

Fighting Consumer Fraud: New Tools of the Trade

**A Report from the
Federal Trade Commission
April 1998**

FEDERAL TRADE COMMISSION - 1998

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FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

THE CHAIRMAN

Dear Reader:

1997 was an important year for law enforcement officials across the nation involved in the fight against consumer fraud. The Federal Trade Commission filed over 50 lawsuits against fraudulent operators and formed alliances with other consumer protection

Executive Summary

Since the days of snake oil salesmen and medicine shows, fraud operators have

Consumer Fraud on the Internet

The Internet holds great promise for the American consumer. Originally the domain of academicians, scientists, and the techno-elite, the Internet now offers an infinite array of ideas, entertainment, and commercial products to every consumer with a computer and modem. The installation of faster lines, better search engines, and more security for online transactions surely will prompt even more consumer use.

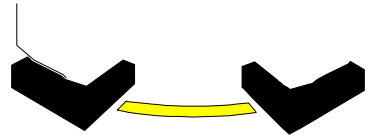
By December 1997, 58 million adults (defined as ages 16 years and older) already were online in the United States and Canada.¹ Of those, 48 million reported that they had shopped for product information on the World Wide Web,² and as many as 10 million reported that they had purchased a product or service online.³ Internet advertising totaled approximately \$571 million for the first three quarters of 1997, a 263 percent increase over the same time period in 1996.⁴ Analysts estimate that Internet advertising revenues could reach \$940 million in 1997 and \$4.35 billion by the year 2000.⁵

Consumers and commercial marketers are not the only groups to see the value and power of the Internet. Con artists also are online, hoping to take advantage of low startup costs; the possibility of “real-time” immediate payments; a nearly infinite number of places to “hide” from law enforcement; unparalleled ability to mimic legitimate business; and instant access to a global customer base. Today’s fraud peddlers can confuse consumers more easily through web sites that are as sophisticated and appealing as those of many legitimate businesses.



This report details the FTC's 1997 experiences fighting cyberfraud. It describes examples of technology-based fraud and traditional fraud occurring over the Internet, and explains how the FTC is using the Internet for law enforcement and consumer education.





expected to share \$2.74 million in redress from the *Audiotex* case—100 percent compensation for their injury.

The Hype: Traditional Fraud and Deception on the Internet

Among the driving forces in the recent bull market are technology stocks in general and Internet-related stocks in particular. Officials of the Securities and Exchange Commission (SEC) and the North American Securities Administrators Association, Inc. (NASAA) have identified the Internet as a major breeding ground for “pump and dump” stock manipulations, penny stock frauds, and other securities schemes.⁶ Meanwhile, unregistered investments have mushroomed on the Internet. It was no surprise, then, to find fraud operators who were trumpeting the riches to be reaped through online businesses.

Test Yourself #1

A promoter tells you he’s selling shares in a partnership. You confirm that a large, legitimate firm is making huge profits in a similar business and its stock is doing well. Your promoter says only a few shares in his partnership remain—and they’ll be gone if you don’t send your money by wire transfer. Buying into the next available partnership opportunity will cost three times as much.

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Answers on page 24.

Money-Making Opportunities

In *Project Field of Schemes*, federal and state law enforcement officials targeted novel investment frauds. The Internet played a prominent role in the sweep. For example, the FTC’s case against *Intellicom Services, Inc.* involved 12 corporate defendants and 10 individual defendants who promised enormous profits from Internet access businesses and Internet shopping malls. The FTC alleged that telemarketers sold over \$30 million in bogus high-tech investments. In an offering they called Home Net, the defendants offered

interests in a partnership to develop a “virtual shopping mall” where consumers supposedly could view products and buy them from their home computers. Predicting a track record like that of QVC and the Home Shopping Network, the defendants claimed that the shopping mall was under construction, that they were locating merchants, and that Home Net would feature live actors as hosts. They promised investors returns of up to 600 percent the first year.

Meanwhile, other *Intellicom* defendants peddled an “Enternet” investment in Internet Service Provider (ISP) businesses which provide subscribers access to the Internet. Comparing their venture to Netscape and Earthlink, two well-known national services that enable subscribers to access the Internet, the defendants allegedly claimed investors would earn as much as a 207 percent return in the first two years. Like the Home Net promoters, the Enternet group maintained a web site with hyperlinks to other sites proclaiming that the ventures were “under construction.”

In both instances, the FTC alleged that the “constructed” site and the profits were nonexistent. According to the FTC complaint filed in July 1997, the defendants skimmed the proceeds, making it impossible for these ventures to succeed. The FTC, together with the California Department of Corporations, filed suit against these operations, obtaining asset freezes and preliminary relief. The SEC also filed suit against some of the defendants, and the FBI served search warrants as part of the investigations.

Other Internet-related scams involve web sites that are luring consumers off-line—into fraudulent telemarketing pitches. Another *Field of Schemes* target, *Dayton Films*, involved the promoters of a movie production offering who posted a web site with a 32-page financial prospectus and a toll-free telephone number. Telemarketers allegedly told consumers who called that the film’s director had won an award from the prestigious Cannes Film Festival and had averaged a 500 percent profit in his last 10 films—claims the FTC says are false. Rosario Filosi, one of the defendants, has agreed to a permanent injunction, including a provision which bans him from telemarketing activities.

Another *Field of Schemes* case, *Coastal Gaming*, involved telemarketers for a casino ship venture who posted a web site inviting Florida tourists to visit their ship, *The*

Test Yourself #2

A promoter gives you names of several satisfied customers around the country. When you call, one claims to be an attorney, another a small businessman, and a third a retired professional. All say they have received returns from investing with the promoter and are making profits.

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Answers on page 24.

Dixie Duck. The FTC alleged that investors were told that they could expect a return of 100 to 300 percent on their investment from *Coastal Gaming's* operation of this cruise ship. In fact, in its few weeks of operation, the ship lost money virtually every time it sailed. Earlier in the offering, *Coastal Gaming* telemarketers allegedly claimed the company had purchased a luxury gambling cruise ship called *The Midnight Gambler*. They also represented that Gloria Estefan, Dan Marino and the Hilton Corporation had entered into agreements with *Coastal Gaming* to promote the good will and name of *The Midnight Gambler*. The FTC alleges that *Coastal Gaming* never purchased the luxury gambling cruise ship called *The Midnight Gambler* and had no contracts with celebrities.

Operation Mousetrap was a law enforcement sweep that attacked misrepresentations by invention promotion firms. The FTC filed suit against *Davison & Associates*, alleging that the company claimed to prepare objective and expert analyses of patentability and marketability of consumers' invention ideas and claimed to have an extensive database of corporations with whom they regularly negotiate licensing agreements. *Davison & Associates* operated a web site allegedly representing that inventions could be marketed profitably if the inventors would contract with a particular invention promotion firm; however, consumers were never able to recover their investment through *Davison & Associates'* services.

In summary, the Internet is teeming with pitches to make easy money as legions of "traditional" fraudsters search for new targets. Indeed, the Internet is a "target-rich" environment. While the fastest-talking telemarketer may be hard-pressed to make more than 150 calls a day, a scammer can e-mail thousands of individuals in less than an hour. Consumers are likely to be inundated with e-mail solicitations in the future, and should view unsolicited commercial e-mail with the same healthy skepticism they would use to evaluate any other sales solicitation.

Pyramid Schemes

Like multi-level marketing programs, pyramid schemes provide financial incentives to recruit new distributors. Pyramids compensate distributors almost exclusively for recruiting other distributors; product marketing activities are merely incidental. Pyramid schemes, unlike multi-level marketing plans, are generally prohibited because it is a

Test Yourself #3

A promoter sends you glossy materials by overnight courier. An enclosed note mentions that the business is headquartered at the World Trade Center in New York, and that offices are located in Chicago, Los Angeles, and Washington, D. C. A call to directory assistance in those cities confirms that the promoter has addresses in each one.

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Answers on page 24.

Test Yourself #4

A promoter tells you on the phone that the investment he's offering is expected to return about 30 to 40 percent annually within about a year - and your entire investment in 18 months. You check the written materials he sent and find a disclosure: The investment is high-risk and you could lose all your money. You don't find any written claims about the returns.

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Answers on page 24.

multi-level marketing plan to sell fine jewelry. Consumers who joined the plan were told to recruit two new representatives each. Last June, the FTC alleged that the company paid commissions based on the recruiting of new participants, not the retail sale of products. As a result, the FTC said, the defendants were running an illegal pyramid scheme, not a bona fide multi-level marketing plan. Last November, the FTC settled charges against *JewelWay* and its corporate officers in an agreement requiring a \$5 million redress

payment for distribution to injured consumers.

FTC v. Nia Cano, et al., filed in October 1997, showcased a new combination—an alleged pyramid that used “spam,” or unsolicited e-mail advertising, to recruit distributors. *Nia Cano* allegedly promised consumers huge profits for selling memberships in an organization that issued credit cards with a credit limit of \$5,000. Actually, the cards were debit cards, which provide for payment for purchases by immediate withdrawals of funds held in bank accounts. Consumers never received the credit cards. Distributors were assured that they would earn \$18,000 a month for signing up new recruits. Some distributors then recruited down the line with unsolicited e-mail containing allegedly deceptive claims. Interestingly, this case resulted from staff review of unsolicited commercial e-mail and news group messages. Last October, the FTC obtained an injunction, an asset freeze, and a court-appointed receiver over the business. An estimated \$2 million has been frozen in this case.

Health Claims

Health and diets are popular subjects on the Internet. Much of the content is simply a free exchange of information, opinion, and conjecture unrelated to the commercial promotion of particular health products or services. The Internet also hosts thousands of commercial health promotions—not all of them legitimate.

Top 10 Lines From Fraudulent Investment Promoters

1. "We don't make money unless you make money."
2. "I know you get offers everyday from people who tell you they're going to make you rich. I can make it easy for you to make your decision based on actual facts."
- 3.

Surf Days: Detection and Deterrence

While fraud artists obviously find the Internet an effective way to reach vast numbers of potential victims, consumer protection authorities have found it also is an efficient mechanism for deterrence. Recognizing that many Net entrepreneurs seem unaware of applicable rules and regulations, the FTC has spearheaded a new approach to alerting these entrepreneurs to how they can comply with the law. Organized “surf days” prevent violations among naive or unsophisticated business people, and also alert scam artists that the FTC and its partners are on the Internet beat.

To surf, the FTC Consumer Protection staff identifies a type of deceptive practice that appears to be prominent on the Internet. Staff develops a protocol to find sites displaying the practice. Staff then recruits a cadre of surfers (federal, state, and international law enforcement agencies, and sometimes industry associations), sets a time and date, and searches the Web for sites with troubling claims. Web sites matching the profile for possible law violations are marked, downloaded, printed and sent to the FTC.

At the FTC, attorneys review the hard copy and identify sites that are most likely to be violating the law. FTC attorneys send the operators of these sites an e-mail message and/or a letter to alert and educate the operators about the FTC’s jurisdiction, what the law requires of advertisers, and why the web site raises a red flag. The communications do not state that the operator has violated the law, but warn that operators in violation of the FTC Act may be subject to enforcement action. Included in the e-mail message is a link to the FTC’s web page where site operators can learn more about relevant law and requirements.

FTC investigators and attorneys, who have made follow-up site visits approximately a month after surf days, have found that 18 to 70 percent of the questionable sites had been eliminated or revised. If an advertiser continues to make misleading or deceptive claims, staff may open investigations and pursue law enforcement efforts.

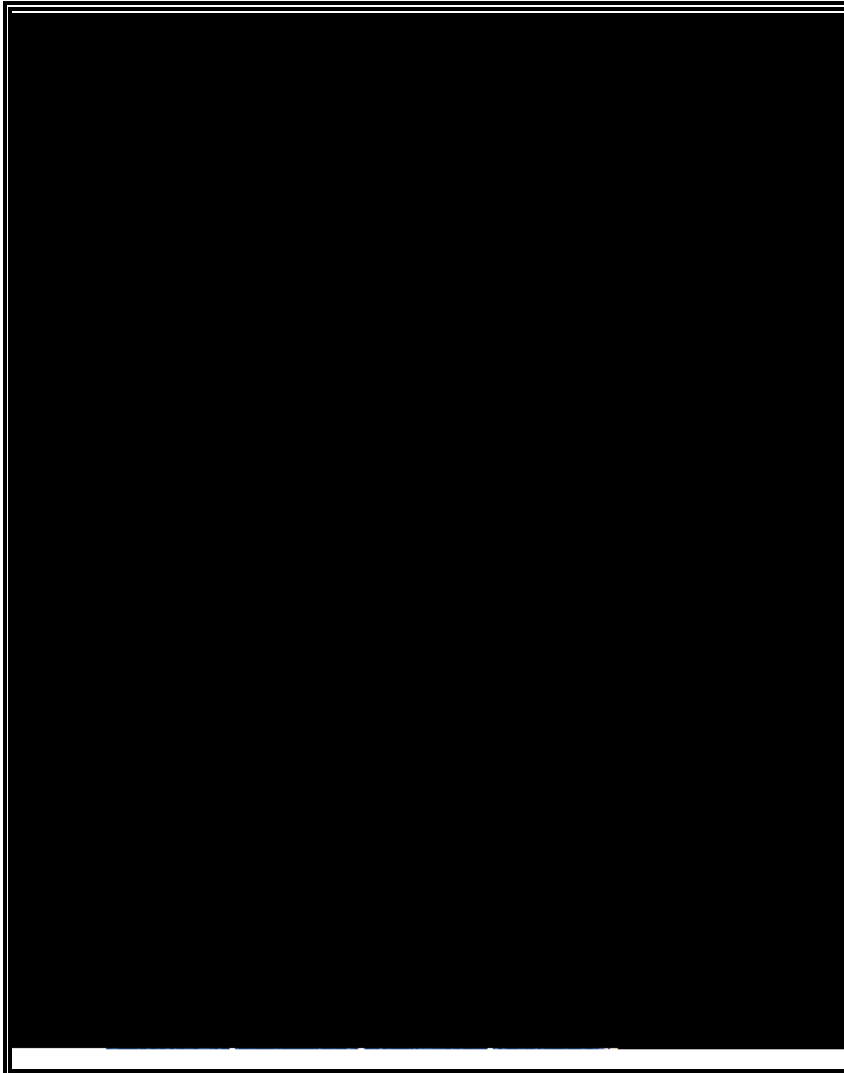
The FTC’s seven surf efforts in 1997 (six of them inter-agency and one international) identified thousands of questionable advertisements. These efforts included:

- ✳ A ***Credit Repair Surf Day***, conducted with staff from the office of the Attorney General of Illinois just before the Credit Repair Organization Act became effective in April 1997. The Act prohibits credit repair organizations from requesting or collecting a fee until they have performed the promised services and protects consumers from unfair or deceptive advertising and business practices by these organizations. This “mini-surf” found dozens of firms charging fees based on the false claim that they can erase accurate negative information from consumers’ credit histories. Each firm received an e-mail message about the new federal credit law. Staff continues to monitor electronic credit repair ads. (March 1997)
- ✳ A ***Business Opportunities Surf Day*** that uncovered several hundred Internet sites making suspicious earnings claims for start-up businesses. One month after sending instructive e-mails, staff found that nearly 23 percent of the sites had removed their questionable earnings claims or their entire solicitation from the Internet. (April 1997)
- ✳ A ***ScholarScam Surf Day***, conducted with Commission staff and the office of the Attorney General of New York. The surf targeted deceptive scholarship offers. Commission staff sent notices to operators of 28 web sites, alerting them that the Commission recently had filed suits against companies making the same or similar claims about their ability to obtain scholarships for students. As a result of the notices, 6 sites shut down or modified their claims by the initial follow-up. (June 1997)
- ✳ A ***Coupon-related Business Opportunity Surf Day*** with the Coupon Information Center, a non-profit organization that battles costly coupon fraud. This effort disclosed unsupportable income claims by 31 work-at-home coupon-clipping businesses. (August 1997)
- ✳ An ***International Health Claims Surf Day***, conducted with government agencies from the United States, Canada and Mexico, as well as private organizations such as the American Heart Association and American Cancer

to cure or prevent cancer, heart disease, AIDS, diabetes, arthritis, or multiple sclerosis. The surfers identified more than 400 web sites, plus many Usenet news groups that flaunted suspicious claims. FTC staff sent e-mail messages to sites, alerting them that their claims require scientific substantiation, requesting the substantiation as necessary, and letting them know how the FTC acts to stop harmful claims. (October 1997)

- ✳ *A HUD Tracers Surf Day*, conducted jointly with the federal Department of Housing and Urban Development, searched for web sites that falsely claimed to be authorized by HUD to either trace money owed consumers as part of the Federal Housing Authority (FHA) mortgage insurance refund program or sell business opportunities to do HUD tracing. Law enforcement agents identified 330 web sites, news group postings, and bulk e-mail messages that included questionable earnings claims or claimed to be affiliated with or authorized by HUD. Site operators were told that if their claims could not be substantiated, they could be violating the law. One month after the warnings were sent, 70 percent of the sites had been taken down or questionable material had been changed. (November 1997)
- ✳ *An International Internet Surf Day* sponsored by the International Marketing Supervision Network, an association of consumer protection agencies from over two dozen countries. The Australian Competition and Consumer Commission coordinated the international surfers while the FTC organized U.S. participants including 23 states, the Securities and Exchange Commission, and the Commodity Futures Trading Commission. Surfers in the U.S. identified 168 web sites promoting possible pyramid schemes or business opportunities. Possible pyramid sites received messages that explained the distinction between multi-level marketing plans and illegal pyramid schemes. Business opportunity promoters received messages emphasizing their legal obligation to post truthful earnings claims, and to be able to substantiate those claims. One month after the warnings were sent, 31 of the sites had been

removed or modified to eliminate apparent misrepresentations. (November 1997)

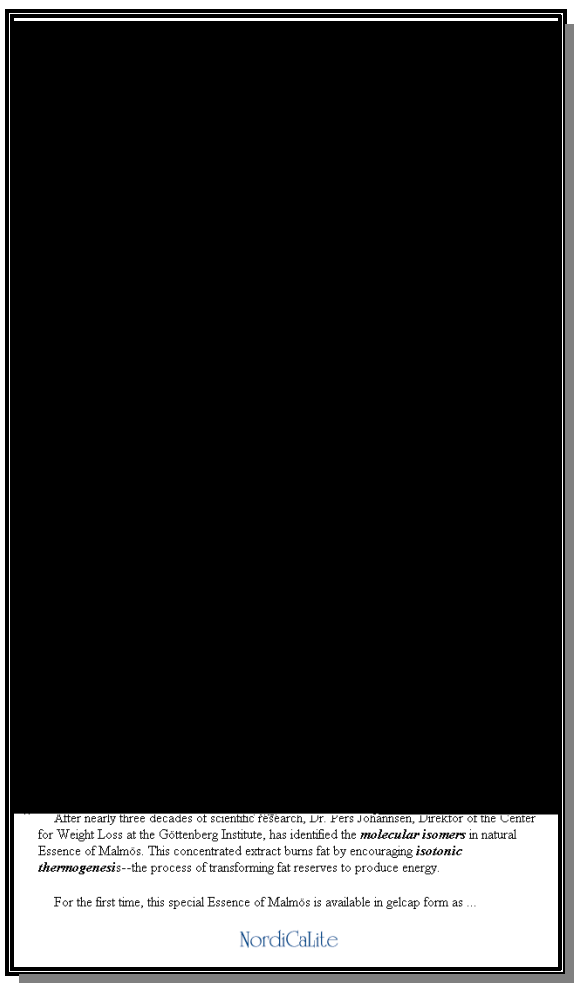


Consumer Education

The FTC works to stem unfair and deceptive practices through both law enforcement and consumer education. Believing that the most effective consumer protection is education, the FTC tries to alert as many consumers as possible to the tell-tale signs of fraud. The agency's information dissemination program is vital to the mission of the agency. We work with a variety of "partners"—other federal agencies, state and local consumer protection agencies, trade associations, professional organizations, volunteer groups, corporations, Better Business Bureaus, the military, and extension agencies, for example—and a variety of media—newspapers, classified ads, public service announcements, bus placards, the Internet, brochures, bookmarks, and puzzles, to name a few.

Teasers and Tutorials

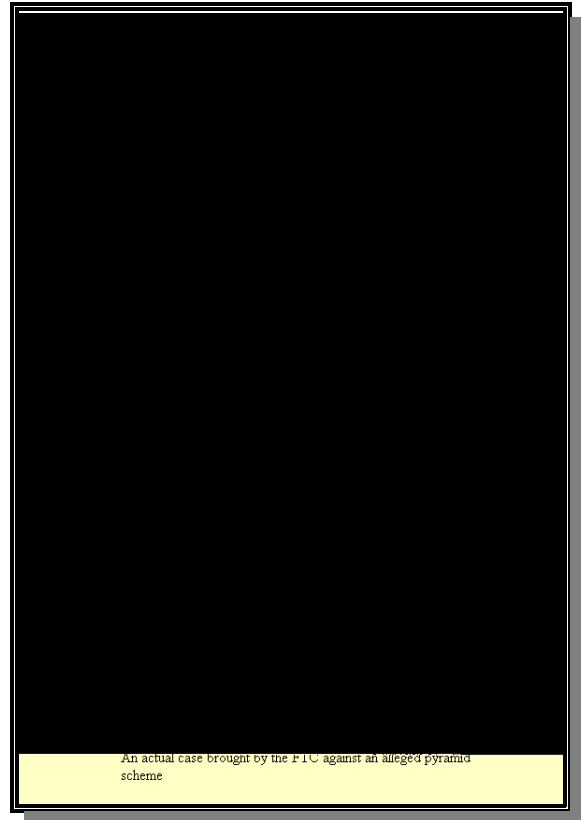
Too often consumers do not find consumer protection information until it's too late. Using "*teaser*" web sites, the FTC is trying to reach consumers before they make a purchase or invest their money. These "teaser" sites are Web pages, accessible by major search engines and indexing services, that mimic fraudulent sites. Internet shoppers looking for vacation deals, for example, may find an innocent-looking site that offers a money-saving, spectacular, luxury, dream vacation.⁷ A lovely sunset emerges. Three clicks into the "come-on," the FTC seal appears. The site alerts consumers that they can get scammed, and gives tips



Teaser Site: www.ari.net/nordicalite

on how to distinguish fraudulent pitches from legitimate ones. The site also links the consumer to the Commission's web site for additional information. The public has responded favorably to these sites, and virtually all consumers expressed their appreciation for the information.⁸

The FTC also has devised Internet *tutorials* in the form of interactive puzzles



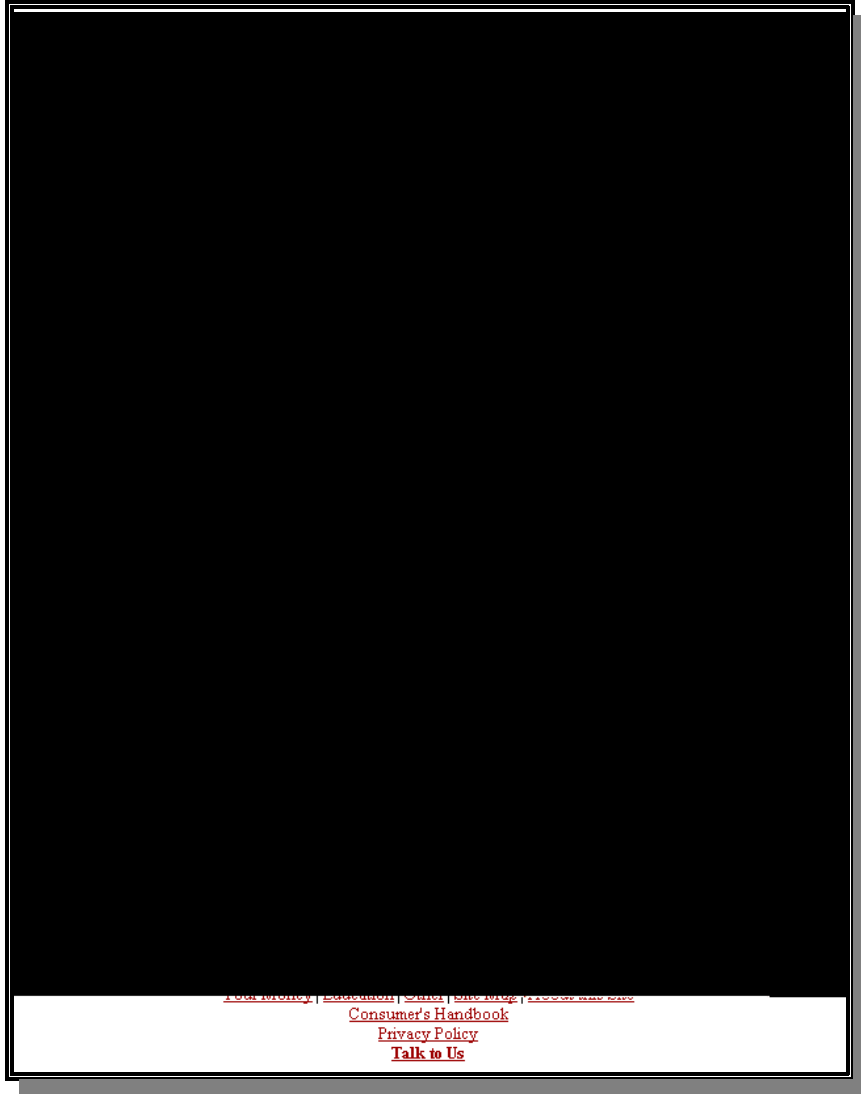
www.ftc.gov/bcp/conline/edcams/pyramid

experts about how to invest wisely in new business ventures or franchises. The Commission posted the transcript of this “chat” session on its web site so that other consumers could benefit from the exchange.

FTC’s Web Site and the New Interagency Consumer Site

Since April 1995, the FTC has maintained a much-visited web site, *www.ftc.gov*, where consumers have availed themselves of a variety of information. The Commission receives approximately 92,000 hits a day on this site. In October 1997 alone, the FTC web site received more than 3 million hits. The site’s ConsumerLine page, which accounts for about 30 percent of all the visitors, provides consumer alerts, online versions of all the Commission’s consumer publications. The *www.ftc.gov* site was recognized many times in 1997 as a “best of the Web” for ease of use and quality of information.

Building on the success of its home page, the Commission solicited other agencies to create a new consumer site at *www.consumer.gov*. The Securities and Exchange Commission (SEC), the Consumer Product Safety Commission (CPSC), the Food and Drug Administration (FDA), and the National Highway Traffic Safety Administration (NHTSA) are original partners in the development of the web site. The United States Department of Agriculture (USDA), the Department of Education, the Department of Health and Human Services (HHS), the Federal Deposit Insurance Corporation (FDIC), Housing and Urban Development (HUD), the Federal Communications Commission (FCC) and the Environmental Protection Agency (EPA) also have joined the “consortium.” This site provides the public “one-stop shopping” for federal information on consumer issues ranging from auto recalls to drug safety to information resources for investors. Additionally, the site’s ScamAlert! provides current information on fraudulent and deceptive practices in the marketplace. This feature appears on each page as necessary, and contains law-enforcement information and tips to avoid scams.



www.consumer.gov

Endnotes

1. CommerceNet and Nielsen Media Research, *Electronic Commerce on the Rise According to CommerceNet/Nielsen Media Research Survey*, Dec. 11, 1997 (visited Jan. 22, 1998) (<http://www.commerce.net/news/press/121197.html>). Another 1997 survey estimated the number of children (defined as under age 18) online at 9.8 million. *Interactive Research Report*, Vol. 4, No. 5 at 1, May 1997 (discussing results of FIND/SVP's 1997 American Internet User Survey).
2. *CommerceNet/Nielsen Media Research Survey*, *supra* note 1.
3. *Id.*; Yankelovich Partners, *Retailing Potential on Internet Stronger than Suspected Finds Yankelovich Cybercitizen Report*, Mar. 27, 1997 (visited Jan. 22, 1998) (http://www.yankelovich.com/Information/Press_Releases/970327.HTM) (finding that 23% of users ordered and paid for a product over the Internet, i.e., "transacted" business online).
4. *Internet Advertising Bureau Announces Third Quarter Advertising Revenue Reporting Program Results* (visited Jan. 22, 1998) (<http://www.iab.net/news/content/new%201211report.html>).
5. Jupiter Communications, *Online Advertising Report*, Aug. 22, 1997 (<http://www.jup.com/digest/082297/advert.shtml>) (figure includes directory listings and classified advertisements).
6. Joseph Cell III and John Reed Stark, *SEC Enforcement and the Internet: Meeting the Challenge of the Next Millennium—A Program for the Eagle and the Internet*; The Business Lawyer (May 1997); NASAA brochure, *Cyberspace Fraud and the Small Investor*.
7. **EZ Travels** (<http://www.ari.net/travelog/eztrvl-1.htm>).
8. Other teaser web sites include: **EZ-Toys** (<http://www.ari.net/eztoyz>) ("at least \$100,000" in a sure-fire, business-opportunity venture selling toys carrying well-known licensed brands); **The Ultimate Prosperity Page** (<http://www.ari.net/prosper>) (glowing testimonials support claim that consumers will "earn \$60,000 to \$100,000 in your first month."); and **NordiCaLite** (<http://www.ari.net/nordicalite/>) (weight loss without diet or exercise—"no dangerous pills, no special diet meals, no expensive doctor visits and no more rabbit food").
9. (<http://www.ftc.gov/bcp/online/pubs/invest/quiz/testiq.htm>)
10. (<http://www.ftc.gov/bcp/online/pubs/briefs/invntbrf.htm>)

Test Yourself: Answers

1. **RISKY.** Even before they've sold the first share of stock, scam artists tell investors that only a few shares are left. But high-pressure sales tactics generally mean high-risk investments, and investing thousands of dollars without adequate time to research the offering is always risky. Don't let any promoters fool you by equating their ventures with those of large corporations. The only track record that matters has to do with the specific venture you're considering.
2. **RISKY.** The people you talked with may be "singers" paid by the company to give a good recommendation. Even if references are investors and exactly who they say they are, a promoter may be paying them special "dividends" - to induce them into giving positive references.
3. **RISKY.** Anyone can rent luxury office space - even fraudulent promoters. But it's more likely that they have a "mail drop" at a luxurious address - a rented box for receiving mail that is forwarded to another location. In fact, each of the "offices" may be a mail drop, an apartment, or even a boiler room. As for glossy promotional materials, they are essential tools of the trade. Scam artists know that these materials may be your main source of information; they're willing to spend money to lend credibility and sophistication.
4. **RISKY.** Get profit projections in writing. Ask for evidence of the promoter's profit

Appendix A

Federal Trade Commission Consumer Fraud Actions Filed in Calendar Year 1997

Law Enforcement Sweeps and Multiple Filings

Project False Alarm: The FTC joined with state Attorneys General Offices or other agencies from all 50 states to target the allegedly deceptive activities of certain for-profit fundraisers who misrepresented ties with police departments, fire fighters, and other community organizations. FTC actions included:

FTC v. The Century Corp.,
Civ. No. 1:97 CV 0130 (N.D. Indianapolis, IN. Complaint filed 4/7/97)

FTC v. The Dean Thomas Corp., et al.,
Civ. No. 1:97 CV 0129 (N.D. Indianapolis, IN. Complaint filed 4/7/97)

FTC v. Image Sales & Consultants,
No. 1:97-CV-131 (N.D. Indianapolis, IN. Complaint filed 4/7/97)

FTC v. Leon Saja d/b/a Southwest Publishing,
No. Civ. 97-0666 PHX SMM (D. Ariz. Complaint filed 3/31/97)

FTC v. Southwest Marketing Concepts, Inc., et al.,
Civ. No. H-97-1070 (N.D. Tex. Complaint filed 3/31/97)

“Field of Schemes” Investment Fraud Sweep: The FTC joined with the North American Securities Administrators Association (NASAA), state securities regulators of 21 states, the SEC and CFTC, and other agencies to bring 61 law-enforcement actions against telemarketers of investments and pyramid schemes. FTC actions stopped over \$150 million in fraudulent sales from offerings ranging from gold-silver mines to Internet “virtual shopping malls.”

FTC v. Coastal Gaming, Inc.,
No. 97-4571 JSL (RNBx) (C.D. Cal. Complaint filed 6/23/97)
(investments in gambling cruise ships)

FTC v. Dayton Family Productions, Inc., et al.,
No. CV-S-97-00750-PMP (LRL) (D. Nev. Complaint filed 6/20/97)
(investments in movie productions)

FTC v. Equifin International, Inc., et al.,
No. 97-4526 DT (CWx) (C.D. Cal. Complaint filed 6/20/97)
(postage stamps and other investments)

FTC v. Gulfstar Corp., et al.,
No. 3-97-CV1508-G (N.D. Tex. Complaint filed 6/23/97)
(deceptive practices in sale of oil drilling investments)

FTC v. Intellicom Services, Inc., et al.,
No. 97-4572 TJH (Mx) (C.D. Cal. Complaint filed 6/23/97)
(Internet shopping malls and other high-tech investments)

FTC v. JewelWay International, Inc., et al.,
No. CV97-383 TUC JMR (D. Ariz. Complaint filed 6/24/97)
(pyramid scheme)

FTC v. Rocky Mountain International Silver and Gold, et al.,
No. 97-WY-1296 (D. Colo. Complaint filed 6/23/97)
(pyramid scheme)

FTC v. Sweet Song Corp.,
No. 97-4544 LGB (JGx) (C.D. Cal. Complaint filed 6/20/97)
(gemstones as investments)

FTC v. Tippecanoe Mining, Inc.,
No. 97-4543 (C.D. Cal. Complaint filed 6/20/97)
(gold and silver mining ventures)

Project Mousetrap: The FTC, joining with the Pennsylvania and Florida Attorneys General Offices, brought seven lawsuits against sellers of allegedly bogus “invention promotion” services, alleging that firms made false claims regarding likely success. These firms are believed to have sold over \$100 million since the early 1990's. FTC cases included:

FTC v. American Invention Associates, Inc., et al.,
No. 97-1114-A (E.D. Va. Complaint filed 7/14/97)

FTC v. Davison Associates., Inc., et al.,
No. 97-1278 (W.D. Pa. Complaint filed 7/15/97)

FTC v. Eureka Solutions,
No. 97-1280 (W.D. Pa. Complaint filed 7/15/97)

FTC v. National Idea Network, et al.,
No. 97-1279 (W.D. Pa. Complaint filed 7/15/97)

FTC v. Carousel of Toys USA, Inc.,
No. 97-8587 (S.D. Fla. Complaint filed 7/29/97)

U.S. v. Global Toy Distributors, Inc., et al.,
No. CV 97 5350 (E.D.N.Y. Complaint filed 7/30/97)

FTC v. Parade of Toys, Inc., et al.,
No. 97-2367-GTV (D. Kan. Complaint filed 7/25/97)

U.S. v. Toys Unlimited International, Inc.,
No. 97-08592 (S.D. Fla. Complaint filed 7/29/97)

FTC v. Unitel Systems, Inc., et al.,
No. 3-97CV1878-D (N.D. Tex. Complaint filed 8/1/97)

Campana Alerta: The FTC joined with officials from the Mexican government, the Food and Drug Administration, and seven state Attorneys General in an effort to prevent fraudulent advertisements directed at Spanish-speaking consumers. Of the five FTC cases, one was filed as a settlement in federal court—FTC v. Mountain Springs, et. al. No. 97-4649 (Jgx) (C.D. Cal. Complaint filed 6/25/97).¹

Operation Peach Sweep: The FTC, along with eight state Attorneys General offices and various local law enforcers and consumer and civic organizations, participated in a law enforcement effort focusing on telemarketers who target consumers nationwide from Georgia-based boiler rooms. FTC cases included:

FTC and State of North Carolina v. Resort Sales Group, Inc., et al.,
No. Civ. 3:97cv382-MU (W.D.N.C. Complaint filed 7/9/97)

FTC and State of Arkansas v. Surechek Systems, Inc.,
No. 1 97-CV-2015 (N.D. Ga. Complaint filed 7/9/97)

Operation Magazine Sales Project: The FTC and Attorneys General from five states targeted magazine marketers who allegedly bilked tens of thousands of consumers out of millions of dollars. The telemarketers used a variety of schemes, from phony prize promotions to offers of “prepaid” subscriptions.

¹ A number of the cases in Campana Alerta, though fraudulent in nature, were styled as administrative settlements and therefore are not listed or tabulated in this Report. For simplicity’s sake, the Report lists only federal court cases brought under the authority of section 13(b) of the FTC Act.

FTC v. Mag-Topia, Inc., et al.,
No. SACV 97-447 AHS (ANx) (C.D. Cal. Complaint filed 5/1/97)

FTC and State of New Jersey v. National Scholastic Society, Inc.,
No. 97-2423 (D.N.J. Complaint filed 5/13/97)

FTC v. S.J.A. Society, Inc.,
No. 2:97CV472 (E.D. Va. Complaint filed 5/97)

ScholarScam Project: The FTC, following up on its Fall 1996 “ScholarScam” sweep, brought simultaneous actions against zzzo selle3 of allegedly spurious schola3 hip services. One case also alleged false accreditation by an allegedly bogus scholarship accreditation service.

FTC v. National Grant Foundation, et al.,
No. 97-8836 (S.D. Fla. Complaint filed 11/3/97)

FTC v. National Scholarship Foundation, et al.,
No. 97-8836 (S.D. Fla. Complaint filed 11/3/97)

Project Mail Box: The FTC, U.S. Postal Inspection Service, the National Association of Attorneys General (NAAG), 25 state Attorneys General Offices, local law enforcement officials, and AARP brought 190 law enforcement actions against fraudulent direct mail schemes targeted to senior citizens. FTC brought a case in FTC v. AKOA, Inc., et al., d/b/a National PC Systems, No. 97-7084-LGB (McX) (C.D. Cal. Complaint filed 9/25/97) (deceptive mailings billing for unordered computer service contracts).

Operation Yankee Trader: The FTC targeted deceptive practices and Franchise Rule violations in the sale of vending machine business opportunities. Three states joined in the sweep, contacting unregistered business opportunities who had solicited residents in their states. The FTC brought a case in FTC v. Stillwater Vending, Ltd., et al., No. 97-386-JD (D.N.H. Complaint filed 8/7/97) (alleged exaggerated earnings claims and other misrepresentations in sale of candy vending machines as business opportunities).

Stand-Alone Cases

FTC v. David L. Amkraut,

No. 97-0354-RSWL (BQRx)(C.D. Cal. Complaint filed 1/17/97)

(unfair and deceptive practices in services offered in connection with the immigration lottery for “green cards”)

FTC v. Audiotex Connection, Inc.,

No. C-97-0726 (E.D.N.Y. Complaint filed 2/12/97)

(deceptive practices in sale of www.sexygirls.com and other Internet sites)

FTC v. International Direct, Inc., et al.,

No. 397CV00721 PCD (D. Conn. Complaint filed 4/16/97)

(deceptive practices and violations of Mail Order Rule in sale of sundries through credit card bill inserts)

FTC v. Licensed Producers USA, Inc.,

No. 97-938-CIV-ORL-22 (M.D. Fla. Complaint filed 7/30/97)

(violation of Franchise Rule)

FTC v. MJS Financial Services, Inc.,

No. 1:97-CV-3087-ODE (N.D. Ga. Complaint filed 10/9/97)

(deceptive practices and violations of Telemarketing Sales Rule in sale of advance fee credit cards)

FTC v. Nia Cano d/b/a Credit Development Int'l & Drivers Seat Network,

No. 97-7947 IH (AJWx) (C.D. Cal. Complaint filed 10/28/97)

FTC and State of New York v. Trans-Asian Communications, Inc., et al.,

No. 97 Civ. 5764 (S.D.N.Y. Complaint filed 8/4/97)

(deceptive practices in sale of prepaid telephone cards)

FTC v. Raymond Urso, et al.,

No. 97-2680 CIV-Ungaro-Benages (S.D. Fla. Complaint filed 8/19/97)

(deceptive practices and violations of Franchise Rule in sale of display rack business opportunities)

FTC v. Woofter Investment Corp., et al.,

No. S-97-00515-LDG (RLH) (D. Nev. Complaint filed 4/24/97)

(deceptive practices and violations of Telemarketing Rule in cross-border sale of foreign lottery tickets)