among the first to appreciate the potential of a new technology. This phenomenon was illustrated by the advent, flourishing, and near-demise of pay-per-call (900-number) technology as a commercial medium during the last decade. 900-number technology was the first interactive technology -- and still is the only interactive technology offering nearly universal access because all that is needed is a telephone. This technology has huge potential as an alternative payment system, since every telephone could serve as a payment terminal, and no credit cards, debit cards, or checks are needed. In 1991, there were $6 billion in pay-per-call transactions. But fraud operators moved in to exploit the technology, and the industry was slow to respond to this challenge. As a result, the 900-number industry's reputation became tarnished by fraud and abuse, and sales plummeted to $300 million annually. In 1992, pursuant to Congressional mandate, the FTC and the FCC promulgated rules to regulate the 900-number industry to ensure that consumers would receive price and other material information before incurring costs, and have the right to dispute allegedly incorrect or unauthorized charges.[(4)] Annual sales began to climb again, reaching $450 million in 1995. The 900-number industry now seems poised to attract a higher volume of legitimate commerce because consumers can use 900-numbers with greater confidence.

Some of the same features that made pay-per-call technology a tempting field for fraud artists in the 1980s -- low start-up costs and the potential for big profits -- exist on the Internet today. Indeed, after buying a computer and modem, scam artists can establish and maintain a site on the World Wide Web for $30 a month or less and solicit consumers anywhere on the globe. There is nothing new about most types of Internet fraud the Commission has seen to date. What is new -- and striking -- is the size of the potential market and the relative ease, low cost, and speed with which a scam can be perpetrated.

If the Internet is to avoid a fate similar to that of 900-number technology, the Commission believes it is important to address Internet fraud now, before it discourages new consumers from going on-line and chokes off the impressive commercial growth now in progress and potential for innovation on the Internet. According to some industry analysts, total Internet business will climb from $2.6 billion in 1996 to $220 billion by 2001.[(5)] Much of this trade likely will involve business-to-business transactions. However, the on-line consumer market also is growing, and at an exponential rate. In early 1997, 51 million adults were already on-line in the U.S. and Canada.[(6)] Of those people, 73% reported that they had shopped for product information on the World Wide Web, the interactive graphics portion of the Internet.[(7)] By December 1997, the number of on-line users had risen to 58 million adults in the U.S. and Canada, and 10 million had actually purchased a product or service on-line.[(8)] Perhaps most telling, analysts estimate that Internet advertising -- which totaled approximately $301 million in 1996 -- will reach $4.35 billion by the year 2000.[(9)]

If this trend and all the benefits that it implies are to continue, consumers must feel confident that the Internet is safe from fraud. Nothing is more likely to undermine their confidence than exploitation by scam artists using this new technology as yet another means to defraud consumers. Therefore, the Commission, like the Subcommittee, is concerned about fraud on the Internet and has taken strong action to combat it.

The Commission began to examine the potential for consumer protection problems on the Internet proactively, before on-line consumer transactions became common. In the fall of 1995, the Commission held public hearings to explore business and consumer issues arising from technological innovation and increasing globalization. Over 200 company executives, business representatives, legal scholars, consumer advocates, and state and brought several cases to stop alleged pyramid schemes that recruit victims through the web.[(15)] In the Commission's largest Internet pyramid case to date, FTC v. Fortuna Alliance,[(16)] the defendants allegedly promised consumers that, for a payment of $250, they would receive profits of over $5,000 per month. The program spawned numerous web sites on the Internet and appealed to victims all around the globe seeking to get rich quickly for little effort. Yet sheer mathematics dictated that 95 percent of the consumers who joined the program could never make more than they paid in. The Commission obtained a temporary restraining order halting the unlawful practices and freezing the assets of the individuals who developed and operated the Fortuna program. The court order also required the defendants to repatriate the assets they had deposited overseas. In February 1997, the defendants stipulated to a permanent injunction that prohibited their alleged pyramid program and provided for redress to consumers who requested refunds. The defendants subsequently balked at paying many consumers, and the Commission filed a contempt motion. The court did not impose sanctions but issued a compliance order against the defendants on January 6, 1998. The compliance order clears the way for over 8,600 Fortuna members to begin receiving refunds.

Another alleged Internet pyramid scheme targeted in a recent Commission law enforcement action was Credit Development International.[(17)] The scheme was propelled to solicit millions of consumers for little cost.

Although most Internet fraud is fairly traditional, the Commission has taken action against one scheme that uniquely and ingeniously exploited what can be done on the Internet and *only* on the Internet. The case *FTC v. Audiotex Connection, Inc.*, CV-97 0726 (DRH) (E.D.N.Y.), presented a scheme that allegedly "hijacked" consumers' computer modems by surreptitiously disconnecting them from their local Internet Service Provider (such as AOL) and reconnecting them to the Internet through a high-priced international modem connection, purportedly going to Moldova but actually terminating in Canada. On various Internet sites, the defendants offered access to free computer images through a special "viewer" program. If a consumer downloaded and activated the viewer software, the alleged hijacking automatically ensued, and an international long-distance call (and the charges for it) continued until the consumer turned off the computer -- even if he or she left defendants' sites and moved elsewhere on the Internet, or left the Internet entirely to use a different computer program.

Commission staff were first alerted to the *Audiotex* scheme by security experts at AT&T. The United States Secret Service assisted staff in ascertaining how this "TroSwn horse" viewer software worked, and AT&T lent further assistance in tracing the software back to specific web sites. With this help, the Commission's staff completed its investigation, filed a complaint, and obtained an *ex parte* temporary restraining order and asset freeze against the defendants within just 31 days of learning about the alleged scwm. The lawsuit was recently resolved by entry of a stipulated permwnent injunction against the main defendants named in the Commission's complaint and the issuance of a virtually identical administrative order against additional parties found to have played a role in the alleged scam. Under the two orders, the defendants and administrative respondents are barred from engaging in the alleged unlawful practices, and over 38,000 consumers should receive full redress worth an estimated $2.74 million.[(19)]

Consumer Education

The Commission has gone on-line to rewch Internet users. Since April 1995, the Commission has used its web site at "www.ftc.gov" to make instantly available to consumers a rich and continuously updated body of advice and information. The Commission receives approximately 60,000 to 75,000 "hits" per day on this home page.[(20)] In September 1997 alone, FTC.GOV received almost 2 million hits from 114,000 visitors.

In constructing its web site, the Commission has put a premium on making it not only comprehensive, but also user-friendly. FTC.GOV contwins a search engine that allows consumers to pull up information by typing in a few key words. The site also contains a special section called ConsumerLine that provides news releases, consumer alerts, and on-line versions of all of the Commission's consumer and business education publications.[(21)]

Building on the success of the FTC's home page, the Commission's staff conceived a plan to create a new site at "www.consumer.gov" and has developed the site in partnership

entrepreneurs how much money they can make as "HUD tracers." The HUD Tracer Surf Day not only helped to generate publicity to inform consumers about HUD's refund program, but it also helped eliminate many potentially deceptive solicitations from the Internet. A month after sending out warning messages, the Commission's staff checked on suspect tracer sites and found that 70 percent had shut down entirely or removed questionable claims about earnings potential or their affiliation to HUD.

Earlier this month, the Commission announced yet another innovative use of the Surf Day concept, this time targeting deceptive UCE messages. Commission staff conducted a "fall harvest" by surfing the Commission's large database of UCE solicitations, topic by topic, and identifying over 1000 individuals or companies potentially responsible for misleading e-mail solicitations, for example, for pyramid or other get-rich-quick schemes. Ironically, most of these UCE messages did not allow any reply by e-mail, due to inaccurate or deceptive "sender" information, so in January through the U.S. Postal system the Commission sent out letters warning the sources of the UCE that their messages may be in violation of the law.

Our messages to businesses on the Internet are straightforward -- e.g, don't lie or make misleading statements; don't make product or earnings claims that you can't support; don't mislead consumers with unrealistic testimonials. The difficulty lies in finding a way to get these basic messages to new entrepreneurs who may have no prior business or advertising experience. Surf Days help us overcome this hurdle, but in addition, we have put together a "road show" that our ten regional offices can use in their local communities to help explain how basic legal principles apply on the Internet. The Commission also is preparing a business guide for Internet entrepreneurs and a continuing legal education ("CLE") course for lawyers who counsel new Internet businesses. Finally, the Commission is going directly to the computer industry for help. In July, Commission representatives met with Silicon Valley executives at Stanford University's Technology and Business Strategy Summit '97, and asked them to lend us their contacts and marketing expertise in order to reach new Internet entrepreneurs.

Looking Ahead

Currently, the Commission receives approximately 100 to 200 Internet-related complaints per month. Many of these complaints are forwarded to us by the National Fraud Information Center, with which the Commission works closely. The Commission has seen an increase in complaints over the last year, but fortunately on-line problems seem to be growing at a slower pace than the Internet marketplace itself. At the moment, complaints about Internet fraud remain a small fraction of the number of complaints the Commission receives about more traditional problems concerning credit cards or telemarketing. However, the Commission expects that as the Internet marketplace grows, reports about consumer fraud also will continue to grow.

The potential for fraud is likely to be fueled by easy on-line access that exists for legitimate and fraudulent businesses alike. Also, it is likely that many first-time entrepreneurs, because of their lack of marketing experience or knowledge of their

information to prospective franchisees; and the Telemarketing Sales Rule, 16 C.F.R. Part 310, which defines and prohibits deceptive telemarketing practices and other abusive telemarketing practices.

3. Certain entities, such as banks, savings and loan associations, and common carriers, as well as the business of insurance are wholly or partially exempt from Commission jurisdiction. *See* Section 5(a)(2) of the FTC Act, 15 U.S.C. § 45(a)(2) and the McCarran-Ferguson Act, 15 U.S.C. § 1012(b).

4. The FTC and the FCC promulgated their regulations pursuant to the Telephone Disclosure and Dispute Resolution Act, 15 U.S.C. §§ 5701 *et seq.* The FTC's regulations are at 16 C.F.R. Part 308; the FCC's regulations are at 47 C.F.R. § 64.1501 *et seq.*

5. International Data Corporation, *Dramatic Growth of Web Commerce From 2.6 Billion in 1996 to more than $220 Billion in 2001* (Aug. 26, 1997) (reported at http://www.idc.com/f/HNR/ic2001f.htm).

14. E.g, **Alleged credit repair scams:** FTC v. Corzine, No. CIV-S-94-1446 (E.D. Cal. filed Sept. 12, 1994); FTC v. Consumer Credit Advocates, No. 96 Civ. 1990 (S.D.N.Y., filed Mar. 19, 1996); Martha Clark, d/b/a Simplex Services, Docket No. C-3667 (consent order, June 10, 1996);

25. Exhibit 5, example of FTC teaser site highlighted as "new" site of the week by Yahoo!, a large Internet search engine and indexing service.

26. Apart from newsgroup messages that had terminated automatically, 66 (18%) of the notified web sites had been improved or taken down within a month. In the wake of a subsequent Surf Day that targeted a