kara writes a blog, I read her blog. She reads
21 our blogs, but the fact is that 75 percent of the
22 population according to the studies that we have done
23 don't write -- certainly don't write blogs and many of
24 them don't read blogs and don't use Internet in the
25 advanced ways that the other segment of the population

1 does.

2 So it is not really useful to try to group
3 everyone together. This is the newer users of the
4 Internet right now, the 75 percent, and very little
5 content and more importantly very little usability is
6 addressed towards this population.

7 I,m going to go through a couple of key areas
8 that have really shaped Internet. Search is the most
9 important innovation in the Internet, both for users and
10 for companies and advertisers. Search right now is
11 dominated by Google, of course as you may well know. In
12 the U.S. they have about a 63 percent market share, and
13 in some markets offsite, it,s even larger than that.

14 What is happening to search is that it has
15 become a medium well beyond the initial stage. First it
16 was to find a web site, and then products and
17 information, and now what we,re finding is people you
18 search as a medium of exploration. Look at these charts
19 here and the table here of key words. These are the top
20 ten searches fairly recent. These are actual searches
21 and it was the most frequent this month.

22 Look at the terms, poker, restaurant, taxes.
23 You would think what somebody was thinking when they
24 typed in taxes in Google or in Yahoo. What they,re
25 thinking is the search media will guide them to the next

1 question, and it is a medium of exploration, and that, s
2 just to find specific data or a specific company, so
3 this is really very important implications because it is
4 really becoming a third medium in our view, but beyond
5 online shopping and offline search itself becomes a new
6 medium, and of course fueling the growth of search ,
7 we're protecting global revenues a little over 26
8 billion by 2010.

9 Okay. One reason search is growing so fast is
10 because it is actually very efficient for advertisers.
11 This chart was fairly recent. We tried to update it but
12 I'm sure numbers haven't changed much. It costs a
13 fraction of what it costs advertisers to get a customer,
14 8 and a half dollars compared to let's say of 70 dollars
15 direct mail. Even other types of online don't even come
16 close to searched. Prices have gone up quite a bit.

17 One aspect of search which I'm very excited
18 about, I think it will be very big, is local search.
19 Local search is just beginning to creep in, but we don't
20 really have a way to have all the local advertisers in.
21 I do believe that over the next few years, and I'm
22 careful not to give you an exact number because I don't
23 really know, but we will have local search be as much as
24 50 percent of all the searches right now. Let me give
25 you an example how local can be very powerful.

1 Let's say you're looking for -- this is an
2 example from one of my associates who has a drink which
3 apparently she says is very popular, and I can't figure
4 it out, but you guys can probably read it. So if you
5 type it in, typically this would be something very
6 obscure, and if you would want buy this because you
7 wouldn't have the storage know, but the local search in
8 Google in this case would actually see the places that
9 you can find even the most obscure things. The power of
10 local search is that especially metropolitan areas it
11 would bring in hundreds of thousand of merchants that
12 are there but you don't have an easy way to find them.

13 ECommerce on the other hand is growing through a
14 different type of evolution. It is grateful consumers
15 today shop online. We estimate nearly half a billion
16 ECommerce types of merchants are selling online.

17 The importance of this is that you have access
18 to all of those 500,000. Think about it. In your
19 offline world, how many shops and merchants can you have
20 access to within the physical limits?

21 With online of course you have everything. Now
22 the problem is because of the competition, margins are
23 shrinking and of course searches are creating a totally
24 new median. ECommerce is growing and is a very big
25 industry, over a hundred billion dollars this year and

1 is growing fast, but it's not an area where people can
2 make money.

3 Part of it is and part of it is because your
4 offline companies have come online very quickly much
5 faster than -- look at this picture now. I think we had
6 a picture here. About a third of the online commerce
7 has been generated by what we would call pure retailers
8 that are created just to do business online. If you
9 take EBay's revenues as a pure revenue, not just the
10 gross merchants, or less than that, so most of the
11 online is already being done but offline companies are
12 growing faster than many others.

13 So this is partly because consumers have said
14 that now we're comfortable searching and buying online,
15 so they go directly to a site or they use search to find
16 a site that they want. The bottom line is that they
17 don't need somebody like an EBay or other AOL type to
18 hold their hand and guide them through the purchase
19 process.

20 This is an illustration of that. Let me go
21 through. As I said, the result that our companies that
22 -- we cover EBay and others are really suffering
23 financially because of distribution costs are growing.
24 I won't go through these eight, but we think that these
25 are the top nine. Google has certainly created a major

1 new way of accessing information, both for consumers and
2 advertisers.

3 Digital device is still there, but it's being
4 helped by the fact that many people do use Internet at
5 work, and as I said let me just pass through this
6 quickly because I want to keep some time.

7 What happens is that Internet usage is
8 continuing. The markup is -- they're here to make
9 money. There's a monetization lag which is now closing.
10 We think that over the next ten years this gap will
11 narrow. Many more companies will be able to make a lot
12 more money. Still it won't match usage, but we do think
13 that that is narrowing, and this is really where a lot
14 of the discussion that you will hear today and the next
15 couple days is important because how do you protect
16 consumers as that gap narrows.

17 I think I'm going to just mention the name of
18 the areas that we think are important. These are the

1 web search, wireless and other mobile services. It's
2 still too early. We don't have everything, but it will
3 come over the next five years, and finally web
4 applications, being able to do things on the web when
5 you use it only on PC so the bottom line is Internet has
6 changed our lives but we think the bigger change is yet
7 to come, and that's where most of the companies that we
8 cover follow the money form. That's it.

9 (Applause.)

10 MS. SWISHER: Thank you. That was excellent, so
11 fast. There's a lot of important ideas to talk about.
12 We have about a little less than ten minutes to talk and
13 folks had some questions.

14 MS. HARRINGTON: We're ten minutes over.

15 MS. SWISHER: 12:45, is that correct?

16 MS. HARRINGTON: 12:30.

17 MS. SWISHER: Let me ask you a few quick
18 questions, and then we'll end the panel. Search, right
19 now most people think search is pretty Neanderthal the
20 way it is, the key word idea, it's very nice but not
21 going to be the way it's going to be. What do you see
22 as the most important trend or change in search as you
23 go forward because it is driving us?

24 MR. RASHTCHY: I think over the next five or ten
25 years, the important thing would be for the search

1 engine to understand what we wanted on the key word, but
2 I have to say the use of the key word search still has a
3 long way to go. People really haven't discovered how
4 well they can use even the key word search, so I
5 think it's too early to see that a key word such is debt
6 and you try to --

7 MS. SWISHER: Debt. What happens? What is the
8 places?

9 MR. RASHTCHY: I think it's actually a more
10 linear of the covenant of the long tale. I don't expect
11 1 o7Holmbry teig bs1 Googe rs deoig texctulythe

1 they've become complacent, and that's the key area, not
2 to become complacent.

3 MS. SWISHER: My last question, and we'll finish
4 up the panel. Social networking, obviously MySpace
5 getting a lot of ink, a little too much hype from my
6 point of view and probably will fall off the same cliff
7 that everyone else has. What does social impact mean in
8 a bigger sense? You talked about that briefly. I agree
9 it's a bigger trend.

10 MR. RASHTCHY: I think social networking really
11 hit on two basic needs. One is to be connected with
12 others but at the same time the other one is to be
13 unique, to say that this is me and I'm different from
14 everyone else. It actually works really well for people
15 who couldn't do it in the real world, but you can go
16 online and have 10, 20, 30 million, see your profile and
17 you feel you're connected and still maintaining your
18 identity. I think that's a really basic need that we
19 had and that's why I really think that MySpace in
20 particular was able to create it.

21 MS. SWISHER: Of all the trends you talked about
22 what's the most important one from your perspective
23 that's driving things at this point?

24 MR. RASHTCHY: I think the most important trend
25 is the fact that we won't to have people, the younger

1 population that won't even think about how they're using
2 different systems. For them it's really natural. I
3 didn't mention I think some part, we can't do a whole
4 lot about the other part population. None of these
5 things would matter. They don't care about the social
6 connections or not. It's there and they're users.

7 MS. SWISHER: Great. That's the way we end.
8 Kids love it, just remember that.

9 Everyone, thank you so much for the panel.
10 Thank you for being so patient, and if there are any
11 questions, just come up.

12 MS. HARRINGTON: I want to let you all know we
13 are lucky enough to have with us some technology items
14 who are displaying over at the Marvin Center. Take a
15 left, it's about half a block down. It's in the Marvin
16 center, and there's free ice cream, and please go over
17 and have some tech-ade lunch.

18 Thank you.

19 (Whereupon, at 12:38 p.m., a lunch recess was
20 taken.)

21

22

23

24

25

1 AFTERNOON SESSION

2 (1:45 p.m.)

3

4 PANEL 3: HOW WILL WE COMMUNICATE IN THE NEXT TECH-ADE?

5 MODERATOR: GARY ARLEN, President, Arlen Communications

6 YOUNG CONSUMERS PANEL MEMBERS:

7 FELDMAN

8 JOSHUA MEREDITH

9 MARSHALL COHEN

10 STEVEN MILLER

11 NELL MCGARRITY

12

13 PRESENTERS:

14 DANA J. LESEMANN, Vice President and Deputy General
15 Counsel, Stro Friedberg

16 DAVE COLE, Director, Symantec Security Response

17 ARI SCHWARTZ, Deputy Director, Center for Democracy and
18 Technology

19

20 MR. ARLEN: Good afternoon. That is not our
21 slide. We can take the social networking away until
22 we're ready for it in a couple of hours. This is a
23 combination session about how we'll communicate in the
24 coming tech-ade.

25 My name is Gary Arlen. My research company

1 Arlen Communications has been looking at new media since
2 cable and home video were new media over 20 years ago.

3 So what we thought we would start with right now
4 and this is also not the break and technology pavilion,
5 we're going to talk first of all about one of the real
6 world aspects of in business and that is how the
7 audience you heard about today, you heard Kara Swisher
8 talk about her two and her four year olds, which
9 represent the next tech-ade.

10 We're going to start a little older than, but
11 maybe we can have our opening panel talk about the
12 younger brothers and sisters, but I thought we would
13 started by just sort of wrapping up. As I've said, I
14 have been at this 25 years. I'm somewhat of a
15 skeptic-enthusiastic. I'm enthusiastic about a lot of
16 claims I've heard over the past years about what's going
17 to happen next.

18 At the same time I'm a little skeptical because
19 not everything works out the way we think it's going to
20 work out, and one of the things I've been looking at is
21 the convergence of technology and content, and most
22 importantly, creating the new kinds of applications and
23 arrangements that will emerge from the new kinds of
24 companies that we heard about earlier today.

25 Example, we didn't hear much about games, but

1 yet video games are ready to outpace Hollywood as the
2 major source of entertainment. Technology is coming
3 along which will already allow you to communicate as
4 part of a game playing experience and network game, and
5 actually insert yourself into the game through new video
6 cameras and video commercial products.

7 So really we're really looking at a very big
8 kind of group, and we heard a little bit this morning
9 about emerging business models, and when Mr. Cheng from
10 ABC was talking about displaying programs after network
11 airing, this is a week after Fox announced it was going
12 to put some of its shows like the OC on the Internet and
13 through off network application or distribution before
14 the network airing, so there's a lot of things going on.

15 Also we're looking at an issue of what I call
16 killer attributes, not just killer application, but we
17 talked about access this morning. Certainly mobility is
18 a big issue which we'll hear about throughout the next
19 hour. Visualization including video clips. I've been
20 doing some research lately on the whole idea of looking
21 for images and finding them to match up through a video
22 search technology which opens some very interesting
23 issues about privacy and security of what people look
24 at.

25 So with all that in mind, and knowing that we

1 have what we call the unkunks, the unknown unknowns
2 factors that we really can't even speculate upon yet, we
3 don't know yet, so given the success we've had this
4 morning with those handheld devices I'm going to ask the
5 old fashion way of raising your hand. I want you to
6 fill in this sentence: The blank is king, something is
7 king.

8 Now, the first choice is: How many think
9 content is king?

10 THE AUDIENCE: What are the other choices?

11 MR. ARLEN: You can raise your hand more than
12 once. How many of you think content is king, the way it
13 fits into the whole millennia? Don't know what that
14 means yet. What about convenience? Yes, yes, yes,
15 consumer choice. What about competition? Competition?
16 Come on, the FTC, there's got to be competition
17 somewhere. What about chaos is king? Yes, yes we all
18 know that.

19 So these are some of the big Cs of this
20 business, so seeing what's up ahead, competition,
21 choice, context, content, raises some big issues of
22 where the next generation is going to use these new
23 objects that we're talking about here.

24 So what I want to do is start with some
25 millennia generation, and as I said these older people,

1 they, re all students at George Washington University,
2 but they, re an older generation from the millennia, in
3 the demographic record, we have what, s called the
4 millennias and the super millennias.

5 So I have a question for you guys: Have any of
6 you remembered life without dial up, dial up Internet
7 access? Do your young siblings know about dial up?
8 They, ve heard of it, but they never used it, right. Has
9 anybody lived without a mobile device, mobile phone,
10 mobile PDA? Oh, you remember that.

11 Think about that. There, s a generation of
12 consumers that really have never had life without high
13 speed mobile connectivity. Big issue, so let, s
14 introduce here we are going to hear, and see if I can
15 get all their names correctly.

16 I, ll start with Peter Feldman who is a second
17 year law student at GW, and next is Joshua Meredith, who
18 is a senior history major. We have Marshall Cohen, who
19 is a sophomore in political communications. Steven
20 Miller is a junior in international affairs, and Nell
21 McGarrity is a graduate student in media and public
22 communications also.

23 So I think, Steven, you were saying you use the
24 Internet for communications internationally.

25 MR. MILLER: Absolutely.

1 MR. ARLEN: How so?

2 MR. MILLER: There's different programs, one of
3 which is called Skype that I use. You can often
4 communicate with people in a much clearer fashion over
5 the Internet than through cell phones, telephones.

6 MR. ARLEN: Now what do you use the digital
7 communications for?

8 MS. MCGARRITY: I guess communicating across
9 through different platforms like Facebook or I guess
10 getting information I can't get through the news like
11 the YouTube, things like this.

12 MR. ARLEN: So like social networks?

13 MS. MCGARRITY: Yes.

14 MR. ARLEN: Peter?

15 MR. FELDMAN: It's mission critical in doing
16 legal research.

17 MR. ARLEN: So you're using it for sort of
18 business, academic purposes?

19 MR. FELDMAN: Yes.

20 MR. ARLEN: And no social or personal uses?

21 MR. FELDMAN: No, there's plenty of that.

22 MR. ARLEN: Such as?

23 MR. FELDMAN: Tons of Emailing, lots of reaching
24 out to sort of learn more about the legal profession and
25 who's practicing here in town and also purely social

1 thing likes Facebook.

2 MR. ARLEN: Marshall?

3 MR. COHEN: I use the Instant Messaging a lot to
4 keep in touch with friends from high school that are
5 scattered across the country.

6 MR. ARLEN: Do you IM on your computer or SMS
7 texting?

8 MR. COHEN: Mostly on the computer and text
9 messages as well.

10 MR. ARLEN: Joshua?

11 MR. MEREDITH: I would say I use it mostly for
12 Email and senior thesis that I,m working on. I think
13 that would be the biggest uses.

14 MR. ARLEN: So a lot of students use all the
15 tools you have. Which one couldn,t you live without?
16 If I said, I,m going to take away all those accesses and
17 devices accept one, which one could you keep?

18 MR. FELDMAN: It would have to be my cell phone.
19 Otherwise I would have just no ability to function.

20 MR. ARLEN: No ability to function without a
21 cell phone? Think of that, you guys, who remember the
22 old phone company.

23 MR. MEREDITH: I think if you took away my Email
24 I would kind of be distraught. I couldn,t really handle
25 not being able to get information through Email.

1 MR. ARLEN: Marshall, what would you keep?

2 MR. COHEN: I would say I would keep Instant
3 Messaging. I can find out news. I can talk to people.
4 I can do everything through that.

5 MR. ARLEN: Doing everything digitally. Steve?

6 MR. MILLER: Cell phone 100 percent.

7 MS. MCGARRITY: I would have to go with my phone
8 too.

9 MR. ARLEN: Your cell phone or your --

10 MS. MCGARRITY: Yes, my cell phone.

11 MR. ARLEN: Do you consider your land phone to
12 be your phone anymore?

13 MS. MCGARRITY: No. The only people that call
14 my landline are telemarketers, so I generally don't
15 answer it anyway.

16 MR. ARLEN: Even your parents call you on your
17 cell phone?

18 MS. MCGARRITY: Yeah, I don't think my parents
19 even know what my landline number is.

20 MR. ARLEN: Now, here's a couple other things.
21 What's your preferred method of staying in touch? You
22 said you used IM. A few of you said Email. Do you have
23 any preference you want to add to that?

24 MR. FELDMAN: Yeah. Email is probably the best
25 way to stay in touch with people because you always have

1 a record of it. You don't forget what somebody said to
2 you because you can just go back and read it, and it's a
3 lot easier because sometimes if you haven't called
4 someone in awhile, it's a little bit easier to reach out
5 with Email. It's a little bit less personal but still
6 gets the job done.

7 JUDGE: Nell?

8 MS. MCGARRITY: Yeah, I would say Email just
9 because it's really efficient. Where when we're talking
10 on the phone, you can't necessarily be talking on your
11 phone all the time.

12 MR. ARLEN: Since you mentioned you were worried
13 about telemarketing, did you ever think about spam and
14 Email, people try to get to you by Email?

15 MS. MCGARRITY: I report my spam, so I have a
16 pretty good filter so I don't really get too much that
17 I'm not really looking for.

18 MR. ARLEN: Marshall?

19 MR. COHEN: I think the biggest thing about
20 using Email would have to be that it's completely free,
21 whereas cell phone services and the phones themselves
22 are getting very expensive. That's the biggest part for
23 me is just free communication.

24 MR. ARLEN: That raises another question I
25 wanted to ask you. Do you ever think about price or do

1 your parents all pay for it so you don't care about it?

2 In other words, does price matter, Joshua?

3 MR. MEREDITH: I would say I was just looking
4 into trying to get a BlackBerry device, and the price of
5 the hardware is extremely expensive. I know you're
6 going to pay a certain premium for the service, but the
7 hardware is expensive, and I think that's limiting.

8 MR. ARLEN: What bothers you more, the \$300
9 upfront hardware or the \$70 or \$80 monthly charge?

10 MR. MEREDITH: Oh, no, definitely the \$300
11 upfront for the hardware. I mean, cell phone plans, my
12 plan is like \$49 a month anyway, and the extra \$20 isn't
13 going to break the bank, but the hardware is expensive.

14 MR. ARLEN: Some people will say that 600 or 700
15 to 1,200 dollar computers is a lot more expensive than a
16 \$300 handheld, but these are issues. Peter?

17 MR. FELDMAN: I agree with Josh. There's
18 something which at least I think that -- the cost of the
19 hardware is something that seems like you can't
20 negotiate. At least with the cost of the service, you
21 feel like you're really getting the value, and there's
22 always a ton of options. With the hardware there
23 doesn't seem to be that flexibility.

24 MR. ARLEN: Nell and Steven, who pays?

25 MS. MCGARRITY: I definitely agree, especially

1 since the BlackBerry might be hot now, but come
2 Christmas time, that might not be the coolest thing so
3 you might not want to put your \$300 up for your
4 BlackBerry when it will be \$99 come February after
5 Christmas.

6 MR. ARLEN: Marshall, you're agreeing?

7 MR. COHEN: Yeah. I agree 100 percent. I'm
8 always thinking I'm going to get the next iPod or the
9 next BlackBerry. And then the day after I buy it, the
10 new one comes out, and it breaks my heart every time.

11 MR. ARLEN: That leads to customer issues.
12 Pricing, do other things frustrate you about using these
13 services? I'm thinking of things like customer, service
14 reliability, customer support.

15 MR. MILLER: Absolutely, I would say -- I'm with
16 a certain network, Sprint, that has awful customer
17 service, and it's annoying.

18 MR. ARLEN: But do they have awful customer
19 service?

20 MR. MILLER: Absolutely, and to a certain
21 degree, you can get around it, but at a certain point
22 you need customer service, and you need human
23 interaction still.

24 MR. ARLEN: What are the kinds of things that
25 frustrate you, Peter?

1 MR. FELDMAN: I agree with my friend, customer
2 service is pretty awful with my cell carrier which is a
3 different one.

4 MR. ARLEN: As the Commissioner said this
5 morning, you have to name names.

6 MR. FELDMAN: Getting through to a live person
7 is almost impossible.

8 MR. ARLEN: And it frustrates you even, though
9 you are growing up digitally?

10 MR. FELDMAN: Yeah, it's very frustrating
11 because even though everything is digital, you still
12 want that human on the other end of the line who can
13 empathize with your phone line who can

1 bother you guys at all?

2 MS. MCGARRITY: There, s nothing more frustrating
3 than a page taking too long to load or having to retry a
4 call if your in a low service area. Sort of like it, s
5 there, it, s there to be fast, and when it, s not, that, s
6 the worst. It, s like getting the old-fashioned like
7 busy signal on your phone. I hate that sound. That, s
8 like the worst.

1 Emails, it's like, I just want to sleep for a half hour.

2 MR. ARLEN: You press the off button.

3 MR. COHEN: I can't turn it off because then I
4 feel like I'm not connected at all. I don't know what
5 to do.

6 MR. MILLER: Our generation has grown up with
7 much more availability than maybe some other people
8 have. So I'm used to it.

9 MR. ARLEN: Don't point at me.

10 MR. MILLER: I'm used to always being in touch.
11 I can't turn it off, and I don't mind being woken up if

1 price that we, re all willing to pay, at least I think
2 we, re all willing to pay for being in touch is being in
3 touch always.

4 MR. ARLEN: Interesting issues, but frustrating
5 about getting connections.

6 A couple last questions, big issues, this is a
7 segue to the rest of our hour here is: Do you ever
8 worry about the people you meet online or the privacy
9 and security of what you communicate through your phones
10 or computers or IMs or any of the tools you use? Ever
11 worry about security, privacy of who you, re meeting?

12 MR. FELDMAN: Yes. I used to buy a lot of my
13 textbooks online. It, s just easier and certainly more
14 efficient and always -- it, s almost always cheaper, but
15 at the same time, you always have in the back of your
16 mind, especially because it, s constantly in the news
17 now, the idea that, Well, maybe the information you are
18 sending isn, t really going to go to Ama on or isn, t
19 really going to go to EBay, maybe it will go to someone
20 else and who knows what they, ll do with it, so I think
21 that identity security is certainly something that, s an
22 issue.

23 MR. ARLEN: Joshua, do you think about that when
24 you communicate online or order something through
25 ECommerce?

1 MR. MEREDITH: The biggest thing for me is my
2 credit card online or I,m checking into my bank
3 statement through on the Internet. I always get a
4 little worried. You have to make sure you close that
5 page off and sign out just to make sure, and I try to
6 not give out as much information where they say that
7 some of these boxes are optional. Sometimes I just
8 won,t fill those in because I,m a little hesitant to
9 give away all that information.

10 MR. ARLEN: Marshall?

11 MR. COHEN: I just can,t bring myself to use
12 EBay. I still can,t trust it, even though all my
13 friends say it,s reliable, and like I,m faced with
14 especially -- it,s almost starting to get creepy to me
15 how many people are involved and what people can see. I
16 don,t put my cell number out there, and people think
17 that,s strange.

18 MR. ARLEN: Did you do that originally?

19 MR. COHEN: No, I never wanted to. I didn,t
20 want people that I didn,t know having my number.

21 MR. ARLEN: You,re cautious?

22 MR. COHEN: Yes.

23 MR. ARLEN: Peter?

24 MR. MILLER: I think I would say the same about
25 credit card information and cell phone information, but

1 sure, mailing address, my name, social security maybe, I
2 mean, you put that up online often.

3 MR. ARLEN: That's all that information about
4 the overseas people you're communicating with.

5 MR. MILLER: Absolutely.

6 MS. MCGARRITY: Yes, definitely my credit card
7 information and any sort of financial information is
8 what I'm definitely most concerned about. I don't
9 really give out my phone number to anyone that I don't
10 know, so personally or not, and I don't really seek
11 out --

12 MR. ARLEN: Do you think your friends are as
13 security conscious and as privacy conscious as you are?

14 (All say yes).

15 MR. ARLEN: Good. That's a great segue to my
16 next panel, where we're going to talk about privacy and
17 security. If you could join me in thanking the GW
18 students for sharing a few ideas.

19 (Applause.)

20 MS. HARRINGTON-MCBRIDGE: While we rearrange the
21 furniture, we have a short video clip that we thought

1 MR. ARLEN: Thank you. Now we're back for some
2 more discussion. I'm going to move my chair a little
3 closer if you don't mind.

4 Let's see if we have our introductions. Sooner
5 or later there will be a slide up there that tells this
6 is Dana Lesemann from -- I'll let you all introduce
7 yourselves after this -- from Stro Friedberg, a law
8 firm.

9 MS. LESEMANN: A consulting firm.

10 MR. ARLEN: A consulting firm. Ari Schwart ,
11 who is the deputy director for Center for Democracy and
12 Technology, and we'll be hearing from Dave Cole,
13 director of Symantec Security Response. I think you've
14 come in from California for this, haven't you?

15 MR. COLE: I have, Los Angeles.

16 MR. ARLEN: So we want to talk about what
17 security and privacy mean in the upcoming tech-ade,
18 looking at some of the issues that affect how we'll
19 communicate. Since communication inevitably, as we
20 heard from the final comments of the GW students a
21 moment ago, is very much on people's minds, although I
22 don't know if you heard their conversation, but it seems
23 that they're very conscious of this.

24 So Dana, why don't you start and give us a few
25 ideas about where you see the communications trends and

1 the primary factors that your consulting firm looks at.

2 MS. LESEMANN: Sure. First, Gary, I would like
3 to start by thanking the Commission and the Bureau of
4 Consumer Protection and BE. This is a little bit of a
5 homecoming for me because I don't know if you know, I
6 used to work for the Bureau in the mid , 90s doing
7 consumer fraud litigation, so this is great for me to
8 come back.

9 And also being here at GW, I worked with Katie
10 Harrington-McBride, and also we both taught here at
11 George Washington at the law school, so it's really an
12 honor and a privilege to be back there so I would like
13 to thank Katie and the Bureau for having me back here.

14 I would like to talk about security and privacy
15 in the context of where the Internet and communications
16 are going, but I thought it would be really interesting
17 to look back at where we've been and where we're going
18 to see how communications have evolved because
19 technology is neutral. Good guys and bad guys have the
20 same technology, so we can see how technology, privacy
21 and security have been really changing.

22 When we talk about the crime scene before when
23 the FTC is prosecuting fraud cases, when the U.S.
24 attorneys are looking at fraud cases, when the FBI are
25 looking at fraud cases, the crime scene is changing

1 exponentially. They're looking at encrypted data. The
2 co-conspirators who are doing data communications are
3 encrypted. Data is decentralized, and all these things
4 have really been changing dramatically over the last 20
5 years or so.

6 So when you look back at really way, way back in
7 the '80s, if any of you remember, we had maybe two
8 computers, two computers that were connected by a cable.
9 There were actual cables that connected computers. If
10 you wanted to transfer data, you used a disk. We had
11 floppy disks, and there was maybe kilobytes of data, if
12 you were lucky there were megabytes, and if there was
13 fraud that was going on, you got those two computers,
14 and the data was clearcut, and that was the end of the
15 story. The FBI or the FTC would look at the computers.

16 Then the next structural revolution came along.
17 The first structural evolution came along, and you had
18 LANs, localized access networks, and you had maybe --
19 and I had slides but Katie convinced me that slides were
20 really, really a problem so I didn't bring my slides.

21 MR. ARLEN: As we learned this morning.

22 MS. LESEMANN: As we learned this morning, that
23 slides were a little problem, but I had really great
24 pictures. So we had computers that were connected by
25 modems, so at this point, you have maybe megabytes, so

1 then you had computers that were connected by modems,
2 and you had megabytes of data, and maybe you had multi
3 users using machines and multiple data streams that were
4 involved, and then when we were talking in the late
5 , 80s, early , 90s, you had the beginning public computer
6 centers. This was the beginning of the encryption list.

7 And honorable people disagree about how
8 encryption -- honorable people disagree about how
9 encryption should be used and whether or not keys should
10 be kept for encryption, and the crime scene expanded at
11 this point. We, re talking about large amount of data,
12 and from there we went to the client server model, and
13 this is where I came on to the scene for the Federal
14 Trade Commission, and all of a sudden when you went into
15 a boiler room, you had to find the server, and usually
16 you, re in a really hot room, then you found the air
17 conditioned room, and that, s where the server was
18 because that, s where the data was.

19 So you had text based realtime communication.
20 We, re talking about gigabytes of data, but multiple
21 users could access the information from pretty much
22 anywhere on the Internet so the world changed again.
23 Then these were great pictures.

24 MR. ARLEN: You have to tell us what, s going to
25 happen in the next tech-ade.

1 MS. LESEMANN: I believe the next tech-ade is
 2 moving from the peer-to-peer network which is where we
 3 are now. Computers connect from anywhere. There, s no
 4 client server model. Everything is connected together.
 5 Any computer anywhere connects together. There, s no
 6 client. There, s no server. Any computer can get to
 7 anywhere on the network. That, s where we are now.
 8 That, s where we, re going in the future, but any computer
 9 will be able to use all of the processing of resources
 10 from any of the computers that are accessed anywhere on
 11 the network.

12 I, m going to be sitting at my home in Takoma
 13 Park. I, m going to be able to use any of the computers
 14 that are accessed on that network. Maybe it, s once o 14
 rilicsed on tha,hta willih M IlihecAoilrilic,cseerver. Any tha,no
 rilicsre weta wiincreaworkmeshrilic,cseing in t netwoget tha,htano
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1 even before in the , 90s. We, re not talking kilobytes,
2 megabytes, gigabytes. We, re talking terabytes and
3 petbytes. We, re talking about data that, s anywhere, in
4 multiple jurisdictions. We, re talking United States,
5 UK, friendly jurisdictions, unfriendly jurisdictions.
6 We, re talking about server set-up in Cubastan and any
7 kind of Stan you can think about. We, re talking about
8 entry and entrance networks anywhere.

9 We, re talking about -- Ari and I were talking
10 about this before, you can set up any kind of device
11 that gets onto this the network, puts information on the
12 network and gets it off the network. Ari thinks about
13 honorably people using information in honorable ways. I
14 think about dishonorable people using information in
15 dishonorable ways using a breaker, breaking up their
16 waves in different routes, and you, ll never be able to
17 find it again.

18 But I think the question is not how will we be
19 communicating, but it, s an article I read about the 2016
20 symposium at Columbia University. The question is: How
21 will we communicate in the seminar, in the next ten
22 years, so with that, I, m done.

23 MR. ARLEN: Actually I have a question for you,
24 Dana.

25 MS. LESEMANN: Yes?

1 MR. ARLEN: So you say you can get anywhere from
2 Takoma Park, but that means they can get to you, to your
3 devices.

4 MS. LESEMANN: Absolutely.

5 MR. ARLEN: Do you have firewalls? What do you
6 do? Do you put up any protection for yourself?

7 MS. LESEMANN: Absolutely. There are going to
8 be two keys. One is authentication. You are going to
9 have to know who are you communicating with at all
10 times, strong authentication is what is going to be key,
11 and I think businesses have really been thinking that
12 consumers were not willing to they thought indulge in
13 strong communications, that strong authentication
14 because they thought it wasn't going to be worth it.

15 I think they're coming around to the idea that
16 authentication, strong authentication, is the price of
17 doing business. I think that's it, and the other is
18 firewalls and encryption. I think firewalls and
19 encryption are really going to be the price of doing
20 business with any kind of wireless network.

21 Now, we deal with people who have been spoofed.
22 I think everybody here, especially those under the age
23 of 25, knows what spoofing is.

24 MR. ARLEN: There's not that many under the age

1 MS. LESEMANN: We deal with businesses all the
2 time where somebody has gone around, and their Emails
3 have been high-jacked by someone else who has sent out
4 Emails in their name, because somebody is war driven,
5 gone around with a computer and driven around until they
6 find an encrypted network where they could send out
7 Emails from those addresses, and that's war driving and
8 spoofing, sending out an Email from that address.

9 MR. ARLEN: What you're saying is that all of us
10 have to be much more vigilant about how our own
11 facilities are protected.

12 MS. LESEMANN: Sure. Encryption offensively and
13 defensively. Encryption defensively on your network,
14 and then you don't have to worry about spoofing, and
15 encryption offensively by the bad guys.

16 MR. ARLEN: Let's move to Ari from the Center
17 For Democracy and Technology. You're going to talk a
18 little bit about some emerging and potential concerns
19 that Dana has just discussed.

20 MR. SCHWARTZ: Well, Dana I think made out some
21 of that on good guys and bad guys, and I would say more
22 that Dana is looking at from the perspective of law
23 enforcement, and we're looking at more from the
24 perspective of the consumer and what the consumer is
25 interested in.

1 So the question is, and looking -- in thinking
2 about these issues, I try to look back at what people
3 were talking about ten years ago, and there was a lot of
4 talk about convergence. I think people had different
5 views about what convergence would be. We heard a lot
6 about everything coming in through the TV, and ten years
7 ago, et cetera, and that seems unlikely now, but if you
8 look -- I think that we're actually at the point of
9 convergence that we were -- that people had maybe
10 envisioned ten years ago, maybe not.

11 If you think about the -- about how we
12 communicate today, we have a lot of devices that use a
13 lot of different communications method. You don't have
14 a phone that's only good for telephone service anymore.
15 You have phones that do IM, that do text, that do Email,
16 that do calls, that have calls that may have video music
17 on them or they may have video music and they have video
18 music preference that goes along there on them as well
19 as laptops that do all those things as well as maybe MP3
20 players, but the main focus may be different, but they
21 do all of these different things.

22 We have DVRs that connect to the Internet. We
23 have PlayStations and gaming consoles that are really
24 Internet devices, and you start to see a lot of that so
25 people are communicating. It's not so much we're going

1 to have no means of communication that are going to come
2 up, but it is the focus on the hardware is much
3 different, and one thing that we don't have today is the
4 ability to sink all of this together, and we've heard I
5 think Peter Cullen focused on this, from Microsoft
6 focusing on this on an earlier panel, that really the
7 discussion is going to be in the future for the next ten
8 years about how we pull all that information together
9 and the privacy and security risk that comes from
10 pulling all that information together.

11 Dana laid out a vision of peer-to-peer space. I
12 think that that's a possibility and especially in the
13 longer term. In the shorter term, I think that we're
14 talking very cheap storage, and there's going to be a
15 discussion of that in the next couple days here, but I
16 think that the idea of storing things and passing
17 information along to different devices so that you get
18 your Email, that you receive that on your cell phone and
19 it shows up in your Email, in your Email -- and it shows
20 up in your -- on your computer and it shows up on your
21 iPod at the same time and you get all that information,
22 don't lose any messages. IMs, the same thing, that
23 because different people from different generations are
24 going to communicate in different ways as I think
25 Susannah Fox laid out very well this morning from Pew.

1 So that, s something entirely that came out in
2 this discussion, but for people that don, t use IM very
3 much and use it only sparingly, they don, t necessarily
4 know that they, re even storing all of those messages,
5 and I think that those are the kind of risks that we
6 have out there. That, s kind of an accidental risk.
7 There, s also the scams out there, the phishing scams and
8 the spam and spyware, kind of new versions of those
9 things, many in the middle attacks where they, re picking
10 off this informations as it flows back and forth or the
11 equivalent of a phishing scheme where they, ll ask you
12 or they, ll use a fraudulent device that mimics what your
13 device does to pull off that information and get it that
14 way, kind of the middleman issue.

15 But I think there, s also the bigger privacy and
16 security concerns from the kind of companies that are
17 going to be doing with information. Because we, re going
18 to be storing more information and more information is
19 going to be flowing back and forth, things that we used
20 to have in our homes, in our desk drawers are going to
21 be flying across the network, as we, ve already been
22 seeing, but even more so in the future, and there, s
23 going to be a temptation for peer industry to try and
24 use this information, and there, s a question of: How
25 effectively are they going to do it and give control

1 back to the consumer?

2 We already see this in the advertising space now
3 all the time, in the online advertising space, and this
4 discussion is an ongoing discussion there, but I think
5 it's going to be kind of a more general discussion about
6 privacy and security and how all this information flows
7 and what we do in that space.

8 Now, Dana also mentioned authentication. I
9 think there are a lot of people, including CBT, put out
10 a set of authentication privacy principles awhile ago, a
11 guide of some, of the broader high level discussion
12 about how you go about making authentication, privacy
13 friendly from the beginning, but I think that that
14 discussion is going to be ongoing especially over the
15 next five years when you're talking about putting these
16 devices and authenticating.

17 There's going to be a lot of discussion in that
18 area so that's one place to go.

19 MR. ARLEN: That's a great segue to David Cole,
20 whose company, Symantec, is very deeply involved in
21 security in order to make sure we communicate closely.
22 So why don't you give us a little view of where Symantec
23 sees this going.

24 MR. COLE: Absolutely. So I'm going to do
25 something unusual. I'm going to start out with some

1 good news. Normally we're the bearer of bad news. It
2 starts off by saying that one of the things that's been
3 the biggest component, it's been the biggest tool for
4 distributing spyware, adware, malware, Trojan horses,
5 over the past -- really since the year 2000, has been
6 the drive-by install.

7 This has been either some ways using flaws and
8 vulnerabilities in web browser to foist unwanted things
9 on people's machines, and over the next 12 to 24 months,
10 that is actually going to drop off precipitously. New
11 technologies, web browsers like Fire Fox 2.0, Internet
12 Explorer 7.0, Vista, Advisory Services Online now, the
13 search engines are starting to filter out some of the
14 bad web sites from their search results. All of that is
15 going to drop off the level of these drive-by installs
16 that have really plagued the Internet over the course of
17 the last five or six years, so that's the good news, not
18 the only good news, but the good news.

19 Nonetheless, I want you to think of sort of the
20 Internet landscape as a big chess board, and you have
21 the black pieces and the white pieces, the black being
22 the bad guys and the white pieces being the good guys as
23 tradition, so as the black moves their piece, the white
24 counters, and then the black moves to the next
25 advantageous square.

1 So what we're seeing is that as that vector
2 stops, where will they go? And as we look at our threat
3 modeling and the kind of early kind of indication of
4 what's happening, Instant Messaging is the logical next
5 step, so you'll look at increasing usage. In China
6 alone there's 800 million registered Instant Messaging
7 users. That's massive. If you look at youth who are
8 using it, it's very prevalent among teens. It's being
9 used more and more in the workplace by 30 percent of
10 people who work inside a large organization. It's
11 increasingly being used to transfer executable content,
12 videos, pictures and so on.

13 It's also increasing on mobile devices as well.
14 It's still not very good, but it's there. You have your
15 buddy list which is tailor made. If you hack into
16 someone's machine or programmatically through a worm,
17 you have that buddy list sitting there. You can grab
18 that and make it look like it came from a friend,
19 someone you trust, so it's kind of tailor made for
20 hacking, much in the same way Email was awhile back in
21 the wooly days of I love you, Melissa worm and all that
22 stuff.

23 So you have a lot of things which set IM up
24 really to be the next ground for attack, and on top of
25 that, we have a good thing here. As mentioned before,

1 technology isn't good or bad most of the time. It just
2 is. On compatibility that there is, between the
3 networks it's dropping, so now Yahoo and MSN are talking
4 which is fantastic, but what happened before is when you
5 had a threat, when you a worm that would rip through
6 Yahoo, well, it couldn't get over to MSN because the two
7 networks weren't linked up.

8 All of a sudden the worms can start to bounce
9 from network to network, so it's a good thing in one
10 way, and then on the other side it opens up for a lot
11 more virulent threats in IM space.

12 Also I want to make a mention of peer-to-peer as
13 well, so one of the things we've seen at Symantec is
14 threats are using peer-to-peer to traverse the Internet
15 a bit more and infect people. About 23 percent of the
16 thefts for the first half of 2006 could use peer-to-peer
17 to circulate. That's an increase from about 14 percent
18 from the latter half of 2005, so that's happening, and
19 as we look out, Vista will be shipped with the plumbing
20 for peer-to-peer in it, so some of the future that Dana
21 was pointing out and some of the things we're seeing, I
22 think the story is kind of far from over when it comes
23 to peer-to-peer, file sharing and so on.

24 So let's look a little bit at conversion, and I
25 do think it's a little further ahead of anything that's

1 happening around us, but having said that, I would still
2 rather jog home to LA then try to buy something with my
3 Trio. It's just too painful. It's just painful. It's
4 not good for web browsing yet, and I happen to think
5 it's a great device. It's just not quite all there yet,
6 so instead we can use IM on the phone, use it as a
7 payment, as a wallet as they do in Japan, use it to view
8 TV programs, use office productivity applications off of
9 it, I would say that convergence isn't quiet right here
10 yet or it's not to the point where my grandmother in
11 Toledo, Ohio, who is an avid online user, loves her
12 online canasta, she can't use it. If I have to upgrade
13 my firmware, she's not ready.

14 So as was mentioned before, typically the only
15 devices we use, as a matter of fact 2.5 billion people I
16 think was the stat from earlier today, they're using
17 hand-held devices, phones. There's a lot more chance
18 that people are going to be accessing the Internet
19 through the devices than they are through a PC or a
20 kiosk, you name it.

21 So one of the things I want to point out is the
22 bandwidth is rapidly expanding. That plus costs are
23 going down, and online services keep getting better and
24 better, so take a look out there at mapping applications
25 and what we have today, whether you use Google, whether

1 you use the new Microsoft service, it is light years
2 past what we had when MapQuest first came out, so you
3 look at that and Ajax and other web technology, YouTube,
4 Flickr. All these things are really starting to feel
5 like genuine applications, like we used to have on our
6 desktop, and that's pretty exciting.

7 MR. ARLEN: Are you looking including MapQuest
8 and kind of Web 2.0 service in that as well?

9 MR. COLE: Exactly, absolutely. All these
10 applications or a lot of the technology that used to use
11 servers is coming down to the client side so now it
12 feels like a really full loaded application. You throw
13 into that a brand new bubble that brand new Web 2.0, the
14 pioneering spurts competition. You have some serious
15 applications. You have fast bandwidth devices from
16 anyone accessing this stuff, so what does that mean for
17 the threat space?

18 Well, a lot of people have been saying, Oh, dear
19 God, our house is all Interneted up, and so we're going

1 are of threats circulating through the web space.

2 As a matter of fact, we saw one of the first

1 they have to pay them to fix them.

2 So this is really where we see a lot of the
3 activity going is not so much exploiting technology but
4 exploiting people, s use of technology and exploiting
5 perhaps their lack of understanding of the Internet,
6 commerce on the Internet.

7 So I, m going to wrap up by talking about one
8 thing which I think is a wild card which I haven, t heard
9 a lot of talk about today, and that, s the kind of the
10 exciting arena of virtual worlds, it, s sometimes called
11 massively and multi online games and massively and multi
12 online role playing games, war peps. They, re a bit of a
13 wild card because they, re not so much games, but they, re
14 really 3 D web browsers in some ways. They, re
15 interactive communities and they, re just starting to
16 take off.

17 Look at Second Life. Second Life is one of the
18 most popular today. It, s expanded its population at 35
19 percent month over month. Annually, 978 percent per
20 annual. That, s about a thousand percent per year.
21 That, s staggering and great business for Linden Labs I, m
22 sure.

23 If you try and dismiss this as sort of a niche
24 for the hopelessly nerdy and socially inept, the reality
25 is that the vast majority that are typically using this,

1 the median age is 32, and these aren't terribly socially
2 inept people. These aren't kids. These are adults who
3 are interacting socially. Some part are kids, but kids
4 stay on the teen grid and there's an adult grid and so
5 on, but these are services that are being used by normal
6 people many times.

7 The most popular activities here aren't slaying
8 dragons or trying to find the mystical pot of gold too.
9 It's building things. It's solving puzzles together
10 which is teaching. It's strategizing and it's
11 interacting, so we've really only begun to scratch the
12 surface of the safety, security, privacy issues of
13 virtual worlds.

14 And you have to consider as well -- one thing
15 here is that there's real economies going on here, so in
16 the Second Life one of the very innovative things is you
17 build something in Second Life, you own it. It's your
18 intellectual property, so that the actual economy of
19 Second Life is growing about 15 percent month over
20 month, and that's about 270 percent annually. You can
21 also buy a brand new Toyota car in Second Life for no
22 more than \$2. No matter how good you are at the

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1 most of them in the Bay area who are developing these
2 kind of campaigns for them and so on.

3 MR. ARLEN: When you were the greeter, I
4 mentioned that the games environment overall was growing
5 at a pace that puts it beyond the Hollywood environment
6 on some growth curve, and of course the immersive kind
7 of participatory games with the technology to assert
8 yourself, your face, your life, your holdings, your
9 company into where it offer tremendous opportunities and
10 a few risks and threats passed along the way.

11 MR. COLE: Absolutely.

12 MR. ARLEN: Before I turn to questions that I
13 want to ask, I want to remind you and welcome your
14 questions, there's a form to fill out in your kit or
15 take a piece of paper and just jot down a question if
16 you have it for Dana, Ari or Dave, and send it on up
17 here. We'll try to have a few minutes for your
18 questions in this session.

19 While you're writing those down, and I think
20 Katie is out there somewhere to set up a team to collect
21 those questions later, if you have any and you want to
22 send them up here.

23 I just want to say you've all mentioned issues
24 of records, someone keeps the records, and I alluded to
25 in my opening remarks of the divestiture of the old

1 telephone companies, now that you have two major
2 companies for wired and then three or four with
3 wireless, but some of those are going to consolidate.
4 It seems that those records are being kept both for
5 business purposes and potentially for criminal
6 investigations in a very concise number of players.

7 Of course the ISPs, the cable companies as they
8 become multiple media carriers as well, what do you see
9 the issue of who holds the records? And, Ari, you
10 mentioned VOIP and some of the issues associated with
11 that.

12 What are the big issues and even the minute
13 issues that you're going to look at on keeping security
14 and privacy in this kind of a consolidated environment?

15 MS. LESEMANN: Well, I think there are several
16 different issues. One is how long are you going to keep
17 the records? How are you going to make sure that their
18 privacy issues -- do you want to be keeping a large
19 amount of data? There's a huge amounts of data. Do we
20 as a public policy matter want to keep large amounts of
21 data? If you're having large amounts of data, are you
22 going to be able to keep that safe?

23 MR. ARLEN: You have questions. Do you have
24 answers?

25 MS. LESEMANN: Well, let me layout the questions

1 first. How are you going to keep that safe? You have
2 data intrusions, data breaches for all different levels.
3 There's insiders hackers, just negligent thefts. Then
4 there's: What do you for law enforcement? What's your
5 law enforcement -- what should law enforcement be
6 allowed to have? Should CALEA, the assistant law
7 enforcement -- what does that stand for, Communications
8 Assistant For Law Enforcement Act? Should it be amended
9 for the Internet and how? What should be done? What
10 should they -- what should AOL should be -- how long
11 should AOL be required to keep information?

12 Do they only keep information for a very short
13 period of time? If you ask AOL for something that
14 happened a year ago, they'll laugh. They have records
15 going back for a very short period of time, and it's
16 already at warehouses. If you ask them to keep it for a
17 little bit longer, they'll laugh and say that that is
18 just a huge amount of intrusion on to their business
19 practices that they couldn't possibly do it.

20 Those are just the things that I thought just
21 sitting here spinning them off the top of my head.

22 MR. SCHWARTZ: I'm actually going to take a
23 slightly -- the same question a slightly different
24 direction. We've seen a real change in the way that we
25 think about transaction information, and several years

1 ago when we talked about privacy bills --

2 MR. ARLEN: When you say transactional
3 information, do you mean as call launched or actual
4 financial --

5 MR. SCHWARTZ: It can be location information.
6 They can be the logs themselves, and I'll get to an
7 example and give a little more detail, but several years
8 ago there was the privacy bill that we would see would
9 all have personal -- a description of personally
10 identifiable information, and that idea of personally
11 identifiable information used to mean -- was more
12 focused on name, address, Social Security number,
13 specific identifiers in that area.

14 Now we're seeing, because people are more
15 concerned about anything that can be related or anything
16 that can possibly identify an individual, so you have
17 the AOL case where you have people putting out search
18 terms, their search terms that are listed, there's
19 not -- their IP address wasn't listed, their cookie
20 information wasn't available, but the New York Times was
21 able to go through it to get all these records together
22 and figure who an individual was whose information was
23 involved here.

24 And I think that that idea sort of is starting
25 to percolate out there, that this transactional

1 information can be used in these other ways, so now you
 2 have a definition, and a bill that's in front of
 3 Congress today that passed the House that has a
 4 definition of sensitive personal information which is
 5 anything that can be used to identify an individual, not
 6 that it is being used that way but it can be used that
 7 way.

8 MS. LESEMANN: Very broad definition.

9 MR. SCHWARTZ: This is government information on
 10 the government side, but we're starting to discuss this, but we

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1 that to take in money and that person disappears.

2 MR. ARLEN: It isn't taken from someone else's
3 data?

4 MS. LESEMANN: No.

5 MR. SCHWARTZ: It's creating a new person,
6 someone that doesn't exist.

7 MR. ARLEN: Is it common yet?

8 MR. SCHWARTZ: I think in certain circumstances,
9 in the auction world you have people that create
10 identities in order to build up auctions and rip people
11 off in that way, and it's becoming more common in the
12 identity theft cases as well, but I think still the
13 biggest threats is still on account takeover.

14 I think that there have been two articles
15 viewing the future which has completely frightened me in
16 the past few months, the first one being this Etrade
17 case, and I'm sure Dave knows about this too, where they
18 are basically using penny stocks and using spyware to go
19 into people's accounts, infiltrate their accounts, and
20 taking over accounts and buying paper accounts, selling
21 off their own stock, transferring it into enough banks,
22 and then leaving the person with the Etrade account with
23 worthless stock.

24 Supposedly in eastern Europe, the criminals were
25 in eastern Europe and in Thailand, and they made over

1 \$20 million doing this infiltrating brokerages, that's
2 number 1.

3 And the scary thing -- number 2 scary thing is
4 the ID theft cases that are tied to crystal meth and
5 using actually people's mail. They have bills, taking
6 them out of the mailbox, taking that information and
7 committing identify theft through war driving, which was
8 today talked about, finding a hot spot and then they
9 can't be traced back.

10 MR. ARLEN: You're from a technology company.
11 Will technology find solutions as you said to resolve
12 some of these issues? There's a lot of new tools coming
13 along, and is it tough to get into the market? The
14 advertisers have certain goals, for example, they would
15 like to accomplish, and some of your tools sort of put a
16 limit on how they can -- sometimes put a limit on how
17 they get their messages out.

18 MR. COLE: It's certainly a lot different than
19 it used to be. When they're saying they're finding
20 malware, or Trojans or viruses, they guy who created
21 them, the worm, doesn't call you up and say, It's not
22 really a worm, it's a Trojan horse actually. It just
23 doesn't happen, but certainly in the world where I am
24 now, a lot of where it shifts now -- as I mentioned a
25 lot of the attacks are more psychologically based. A

1 lot of world shifts to helping people make good
2 decisions.

3 MR. ARLEN: Helping consumers or vendors who
4 want to get a legitimate message out?

5 MR. COLE: Primarily consumers. That's the
6 target. However, having said that, we end up doing a
7 little bit of both, so organizations that approach us
8 and say, well you're calling us adware, you're calling
9 us spyware, why are you calling us that, it's our
10 obligation to say that, Look, we analyzed the program on
11 this thing and we analyzed everyone else's, we look at
12 these five or ten criteria, and we rated you objectively
13 using these things, and it's not too hard to connect the
14 dots and say, okay, if I want to be lower risk, if I
15 don't want to be this, then I can go and change my
16 program and offer a better user experience and improve
17 what I am doing.

18 So we sort of implicitly by doing this, by
19 helping consumers sort of implicitly help these folks
20 along, but our first intention is protect customers and
21 give them a choice.

22 MS. LESEMANN: I want to bring up something you
23 said about, you're all talking about Instant Messaging
24 and everybody has this. I think we all agree that
25 Instant Messaging is going to be a wave of the future.

1 complainant and he had had this ongoing Instant
2 Messaging conversation, and she said that -- he said
3 that she invited him up. He said that he didn't, and we
4 didn't find that actual conversation, but we found
5 fragments of conversations in what's called the
6 unallocated space which is saved to memory.

7 So one of the things that as we go forward, even
8 if people use Instant Messaging and even if someone does
9 not record it because we can set your computer to record
10 AOL Instant Messaging, although the default isn't there,
11 there are forensic tools that allow forensic examiners
12 to go forth and find fragments of messages in the
13 unallocated space.

14 So even with people, it's like previous tools
15 where people who were -- the criminals would go, Ah-Ha,
16 they can't use this, they don't know how to do this.
17 I'll use this, so it's not that simple.

18 MR. ARLEN: I have lots more questions to ask
19 you, but I know we're running out of time, so I'm going
20 to turn it back to Katie and ask the audience to join me
21 in thanking the panel for a really great discussion.

22 (Applause.)

23 MS. HARRINGTON-MCBRIDE: Thank you, Gary, and
24 all of you panelists. We thank the millennia too if
25 they're still here in the audience.

1 We thought we would take a minute while we, re
2 changing sessions. We, ve asked now the millennias to
3 tell us how they think we, ll communicate in the next
4 decade, and we, ve asked these experts, and now we, re
5 going to take a minute and ask you with this polling
6 question.

7 (Pause in the proceedings.)

8 MS. HARRINGTON MCBRIDE: The audience has spoken
9 thank. Thank you all very much. We, re going to take a
10 15 minute break and avail yourself. I think there was a
11 long line at lunchtime, but go over to the Tech
12 Pavilion. We have some additional refreshments there.
13 Thanks.

14 (A brief recess was taken.)

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1 PANEL 4: SOCIAL NETWORKING, TRENDS AND IMPLICATIONS FOR
2 THE FUTURE:

3 OPENING REMARKS: COMMISSIONER PAMELA JONES HARBOUR

4 MODERATOR: TIM LORDAN, Executive Director and Counsel,
5 Internet Education Foundation

6 PRESENTERS:

7 BENJAMIN SUN, President and Chief Executive Officer,
8 Community Connect

9 CHRIS KELLY, Vice President of Corporate Development and
10 Chief Privacy Officer, Facebook

11 HEMANSHU NIGAM, Chief Security officer, Fox Interactive
12 Media

13 ANDREW WEINREICH, Chief Executive Officer, MeetMoi, LLC

14 DISCUSSANTS:

15 ANNE COLLIER, President and Editor, Net Family News

16 DANA BOYD, School of Information, University of
17 California, Berkeley

18

19 MR. LORDAN: We'll get started in a few seconds.
20 Take your seats please. Welcome, and if we could close
21 those doors in the back, that would be great. We have a
22 lot to move through in this particular panel so, if I
23 can ask you to take your seats.

24 This is the three o'clock panel on social
25 networking, trends and implications for the future.

1 This topic has received an enormous amount of attention
2 over the past 12 to 16 months in the city of Washington,
3 and I, m really pleased that it, s been incorporated into
4 this particular panel.

5 As you ve seen throughout the day, a lot of the
6 conversation with regard to the future is coming back to
7 this concept of community and social networking, so we
8 have a fantastic panel here for you today, and I will
9 introduce them in turn in just one moment, but before we
10 do, we re going to hear from Commissioner Pamela Jones
11 Harbour who has been a Commissioner at the Federal Trade
12 Commission since August of 2003.

13 The Commissioner joined the Federal Trade
14 Commission from Kaye Scholer, LLP, where she handled
15 antitrust and other ECommerce issues and consumer
16 protection issue. Before that, the Commissioner was the
17 State Deputy Attorney General and chief of the public
18 advocacy division in New York. She received her law
19 degree from Indiana University of school of law, and
20 interestingly, she has a B.M., from Indiana School of
21 Music, so Commissioner Harbour?

22 (Applause.)

23 COMMISSIONER HARBOUR: Thank you very much, Tim.
24 I, ve been sitting here all morning, and I hope you re
25 finding these hearings as fascinating, as interesting

1 and as informative as I am.

2 Now, during the public hearings on technology
3 and consumer protection, we have heard and we will hear
4 from many of the leaders in this high tech area, and I
5 am really delighted to be a part of this important
6 discussion.

7 Today, I am pleased to offer my thoughts and
8 suggestions on social networking, trends and
9 implications for the future, and before I begin, let me
10 issue the usual disclaimer that my views and my video at
11 the end are my own and do not necessarily reflect those
12 of the Federal Trade Commission or any individual
13 Commissioner.

14 Now, the theme running through these hearings is
15 that as technology evolves, it constantly changes how
16 industry communicates with consumers and how consumers
17 communicate with each other, and this is certainly true
18 for social networking.

19 For most of the last century, the telephone, of
20 course, was the primary technology consumers used to
21 communicate with each other. In the , 80s and , 90s this
22 trend began to shift. The Internet vastly has expanded
23 options for advertisers, for marketing and
24 communicating, including as we know Email, personal web
25 pages, chat rooms and Instant Messaging, and as we all

1 now there are the social networking sites. These sites
2 provide templates for multifaceted and interactive
3 online communications.

4 Typically a user's web page serves as a multi
5 media profile and personal E-journal, with opportunities
6 for other users to interact, and some of us from the pre
7 Internet age may find this evolution somewhat daunting,
8 but for our children, the Internet and particularly
9 social networking sites are second nature.

10 In fact, nine of the ten most popular sites
11 among 12 to 17 year olds this past August were social
12 networking sites or sites that provided related tools or
13 content. Social networking sites have a lot to offer
14 our teens and tweens, from building online
15 communications and social relationships to providing a
16 means for self expression and exposure to new ideas.
17 Social networking offers teens and tweens a desired
18 means of communication and a sense of community, but
19 like other online activities, it can pose at times
20 serious risks.

1 risks.

2 At the Federal Trade Commission we are committed
3 to helping create a safer online experience for
4 children, and for the remaining of my time up here, I
5 want to talk about our efforts to help protect children
6 through consumer education and through targeted law
7 enforcement, and I would like to discuss the need for
8 parents, children and industry to take appropriate steps
9 as well. If we are all vigilant, I believe our
10 involvement will go a long way toward making the
11 Internet a safer place for our children.

12 I also believe that part of the responsibility
13 for protecting children, teens and tweens lies with the
14 children themselves, and with their parents, and Anne
15 Collier, one of our speakers today, has aptly written
16 that children are the social networking commuter, and
17 that parents are the tourists.

18 If this is true, then parents should ask their
19 children to give them a tour of the sites that interest
20 them, and I also believe parents must become conversant,
21 if not fluent, with the online activities popular with
22 their children, and then parents can help their children
23 learn healthy online behaviors. As in the offline
24 world, we can lessen online risks by learning how to
25 protect ourselves.

1 Now, two good starting pointing for parents and
2 their children are the FTC brochures. The first is
3 "Social Networking Sites, a Parents, s Guide," and the
4 second is "Safety Tips For Tweens and Teens."

5 They describe, in user friendly terms, what
6 social networking sites are, their risks and how to
7 learn more, and I want to note that the tips, while
8 nominally directed to youths, can also contain some
9 common sense advice that apply to all of us. The tips
10 counsel social network users to think about how a site
11 works before joining or posting personal information.

12 For example, some sites contain closed
13 communities of users based on perhaps a school or an
14 employer, and it has been reported that fewer teens make
15 contact with strangers on these closed community sites.
16 Other sites let all or every viewer users use
17 information. For example, these sites, our tips remind
18 us to activate the site, s privacy settings. The
19 Commission tips also highlight the many consequences of
20 sharing information with the wrong people.

21 Some information can be used to locate users
22 offline or facilitate identify theft, and schools and
23 employers may even search online for compromising
24 information about their applicants, and once any of this
25 information is online, it may be impossible to remove

1 it, and finally, the tips drive home that flirting with
2 or agreeing to meet online friends appointments its own
3 set of risks.

4 Consumers can obtain the Commission's parents's
5 guide and safety tips on our FTC.gov web site, I'll put
6 in a plug for that, or by calling our toll-free number,
7 and we also feature these materials at our
8 onbuyeronline.gov. That is an interactive site for
9 consumers to learn more about high technology issues.
10 In addition, I am encouraged that many social networking
11 sites popular with teens now link to our Federal Trade
12 Commission materials.

13 Along with consumer education, the FTC uses
14 targeted law enforcement to achieve our objectives. The
15 Children's Online Privacy Protection Act, or COPPA,
16 applies to web sites directed to children under the age
17 of 13. It also applies to other sites with actual
18 knowledge that they are collecting personal information
19 from children under 13, and a social networking site cann110Ttl rn

1 parents before collecting the information, and they must
2 protect the information that they collect.

3 On September 7 of this year we filed our most
4 recent COPPA case against the social networking site
5 Zanga.com, not to be confused with Zango that
6 Commissioner Leibowit spoke about earlier, and in our
7 complaint, we allege that Zanga collected and disclosed
8 personal information from more than one million
9 children, and to settle our charges, Zanga is paying
10 civil penalties to the tune of \$1-million.

11 Looking ahead, as several Congressional hearings
12 have made clear, parents, children, industry and
13 government have a shared interest and a shared
14 responsibility in creating a safe and secure online
15 environment.

16 One possible solution that has been raised would
17 be for sites to verify the age of their users and
18 provide age appropriate protections for minors.
19 Although some members of industry have claimed that age
20 verification mechanisms from minors are impractical or
21 even impossible, I am heartened to learn that some
22 groups already are developing these mechanisms.

23 Another possibility though might be for sites to
24 provide users with an easy means to, for example, report
25 sexual exploitation or other online abuse. Some sites

1 now offer a link to users for them to report such abuse,
2 but the links all look different on different sites, and
3 this could lead to different results.

4 Perhaps sites could agree to use a common
5 recognizable icon such as the one being used by the
6 Virtual Global Task Force. The icon could link to the
7 task force or another central resource such as the
8 National Center For Missing and Exploited Children.

9 Whether by these means or by other means, I hope
10 that the momentum continues to build so that industry
11 develops and implements best practices as quickly as
12 possible, and at this time, before I close, I would like
13 to share with you a very powerful public service
14 announcement produced by the Virtual Global Task Force,
15 which is a worldwide partnership of law enforcement
16 agencies that fights online child abuse.

17 I believe this PSA brings home the importance of
18 there issue.

19 (Whereupon, the video was shown to the audience
20 but not transcribed.)

21 COMMISSIONER HARBOUR: As you can see, we all
22 have a clear incentive to make the Internet a safe place
23 for young people to learn, connect and express
24 themselves. The FTC is committed to continuing this
25 important work. Thank you.

1 (Applause.)

2 MR. LORDAN: Thank you very much, Commissioner.
3 We have a lot to get through so we want to move very
4 quickly, and thank you to the Commissioner for setting
5 up some of the issues that we're going to be looking at
6 today, not all of them but certainly most of them.

7 With regard to that, before I get going, let me
8 introduce myself. My name is Tim Lordan. I'm the
9 executive director of the Internet Education Foundation.
10 We do policy making and public education on Internet
11 policy and technology, and I'm happy to be here.

12 My views on this particular panel are
13 immaterial. I will kind of ask a few questions as
14 devil's advocate. Please don't interfere that I have
15 any axes to grind or I'm trying to express my own
16 personal views because I really am not, but before we go
17 into the rest of the panel, I'm going to cue up another
18 video, people on the street type video, Jay Leno type
19 street walking video, so if we can show that real
20 quickly.

21 (Whereupon, the video was played for the
22 audience, but not transcribed.)

23 MR. LORDAN: Interesting. Well, let me just go
24 through the first panelists, and we have two discussants
25 as well. Let me introduce the panelists all at once.

1 Ben Sun is the CEO of Community Connect. Actually one
2 of the sites, Black Planet, was mentioned in one of the
3 user interviews. You may want to explore the
4 revolutionary reenactment of social networking sites.
5 In addition to Blackplanet.com, Community Connect also
6 has Asianavenue.com and Magenti, which is actually one
7 of the most popular Hispanic web sites out there.
8 Before Community Connect, Mr. Sun worked for Merrill
9 Lynch.

10 Then to my left is Chris Kelly, who is the chief
11 privacy officer for Facebook. Chris was the founder of
12 the Berkeley Center at Howard University.

13 Next to Chris is Heman Nigam from Fox
14 Interactive Media, which is the parent company of
15 MySpace. Heman has been around a lot of different
16 places, just recently at Microsoft's security and safety
17 division, and also before that with the Department of
18 Justice and the Motion Picture Association.

19 Then Andrew Weinrich, he's CEO of a mobile
20 dating company, MeetMoi, if I pronounced that correctly,
21 which I hope I did. The interesting thing with Andrew
22 is that he's in many ways maybe one of the fathers of
23 the social networking phenomena, having created back in
24 1996 Sixdegrees.com.

25 So if I can just go to Ben for five minutes, and

1 then the other folks have a quick PowerPoint so you can
2 see what those sites are like. Ben, can you tell us a
3 little bit about the site, and the most important thing
4 of social networking coming up in the next three to ten
5 years?

6 MR. SUN: Sure, absolutely. It's been kind of a
7 long history, as Andrew and I have been in this business
8 for awhile. I started Community Connect about ten years
9 ago. In my prior life, I was an investment banker for
10 Merrill Lynch and was working on a deal with a company
11 that had an online comment for a people with a shared
12 kind of music and music interests, and this is back in
13 1995, 1996 when I was working with this company. I
14 created a profiling site and put that, like U2 as a
15 band, and then suddenly all these other users from
16 around the country started contacting me about, What's
17 your favorite album or favorite song, are you going to
18 see the concert?

19 And so kind of to go back in time a little bit,
20 this is like ten years ago when I just probably started
21 using Email, so the fact that these complete strangers
22 with a common interest contacted me trying to build
23 relationships I thought was just an amazing, amazing
24 experience, and as part of working with that company, I
25 was completely blown away by the concept of online

1 community, both being someone that, s Asian American that
2 grew up in New York, it kind of pu led me that no one
3 was taking such a powerful application and really
4 targeting what I considered the most powerful of real
5 world communities.

6 So we started Community Connect out of my
7 apartment, launched AsianAvenue back in 1997, which is a
8 site targeted towards Asian Americans like myself, and
9 completely bootstrapped it, and the site just started
10 just kind of growing and growing and all through word of
11 mouth, and we were doing more traffic than what at that
12 time what companies that did \$10 million to \$15 million
13 would do.

14 And it was interesting kind of experience in the
15 early days where I was out there as a former investment
16 banker trying to raise money and constantly battled this
17 opportunity to raise money back in the early days, and
18 really the issue was people were excited about the
19 Internet. Some people sort of understood online
20 community, but the bigger issue back then happened to be
21 that when we talked about our business model of actually
22 launching a site targeting African Americans and
23 Latinos, the constant question was, Black people online,
24 and they were completely pu led. They were like, Black
25 people aren't online, that, s cra y.

1 And they used to me and say, You left your
2 moonboots back in the space ship, when we used to tell
3 them that we did think African Americans and Latinos
4 were going to be online as well as the masses, and an
5 online community was going to be a very, very big factor
6 in that.

1 worked there for 40 years until I became vice chairman,
2 and I base my success on being a good people person,
3 like I feel like I really understand people, and he said
4 what you're doing is really easy, you're just taking what
5 happens in the real world and transposing it online, and
6 basically he distilled our whole business down to that
7 one sentence.

8 MR. LORDAN: Ben, with the remaining minute,
Drc5pid bua i one eth g ig doinge doni8sA chairman,

1 terms of its evolution sites, and you're going to see
2 sites like us, Facebook and MySpace go after these
3 audiences, segment them, target their needs as
4 individual real world communities and provide an
5 experience that's going to improve their lives.

6 MR. LORDAN: While Chris Kelly gets to the
7 microphone, we're going to take one second. You have
8 all your handsets. The polling thing is right to your
9 left or your right, on the floor. We're going to do a
10 quick poll while Chris gets ready, and we have a poll
11 today for you, and before you answer, let me just
12 explain the poll I think is displayed on the screen
13 here, and it's "how many social networking sites have
14 you participated in?"

15 And when we say -- you know I can't throw a
16 brick into this audience without hitting a lawyer, so
17 I'll define the term. By social networking sites, we
18 don't mean the definition that's in the DOPA legislation
19 which is chat, IM, Instant Messaging, everything. We
20 also I think -- let's just not worry about LinkedIn and
21 some of those professional networking sites that are
22 LinkedIn. Don't include that, but just like the social networking
23 sites represented up here and the ones you've heard
24 maybe even from the revolutionary reenactment social
25 networking sites, that would be great.

1 So if you can press the number. I guess the
2 first one is more than 3. The second one is 1 to 3 and
3 the third one is none. We'll just wait six, five, no
4 pressure, three, two, one, and so that looks like almost
5 60 percent don't. That's telling. 35 percent, 1 to 3,
6 which is really encouraging, and there's a very small
7 class of users that actually use three or more social
8 networking sites which could be users on steroids.

9 MR. KELLY: That looks like a fertile
10 marketplace.

11 MR. LORDAN: Chris?

12 MR. KELLY: So with that, if we could bring up
13 the slides, but before I get into the slides, I want to
14 sort of take a minute to echo Benjamin's view that this
15 is ultimately about connecting people in real world
16 communities, and there are a variety of key insights
17 that have helped drive Facebook to where it is with over
18 11 million members with sort of well on the way to a
19 billion photographs connected to an underlying social
20 network. We're now the busiest photo site on the web.

21 But there's also a key insight that drives our
22 business that differentiates us from most other networks
23 and that's in the access to information the, average
24 user on Facebook only has access to about half a percent
25 of the profiles on Facebook. It's not a site where you

1 go to broadcast reviews on everything, on yourself, et
2 cetera are, everybody on the Internet.

3 We will pursue a number of different strategies
4 that allow people to connect in the communities that
5 they're already in, and on mas you saw in the video, a
6 lot of concerns about whether people are providing
7 accurate information and usually providing accurate
8 information. We found by limiting and by basing things
9 on trust and on communities that people are already in,
10 we foster that sense of trust and it leads to more
11 accurate information over time.

12 Let's talk about what's important to Facebook.
13 We see ourselves as a social utility that allows people
14 to share information within their real world community,
15 and I say community there, but I should really say
16 communities. You can be members of multiple communities
17 on Facebook. That's important to us.

18 So the keys are user control. People should
19 have control over their information. When you put
20 something up there, you shouldn't lose control of it, so
21 we don't allow, for instance, several engine filing of
22 the profiles on the site. If we do allow search engine
23 access, it would be on a very limited basis, and users
24 will have complete control over that.

25 There's authenticity. We want people to act as

1 themselves, and we want, accessibility. We want to be
2 available anywhere that people are, to know about what, s
3 going in the world around them so the mission that we
4 have is to provide people with the information with the
5 matters to them the most about the communities that
6 they, re in, about their friends.

7 So we offer four levels of protection for users
8 on our network. We have authentication. We want to
9 really promote -- even though we, re now allowing
10 regional registration, there are a variety of
11 protections in place, whether it, s authentication
12 through mobile phones or through use of what we call
13 capture that allows you only to message people after you
14 enter in a string of characters that are displayed in
15 graphics so that you can, t be a bot, spamming people on
16 our site for instance. We think that that, s very
17 important to have valid profiles and to push people into
18 networks where they are authenticated by others.

19 This retains social norms. It avoids the
20 problems of anonymity that you see on many sites and as
21 you, ve seen for years on the chatrooms on the Internet,
22 for instance. We have segmented communities, and this
23 validation, if you don, t -- if you aren, t a member of a
24 community, in a high school or a college, et cetera, you
25 don, t get access to the profiles in that community

1 unless somebody confirms you as a friend.

2 That authentication model is a critical part of

3 making Facebook the way that it is, and 60 percent of

1 photos, et cetera, we want, people to know about it.

2 So we're trying to make the information flow
3 more efficient but still based on the network. We have
4 a new tool that we launched called Shared that allows
5 you to send media around to sites other than Facebook,
6 to your Facebook friends. That's designed to improve
7 the information flow in your community. We always want
8 to be improving our tools, making them more safe.

9 We have a variety of behind the scenes measures
10 that also anomalous use or a potential anomalous use of
11 the site so that we can highlight if there's a potential
12 problem, while protecting user privacy and security, and
13 the safety of our users online, particularly for our
14 younger users, and overall, though, we want to use the
15 power of technology to improve human interaction.

16 We want to provide the information that matters
17 most to you about your friends and the people in the
18 world around you, and that's what's animating the
19 changes that we make on the Facebook site, so if there's
20 one thing that you take away, it's the access and
21 control features that Facebook offers that we think have
22 made it a dedicated and growing -- has given us a
23 dedicated and growing user base.

24 MR. LORDAN: Thanks, Chris. Heman from Fox
25 Interactive Media, which again is the parent of

1 And I think Danah and Anne are going to be
2 talking more about this, but one of the things that
3 people wonders is, Why is everybody going on this social
4 networking sites; why are people so excited about it?
5 And I think the simple way to look at it is the circular

1 I wanted to highlight that there is classified. There, s
2 games. There, s movies. There, s independent films.
3 There, s comedy. There, s things that you do in the
4 physical world all occurring in the online world, and if
5 you look at this diagram, the typical user in our site
6 will do many of those things that they do in the
7 physical world.

8 They will talk to people. They will want to
9 know of events or parties that are going on. They will
10 communicate through the mobile site of it. They will
11 look at blogging and groups and things like that, and as
12 they do it amongst their own world, they will also
13 connect it with others who are doing it online as well.

14 So where are we headed with that? I guess I can
15 click again. This I already talked about. Here, s where
16 MySpace was before it was acquired by Fox Interactive
17 Media. It was a site for friends and for bands. Then
18 second stage came in. News Corp Corporation through Fox
19 Interactive Media acquired it, and then as you can see,
20 more things were being added to it and are continuing
21 being added to, and finally I actually left the rest of
22 it blank.

23 I left it blank because as you can see from just
24 the two years, the changes have been so dramatic and so
25 huge, if you want to put it as simply as that, that in

1 a way, is it fair to predict exactly where it is going
2 to be?

3 There is one thing we can say. You heard about
4 technology convergence from a lot of people today. You
5 heard about media convergence today, and I think what
6 you should be seeing in this social networking and what
7 MySpace's vision here is the life-style convergence
8 that's going on between the physical world and the
9 online world. All those things you do in the physical
10 world, you are going to do seamlessly in the online
11 world, and in essence your life-style is converging in
12 the physical and online realm.

13 Now with that becomes issues that arise any time
14 you build a world online. We are one-third the size of
15 the population, if you want to look at it that way.
16 There will be issues. There will be bad actors who will
17 show up, and from our perspective, any time you build
18 anything, whether it's our MySpace house or the other
19 properties that we own at Fox Interactive Media, you
20 must build it on a foundation and a solid foundation of
21 safety and security, and for us that means these
22 different components that I have up here on the house.

23 Technology is number 1. After all, we built the
24 technology. We're focusing heavily on providing safety
25 features into MySpace and MySpace -- or safety into

1 MySpace features. We're doing this in many different
2 fashions, from privacy settings. We're not allowing
3 adults to talk to under 16 people that they don't know.
4 Linking to the FTC site that the Commissioner talked
5 about this morning, also meeting with the FEOP and the
6 Gercher (phonetics) Global Task Force next week to see
7 if we can create some sort of more uniformed linking
8 system for abuse issues.

9 From the guidance and education perspective I
10 wanted to show you slides, but I'm going to show you
11 different things that we have recently created because
12 we think education is key. A lot of people have talked
13 about it. We have a parent's guide and a school guide
14 that we are reaching a quarter million people with, and
15 the and the parents' guide 2,000 parents downloaded from
16 our site, which in itself is telling us that it is
17 reaching people.

18 I'm going to focus on a minute -- actually I'm
19 going to leave that, and instead of going to this slide,
20 I got the one minute remaining now, which means I have
21 45 seconds.

22 MR. LORDAN: He's about to say your time is up.

23 MR. NIGAM: So let me say where are we going to
24 be in a -- what is our vision of safety in the future?
25 There's four important things. One, safety will become

1 I think a part of every single business plan that
 2 anybody develops when they're talking about putting some
 3 bills online. That has to be, and will become a core
 4 part of every business plan out there.

5 Consumers are educated so they will know
 6 innately how to be safer online. That is something I
 7 think we envision. We're seeing it happening today, but
 8 I think as our kids and our 25 and 30 and over go online
 9 more, you're going to see that consumers will have
 10 expectations of safety and security from the businesses
 11 they interact with that are much more clearly defined
 12 than, I'm not quite sure what it is, I'm a little scared
 13 of it. It will be, Have you done, one, two, three and
 14 four and therefore .pgdovevery businact wavehere.

1 5 Aur y dalltodindustrymer will creeducaa are ere.
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2 5 MR. ARLEN:ine. ksl bem they is, sorryhinkill have

1 to be so militant about the time. It's just we want to
2 get to all the speakers and have a bit of a discussion.

3 Andrew, it's great that Andrew has some
4 PowerPoint slides because his mobile dating service has
5 kind of -- you have to kind of see it to believe it.

6 MR. WEINRICH: Excuse me. How many of you were
7 members of Sixdegrees.com? I've got like one person to
8 thank. And one up here, a few up here. Terrific?
9 Hopefully what I can do in five minutes is share with
10 you my perspective on social networking over the past
11 ten years.

12 It was interesting listening to Ben because I
13 had a very similar experience in '95. I went out
14 looking for money for a company called Sixdegrees.com,
15 and the idea was that if I could get people to upload
16 their Rolodexes and to identify who they knew, you could
17 identify the people you didn't know through the people
18 you did know, and I approached some 200 angels in New
19 York, and the responses varied from no, I don't want to
20 invest, to this is the dumbest idea I've ever heard, to
21 you're the dumbest person I've ever heard.

22 But eventually we did get funded, and we did
23 build a site called Sixdegrees.com. In fact one of our
24 backers was News Corp, and over the course of five
25 years, we raised a little over \$125 million and built a

1 3 and a half million member community, and one of the
2 things that was -- what was so fascinating, which I
3 think is relevant here, and I talked about this recently
4 in another talk, was what changed so much between social
5 networking today and social networking then because I
6 can tell you when we launched, I remember we had our
7 launch scheduled for ,96, and we were six months late,
8 and I remember the core team was devastated that by the
9 time we launched, social networking would have launched
10 and been done with. And look where we are today.

11 One of the things that changed was when we had a
12 3 and a half million member community, we had our board
13 together, and we talked about the possibility of
14 offering photos for every single member of the
15 community, but there was a big problem with offering
16 photos for every single member of the community. People
17 didn't have digital cameras in the late ,90s, not like
18 they do today, and I remember we had a meeting where we
19 literally calculated if 3 million people mailed in
20 photographs and we ripped into the envelope -- up the
21 envelope, how long it would take to scan in photos.

22 So fast forward to today. The biggest change in
23 social networking is the fact that everyone has a
24 digital camera, and in large part what is driving a lot
25 of this is not the written word but it's the photograph,

1 and you've heard about that in the Facebook talk.

2 Where's the future? I sold Six Degrees in 2000,
3 was involved in a wireless company and then a technology
4 company that sold technology solutions to put up
5 campaigns for nonprofits, and my entire slide show has
6 just this one slide.

7 Then I started a company called MeetMoi, so
8 here's where I think the future of social networking is,
9 and it's quite clear I think in the mobile arena. I
10 remember when we launched Six Degrees, we made the
11 preposterous claim that people would be spending hours
12 at night in front of the computer. People thought that
13 will never happen, and now people are saying people were
14 going to import that time from the computer to the
15 mobile device, and 15 ie I t aksnputer .1 the
16/omve0r comp(d 15 ie I t aksnphis o(w,)TjT(e I.2, wilio
So ato iprofivf houghcruuamd a 19from the c(ns, wperahe ity e Io ato

1 network operators have extended their billing platform
2 to companies, and just recently, relatively recently are
3 the carriers interoperable, and when I say recently, my
4 time frame is much broader because I'm thinking in terms
5 of the ten-year time frame.

6 I'm going to skip through some of this stuff and
7 cut right to MeetMoi, which our goal is to have the
8 largest global community, and that means a paradigm
9 shift in space and time. We can talk about why it
10 hasn't gone mobile sooner, if we had the time.

11 Let me tell you the way MeetMoi works is you
12 register for MeetMoi. You can register either on the
13 web or you can register over your phone, and when you're
14 done registering -- and by the way, we do require that
15 you're over 18, we validate that in fact you're the
16 owner of your phone and that provides us some additional
17 security because we can validate -- if we validate you
18 own the phone, you can't create a fictitious based
19 Email.

20 And really what happens is you have the
21 ability, if you want to date, to text us where you are,
22 and we have an algorithm of maps where other people are
23 that are around you, and we will broadcast your profile
24 to them, theirs back to you, and we allow you to chat
25 over the infrastructure of MeetMoi maintaining the

1 confidentiality, maintaining the identity of each
2 individual. Their phone number, Email address, we
3 maintain that apart from them so that, s anonymous to
4 them, but it, s known us until they choose to reveal it
5 to each other.

6 And I think this is fairly interesting too. One
7 of the things that we spent a great deal of time on
8 in , 96 with Six Degrees was making sure we weren, t
9 invents new social behaviors, so the idea was study it
10 before doing offline and replicate it online, and today
11 in the mobile world, the challenge is really the same.
12 Studying what people did offline, study what they, re
13 doing online and figure out how to replicate that in the
14 mobile world.

15 So that, s the end of my time but thank you.

16 MR. LORDAN: Thanks, Andrew. We, re fortunate
17 today to have the two discussants for us who are Danah
18 Boyd from the University of California Berkeley. Danah
19 is a researcher at the University of Southern
20 California, Annenberg Center, and she, s also a social
21 mediator researcher at Yahoo.

22 We, re thrilled to have Danah here as well as
23 Anne Collier here who is, probably over the past ten
24 years, the most prolific, engaged, responsible child
25 safety and parental advocate out there that I, ve seen.

1 in strangers.

2 And so, for example, a lot of what Andrew was
3 talking about is very, very important because if you
4 want to date people you don't know, the mobile world is
5 fantastic for that. The elder population is engaging in
6 an entirely different way, although it's often read with
7 the same terms.

8 Most of the teens and kids in particular go on
9 these sites to hang out with their friends. They do so
10 because this is a type of public life that they have.
11 There's been a lot of changes in the United States in
12 the last hundred years about what kind access to public
13 life young people have. By and large they don't
14 actually get to go wander around, hang out in malls and
15 hang out in parks like many of us did when we were
16 younger.

17 Their primary sociality with their friends is
18 through schools or after-school activities or at their
19 friends' homes, but there are a lot of reasons why young
20 people want to hang out with a broader public of peers.
21 A lot of it has to do with status. One of the hardest
22 things people have to work through in their high school
23 years is who is cooler than who, what are the
24 hierarchies, what are the norms, how might you fit into
25 the culture and society, all those sticky issues that

1 none of us like to remember from our middle and high
2 school years being about.

3 That, s the daily life of high school teens, so
4 what happens is that they go onto MySpace because their
5 generation is there or they go on to Facebook because
6 all of their school is there, and they create a profile,
7 and then in that profile, they actually craft a
8 representation of self. That representation may or may
9 not be accurate. What it is though is an attempt for
10 them to put forward what they think they are and who
11 they want to be in order to get reactions from other
12 people. Sometimes that representation is not exactly
13 what you want to be seeing, but it, s a way of them
14 trying to be seen as cool amongst their peers.

15 So then they, re going and jaunting a lot of
16 become and forth, might be sharing photos, might be
17 sharing music. Music is a cultural glue. It, s one of
18 the reasons that MySpace was so popular with the young
19 people is that you went int. You were able to pick your
20 favorite song, put it up on your profile and use it as a
21 way of saying something about yourself, very key.

22 You go back and forth, sort of work through
23 social issues. You start to collect friends, most of
24 the people you know. This isn, t just about social
25 network theory. This is about people that might let you

1 look cool, whether it's being a really cool rock
2 musician or the older person that makes you look like
3 your part of a society that you want to be a part of,
4 and for young people, that can mean a variety of
5 different things.

6 They don't even have a desire to meet those
7 9,000 friends out there. They want to use those people
8 to make themselves look cool at school because there's a
9 water cooler effect. They want to be like those people, a variety of things.

1 They have the ability to just search and find them
2 wherever they are.

3 Replicability or copy-ability. You can actually
4 take a conversation from IM, and you can duplicate it on
5 to your Zanga, and how can you tell whether or not it's
6 the same as -- it's a real conversation or not? You
7 can't. There's no way of telling those differences, and
8 it's a good way of bullying to come into being.

9 And finally the invisible audiences. I have a
10 sense of who I'm speaking to right now. I have a
11 general idea of how old you are roughly. You're all in
12 D.C. There's all of these assumptions that I have. You
13 gave me nice little data that proves that Compscore.
14 MySpace is not graying, most of you aren't actually on
15 there. Thank you.

16 But I have a sense of that I know your reaction.
17 If you're staring at me glassy eyed thinking, Okay, why
18 are we listening to you? Great, I know that I can
19 respond to that.

20 Young people, when they're online, they don't
21 know who they're responding to, so what they're doing is
22 they're making a context that they can work with,
23 something that they can make sense of, and frankly
24 that's a world of just my peers, and that's creating a
25 presentation that will be to fit into that audience.

1 The problem is that it's not possible to speak
2 to multiple audiences simultaneously. Your kids don't
3 talk to you the same way that they talk to their friends
4 when they're hanging out at each others homes, and they
5 don't talk the same way that they talk to their
6 teachers. This of course is not new. We've known this
7 for a long time, but it's new for young people.

8 So the example I like to go back to is Stokely
9 Carmichael. In the 1960s, he would go and speak before
10 people in D.C. using a very posh way of speaking. Then
11 he would go and speak to southern black congregations
12 using a rolling pastoral style, and in 1968 he was
13 forced to go on television and radio, and he had to
14 choose which kind of speaking style would he stick with.

15 He stuck with a style that to this day we see,
16 to this black power is anxiety white. Teenagers are
17 doing the same thing. They're acting out the way they
18 want to be seen by their peers, and it may not be the
19 way that adults want to see them. Thank you.

20 (Applause.)

21 MR. LORDAN: Thank you. Anne?

22 MS. COLLIER: What Tim didn't say about Danah is
23 that she is the high priestess of social networking.
24 The Financial Times of London just came out with that
25 juicy headline, and it's big take out on social

1 networking phenomena, and it lead with Danah, so that, s
2 a tough act to follows.

3 But just very briefly looking out ten years,
4 maybe two actually, I think the two venues that online
5 safety kind of is going to hit next are mobile, social
6 networking as we just heard described one example.
7 There, s also dodge ball, loops, slam. There are many
8 other examples, sort of start ups that are just
9 launching right now and being acquired by very large
10 companies.

11 And the other one is the virtual worlds where
12 multi player online role playing games or alternate
13 realities, like the way Xbox Live with Microsoft
14 community turns all video games into community. Second,
15 live World of War Craft, et cetera. We, re all going to
16 be thinking about these phases very soon.

17 One suggestion is that we panelists look at the
18 top three things that people need to know about social
19 networking, but I thought I would take the top three
20 things that we need to know about child safety on the
21 social web.

22 One is it, s ensured less and less by tech tools,
23 like filtering, monitoring and classic online safety
24 education, and then because of the freedom, the social
25 web affords, free accounts at countless sites. There

1 are hundreds of social networking needs, and they're
2 nichifying as we also saw it today. There's many
3 different interest groups including revolutionary war
4 reenactment, and then in kid's knowledge of work arounds
5 also means extraordinary freedom.

6 The third thing we need to know about online
7 safety going forward is education and problem solving
8 need to be as interactive and collaborative as young
9 people's experience of the social web where it's not
10 authentic or relevant to them, so the two main aspects

1 the commuter just goes to his platform, gets on his
2 train and goes home, no big deal.

3 That is what social networking is to the digital
4 natives. We're the tourists, and the entire public
5 discussion is dominated by the tourist right now and
6 that needs to change.

7 Then there's the part of how the social web is
8 whatever you want it to be so if you just look at one of
9 the social sites, MySpace, depending on who you are,
10 it's for designing and decorating a web page,
11 socializing with friends, learning about writing
12 software codes, discussing religion or politics, keeping
13 a journal acting out, impersonating a teacher, being
14 commentator, getting validation producing, editing and
15 sharing videos, finding new bands and music, you name
16 it.

17 So implication number 1 for online safety, as
18 we've known it, it's becoming obsolete. Given all the
19 avenues for social self expression on the web, it's only
20 logical to see that classic web 1.0 online safeties
21 designated danger aren't very relevant to teen online
22 socializing. Yes, there's porn and sexuality but no
23 more than in their immediate environment as a whole, and
24 yes, they're contacted by strangers but unless they're
25 actively seeking out risky sexual experiences, strangers

1 simply aren't a part of their peer groups, day-to-day
2 creative networking or social producing.

3 So implication number 2 is that the freedom the
4 user driven web gives young people means that those most
5 at risk are online as those who are already at risk
6 offline, so we need to incorporate experts in risky
7 behavior, like self mutilation, substance abuse, sexual
8 exploration. All the things that risk assessment in
9 teen behavior is about, needs to be brought into the
10 discussion, not just law enforcement and legal issues.

11 And safety tips are getting less and less
12 relevant too. Safety tips and rules reach the
13 compliant, people who follow the rules. There are a lot
14 of kids out there who don't and whose parents aren't as
15 engaged, so my time is up.

16 Let me give you a couple more implications.
17 Spin control, we need to help our kids learn how to
18 present themselves online. They don't make a
19 distinction between online and offline. Their
20 information is going out, so we need to be being about
21 how we're presenting ourselves and working on our kids
22 on that.

23 And as it goes forward, online safety is
24 actually going retro. It needs to be more like good
25 parenting, collaborating, dynamic, child empowering and

1 personal. This kind of education ideally doesn't come
2 from outside the school or the family. At school it's
3 at best a highly collaborative inside job, incorporating
4 in-house expertise and technologies, counseling, school
5 safety as well as the expertise of student web users.
6 What a concept.

7 MR. LORDAN: Anne, we can continue on this
8 conversation essentially with our first question, and
9 I'm sorry because we have so little time for the rest of
10 the panel. We have four questions we need to get at.
11 We have six panelists, and we have ten minutes.

12 MR. COLE: Okay. Thank you very much.

13 (Applause.)

14 MR. LORDAN: Thank you, and also we'll thank
15 everyone from the Federal Trade Commission who has the
16 unenviable job of holding up the time-out sign. Cutting
17 off the high priestess of social networking is always a
18 dangerous endeavor.

19 So the first question that we really want to get
20 to, and forgive me for the lack of time for this
21 particular panel, but we've talked a lot, everybody has
22 clearly talked about the social networking phenomena as
23 building communities for social and political reasons.

1 something that, s just going to die. This is something
2 going forward because people tend to group together
3 usually because of their interest. I would ask that
4 some of the panelists, particularly Anne and Danah, how
5 do you see the way or predict how these sites will be
6 used in the future, and give us some examples of know
7 how people are using very positive ways.

8 MS. BOYD: First off, social networking, the
9 concept has always existed. Your mobile phone is filled
10 with it. Your Email is filled with it. We,ve used it
11 in all different forms. What we, re see now is an
12 articulation of social networks out into the public and
13 use it amongst all of our friends.

14 This has been used for a lot of good things.
15 For example you have young teenagers living in rural
16 areas, going to their libraries and schools, looking up
17 colleges that they want to go to and contacting friends
18 of friends of friends at those colleges to find out
19 about the colleges.

20 Now, another group of people that put up a
21 post -- very upset with some of the immigration policies
22 that are going on and rallied 50,000 fellow teenagers to
23 make a political statement about immigration.
24 Regardless of how you feel about issue, the fact that
25 50,000 kids, teenagers, high school kids are actually

1 making a statement politically is really powerful.

2 MR. LORDAN: And, Anne, can you speak to that?

3 MS. COLLIER: One of the I things I just read
4 about is how a young woman in her 20s was really
5 concerned about the situation in the Sudan and went to
6 Washington, came here to March for Darfur, and then went
7 back to her employer at MySpace and asked if they could
8 do something about that, and now there, s a social
9 activist profile on MySpace for Darfur, so there, s a
10 really interesting venue here for new social activism
11 that, s just blossoming.

12 MR. LORDAN: Chris?

13 MR. KELLY: Let me jump in on that. Two of the
14 largest groups on Facebook that are focused on the
15 Darfur controversy, not the controversy, just the fact
16 that we need to do something.

17 MS. COLLIER: And they, re going to get out the
18 vote drive on a number of these local sites.

19 MR. NIGAM: Just statistically, we did a search
20 on our site. We found over 88,000 different political
21 and social causes, just homegrown on the site itself.
22 And Darfur was more of an officially designated one,
23 voting was more official by the company itself, but
24 88,000 organi ations either raising funds, raising
25 awareness, getting people connected to deal with issues

1 that they need to have other support groups help them
2 deal with and things like that.

3 MR. KELLY: Once you have the underlying social

1 the most important kind of things that I think we've
2 seen evolved on our site is actually the voice of these
3 audiences or these communities actually being heard, so
4 for us being -- whether it be Asian American, African
5 American or Latino, getting the opinion of that
6 community, kind of exposed to the kind of mass market or
7 mass press has been a challenge.

8 Something that we've ever seen is we don't have to
9 control that kind of edit. Instead the members
10 themselves will drive that, so one good example was in
11 an ad that was posted on our site from Sibaca (phonetic)
12 that showed a woman dressed up in geisha serving a glass
13 of vodka to a Caucasian woman, and members kind of
14 posted the ad up on the site, and from there you saw the
15 kind of the opinions of Asian Americans kind of bubble
16 to the top, whether it be a 16 year old girl that grew
17 up and was from Dallas, Texas or it was a tenured
18 process at Harvard.

19 That kind of collective voice at what actually
20 we allowed New York Times to come in, look at what was
21 being said and hearing the opinions and then covering it
22 in the Times, and where Sibaca formally detracted the ad
23 and apologized to the community, so that's one of the
24 most important things that we've seen from the power of
25 social networking.

1 MR. LORDAN: To the next question very quickly,
2 advertising. Obviously many of these largest sites with
3 the bells and whistles would not be in existence unless
4 there was a huge base to advertise to them. Can you
5 quickly, very quickly, the representatives speak about
6 advertising, how the user to the sites feel about it,
7 and is this different from just traditional missing that
8 the fellow from ABC was showing earlier today where it
9 was sponsored by Visa? What type of advertising
10 marketing are we talking about very quickly?

1 MR. LORDAN: Andrew, we're going to end here.
2 Is your service subscription based or is it advertising
3 based?

4 MR. WEINREICH: It's subscription based. Our
5 service is really just launching, but I would take issue
6 with something you said. It's not advertising that's
7 enabled all these services to take off. It's venture
8 capital. It's the belief that if you can build
9 community, somehow, some way you're going to be able to
10 monetize that community. Whether it takes ten years to
11 do it or a year to do it, that's what has really enabled
12 the growth of these communities.

13 MR. ARLEN: Venture capital?

1 understand it because the revenue comes from
2 advertising. You can have 120 million units or
3 individual profiles on our set. If there's nobody to
4 talk to them that's just overhead costs. That doesn't
5 make any sense.

6 So from an FTC or a safety perspective,
7 advertisers do not want to align their brand with an
8 organization they feel is going to be unsafe in engaging
9 in practices they don't care for. Given that, we're
10 doing a lot by communicating with our advertisers and
11 setting certain ground rules that they have to follow
12 in order to even advertise on our site.

13 MR. LORDAN: Sorry. Time is up. The harsh task
14 master has told us our time is up. In one closing
15 comment, can everyone just say, if you had to say one
16 inside the Beltway, policymakers, it looks like 60
17 percent of whom, at least representative of this
18 audience, have never been on a social networking, what
19 would you say in 30 words or less? Anne?

20 MS. COLLIER: Let's broaden the discussion and
21 fold more types of expertise into it.

22 MS. BOYD: Realizing what we're doing is talking
23 American and things are really changing globally, and
24 mobile is the main place, and there's going to be a lot
25 more questions before there are answers.

1 MR. SUN: This market is going to continue to
2 evolve and grow and explode with a ton more social
3 networking sites that are going to start differentiating

1 PANEL 5: USER-GENERATED CONTENT, WHAT DOES IT MEAN FOR
2 CONSUMER AND MARKETERS?

3 MODERATOR: Esther Dyson, Editor-at-Large, CNET Networks

4 PRESENTERS:

5 AMANDA LENHART, Senior Research Specialist, Pew Internet
6 and Life Project

7 VIDEO

8 ANDY CHEN, Co-Founder and Chief Executive Officer,
9 PowerReviews.com

10 DR. MICHAEL GEIST, Canada Search Chair of Internet and
11 E-commerce Law, University of Ottawa

12 MACK TILLING, Chairman and Chief Executive Officer, Vi u

13 JANE KAUFMAN WINN, Charles I. Stone Professor of Law and
14 Director, Shidler Center for Law, Commerce and
15 Technology, University of Washington School of Law

16

17 MS. DYSON: Good afternoon. I,m Esther Dyson,
18 and I,m going to be moderating this next session. I
19 just want to apologize in advance. I,m leaving promptly
20 at 5:15 to catch a flight, so the very last part of the
21 session is going to be run by Katie Harrington-McBride
22 from the FTC

23 What we,re going to do is begin with Amanda
24 Lenhart from Pew in a moment, who is going to set the
25 scene for user generated content, and then we,re going

1 to see the famous Mentos user generated commercial or
2 user generated commercial. Then we have a panelist of
3 three user generated experts talking similarly about
4 their companies and products, what their users actually
5 do

6 Michael Geist is a lawyer, and at that point we
7 are going to have some real user generated questions.
8 There's a woman in the audience with a mike. At the
9 appropriate time, you can raise your hand and wave
10 wildly, and somebody with a mike will come to you. We
11 want to make this -- we want to make this a nice example
12 of user generated content here.

13 Then when 5:15 comes, wherever we are in the
14 schedule, I'm going to running off, and Jane Winn is
15 going to finish with some remarks on the changing role
16 of consumers becoming producers, but before we start
17 I've been asked by my panelists, and I would be curious
18 myself, how many of you are staff? How many of you are
19 lawyers? Of course you may be FTC staff and lawyers.

20 How many of you are in the business, work for

1 Let's start out with Amanda Lenhart from Pew.

2 MS. LENHART: Thanks, Esther. All right. Let
3 me see if I can get this to work. I've got some slides.
4 There we go. So as Esther said, I'm just going to set
5 the scene here for us today. For those of you who don't
6 know, I work for the Pew Internet and American Life
7 Project, which is a non profit, non partisan research
8 company based here in the District of Columbia, and we
9 study the social impact of the Internet and Americans.

10 I'm going to leap right in. I have exactly ten
11 minutes before Esther cuts me off, so I want to set the
12 scene initially with some basic stats, how many
13 Americans are actually online. Well, 73 percent of
14 Americans go online currently. 87 percent of teenagers
15 12 to 17 use the Internet. Interestingly 80 percent of
16 parents go online. Their children tend to pull them
17 online more than the average American adult, and 60
18 percent of home Internet users have broadband.

19 That actually comes to about 42 percent of the
20 adult American population, so that I think plays a big
21 part in what we're going to talk about here today, and
22 all of the data that I'm going to share today come from
23 the Pew Internet and American Life Project telephone
24 surveys.

25 Okay. So what is user generated content? What

1 are we actually talking about here? Well, it can be
2 anything that is produced by the user, which sounds
3 pretty basic, but I think it really does cover what
4 we're talking about. That can be text. It can be
5 audio. It can be video. It can be things like category
6 or rankings. It can also be networks that the user
7 creates. It can be things that can be used in online
8 worlds. It can be programs. It can be actually an
9 enormous variety of things.

10 Initially at the Pew Internet and American Life
11 Project we had sort of a relatively limited definition

1 content at this point, but we have a few others that we
2 think are relevant to the discussion today. 34 percent,
3 a third, have used the Internet to share and develop
4 photos or get photos developed online. 30 percent have
5 rated a product online or a service or a person, think
6 am I hot or not. 18 percent have taken material found
7 online and remixed it into something new, into a new
8 creative creation, so think match ups, political ads.
9 11 percent of adults 18 and older have used online
10 social or professional networking sites. Now, I would
11 like to say that particular stat focuses more on the
12 professional side. I think it under represents what's
13 going on.

14 So where can we find user generated content?
15 Well, it occurs in many places online, so it occurs on
16 blogs and vlogs, pretty obvious places, and that
17 includes material like posts, photos, videos but also
18 comments by other users, track backs. Podcasts also
19 fall under that heading, photo sharing sites like
20 Flickr, video sites like YouTube and Goggle, some
21 networking sites like MySpace, Friendster and Facebook,
22 and on those sites, it's not only the profile content,
23 but it's also the network that you create that become
24 part of this whole universe of content creation.

25 WIKIS, for those who don't know what a WICKI, it

1 is a web page where users can modify all the content on
2 the page, including content added by others, the most
3 famous of which is Wikipedia, the online encyclopedia,
4 dating sites, another sites with content creation, sites
5 where users tag, categori e digg or range items, places
6 like blogs, del.icio.us, where you can mark and
7 categori e various links and share them with others.

8 Classified ad sites like the auction sites,
9 massive multi player online games and places like Second
10 Life where users can created avatars, can create
11 characters, can build things, and then even sell them or
12 share them with others.

13 So you can see a poor representation here. As a

1 at home, it's not surprising that 73 percent of content

1 this helps us to understand and think about all kinds of
2 user created content, is that with teenagers as well
3 with adults you blog, it's not actually not that bad of
4 a deal in a lot of their lives. It's something they
5 update once or twice a week. It's generally seen as a
6 hobby, and actual we're not going to go on to the next
7 slide because we're short on time.

8 We actually asked a blogging survey of adults
9 that we did quite recent, Why do you blog, why are you
10 creating all this content and putting it on the
11 Internet, and while this data is specific to blogging, I
12 think it does have relevance to you talking about and
13 thinking about why people actually create content and
14 put it online.

15 As I said, the main reasons for creating content
16 and for creating a blog is created expression. I want
17 to express myself and share it with people. I want to
18 share my personal experiences with others. It's a way
19 of reaching out, of connecting with others. It's a
20 hobby. It's not a serious thing. Thank you.

21 For most people it is a first foray into
22 authorship. Most of the people who are blogging haven't
23 had anything published before. They may never have had
24 any recognition for photographs they've taken of art.
25 That doesn't necessarily mean they're doing it with the

1 intent of creating great kinds of art, but they are
2 doing it to reach. Out while two-thirds say they do it
3 for themselves, one-third say they're doing it to engage
4 an audience.

5 The audience that most people imagine when they
6 blog is friends and family. They're not thinking about
7 -- and I think this echoes some of the things we heard
8 in the previous panel, about who keeps a social network
9 and who they expect to be on the social network, and
10 these folks are creating the content for people that
11 they know, and they haven't a vision of an audience that
12 is engaged with this content.

13 They also do it for conversation, to interact
14 with those people that they know or that they think they
15 know, so 87 percent of bloggers allow comments on their
16 blog.

17 I just want to finish up with a couple questions
18 that I want to pose, and that I hope we'll think about
19 as a part of this panel. Who owns the content created
20 by the user? We heard in a previous panel that in
21 Second Life you actually own your content. But then
22 that starts to bring up questions about what kind of
23 liability does Second Life have if suddenly content that
24 you own and have been monetized disappears in a server
25 crash? What are the users' expectations of the use of

1 on that later.

2 What I would like to do now is start with Andy
3 Chen and with Mack Tilling. Andy is cofounder and CEO
4 of PowerReviews, which as you can imagine does user
5 generated views. Mack is cofounder and CEO of Vi u.com.
6 Disclosure, I,m an investor in Vi u, and they do user
7 generated poles. Both of these are off perhaps the
8 mainstream, but I think are really great examples of
9 user generated content, not just blogs.

10 It,s also stuff that may have commercial
11 implications. It,s stuff that you might sell to
12 marketers. There,s all the questions Amanda raised
13 about ownership, and the other questions I would like to
14 address also are things like quality control, role of
15 the users, identity and so forth, and, Andy, why don,t
16 you start and in two to three minutes, introduce
17 yourself.

18 I ask each of the panelists to make one or two
19 points that they wanted to make sure that got into the
20 conversation and that you would ask questions about. As
21 I mentioned, there,s somebody in the audience to bring
22 you around a mike after the introductions. Andy?

23 MR. CHEN: What we do at PowerReviews is we
24 actually work with manufacturers and retailers and help
25 them facilitate their customers to read reviews and

1 write reviews, very similar to how you can do that on
2 Ama on.com, and one of the frequent questions we get
3 from our customers is as they start to take a little bit
4 more control over this consent of a product review, how
5 does their risk and liability change and what are the
6 processes they need to put in place to make sure that
7 they can control the experience, to the extent that a
8 retailer manufacturer needs to, but still make it an
9 open environment.

10 It, s actually pretty complicated, but it, s
11 something that we deal with all the time, and what we
12 think of when we think about product reviews is we think
13 that, s the ultimate and almost the first form of user
14 generated content. If you think of when people started
15 reading reviews online, it was way in the beginning when
16 ECommerce started, and on Ama on, s web site, and of
17 course I think there was a pole on this on the
18 percentage of people that had actually posted a review.

19 So it, s a common activity to read reviews and
20 write reviews. We, re just helping companies take it
21 into their web sites, so they can make that content
22 available to their customers without having to leave to
23 go to another site.

24 MS. DYSON: So you, re sort of an OEM supplier of
25 review content almost?

1 see what other products you purchased, which are often
2 more sensitive than whether you like to ski or you like
3 to play baseball. It becomes a different sort of
4 animal.

5 MS. DYSON: That's not visible to another end
6 user.

7 MR. CHEN: It's something that a lot of
8 retailers are thinking about, replicating that type of

1 something, presuming you don't just let stuff go up
2 randomly?

3 MR. CHEN: So we have -- it depends on the
4 volume from day-to-day, but between the and five people,
5 and really we moderate more to objective standards, like
6 eliminating spam, making sure we're focused on the
7 product and not the retailer, et cetera, so it's not
8 product specific knowledge, and that's the condition of
9 our business is that we can't hire people or experts in
10 every single product category, so we have to make the
11 moderations vary general.

12 MS. DYSON: How concerned are you that some
13 vendor is going to get thousands of people who are paid
14 off to post positive reviews or to post negative reviews
15 of the competition?

16 MR. CHEN: That's another frequent question.
17 What we do in general is we flag so we work with our
18 vendors. We have -- we manage different levels of
19 credibility, from an anonymous user who's not registered
20 who comes in to post to someone we know actually
21 purchased the product to someone who is a staff member
22 of that company.

23 So if you're a retailer and you have your staff
24 members write a review, they'll be flagged as an
25 employee all the way to an expert reviewer, someone that

1 is an expert tester who comes into write a really very
2 thorough review, so we flag that person and give that
3 information back to the consumer so when they read the
4 review, they know who to trust, or who to take with a
5 grain of salt.

6 MS. DYSON: For extra credit, would you like the
7 FTC to regulate the kinds of things you do so that these
8 sleazy companies who didn't do them so carefully would
9 have a tough time competing with you?

10 MR. CHEN: I would say no, definitely not. I

1 MR. TILLING: I think we do have a lot of the
2 same issues whether it's are user generated content
3 sites or some that are more well known blogs, the blogs
4 like YouTubes, et cetera.

5 Vi u.com has about -- we have two parts of our
6 business that were started about a year ago. The
7 community site, which is Vi u.com, was generated to
8 bring people in, essentially to understand what the
9 world thinks about any issue, whether it's silly or
10 serious, whether it's public or private. We encourage
11 people at the site to look for poles on any issue that
12 they're interested in.

13 They can do a search on steroids in baseball,
14 for example, and see any news generated poles, and they
15 can then vote on those poles, look at the results of
16 those poles, comment on those poles, and do some
17 analysis of those which is one of our issues and then
18 share those poles.

19 They can cut the -- take a code for the pole and
20 actually put that same pole on their blog or their web
21 site. They can Email it to friends if they want to see
22 what a subset of population they know feel about an
23 issue. Private poles, you can create a pole for your
24 own use. It's free of charge, and you could send it to
25 your friends, where should we have the reunion for the

1 class.

2 I did one when I was married about a year ago
3 and I created a pole, actually made this one public,
4 what should Mack wear to his wedding, and the answers
5 were Elvis in white rhinestone, a gorilla costume,
6 traditional tux, suit, and Saturday Night Live or
7 Saturday Night Fever white outfit, and I encouraged
8 everybody to vote on it, 150 some votes in a couple
9 days. Some very funny comments. You can imagine what
10 mothers and folks who recently wed or soon to be wed --
11 how they felt about this horrible thing I was doing.

12 But in any case I got some very funny results,
13 and actually lived by those results and started to
14 generate a community off of these. We have some serious
15 issues. People post questions about response to
16 Hurricane Katrina, for example, and then there's a lot
17 of the, am I hot, which somebody might take and put on
18 MySpace or encourage people to come to.

19 So it's a vast array of things. When somebody
20 signs up at our site, we only ask, you can vote
21 anonymously, you don't have to be a member. If you want
22 to create a pole or comment on a pole, there's reasons
23 we want some level of accountability. Through that we
24 ask that you supply your gender, your age and an Email
25 address. We don't enforce the Email address to date,

1 and we're trusting that people are generally pretty
2 honest about their gender and their age, and we've done
3 some matching against the Internet population to see
4 that we're fairly close on this.

5 Over time, the analysis part of this, you can
6 take a look at results, and actually if you want to ask
7 the question, Show me how male versus female voted on
8 this or more show me how different geographies, show me
9 how household income or educational level, then at that
10 point we'll ask if you haven't provided that information
11 in your profile, to share that with us.

12 We don't -- because it's free we never ask for
13 any personal identifiable information, no credit card
14 information, no addresses, et cetera, and we really
15 don't want that. We are -- it's really helpful to us
16 and ultimately to marketers to understand that the vote
17 behind this was from a male in his 40s living in North
18 California whose interested in a certain sports and has
19 this sort of education, background, et cetera. Any
20 market researcher would be interested in that
21 information.

22 The thing that's really tricky for us is what to
23 do with this information. We've got a new service which
24 is a network where we're going off of our site and we're
25 allowing market researchers to create questions and then

1 distribute them across a number of web sites that we
 2 have in our network, and they can target sites, options
 3 traders. They can do something more diverse, but the
 4 problem, whether we like it or not and frankly our
 5 business is built on it, we can learn a lot by somebody
 6 by the content that they create and by the vote, per the
 7 micro content that they have on it, and you ask the
 8 right 20 questions, and even though you know nothing
 9 exploitive about this person, you never had to ask them
 10 their gender or age, their politics, et cetera, you can
 11 start to put together an implicit profile on this
 12 person.

13 And if you track this person over time, that can
 14 be something that if it's not dealt with carefully can

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MS. DYSON: Okay, ITty oactua deawe, d otmit, and you ask t2n y can 8

1 turn.

2 MR. GEIST: Great, thanks. I'm Michael Geist.
3 I'm a law professor at the University of Ottawa. Just
4 quickly to answer your question, the music in that
5 video, and it's mentioned in the video comes from Auto
6 Body, and if you click through, you can then buy that
7 song on iTunes, and they did exceptionally well, as did
8 of course the creators of this video through an ad clip
9 model using revere, so it was successful for both the
10 video makers and the music.

11 So I've been sitting out there all day looking
12 at the nice logo "protecting consumers in the next
13 tech-ade" and I want to use my the minutes to try to
14 convince you that protecting consumers in the next
15 decade or tech-ade involves in parsu-u east eonsrking

1 sewage. We're talking about the need to professionalize
2 user generated projects which holds the danger of
3 somehow treating it substandard to the so-called
4 professional content, and thus perhaps less worthy of
5 the kind of policy protection that we might otherwise
6 devise which I think is simply wrong, as that video that
7 we just saw would illustrate.

8 But more than that, I think there are real
9 policy considerations here too, and I'll focus on two.
10 One is the ability to speak out. I think that when you
11 collect things like digital rights management systems,
12 anti circumvention legislation and even contractual
13 restrictions, there can be some real serious impediments
14 for the ability for people to speak out, whether that's
15 a media critique that they want to engage, yet find that
16 the content itself is locked down through DRM, the tools
17 that might be made available to them to engage in that
18 critique are unavailable in the fact they don't want
19 unlawful to be distributed under DMC like legislation or
20 they want to engage in a review of software, let's say,
21 and some of the terms and conditions would restrict them
22 from literally publishing a critical review.

23 I think they're all really in danger that the
24 kind legal framework that has been established, and it
25 seems like you may continue to establish when you think

1 about things like the right to broadcasting or broadcast
 2 flag type initiatives can have a significant impact on
 3 the ability for people to engage in the kind of things
 4 that I think we all ought to be celebrating and that we
 5 will envision will be an important part of consumers and
 6 consumer,s activity in the next tech-ade.

7 Just as the ability to speak out is important,
 8 the ability to be heard is also essential, and there
 9 have been some policy choices in this country in
 10 particular that have helped that if you think back ten
 11 years, the communication is DCC Act, section 230 which
 12 provides protection for sites for third-party content
 13 that they host, but don,t have any editorial control or
 14 editorial input over have had a significant impact on
 15 who people who might speak critically, and then there
 16 was an incentive for some sites to take that down.

17 But I think there are still other users that we
 18 ought to be thinking about. There,s the net neutrality
 19 debate which But e rrhe abil--t, lde abildangserfjT(1

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6 2 provslow lanndsot we

1 somehow find themselves on the slow lane which is why
2 the net neutrality debate is so essential.

3 There are other areas as well. ICANN, the
4 Internet Corporation For Assigned Names and Numbers,
5 which administers the domain name system has had in
6 place for a number of years now a domain named dispute
7 resolution system which seeks to try to ensure that
8 those that engage in bad faith domain names registration
9 may find their domain names transferred over.

10 In my view over the last number of years it's
11 dealt with thousands of cases, and in a number of known
12 cases there are people who have been engaged in critical
13 web sites. Name your company, suck.com, and that for
14 many people is an important way to ensure that their
15 message is being heard. They create communities of
16 people who are frustrated with the retailer, have had
17 bad experiences with a product, use that domain name to
18 ensure that they can find an audience, and yet the UDRP
19 pool has been misused I think repeatedly to transfer
20 those domains name, although I think are very serious
21 doubts about bad faith and trademark.

22 So there are some real policy issues here that I
23 think we ought to be thinking about if we're going to
24 ensure that consumers, as we think about it over the
25 next ten years, do more than just consume but become

1 active participants in what happens.

2 MS. DYSON: Do you see the FTC as playing a role
3 in ensuring these consumer rights?

4 MR. GEIST: Absolutely, absolutely. We heard
5 earlier that there's discussion on net neutrality and I
6 think the response was how could they do anything but --
7 how could they not look into net neutrality issues, so I
8 think that's one area and I think that increase while
9 copyright isn't something that anyone really wants to
10 wade into. I think that in many respects you can't
11 think about this or from both a fair practices
12 competition perspective, much less a consumer
13 perspective without recognizing that some of these
14 copyright policies have a huge impact on what consumers
15 can do. We're facing the exact same issues in Canada
16 right now, so unquestionably in my view there's a roll
17 to play.

18 MS. DYSON: There's definitely a role to play.
19 I'm not sure that -- it would be interesting to see what
20 the FTC thinks it can do. I would like to open this up
21 to audience questions. I have a few more, but I really
22 would like you guys to have a chance to speak, anybody
23 just raise your hand or you can also just shout the
24 question. I'll repeat it for the mikes. Okay. No
25 questions? Come on. You guys wouldn't get anywhere on

1 the net.

2 Mack, let me ask you first, do you feel that
3 your consumers are at risk of being squashed by bigger
4 forces?

5 MR. TILLING: Well, a couple of issues for us,
6 and one of them I think Michael said this, one is with
7 the content is a copyright issue, and then there's
8 another issue that is similar to what Andy has in terms
9 of how do we police this. It's really the nature of the
10 content. Copyright I think is fairly well taken care of
11 in take down provisions, their fair use and frankly for
12 our site, it's not likely someone is going to post
13 someone else's video.

14 MS. DYSON: Well, they might . They might post
15 the song and say, Do you like this.

16 MR. TILLING: We had a couple of U2 videos which
17 a man mentioned match up. Someone took two videos from
18 U2 and threw them on our site and said which do you like
19 the best, and more and more of these user generated
20 sites are becoming completely open and interoperable and
21 you're going to see them all borrowing from other pieces
22 from other sites, so here's a case where two different
23 user generated contents are developed.

24 So I do think that that -- people GO to our site
25 we think and participate, one, because it's self

1 expression, and that, s one out of a hundred people that
2 create poles. Ten out of a hundred people will actually
3 do something beyond creating, voting commerce, et
4 cetera, so about nine out of the ten do nothing but look
5 at the results, so they, re the ones that come and
6 express themselves, and if they, re just self expression,
7 self assessment, if they want to see how they rank with
8 other people, so not only this is what I think, but am I
9 normal, where am I normal compared to other males, et
10 cetera?

11 And I think that you do put too many constraints
12 on them in terms of the types of questions they can
13 throw out there, moderating, for example, we don, t allow
14 people -- we took a stance and said, No, we, re going to
15 get involved, and we, re going to put the spears down on
16 someone that is creating hateful content, probably
17 someone like high schoolers who created, Is Johnny a
18 geek, et cetera.

19 That, s pretty tame compared, but are we going to
20 allow something that, s a little bit more upfront and a
21 little more threatening? If we do do that, are some of
22 the laws out there and some of the legal system going to
23 expose us rather than being completely at risk and let
24 our use users do whatever they want?

25 But frankly theft at MySpace show is probably

1 the best for the MySpace show, probably best for the
2 whole business in my site, MySpace of course, an example
3 of, for instance -- it is a great example of sort of
4 what a little bit of tweaking and control in a system.
5 There were technical issues also, but what that can do
6 for the rapidly growth in adopting these sites.

7 So on the one hand I say, Stay out of it
8 completely and let it go. On the other hand without

1 I think substance is really about this. Again somebody
2 wants great content, but yet you give this gentleman a
3 knife, would you want to include registering and giving
4 us your Email address?

5 MR. GEIST: I would want to say, the survey of
6 the Mentos diet Coca-Cola video.

7 MS. DYSON: You said you keep hateful videos
8 away, but some videos are very positive video. Matt
9 Cole here came on there, it's the best cola there is.
10 In other words, it's clearly commercial ventures. Do
11 you do anything -- that may be ads as well, too. Do you
12 do anything to restrict that, maybe add a the view as
13 well, strictly commercial messages.

14 MR. TILLING: No, and again this comes down to
15 the users vote by their actions, and we have ways to
16 rate poles as a part of the resign, and you would
17 actually use one to five stars, for the number of those,
18 et cetera, and if it something that was purely
19 commercial where it was just so off on the deep end,
20 there's no -- when you don't control it, there's really
21 nothing that says that this is a statistically a robust
22 or mutually exclusive antecedent, so some of these are
23 more about somebody making a statement than asking a
24 question.

25 Those don't to get a lot of votes unless they're

1 claims, and we have a payment work that we actually
2 encourage. If someone wants to ask a question, what's
3 your favorite cola, or what's your favorite brand of
4 soft drink, they can actually put this out on the web
5 and get more meaningful data than they could on a
6 site, and I think that basically if it's on our web,
7 it's free.

8 People are there for entertainment. They're
9 there for useful information. Now, if somebody was
10 using our site to try to spam where to make commercial
11 statements, they're doing to drop to the bottom of the
12 list very quickly where nobody would want to see them
13 because nobody votes on them.

14 MS. DYSON: -3, , omc 1 tl/immnirTiam T

1 the legislation is really having industry backed
2 disclosure standards, so that there are things that are
3 kind of considered best practices. Essentially we've
4 done some branding from our sites.

5 We abide by these rules and these standards
6 where something.

7 MS. DYSON: Let me ask one question, and then
8 I'll -- if you can bring the mike down to this gentleman
9 near the front. Oh, there's also one in back. Let me
10 ask you one question and we'll take two questions, and
11 I'll probably have to go.

12 It seems to me that pretty soon it's going to be
13 more and more requirements for people to register to do
14 most of these things for a variety of reasons, marketers
15 want more demographic information, users don't want more
16 quality control, whose review should I test, where does
17 the pole come from.

18 Do you agree, and I would love for you guys as
19 well to -- do you agree with that proposition where do
20 you think it's good where bad? There's a difference
21 between persistent identity registering and having your
22 name and address and everything visible, but where do
23 you think this it is? Why don't you start, and then
24 we'll at the two questions.

25 MR. CHEN: I think that that selection in

1 general is the beginning of ECommerce. And it's up to
2 the marketer to provide a value for the registration, so
3 in ECommerce, there's also register purchaser versus the
4 non use purchaser, and basically they said, Hey, there's
5 high value to registering because you don't have to type
6 in your credit card and address information every time,
7 and the customer has to opt-in.

8 I think that's very much like all user generated
9 content in terms of registration where the marketer has
10 to provide a lot of value for registering, so it's a one
11 time deal where you -- they're opting to log-in and you
12 don't get anything out of it. Most consumers won't
13 register. They're smart enough to think about where
14 they're going to share their information, including not
15 their Email address, so I think that it's really up to
16 the consumer to make that decision and up the marketer
17 to provide value to that information.

18 MR. TILLING: I think it comes down to the
19 difference between salesperson and marketing. A
20 salesperson wants your Email address and wants to be
21 able to send you stuff, and once you're on an affiliate
22 site, a site that you're buying information from or on
23 your site, and your Email, when you sign up a lot of
24 sites, they'll ask you do you want marketing information
25 sent to you from us. Do you want it from our trusted

1 third parties, which can be a huge group.

2 Again there is really very little standards and
3 much of us don't tend to read through the sites, privacy
4 statements and et cetera, because they're so unreal,
5 that it would be really nice to know, okay, this site
6 plays by these rules, I understand what the rules want,
7 I don't need to read it all the time.

8 A marketing person want that's information but
9 they don't them -- it can very are very valuable to them
10 without having an Email address as long as they have
11 demographic I can and psycho graphic information which

1 want to be identified, so let, s say they, re a win/win.
2 Let, s say they, re gauging in the critique that in their
3 particular community might be seen as being offsites.
4 Et they want to be able to put that out. They, re going
5 to work very hard to make sure that they aren, t
6 associated with that at all.

7 The veil of anonymity will actually be a crucial
8 component with them because the only way they will speak
9 out is take them all in.

10 MS. DYSON: Again there, s a difference between
11 having a persistent identity and identified identity,
12 not in the FBI terms.

13 MR. GEIST: Of course we, ve seen a number of
14 bloggers lately that have come up and been blogging in
15 an anonymous fashion, and part of the game becomes to
16 try to outdo whatever that particular blogger happens to
17 be, so I don, t let anybody feel safe when you don, t
18 really know who I am because eventually you can begin to
19 put the pieces together.

20 MS. DYSON: Fair enough.

21 MR. GEIST: AOL?

22 MS. DYSON: That was astonishing.

23 MS. LENHART: I think I was just going to say I
24 think one thing that, s important to echo what Michael
25 said sort of build on there is what is the user, s

1 expectation for privacy? There's not -- the majority of
2 people who are doing all of this content creation aren't
3 thinking, oh, I'm going to get online and use this data,
4 and I think actually if ask you them, they might object,
5 and I'm thinking more along the lines of profile
6 creation, on social networking site, so are users really
7 thinking oh, I think they're going to sell the fact that
8 I like Coca-Cola because this is how they're going to
9 make money, and I sort of wonder what the given
10 expectations are and if you suspect they're probably not
11 aligned with what marketers are thinking about or not
12 necessarily where the regulatory stuff is coming in.

13 MS. DYSON: All right.

14 MR. GEIST: I think disclosure rules and some
15 sort of certification or rating whether it's reputation,
16 comes into play, because then those that are playing by
17 the rules and doing well I think are going to set
18 themselves apart. At least the ones that are concerned
19 about privacy will be out there, and the ones that can't
20 get that sort of certification, that reputation the
21 trust, they will hopefully not get the attention they
22 want.

23 MS. DYSON: We'll hear now from Jen.

24 MS. LENHART: I was going to say I think that
25 Andy's response that basic calculus was worked out in

1 the early days of ECommerce doesn't correspond to my
2 experience at all because it's like the two separate
3 trains going down two separate tracks. Of course I know
4 the whole policy for identity has exploded in recent
5 years and it's intensely controversial and we're talking
6 technologically how you build a system that supports
7 interoperability and is user sensitive demands an ID.

8 I'm asking a lot of hard questions to people,
9 and I can't see quite how that interplay with commerce.
10 I mean, Microsoft recently has a new white paper about
11 how they're new user sensitive ID system is going to
12 comply with the ID law, and I've been reading this
13 document trying to figure out how you form a contract,
14 and I couldn't -- the question, couldn't users be in
15 charge of their identity, technology sophisticated in
16 terms of the modeling, the expectations of giving people
17 control so that they can they have it made, have a
18 disclosure made, so for you to stay that it's easy to
19 understand that there's a calculus, the problem is the
20 complete lack of transparency.

21 That was the problem back in the '70s with
22 Amazon.com and that was the company that was going to
23 make different use of the policy collected or the first
24 privacy policy? You'll have are profound difficult
25 systems.

1 MS. DYSON: Users fight back online. They fight
2 back by having multiple IDs. I think part of the
3 challenge here is user, s expectation is very wide.
4 They, re end users who are uniquely sophisticated, and I
5 understand exactly what, s going on when you say you, re a
6 friend of a friend, and then there, s people that don, t
7 reali e that when they publish a blog maybe their mother
8 is going to read.

9 I unfortunately have to take off, but let, s hear
10 the last two questions, and depending on what, s going
11 on --

12 UNIDENTIFIED SPEAKER: I, m just curious to hear
13 about how the copyright issues in the next five to ten
14 years will play out. We think sites will go away
15 (inaudible). There will be legislative changes or
16 something else.

1 MR. CHEN: No, no, we manage the product review,
2 so we facilitate the process. The customer can click on
3 a button to what do we do, but we don't coach the
4 consumers on how to write a review.

5 MR. FOX: If they write a negative review about
6 one of their client's product, that's their review.

7 MR. CHEN: Yes, and what we do in the moderation
8 process is we focus on constructive reviews. To go back
9 to the previous question, we focus on product reviews
10 that are commercial, so obviously if someone is thinking
11 about buying a product or not by, then we'll focus on
12 constructive necessary, will this comment help another
13 consumer make a good decision about a product.

14 MS. DYSON: I want to thank everybody. I hope
15 you have a wonderful discussion. Thanks a lot. I have
16 to go. Katie?

17 (Applause.)

18 MR. GEIST: The question was where copyright is
19 in the next five years? I think in many ways it's
20 wasteful. I think we look at that internationally and
21 nationally in this country. International, it's almost
22 at a standstill because you have many developing
23 countries and others that come up and say that they're
24 very frustrated and concerned with the maximum agenda
25 which is making it very difficult to move forward on

1 things like broadcast Trio.

2 I don't expect to see an elimination in this
3 country, but what we will see I think is the continued
4 negative impact on the people who want to be good,
5 right. For people who want to engage in sort of pure
6 networks or engagement, DVDs and the like, I'm not
7 saying that that's not bad between that product, but
8 people that are going to want to do that stuff are going
9 to do it whether it's against the law or not.

10 The problem is in schools and in a range of
11 places where people who want a feature that they act on
12 a tribunal law. Take a look at what the legislation
13 says, and feel that they're restricted in their ability
14 to engage in some of the kinds of things that we're
15 talking about.

16 Eventually I think we will come to the
17 recognition that this doesn't make any sense, that here
18 we do the work, and then it's a legislation competitive
19 issue, except an farm full, and this doesn't solve any
20 of the supposed problems that people keep touting.

21 But for awhile I think we're a ways off of
22 reaching that point.

23 MR. CATE: Thank you. I think now we're going
24 to hear from Professor Jane Winn at the Shidler Center
25 at the University of Washington about how consumers,

1 role is changing. Now they're actually becoming the
2 producers of content, and talk what that may be going
3 forward in terms of how consumer protection law
4 officials think about their work.

5 MS. WINN: Okay. Hello. I'm thrilled to be
6 here and I'm amazed there's this many people because
7 it's the very end of the day, so my perspective is that
8 of a commercial law professor so I will try and follow
9 what's happening in the world, but of course I'm
10 confined to my ivory tower.

11 This is an overview of the points I'm going to
12 make. And in preparing for my thoughts today, I went
13 out and did some research about how many different ways
14 consumers produce themselves socially, so I don't know
15 if social media is the appropriate material, but after I
16 have read loads and loads and loads of analyses of web
17 2.30 and user generated content, that happens to be the
18 one I like best.

19 So the next question is we have the whole
20 problem of discussing the issues that you can no longer
21 talk about consumers. The focus of the program today is
22 the impact of technology on consumer protection, so
23 we're going to let go of the concept of consumers, think
24 about institutional framework. It seems to me reviewing
25 was three different forms of production and distribution

1 of social media that you could identify a continuum of
2 different institutional outcomes, and there's a strong
3 ilk which has been obviously most of the presentations
4 today towards commercialization.

5 So I think Professor Geist and I are
6 representatives of the nonprofit world here, which say
7 maybe there's a lot of non commercial dimensions to this
8 process that need to be emphasized, and that's part of
9 the answer to the question what can the 20th Century
10 regulatory agency do to reinvent itself in the 21st
11 Century when this or is the consumer's point?

12 So in my very informal unscientific survey of
13 media that I have access to, which includes that I can
14 search Lexis-Nexis and Westlaw as well as the Internet,
15 the most important decision it seems to me is just to go
16 back and think about what is meant to say that someone
17 was a consumer, and the rise of the whole notion of
18 consumer is very distinctly 19th Century, and it's part
19 of the industrial revolution and in the 20th Century, it
20 became pride for progressive agenda about finding ways
21 to counterbalance the weak or passive position of those
22 who consume the output of mass production or mass
23 communication.

24 And so it's that very passivity need of someone
25 like a regulatory agency to put a thumb on the scale and

1 even up the balance, which is being called into question
2 by the mass participatory movements that are mediated by
3 technology, so some of the terms that I bumped into were
4 user, blogger, contributor, collaborator, producer,
5 distributor, and then there was a whole -- started to be
6 a whole spectrum of things like citizen journalist or
7 creator.

1 does this mean if we have to abandon the idea that
2 there, s a clear institutional frame work for futures on
3 one side of the equation and package consumers on the
4 other, and package consumers that have a regulatory
5 agency to come and fight their fights for them.

6 It seemed like on the far side there are the
7 most commercial possible applications of this
8 technology, and on the side close to me are the most
9 political or social dimensions, the most removed from
10 market, and I discovered searching Lexis-Nexis and
11 Westlaw and not on the Internet that there, s turmoil and
12 interest in the advertising industry about losing
13 control of the development of advertising.

14 I, m not an advertisement person so I, m probably
15 going to use the wrong vocabulary, but I think most
16 people know about how Chevrolet tries to invite users to
17 participate in a case, only to discover that there, s an
18 undercurrent of hostility toward Chevrolet that they
19 have never gotten in touch with before.

20 So if you have a product that generally blogs on
21 a huge wealth stream of enthusiasm and devotion among
22 your continued public, then opening up the question of
23 how to define methods can be incredibly productive, but
24 I think there, s a question. For those of us who are not
25 in the advertising agency, we, ve never really been

1 satisfied by the economists's explanation of why
2 advertising is in fact productive, and so the idea that
3 you can use this new technology to improve sort of
4 conversations about what really is happening seems like
5 the most superficial and nose commercial possible
6 application of them.

7 As a commercial law professor, I personally
8 think the idea of getting much broader feedback, much
9 broader and more diverse feedback in how products and
10 services are designed, that seems to me to be
11 tremendously exciting. One of the things I said is that
12 globali ation and ability of Americans to compete in
13 global markets is opening up, and learning more about
14 how people interact with your products seems to me like
15 you're going to actually get better product as opposed
16 to better messages about the same products.

17 So that,s a very commercial application. And
18 then in the middle we come to the kind of institutions
19 that FTC represents, which is in the event of market
20 failure, regulatory agencies will intervene to maintain
21 the transparency and accountability for markets to
22 function. So that,s a clear mandate that the FTC
23 currently enjoys, to exercise public authority to help
24 consumers.

25 But then if we keep going, as we get into more

1 environments such as Wikipedia or open source software,
2 there's an actual non commercial dimension to the some
3 interactions, and that seems to have been little
4 emphasized today, and perhaps I'm not the right person
5 to be thinking about it, but in my review of what people
6 were saying, and discussing projects just seems to be
7 really important when you really open up sites and you
8 don't have attitudes or people with proprietary stuff
9 and maintaining the cohesion of the discussion, there is
10 a problem about maintaining a civil community.

11 And so I think this is something that when you
12 look at Wikipedia or the free open source software
13 movement, they've had to really struggle with developing
14 government mechanisms that can sustain antisocial and
15 political environments.

16 And then finally at the other end, I'm truly not
17 qualified to talk about this, about using technology as
18 a form of direct to market, but you could get sort of
19 more and more an artistic as you go along. In fact the
20 Federal Trade Commission doesn't have much to contribute
21 to that.

22 So the next question I had was: Is
23 commercialization inevitable? If it's one of the
24 advantages that markets have with the government
25 mechanism, are there clear lines of accountability and a

1 clear message to determining whether people are
2 functioning the way they're supposed to, and once that
3 triggers for FTC intervention, there's the question of:
4 Is there evidence of a market failure? If you set up
5 the government's problem, in a sense you've pre-judged
6 it.

7 The social and political dimension has become
8 relatively invisible, and then there's another question,
9 this again is a question of globali ation, and too bad
10 the earlier speaker, Danah, has gone away, because she
11 talked to people outside the United States about social
12 interactions involving this technology. But I would
13 think the American embrace of ads on blogs and embedded
14 advertising in the kind of video that we saw that that
15 might not be universal, that that might be a hallmark of
16 American culture that people are happy to commerciali e
17 their social relationships and don't think there's any
18 particular content there, but I think even in America,
19 people kind of wonder about whether that sort of end
20 user really would like to see.

21 So the problem is that market institutes can
22 raise capital. They have management structures that are
23 recogni able, and the more social and political or yen
24 faces have to resolve fundamental government problems
25 and determine where they're going to get the technology

1 from it.

2 So this final question then is: What is a
3 person to do? And I think I would say the presentations
4 have mentioned quite a few enforcement efforts. The
5 Federal Trade Commission is making tremendous strides in
6 the area of information security and working to
7 combative ways in the background of this, because I'm
8 one of the 60 percent that doesn't use social networking
9 sites, but one of my students said, Some people go on
10 the site to ask people questions like what's your pet's
11 name, and it's a -- haven't they thought that that's in
12 fact a password, that that's a way that you can
13 impersonate, a way that can lead to infrastructure, the
14 seriousness of people sharing information on these
15 things?

16 So here there's a lot of misconduct out there,
17 and the Federal Trade Commission can be vigilant and
18 look for the bad guys and take steps to sensiti e people
19 to predators. The traditional mandate of the Federal
20 Trade Commission to prevent deceptive marketing can give
21 them the authority to oversee bogus feedback, but I
22 think there are more challenging and 21st Century kind
23 of roles that FTC might play.

24 And one of them we saw emerging at the end of
25 the 20th Century in the COPPA regulations, so it's

1 industry legislation to be approved as a means of
2 compliance with COPPA, and that would be an example of
3 reaching out and validating government structures, and
4 what I'm projecting is there's no way that that can be
5 generali ed. It's not just about compliance with a
6 group of statutes like COPPA that maybe the FTC could
7 begin to put its reputational ways behind more defective
8 transparent accountable social and political
9 implications. I'm asking the question. I have no
10 answer.

11 Finally there is the question about mandating
12 disclosures. That has come up several times. A
13 gentleman here mentioned that there is some industry
14 best practices that might work their way into some kind
15 of industry guidelines of clear evidence of this
16 conduct, and finally to get the technology for it and to
17 have a framework around which the technology continues
18 to evolve in ways that meet end user expectations,
19 there's a question of collaborating the development of
20 standards themselves and promoting technological
21 standards that facilitate constructive enactment.

22 That's it.

23 MS. HARRINGTON-MCBRIDE: That was a very nice
24 presentation, thank you. Jane. I've read some of your
25 work. As with all your panelists, I think we're

1 relatively short on time, and I have one quick question
2 if you could give short responses to this. Amanda
3 something you had mentioned, looking at the idea of data
4 monitoring, and social networking sites are a place
5 where people make a great show of friends and the
6 families and put out information.

7 To what extent today is that happening or
8 somebody is doing it, and to what extent by 2016 do you
9 think they will be doing it and what if anything should
10 we be doing about it? So a short response. I'll start
11 with you, Andy.

12 MR. CHEN: I think that almost every company out
13 there thinks about it as a great opportunity to sell
14 more. I'm not sure how many companies actually do it
15 very well. And then I think this or knowledge isn't as
16 widespread as we think, although I think every company
17 is trying to figure out to do it well.

18 MS. HARRINGTON-MCBRIDE: Do you think the
19 technology is going to be changing? That's another
20 component of this. Is something going to happen
21 technologically to make it more feasible?

22 MR. CHEN: It's definitely been happening. You
23 control more data. You can select it multiple different
24 ways. You talked about RIFV and the different ways to
25 track consumers online versus offline, et cetera, et

1 cetera.

2 So I think the data is there and the technology
3 has been there. I think it really is more social in
4 terms of what you decide is send able for your customers
5 to do, so that, s probably the biggest area, but still a
6 technological hurdle but it, s mostly social.

7 MS. HARRINGTON-MCBRIDE: Mack?

8 MR. TILLING: I think it, s an example of how
9 things can be done on a grand scale and also about how
10 either we, re complacent to it to an extent or for
11 certain types of -- one is Googlemail Email. They mind
12 the data, if you will. They scrape that within each
13 Email. You, re willing to let them put ads in your
14 Email, and something like ten million or more users
15 basically said, That, s okay with us, we, re willing to
16 have this very useful, very efficient and free service
17 in order to let you read what, s in my Emails and
18 advertise in my current Email based on that.

19 I think technological is there. The actual just
20 processing power, and saving all the terabytes, the data
21 that you need to attach it, in a sense that, s there. I
22 think what, s going to be interesting and going to enable
23 us to have this more quickly is consumer acceptance or
24 consumer complacency. An interesting site, an idea of
25 Root.net, if you haven, t seen it, sort of puts the whole

1 thinking out there that a marketer has created a site
2 for people to take the pole of their own information,
3 and basically what they, re trying to do is put something
4 on your browser that will track everything you do, every
5 place you go but the idea is that you can then see what
6 people can see about you and you can control what they
7 see about you.

8 Now, the question is going to be whether or not
9 you really have ultimate control of that, and it, s a
10 great notion, but also a really sort of interesting turn
11 about on the same idea.

12 MR. GEIST: It seems to be a consumer is
13 accessing any particular site. A professor at
14 Carnegie-Mellon described it. There, s lots of pools of
15 data and in a sense each of these site, every place
16 where we have little bit representing a pool of data,
17 such as the AOL search engine illustrates, and a number
18 of other examples, the ability to pull these little bits
19 of data together to develop very real profiles, even
20 when you think we solved -- you heard today we don, t
21 take personally identifiable information or we
22 deidentify personal information.

23 The fact that Professor Sweeney talked about,
24 she was an expert witness in a case in Chicago where the
25 newspaper was seeking to disclose the fact that there

1 were several children who had contracted illness due to
2 an environmental incident in the area.

3 Dr. Sweeney was there to say, You give me the
4 afternoon, I'll be able to identify each of those
5 children, and the Judge said you're wrong, and there was
6 nothing to stay who the kids were. It was just the
7 normal part of what was happening. Several hours later
8 she started she was able to identify every single one of
9 those kids, a mix of support groups online and a range
10 of different sources, also bits of data, hospital
11 records, all sorts of different things.

12 And so whether you have this instant data and
13 you have this data about me, the reality is there are
14 lots of little bits of data about me, and the ability to
15 begin to aggregate, that even when we are telling people
16 don't worry, we're not collecting anything that's
17 personally identifiable, I think the practicality is
18 that technological today lets you go that stuff.

19 MS. LENHART: I think that's a case where you
20 have to tread really lightly. Other people have said
21 I'm sure the marketers and organizations are considering
22 it or are doing it already, but I think the incidence of
23 the feed is really instructive, where users got really
24 upset when their personal information was suddenly sent
25 out and showed to the network in a new way, and the

1 users mostly acknowledge when you ask them, Oh, yeah we
2 knew it was public.

3 It was never really public in the same deal.
4 We're certainly dealing to the user exactly how the data
5 available to others. It is a lot more horrifying a lot
6 more quickly so I think that's the real hurdle to
7 actually making an effective use of it. If doing it in
8 a way that's transparent and fair to the user but in a
9 way it.

10 MS. HARRINGTON-MCBRIDE: Jane?

11 MS. WINN: I was going to say while this one of
12 those things that separates the United States from
13 Europe for example because in Europe, they have
14 prohibitions on doing the kind of aggregating that
15 ultimately reveals something sensitive, and they have
16 real standards for when people have consented to
17 secondary uses, and so the fact that you're having this
18 discussion reveals once again the fundamental characters
19 of U.S. law, which is everybody has submitted and tells
20 us it's explicitly forbidden, so I have a factual
21 question.

22 If you look at the old Ebay case about the box
23 going on EBay and EBay was unhappy about that and
24 ultimately they won, because at the time they couldn't
25 block the active box, so I have a question for these

1 gentlemen. Do you think you have boxes on your site
2 because the fact that you are constrained by your own
3 privacy policy is good news, but what Professor Geist is
4 pointing out it, we need to be worried about the
5 followers.

6 MR. CHEN: Absolutely. It's a little better or
7 different in the context of a retail site because the
8 retailer has to want the box on the site because they
9 want to get traffic coming in from those customer
10 comments. We actually don't support profiles right now
11 so we don't connect them together because we want to
12 understand it more thoroughly, but we do know boxes are
13 coming in and they'll always be able to be one step
14 ahead in terms of blocking the technology.

15 MS. WINN: But the box profile you, as the
16 business manager, have chosen not to pick it?

17 MR. CHEN: It's probably theoretically possible,
18 but we don't actually disclose anything except for a
19 nickname or a location so it's very very limited
20 information that's given about a consumer, but we're not
21 willing to necessarily have boxes and being able to pull
22 that together, but in connection with that is what the
23 retailer already has in-house, and of course then it
24 becomes a little bit more identifiable.

25 MS. HARRINGTON-MCBRIDE: Mack, do you want the

1 last word?

2 MR. TILLING: That's one reason we don't want
3 any personally identifiable information, but I think the
4 point that was brought up before, somebody that's very
5 clever and has maybe a lot of technology resources could
6 go in and start piecing things together, so where we may
7 not know anything but an Email address, that is sort of
8 key then to opening up some other information. It would
9 probably be pretty difficult to do, but is it
10 unconceivable?

11 No, and I know if we're all playing by the same
12 rules, then we could take all the information and put it
13 together and still not be able to figure out who that
14 person is, but as soon as somebody steps outside that,
15 they have opened the door.

16 MR. CHEN: I also just in general don't think we
17 can underestimate the intelligence of the consumers
18 because what happens like Yahoo, they maintain their
19 privacy pool and probably looking at it today, I get a
20 Email from five of my friends saying, Hey, you can
21 change it, you should opt-out or unsubscribe. Same
22 thing happened with Facebook, so there's this talk about
23 disclosure, but if you have clear disclosure, consumers
24 are pretty smart, at least some of them, and because
25 we've been social networking, it gets out pretty quickly

1 so obviously there, s a balance.

2 You can regulate and you can impose a lot of
3 fear on the marketers and the other people who are
4 running a company, or you can impose a requirement for
5 disclosure and let the consumer regulate and police
6 those companies. And I think it, s a really fine balance
7 but I, m really on the side of letting consumers be the
8 judge.

9 I think there, s a good analogy in terms of
10 product reviews, because a lot of retailers, they
11 understand that if they filter all the negative reviews
12 that customers won, t cut them, and therefore they want
13 trust the company as a place to shop, so they, re very
14 adamant that the reviews are positive and negative, and
15 they, re constructive but not biased, and really it, s
16 because the retailers know that the consumers are smart.

17 MS. HARRINGTON-MCBRIDE: Mack, I offered you the
18 last word, Andy tried to have it. I, m actually going to
19 have it. We are going to close out today, s first day of
20 the tech-ade hearings.

21 I, m very appreciative to all of you that have
22 come. I hope that many of you will join us again
23 tomorrow either here live or on the web cast. Hopefully
24 you, ll also visit our tech site which is across the
25 street in the Marvin Center, Abrahams Hall.

1 Before we close, I think probably better than me
2 having the last word is having another couple of minutes
3 of our consumer video, so we're going to hear a little
4 bit from consumers on what they feel about blogging, and
5 I think it may wrap into some of the things that we
6 talked about. Thank you all.

7 (Applause.)

8 (Whereupon, a video was shown to the audience
9 but was not transcribed.)

10 (Whereupon, at 5:40 the workshop was adjourned.)

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CERTIFICATE OF REPORTER

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I HEREBY CERTIFY that the transcript contained herein is a full and accurate transcript of the steno notes transcribed by me on the above cause before the FEDERAL TRADE COMMISSION to the best of my knowledge and belief.

DATED: NOVEMBER 17, 2006

DEBRA L. MAHEUX

CERTIFICATION OF PROOFREADER

I HEREBY CERTIFY that I proofread the transcript for accuracy in spelling, hyphenation, punctuation and format.

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