

they obtained during their calls (e.g., an employee's name, the copier brand), telemarketers send invoices that make it appear that they are the business' regular supplier. The invoices typically range from a couple hundred dollars up to \$1,000. Based on our recent law enforcement experiences, the initial invoice scammers send averages \$550 for toner and \$160 for cleaning or maintenance supplies. If the initial bill is paid, the business continues to receive more unordered and unwanted supplies and ever higher bills for them.

B. Why Office Supply Scams Work

Office supply scams succeed for several reasons. First, the scam invoices appear to be legitimate and can easily blend in with other invoices an organization receives. Second, the organization may not have a well-established protocol for purchasing goods, or employees or volunteers at small organizations may be handling bill payment duties sporadically or for short lengths of time. Thus, they may only have limited knowledge about who are the regular vendors and suppliers and how much office supplies should cost. Third, the person who receives the goods and the person who receives the invoice often are different people so the high price charged for the inferior goods may not get noticed. Fourth, even if an employee realizes that the business has been tricked, the employee may feel that he or she consented to the order or started using the supplies before realizing that the business has been scammed. Thus, the employee believes that the company is obliged to pay. Fifth, if an employee becomes aware of the scam, he or she may try to get the sender to cancel the invoice and accept return of the product. In those instances, the scammer typically tries to persuade the caller to keep the goods for a "lower price,"⁽¹³⁾ refuses to accept the returned merchandise, or charges a substantial "restocking fee" before accepting return of the unordered merchandise. If the business pays to return the product, agrees to pay "restocking fees," or is convinced to pay a lower price, the scam has succeeded because the fraudulent company has made a profit or has the product back so that it can be shipped to another victim. Above all, the fraudulent companies purposefully create confusion over the invoice or goods and exploit the fact that often new or inexperienced personnel may be handling these matters.

The problem doesn't stop with the phony invoice. Despiu2b43()arDeets -14(p)-4(er)-1(i)-

victims. In one Commission case where we were able to determine the number of victims, we found that a medium-sized fraudulent toner operation victimized 23,000 small businesses and non-profit organizations in a four-year period.⁽¹⁶⁾

The complaints and our prior law enforcement actions indicate, however, that there are many office supply boilerrooms doing business on a relatively small scale compared to other frauds. For example, in Operation Misprint, our most recent law enforcement initiative, the 1999 annual gross sales of the twelve targeted companies totaled approximately \$34 million. The average annual gross sales per company, therefore, were about \$2.8 million. At the extremes, however, the twelve companies had annual sales ranging from \$200,000 to \$11 million. These numbers and the fact that we receive complaints about dozens of companies (usually only a few for each one) strongly suggest that there are many small boilerrooms that understandably do not always attract law enforcement attention, but nonetheless cause significant financial harm and annoyance to thousands of small businesses and other organizations.

D. The Growth of Small Businesses

Office supply fraud persists in part because the pool of potential victims grows larger every year. There are about 24 million small businesses in the United States, representing 99% of all U.S. businesses. This past decade has seen a great increase in the rate of new business formation with small businesses providing virtually all of the nearly 20 million new jobs added to the economy since 1992.⁽¹⁷⁾ Most small businesses have copiers and printers and need maintenance and cleaning supplies, so all are potential victims of unscrupulous telemarketers.

Individual stores and franchisees, even though they may be part of very large corporations, also are susceptible to office supply fraud. Likewise, charitable organizations, places of worship, government offices, college sororities and fraternities, even congressional offices, are victimized.

IV. The FTC's Law Enforcement Response

The Commission has a tradition of tackling all types of fraud regardless of whether the victims are individuals or small businesses.⁽¹⁸⁾ In fact, some of the earliest hard-core fraud cases brought by the Commission in federal courts in the mid-1980s were toner-phoner frauds. Since 1986, the Commission has prosecuted 28 office supply fraud lawsuits involving nearly 60 corporations and 60 individual defendants.⁽¹⁹⁾

Many of the Commission's office supply fraud cases were brought as part of law enforcement "sweeps." A sweep is a coordinated, multi-agency effort to target a particular type of fraud nationwide or frauds located in a particular geographic area.⁽²⁰⁾ Sweeps involve the filing of many cases at the same time by federal, state and local government authorities and the launching of consumer and business education campaigns aimed at preventing future losses. The Commission brought its first sweep involving office supply fraud, called "Operation Copycat," in 1996. At that time, the Commission

filed five cases, and the U.S. Postal Inspection Service, the States of Illinois, Indiana, Iowa, Pennsylvania and local authorities in Ventura County, California, and Aurora County, Colorado filed twelve others. The five Commission cases resulted in court orders banning certain practices, requiring performance bonds to be posted and awarding \$13.7 million in redress. In February 1999, the FTC, U.S. Postal Inspection Service and the States of Illinois and Indiana brought four cases as part of "Operation Clean Sweep," which targeted cleaning and janitorial supply fraud. Thus far, court orders entered in those cases ban individuals from telemarketing office and cleaning supplies and award nearly \$200,000 in redress. In December 1999, the FTC announced "Operation Misprint," with the FTC filing twelve cases and the State of Illinois filing two.⁽²¹⁾

The Commission is pleased to announce that recent settlements and completed collection efforts in prior cases will return more than \$4.2 million to office supply fraud victims in

partnership to help the people who work at small businesses or non-profits spot and

information on where to file complaints with the Commission and other agencies and organizations. Go to: www.ftc.gov/bcp/online/edcams/supplies/index.html

- x •**A New Public Service Banner Ad.** The FTC has created a PSA on office supply fraud for use on industry and association Web sites; it allows visitors to link directly to information and educational materials on the FTC's Web site.
- x •**Web Links.** The Small Business Administration, Better Business Bureaus, Independent Office Products and Furniture Dealers Association, the National Federation of Independent Business, the Yellow Pages Publishers Association, the U.S. Chamber of Commerce and others have created or will create links on their Web sites to the FTC's Web site.
- x •**Media Education.** The FTC will mail 5,000 copies of the "Avoiding Office Supply Scams" business education brochure to media contacts to encourage stories about this fraud and its effect on local businesses.

VI. Conclusion

The Commission greatly appreciates the Committee's support and its putting the spotlight on this chronic and pervasive problem. The Commission has battled office supply fraud for many years in the courts and has undertaken substantial efforts to educate businesses on how to recognize and avoid the scam. Office supply fraud, however, continues to be a thorn in the sides of small businesses and non-profits and, thus, continues to be of concern to the Commission. We hope that our new grass-roots based campaign and today's hearing will help prevent more small businesses from becoming victims. Thank you for your assistance and for providing the Commission the opportunity to explain its work.

churches, didn't even own a computer.

12. For example, in *FTC v. Commercial Electrical Supply, Inc.*, 96-1982 (D.Md. 1996), a church in Arizona received 120 unordered light bulbs costing more than \$3 each. An associate pastor stated that the church would never buy that many light bulbs from a company in Maryland when they could be bought for .55 cents each locally, without any shipping costs. Similarly, a Jewish Community Center in Florida received 120 unordered incandescent light bulbs; it didn't even have any fixtures that used such bulbs.

13. In reality, this "lower price" is still much higher than the company's true supplier's price for the amount shipped.

14. Often a company issues a refund if a complaint is filed with the Better Business Bureau or a state Attorney General's office to ward off attention from law enforcement authorities.

15. These figures are from Consumer Sentinel, the first Internet-based, binational computerized consumer fraud database in North America. Consumer Sentinel receives complaints from consumers via email, telephone calls and letters that are processed through the FTC's Consumer Response Center. Other public and private consumer organizations, including Better Business Bureau offices, the National Fraud Information Center and Project Phonebusters in Canada, also submit data to Consumer Sentinel. In addition, companies such as Xerox, which receives many complaints about toner-phoner fraud, contribute complaints to Consumer Sentinel.

16. *FTC v. Michael Chierico*, 96-6671 (S.D. Fla.).

17. The Small Business Administration's Advocacy Office provided data on small businesses.

18. Besides office supply fraud, small businesses also are the targets of other fraudulent schemes. For example, on October 25, 1999, Bureau of Consumer Protection Director Jodie Bernstein addressed this Committee about Web Site Cramming, the practice of causing unauthorized charges for Web site services to appear on small businesses' telephone bills. The Commission also has prosecuted unordered advertising in illegitimate phone directories ("Yellow Pages" scam), and fund-raising on behalf of nonexistent charitable or civic groups.

19. Court-ordered redress in the 28 cases totals \$11,000,000. See Attachment 1 for a summary of the FTC's cases and education programs since 1986.

20. Since 1995, the Commission has participated in 50 law enforcement sweeps.

21. In addition, as part of Operation Misprint, the Boilerroom and Telemarketing (BAT) Task Force executed search warrants at eight locations to gather evidence of possible wire fraud. BAT Task Force members include state and local California law enforcement authorities and several federal agencies.

22. The Ultra Ribbons settlement has been referred, as required by the FTC Act, to the U.S. Department of Justice, Office of Consumer Litigation, for filing on the FTC's behalf. Located in Southern California, Ultra Ribbons was an unusually large boilerroom, employing more than 700 telemarketers. It sold computer ribbons, printer cartridges and other supplies.

23. *FTC v. National Maintenance Supply*, 99C-