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INVESTMENT SCHEMES

SPROUTING NEW HYBRIDS

Regulators from the U.S. and Canada Announce "Field of Schemes" Campaign

Targeting Upsurge in Number & Variety of Investment-Related Telemarketing Fraud

Investment fraud is spreading to new fields-from movie productions to Internet "shopping malls" to breeding snails for snail ranching-and more traditional investment scams, such as pyramid schemes, also are on the rise. Federal and state law enforcement officials are responding to this upsurge. Today, securities regulators from 21 states and two Canadian provinces, represented by the North American Securities Administrators Association, Inc. (NASAA), and the U.S. Federal Trade Commission (FTC) announced **"Project Field of Schemes,"** a campaign comprising 61 law enforcement actions and a major consumer education component. Field of Schemes is designed to help mow down some of the newest hybrids as well as the age-old favorite telemarketing investment frauds that are bilking small investors out of an increasing share of the estimated $40 billion lost to telemarketing fraud every year, officials said.

"Swindlers are becoming more creative in how they steal people's money," said NASAA President Mark J. Griffin. "And with the rising bull market in legitimate stocks providing historic returns, too many people are willing to believe the unbelievable. Losses from these non-traditional investment schemes are outpacing the amount defrauded from consumers in all other kinds of telemarketing scams."

Teresa Schwartz, Deputy Director of the FTC's Bureau of Consumer Protection said: "The only ones to reap any profits in this Field of Schemes were the scam artists. Their tactics can be powerful and, unfortunately for consumers, quite effective. They tout high profits and make it believable-claiming a track record of great success, guaranteed income, and that large companies are eager to snap up the investment. They package their claims in glossy publications and use high pressure sales pitches that emphasize the need to act quickly. In the FTC cases alone, consumers may have paid more than $150 million to the defendants."

The proliferation of fraudulent investment telemarketing in America is confirmed by representatives of the National Tape Library, a national library of audio tapes of telemarketing calls maintained to assist civil and criminal law enforcement agencies. According to NTL librarian Sally Bailey, "The portion of tapes attributable to investment schemes have been increasing constantly during the last two years. These schemes are definitely an enormous consumer problem." The Council of Better Business Bureaus also released statistics showing a 46 percent increase in complaints about various investment-related businesses from 1995-1996.

The FTC and NASAA said that the Federal Bureau of Investigation and the California Department of Corporations executed search warrants on defendants in three of the Field of Schemes cases in connection with their own investigations. In addition, the Securities and Exchange Commission announced a law enforcement action against defendants named in one of the FTC Field of Schemes' cases, and Commodity Futures Trading Commission brought a case as part of the project.

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A GROWING FIELD OF SCHEMES

Among the allegedly fraudulent scenarios uncovered by investigators in the law-enforcement actions announced today are the following:

- A film production company offered consumers a stake in family films being produced by an award-winning producer and director whose past films have generated 500 percent returns for investors. While the producer, Lyman Dayton, is an actual movie producer, the FTC alleged that neither he nor his films have won many of the awards claimed by the defendants; his films have generated substantially fewer profits for investors; and the defendants allegedly oversold the partnership units thereby reducing each investor's stake in the partnership and raising the break-even point for the partnership.
- The Massachusetts Securities Division alleges that EZ-Score, a company that promotes itself as producing a basketball training machine used by athletes to better their game, has fraudulently taken investor money. According the complaint, a 34-year-old Waltham woman saw the product demonstrated at a trade show in Boston. After being promised a return of 8% plus 600 shares of stock in the company, she invested $6,000. Yet three years later, the investor has not received any payment or securities and company President Richard Chipperfield has not returned repeated phone inquiries.
- A firm projected earnings of up to 600 percent a year on investments in a partnership that purportedly was ready to unveil a virtual shopping mall on the Internet for live, on-line shopping in a format comparable to television shopping channels. Contrary to those claims, consumers who invested were left with essentially worthless stock certificates because the defendants have depleted all but 15 percent of the investors' money and have delivered the remaining funds to a shell corporation, according to FTC charges filed in court. Further, the defendants did not turn over to the shell corporation any operational Internet shopping mall, the FTC told the court.
- The Pennsylvania Securities Commission has issued a Cease and Desist Order to Global Financial, d.b.a. GFI Financial, Inc., an organization that offered and sold "Commercial Promissory Notes" at $25,000 a piece to supposedly finance and develop international projects. These included "constructing state of the art medical facilities in Hungary," a "water treatment facility in Zaire," and "roadways and infrastructures in war-torn Bosnia." The notes offered 10% interest.
- Telemarketers for two Sherman Oaks, California, companies projected as much as a 10 to 1 return on investments in the unregistered common stock of a company raising $1.98 million to reopen a gold mine in La Plata County, Colorado. They allegedly misrepresented that the federal government confirmed that the mine contains millions of dollars worth of gold, and that the proceeds from the offering would be used to finance the purchase of mining equipment and for extracting and processing of the ore into gold. In addition, they falsely claimed that Exxon and Mitsubishi are interested in acquiring the mine, the FTC alleged. Investment units sold for $15,000 each.
- The Missouri Securities Division charges Millennium Processing Systems of Newport Beach, California, with unregistered sale of securities and employing an unregistered agent. Millennium offers ATM terminals that can not only conduct credit card and smart card transactions, but also charge and recharge prepaid phone cards. A salesperson described the investment as being "a ground floor opportunity on the cutting edge of new emerging technology in the telecommunications and electronic banking industries." The investment was described yielding a 33% annual return for four years, after which time the initial investment would be returned, equaling a minimum profit of 132%.
- Consumers who visited the website of a Tucson, Arizona, company read that they could earn up to $2,250 a week by participating in a multi-level marketing program purportedly to sell fine jewelry. The FTC alleged that this was really a pyramid scheme where most of the consumers who paid from $250 to $2,750 can only make money by recruiting others to sell, not by actually selling jewelry. Pyramid schemes always collapse, the FTC said, and only those participants at the very top-usually the perpetrators-earn any money.
- The British Columbia Securities Commission has permanently banned Goldman Stanley Consultants, Inc., and three associated companies from participating in the securities market. Using a storefront office, the four companies illegally distributed to BC residents foreign

Using a storefront office, the four companies illegally distributed to BC residents foreign exchange contracts, securities that carry substantial risks. The forex contracts were sold without a prospectus by unregistered individuals. In addition, trading activity was not being carried out as represented to clients, account statements were falsified, and funds were misappropriated. Andy Chan, who controlled all four companies, was banned from participating in the securities market for 30 years and pay a $100,000 penalty.

Other schemes targeted as part of Field of Schemes involve communications technology, "error" stamps, foreign construction projects, digital fingerprint identification technology, precious metals, Internet-related investments, and oil-drilling scenarios.

21 + 2 Canada

States and provinces that have brought cases include Alabama, Arizona, Arkansas, British Columbia, California, Idaho, Illinois, Indiana, Iowa, Kentucky, Maine, Maryland, Massachusetts, Mississippi, Missouri, Montana, Ohio, Pennsylvania, Quebec, South Carolina, Virginia, Washington, and Wisconsin.

In the cases brought by the FTC, the agency is alleging that the defendants violated the FTC Act, which prohibits unfair and deceptive practices, and is seeking court orders prohibiting the defendants from engaging in similar deceptive practices and requiring them to pay redress to injured consumers. In addition, in some of the cases, the FTC alleged violations of its Telemarketing Sales Rule which, among other things, prohibits telemarketers from misrepresenting any material aspect-including the risk, liquidity, earnings potential or profitability-of any investment opportunity. Violations of the Telemarketing Sales Rule can lead to civil penalties of up to $11,000 per violation.

TIPS FOR INVESTORS

The consumer education component of Field of Schemes warns consumers about the hottest investment scams being pitched today, and recommends that consumers call the FTC's Consumer Response Center at 202-326-3128 to report suspected frauds. According to FTC brochures and a NASAA Investor Alert, consumers can best protect themselves if they are:

- Listening for the phony sales pitch, which often includes projections of big profits in a short time; claims that little, if any, risk is involved; offers of a ground-floor opportunity for realizing a better return than on another investment; and pressures consumers to act now because the market is moving;
- Skeptical about unsolicited phone calls regarding investments, especially from out-of-state salespeople or companies of which they have never heard;
- Wary of testimonials from references who may have been paid by the fraudulent companies to claim that the investment brought them sudden wealth, and which may signal a Ponzi scheme where promoters use the money from new investors to pay high returns to early investors;
- Cautious about firms that offer partnerships, because fraudulent promoters generally structure deals to siphon off most of the investors' money, and never intend to turn over a functioning business; and
- Watch out for multi-level marketing programs where recruiting new participants, rather than product sales, are emphasized.

Copies of materials associated with Field of Schemes are available as follows:

The FTC brochures-"Facts for Consumers: Investment Risks" and "Consumer Alert-How to Avoid Losing Your Money to Investment Frauds"-and the complaints in the FTC cases are available from the FTC's web site at http://www.ftc.gov and also from the FTC's Public Reference Branch, Room 130, 6th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580; 202-326-2222; TTY for the hearing impaired 202-326-2502. To find out the latest news as it is announced, call the FTC NewsPhone recording at 202-326-2710.

Information about cases taken by state and provincial securities agencies, copies of the NASAA Investor Alert, and a transcript of NASAA President Mark J. Griffin's statement to the media are available on the NASAA website at http://www.nasaa.org. The NASAA Investor Alert also can be obtained by writing to: Field of Schemes, NASAA, One Massachusetts Avenue, N.W., Suite 310, Washington, D.C. 20001; or by calling toll-free 1-888-84-NASAA.

State / Province Actions

Media Contacts:	North American Securities Administrators Association:	Federal Trade Commission:
	Scott Peterson, 202-737-0900	Brenda Mack, 202-326-2182
	Craig Budnick, 202-737-0900	Bonnie Jansen, 202-326-2161

BEWARE OF ONLINE SCAMS

Online Scams: Road Hazards on the Information Superhighway

Fast Facts:

- Cyberspace has become the new frontier for scam artists. The scams aren't new, just the medium.
- Fraudulent sellers use computer services to promote familiar schemes such as bogus stock offerings, high-tech investment opportunities and credit-repair services.
- Treat all ads or would-be ads with skepticism and never make an investment or health-related purchase decision based solely on information obtained from a single source in any medium - print, broadcast or online.

The latest "roadhazards" on the information superhighway are scams broadcast over rapidly-growing computer networks and electronic bulletin board services. The scams aren't new, just the medium. Some con artists who always used telemarketing, infomercials, newspapers and magazines, and the mail to attract consumers to their products, services, or investment schemes, now have turned to the Internet and the online services of Cyberspace as the new medium to promote their scams. "Cyberspace," a term used to describe this information superhighway and giant computer network, includes the Internet and a vast assortment of commercial online computer services.

The Internet and the many commercial online services provide a valuable new information source for consumers. However, Cyberspace has a dark side: fraudulent sellers use these computer services to promote familiar schemes such as bogus stock offerings, credit-repair services, and exotic or high-tech investment opportunities such as ostrich farming, gold mining, gemstones, and wireless cable television. Promotions for ineffective weight-loss and health-related products and programs also appear online. The bottom line is: treat all ads or would-be ads with skepticism and never make an investment or health-related purchase decision based solely on information obtained from a single source in any medium-- print, broadcast, or online.

Types of Advertising on Online Services

Most questionable online advertising falls into one of two categories: classified advertising and "disguised advertising."

- Classified Advertising

  Classified advertising has the greatest number of questionable ads. No matter where you look in classified ads online, chances are they will contain some false and misleading claims. For example, many classified ads promote quick and easy weight-loss products and programs. It is highly unlikely that any of them can deliver on their promises.

  Another hot area in the classifieds is "business opportunities." The traditional "work-at-home" schemes, such as making handcrafts or stuffing envelopes, have been replaced by offers to "use your home PC to make money fast in your spare time." Other ads encourage consumers to invest in communications technologies, such as "900" number telephone services, with promises of high returns and low-risk. The investment attraction of "900" number pay-per-call services is the potentially-high profits to be made--20% or more--from the $3-to-$5 per minute fee charged to callers by the 900 service provider. Again, the marketers' promises on these investments are likely to be false.

- Disguised Advertising

The second category, "disguised advertising," is difficult to recognize because it is not always clear if something is being advertised. There are at least two different areas--bulletin boards and chat forums--where comments or statements about the quality or the performance of products or services may be ads in disguise.

The Internet and the commercial online services all provide bulletin boards where interested parties can exchange information in general topic areas. In some cases, individuals contributing to the bulletin board have financial ties to companies or businesses that sell products or services related to the bulletin board subject area. But, this may not be obvious to the online user. What may appear to be an open discussion could be a disguised sales pitch. Because the full identities or affiliations of online bulletin board operators and participants are not always known, it could be difficult for you to detect disguised advertising.

Some commercial online services also provide live discussion groups called "chat rooms" or "chat forums." Service subscribers can "drop by" and engage in an online conversation by typing in their comments. These forums provide the opportunity to discuss a wide variety of things, including products and services. Some marketers have used these chat forums to promote their products without disclosing their interests.

Growth of Cyberspace and Fraud Potential

The fast-growing arena of cyberspace has become the new frontier for scam artists. There are approximately 15 million Internet users in the United States, and that number is increasing each month, according to industry sources. The largest commercial online services are estimated to have more than five million subscribers in the United States. All of these online users are potential targets from the scam artist's point of view.

Tip-offs to Fraud

The same things that cause concern in traditional print and broadcast media should be viewed with skepticism online. Here are some of the warning signs of questionable online advertising:

- Overstated claims of product effectiveness, such as "Cures or improves 27 different conditions: Hypertension, some forms of cancer, age spots, ulcers, lowers weight..."
- Use of hype titles and frequent use of the word "hot" to describe an investment opportunity can indicate a scam.
- Exaggerated claims of potential earnings or profit, such as "We target a return of 2 to 5% per month (up to 60% per year)...on your protected principal. That is, YOUR PRINCIPAL IS GUARANTEED...no loss is possible."
- Claims of "inside" information. Such information is almost always false and, if true, trading on it is almost always illegal.
- "Pump and Dump" promotions of cheap stocks promising high returns.
- Promotions for exotic investments such as ostrich farming, gold mining, or wireless cable TV.

Remember, the bottom line is: never make a purchase decision for these kinds of investments or products based solely on information obtained from a single source--electronic bulletin board, online chatroom, newspaper or direct-mail ad, or broadcast commercial. Be skeptical and check sources and references.

LEVEL 2 - 1 OF 13 STORIES

Arkansas Democrat-Gazette

July 03, 1997, Thursday

SECTION: BUSINESS; Pg. 1D

LENGTH: 789 words

HEADLINE: State gets tough with companies selling securites

BYLINE: DON CHANEY, ARKANSAS DEMOCRAT-GAZETTE

BODY:

The Arkansas Securities Department announced Wednesday that it has acted against three out-of-state companies selling securities in Arkansas.

The timing of the announcement was coordinated with a nationwide sweep by 20 state securities departments, the Federal Trade Commission and the North American Securities Administrators Association against an investor fraud called "**Field of Schemes.**"

Theodore Holder, assistant securities commissioner, said the idea is just to make the general public more aware of fraud that's taking place.

"We're doing this stuff anyway, but half the time the general public doesn't know we're doing it," Holder said. "That's why people continue to be rooked, because they don't know."

The first action taken by the Securities Department is a lawsuit filed June 23 in Pulaski County Chancery Court against So-Luminaire Daylighting Systems Corp., a Los Angeles lighting manufacturer, as well as several of its employees. The suit also names two Arkansas residents, Kevin Thomas Tracy and Mark Steven Tracy, both of Siloam Springs.

The suit claims that from 1993 to 1996 So-Luminaire sold 1.9 million shares of common stock to 226 Arkansas investors for $ 1.1 million even though the stock wasn't registered with the state.

So-Luminaire misrepresented the company and its stock to potential investors, the Securities Department suit claims. Among other things, potential investors were told that the company's net worth was $ 2 million when, in fact, it was never more than $ 700,000 and the company was losing money every year, the suit says.

Richard Lee Dominguez, president and chief executive officer of So-Luminaire, admits that his company didn't register the stock but only because company officers didn't know they needed to. He claims that demand for the stock came from word-of-mouth referrals by people who had seen or bought his lighting systems.

Dominguez does deny that So-Luminaire made any misleading statements about the company or its stock to potential investors.

"There is nothing phony about this company, about me, or anyone who works in it," he said. After meeting with regulatory officials, he said, the company is working to raise capital to make a recision offer to investors.

Kevin Tracy and Mark Tracy, who serve as sole distributors in Arkansas for the company's products, allegedly made $ 58,450 in commissions for selling the stock, the suit says.

However, Kevin Tracy said that's not true. He says he and his brother sold only So-Luminaire's products, not its stock. He does concede that when people were intrigued when they saw the product, the brothers gave out the company's name and telephone number.

As for the money the two received as commissions, Tracy said that was simply reimbursement for what the brothers spent showing the products at trade shows.

The Securities Department also issued a cease-and-desist order against kidZtime TV Inc., which has offices in Columbus, Ohio, and Lakewood, Colo., and against Capital Funding & Financial Group Inc., which also has offices in Lakewood.

The department wants the companies to stop selling $ 10,000 "ownership units" in kidZtime affiliates, the order says. The units aren't registered with the Securities Department.

At least two Arkansans bought a unit of an Atlanta kidZtime affiliate, the order says. Although the company claims the units aren't securities because they are parts of a general partnership, the department disagrees because the buyers can't actually exercise any joint management control of the company.

Holder, who said he knows of about 20 Arkansans who bought the units, said that after completing its investigation, the department will probably seek a recision offer from kidZtime. Several other state securities departments have already issued cease-and-desist orders against the company, Holder said.

Securities Commissioner Mac Dodson also issued an order suspending the registration of Eric T. Gelfand, a registered representative of Argent Securities Inc. in Atlanta, which is licensed to do business in the state.

The order claims Gelfand pressured a 77-year-old Arkansas man into selling his stocks in dividend-paying, well-established companies.

Gelfand then convinced the man to buy large blocks of stock in two companies that were about to "skyrocket" in value because large institutional purchases of the company's stock were about to be made and possibly even a takeover would occur. The Arkansan's stock in the two companies lost $ 800,000 in value, the order says.

Neither Gelfand nor a representative of Argent Securities could be reached for comment.

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LANGUAGE: ENGLISH

LOAD-DATE: July 03, 1997

NASAA

ALABAMA:
Defendant: Cavalier Partners, Joel Eisenberg, and James Raves
Location: Van Nuys, CA
Summary of Case:

> The company was said to finance, develop, coproduce, own an interest in, license, and otherwise participate in the commercial exploitation of full length motion pictures. An Order to Cease and Desist was issued alleging that the company offered unregistered investment contracts for sale in the State of Alabama.

Entity that Brought the Case: Alabama Securities Commission
Media Contact: Joseph P. Borg, Director, Alabama Securities Commission, (334) 242-2984

Defendant: Hancock Consulting Services, Inc.
Location: Mesa, CA
Summary of Case:

> The company was said to offer all the documentation necessary to participate in FCC Interactive Video Data Service Auction. It was found that the company offered unregistered investment contracts for sale into the State of Alabama.

Entity that Brought the Case: Alabama Securities Commission

Media Contact: Joseph P. Borg, Director, Alabama Securities Commission, (334) 242-2984

Defendant: The Cellcom Group, One Stop Wireless of America, MEC Business Services, Inc., Carla Elizabeth Havard
Location: Denver, CO
Summary of Case:

> An inquiry by the Commission staff has disclosed that the above entities offered unregistered limited liability interests of One Stop Wireless for sale into the State of Alabama. The limited liability interests are securities in the form of investment contracts. These interests are neither registered nor exempt from registration in Alabama.

Entity that Brought the Case: Alabama Securities Commission
Media Contact: Joseph P. Borg, Director, Alabama Securities Commission, (334) 242-2984

ARIZONA:
Defendant: kidZtime TV Affiliate Partners, kidZtime TV, Inc., Capital Funding & Financial Group, Inc., Michael Alu, Tom Kunac, and John Norton.
Location: Lakewood, CO
Summary of Case:

> The Arizona Corporation Commission alleged unregistered sales of securities, unregistered salesmen and dealers, and fraud. The scheme involved sale of partnership interests in a

salesmen and dealers, and fraud. The scheme involved sale of partnership interests in a children's television network. (See Arkansas)

Entity that Brought the Case: Arizona Corporation Commission
Media Contact: LeRoy Johnson (602) 542-0185

ARKANSAS:
Defendant: So-Luminaire Daylighting Systems Corp. (SDSC)
Location: Los Angeles, CA and Siloam Springs, AR
Summary of Case:

The principals sold approximately $1.5 million of unregistered stock in SDSC to Arkansas residents through misrepresentations of the true worth of the company and through the promise of an upcoming public offering of the company's stock.

Entity that Brought Case: Arkansas Securities Department
Media Contact: Chief Counsel Bruce Bokony (501) 324-9260

Defendant: kidZtime TV Affiliate Partners, kidZtime TV, Inc., Capital Funding & Financial Group, Inc., Michael Alu, Scott W. Severson.
Location: Columbus, OH; Lakewood, CO; and various localities in AR
Summary of Case:

By telephone solicitation the defendants sold units of a general partnership in a local affiliate organization which obtains the rights to broadcast nonviolent children's programming on cable television systems. Although this business entity was said to be a general partnership in which all the partners would have equal rights to control, this control was illusory at best. Hence, this was really an investment contract, a security, which was being offered and sold without proper registration.

Entity that Brought the Case: Arkansas Securities Department
Media Contact: Assistant Commissioner Theodore Holder (501) 324-9260

BRITISH COLUMBIA:
Defendant: Goldman Stanley Consultants, Inc., Chinamax International Investment Ltd. (Hong Kong), Chinamax International Investment Ltd. (British Columbia) and Peregrine Finance Ltd. (Alberta) and Andy Chan (a.k.a. Wing Leung Chan, Ying-Leung Chan and Ying Leung Chan.)
Location: Hong Kong and British Columbia
Summary of Case:

The British Columbia Securities Commission has permanently banned Goldman Stanley Consultants Inc. and three associated companies, Chinamax International Investments Ltd. (Hong Kong), Chinamax International Investments Ltd. (BC) and Peregrine Finance Ltd (Alberta), from participating in the securities market. The Commission also ordered that Mr. Andy Chan, who controlled all four companies, be banned from participating in the securities market for 30 years and pay $100,000 penalty. The four companies, using a storefront office, illegally distributed to BC residents foreign exchange contracts, securities that carry substantial risks. These forex contracts were sold without a prospectus by unregistered individuals. In addition, the Commission found that Mr. Chan went to considerable lengths to create the illusion of legitimate activity where there was none, including the use of forms and names of legitimate companies operating in other jurisdictions. Trading activity was not being carried out as it had been represented to clients, account statements were falsified, and funds were misappropriated.

Entity that Brought the Case: British Columbia Securities Commission
Media Contact: Barbara Barry, Communications Manager, (604) 775-0339

CALIFORNIA:
Defendant: Home Net Partners, World Net Development Group, Inc., James C.Q. Slaton (President) David Zeidel Diamond (Sales)
Location: Santa Monica, CA and Agoura, CA
Summary of Case:

> Home Net Partners and affiliates were engaged in the offer and sale of investment contracts in the form of general partnership interests in violation of the qualification provision at CC 25110. Offers and sales of these interests are made from boiler room ISO's in violation of the licensing provision at CC 25210. Partnership funds allegedly will be used to develop and operate a home shopping mall on the Internet. Investors are told the partnership will be sold to a publicly traded company and the partners will make money on the sale to the public company.

Entity that Brought the Case: California Division of Securities
Media Contact: Bill McDonald, Assistant Commissioner of Enforcement, (213) 736-3704

Defendant: Eternet Communications; Eternet 2000, Inc., Mark Victor Nachamkin a.k.a. Mark Nash (President), Media Tech, Kent Bollenbach (Sales), Eugene D. Evangelist (V.P. and Sales), Granite Consulting, Timothy Grayson (Sales), David Zeidel Diamond (Sales)
Location: La Jolla, CA and Encino, CA
Summary of Case:

> Like Home Net Partners, Eternet Communications and Eternet 2000, Inc. are engaged in the offer and sale of investment contracts in the form of general partnership interests in violation of CC 25110. These offerings are made by unlicensed broker dealers operating out of boiler rooms in La Jolla and Los Angeles. The transactions violated the licensing provision at CC 25210. The minimum capital contribution is $20,000 for 4 units with $750 allocated to the partnership capital allegedly will be used to develop and operate an Internet service provider for a 3 city area to include Chicago, Indianapolis, and Detroit. Partners will make money on the development of the ISP and on a sale of the company to a public company in the future.

Entity that Brought the Case: California Division of Securities
Media Contact: Bill McDonald, Assistant Commissioner for Enforcement, (213) 736-3704

Defendant: Connectkom Services, Inc., Connectkom Group, Paul Perelman (President), Media Tech a.k.a. American Long Distance, Kent Bollenbach (Sales), Granite Consulting, Timothy Grayson, David Zeidel Diamond
Location: La Jolla, CA and Tarzana, CA
Summary of Case:

> Media Tech, also using the name American Long Distance, is known to be engaged in selling interests from the La Jolla location. Connectkom Services, Inc. used the services of a mail drop/phone answering service located in Seattle, WA. An alternate address for Connectkom is a mail drop located in Tarzana, CA. Partnership capital allegedly will be used to develop an ISP in the Pacific Northwest. The minimum capital investment is $20,000 for 4 units with $750 allocated to the partnership and the balance paid to the managing partner. Like Eternet, Connectkom is conducting the offer and sale of interests in investment contracts in the form of general partnership units in violation of CC 25110. Boiler room ISO's offer and sell such interests using pitch sheets and "mooch lists". Such transactions violate the broker dealer licensing provision at CC 25210. The Investigations' Unit under the direction of Supervising Investigator Holguin executed search warrants at 5 locations in Los Angeles and the San Fernando Valley.

Entity that Brought Case: California Division of Securities
Media Contact: Bill McDonald, Assistant Commissioner for Enforcement, (213) 736-3704

Media Contact: Bill McDonald, Assistant Commissioner for Enforcement, (213) 736-3704

Defendant: Mark Levine and Ira Itskowitz
Location:
Summary of Case:

> Levine and Itskowitz are believed to be the masterminds behind the DOC's targets for this sweep. Since 1992, Levine and Itskowitz have raised at least $ 65 million in connection with investment fraud schemes known to the DOC.

Entity that Brought Case: California Division of Securities
Media Contact: Bill McDonald, Assistant Commissioner for Enforcement, (213) 736-3704

IDAHO:
Defendant: Cal-Pride Ostrich Farms, Inc., Steven DiPressi, and Bill Evans
Location: Agua Dulce, CA
Summary of Case:

> The case revolves around the offer and sale of general partnership interests in ostrich ranching and other operations. The Department of Finance Securities alleges that the interests are securities and that omissions of material information occurred. Cal-Pride was previously ordered to Cease and Desist by the State of California and DiPressi is alleged to have previously filed a personal bankruptcy.

Entity that Brought the Case: Idaho Department of Finance Securities Bureau
Media Contact: James A. Burns, Securities Investigator, (208) 332-8004

Defendant: Flameseal International, Inc., American Venture-Eagle International, Inc., Bargain Hunter Network, Inc.
Location: Homedale, Idaho
Summary of Case:

> The complaint details Hunter's control of the corporation and a series of securities made by Hunter from Idaho since 1993, often in connection with Hunter's association with various multi-level businesses. Victims have been identified in multiple sates and Canada. Two of the offerings were related to a flame retardant marketed by Flameseal International. One was known as the Flameseal Dollar Percentage Pool. The other was known as the Treeseal Financing Program. Bargain Hunter Network was a profits pool based on the most profitable hours of a QVC type satellite show.

Entity that Brought the Case: Idaho Department of Finance Securities Bureau.
Media Contact: James A. Burns, Securities Investigator, (208) 332-8004

ILLINOIS:
Defendant: Ameritel Payphones
Location: North Miami, FL
Summary of Case:

> Ameritel Payphones was advertising an '800' telephone number. When investors called there was a lengthy breakdown of the business and Ameritel recommended companies to provide locations for the payphones purchased by the customers. There are many similarities between this company and US Payphones which is subject to a Cease and Desist. A Summary Order to Cease and Desist was issued against Ameritel on 5 May 1997 alleging the offer and sale of unregistered business opportunities and making an untrue statement.

Ameritel has requested a hearing which is set for 20 August 1997.

Entity that Brought the Case: Illinois Security Department
Media Contact: Robert Newtson at (217) 524-8040

Defendant: The Gambler, Inc., World Wide Web Gaming, and James P. Harrington
Location: Aberdeen, NJ
Summary of Case:

> The Gambler, Inc. promoted itself as a company that would provide gambling over the Internet. An investor's son initially contacted the Illinois Security Department with concerns about investments his 80 year old father was making. The company represented that it had an Internet site, but it cannot be located. When the Department contacted the president of the company he indicated he would cooperate and that he was working with the SEC on registering its stock. Since the initial contact, the company has failed to respond to further Department inquiries. A notice of hearing based upon the company's failure to register its stock and respond to Department document and information requests has been filed.

Entity that Brought the Case: Illinois Securities Department
Media Contact: Robert Newtson at (217) 524-8040

INDIANA:
Defendant: Advanced ID Technology, Inc., Advanced ID Technology Partners, Advanced ID Technology Group, Inc., AIDT Income Fund, Gene Mills and Mark Ament
Location: San Francisco, CA/ undisclosed location in Florida
Summary of Case:

> Company offered to sell partnership interest in AIDT Partners to Indiana residents. Partnership interests were being sold to fund AIDT, Inc. AIDT, Inc.'s stated purpose was to develop digital fingerprint identification technology. Company failed to register securities, failed to register agents and made fraudulent statements/material omissions. Cease and Desist order was issued January 23, 1997. Company has failed to respond, motion for default judgment was filed June 23rd.

Name of Entity who Brought Case: Indiana Securities Division
Media Contact: Bradley Skolnik at (317) 232-6681

Defendant: Arista Capital Corporation, AristaCard International, Inc., and Sebastian John Ragazzo
Location: Newport Beach, CA/New York, NY
Summary of Case:

> Respondents offered units that entitled purchaser to income stream (royalties) based on affiliated company's sales of credit cards. Investor was promised income of $1.00 per credit card issued by the company, with projected sales of between 10,000 and 50,000 cards per month. Respondents failed to register securities, failed to register agent and made fraudulent statements/material omissions. Administrative Complaint requesting order to cease and desist was filed June 17, 1997.

Name of Entity who Brought Case: Indiana Securities Division
Media Contact: Bradley Skolnik at (317) 232-6681

IOWA:
Defendant: US Snail and Shane Farnsworth
Location: Omaha, NE
Summary of Case:

US Snail and Farnsworth offered to sell and sold an unregistered business opportunity in Iowa in violation of the Iowa Business Opportunity Promotions Act (Iowa Code Chapter 253B). This business opportunity involved the sale of breeding snails for snail ranching.

Name of Entity who Brought Case: Iowa Securities Bureau
Media Contact: Erica Brown at (515) 281-4441

Defendant: Rocky Mountain Mint Company, Inc., a.k.a. Rocky Mountain Mint Co., a.k.a. Rocky Mountain Mints, Inc., a.k.a. Rocky Mountain Mint Company and Alan Cohen
Location: Boston, MA and Hollywood, FL
Summary of Case:

Rocky Mountain and Cohen offered to sell and/or sold an unregistered business opportunity in Iowa in violation of the Iowa Business Opportunity Promotions Act (Iowa Code Chapter 523B). This business opportunity involved the sale of mint vending machines, accompanied by promotional vacation incentives, Visa Take Ones, Ballot Boxes, and Hotel Express "Take Ones." These parties circulated or used advertising that omitted to state material facts and made an untrue statement of a material fact.

Name of Entity who Brought Case: Iowa Securities Bureau
Media Contact: Erica Brown at (515) 281-4441

KENTUCKY:
Defendant: Lew Perrin McGee
Location: Lexington, KY
Summary of Case:

The Kentucky Division of Securities encounters securities violations involving "exotic securities" on a frequent basis. One disturbing trend the Division has recently observed involved offerings to unsophisticated investors of worthless investments in promissory notes. On June 13, 1997, the Division entered into an Agreed Order with one of these perpetrators, Lew Perrin McGee, a former insurance and securities agent. Under the terms of the order, Mr. McGee agreed that he has violated the Kentucky Securities Act and that he would offer recession to the 59 investors he had taken money from. The aggregate loss to these investors, many of whom are elderly and on fixed incomes, is over $3.4 million. Because Mr. McGee has declared bankruptcy, the Division is continuing with its own separate action against him in bankruptcy to recover the monies he owes to these duped investors.

Entity that Brought the Case: Kentucky Division of Securities
Media Contact: Carol Czirr (502) 564-7760

Defendant: Energy Development Corporation and John Burse, President
Summary of Case:

The Kentucky Division investigates the sale of unregistered interests in oil and gas programs on a regular basis. Because the western portion of Kentucky has substantial oil and natural gas reserves, unwary investors believe the promises of high returns for their money. Invariably, once the investment has been made, they never hear from the company again let alone receive any return on their investment. Many of the people operating these enterprises, once caught by the Division, simply pick up their business and move it a few miles across the border into an adjoining state. The Division recently entered an order to cease and desist against Energy Development Corporation and its President, John Burse, for operating this type of scam. The Division has since learned that the principal, Burse, has moved across the border into Tennessee and formed a new corporation that the Division has reason to believe is operating in the same way as had Energy Development.

Entity that Brought the Case: Kentucky Division of Securities
Media Contacts: Carol Czirr (502) 564-7760

MAINE:
Defendant: Angus Energy Partners, Scott Gibson (President), Brad McFarland
Location: Dallas, TX
Summary of Case:

> The defendants offered and sold an unregistered, non-exempt security ('joint venture" gas well working interest) to a Maine resident through an unlicensed sales representative.

Entity that Brought the Case: State of Maine Securities Division
Media Contact: Christine Bruenn, Securities Administrator, (207) 624-8551

Defendant: Champ Oil Co., Wayne L. Farris (President), Thomas Million (Executive Vice President), Michael Pierce
Location: Norman, OK
Summary of Case:

> Offered and sold an unregistered, non-exempt security (working interest gas wells) to a Maine resident, and did so through an unlicensed sales representative.

Entity that Brought the Case: State of Maine Securities Division
Media Contact: Christine Bruenn, Securities Administrator, (207) 624-8551

Defendant: Family Movie Partners, Dayton Family Productions, Inc., Lyman Dayton, Michael Meservy, Stan Smith, and Bill Brannon

Location: Kennebec County, Maine
Summary of Case:

> Civil complaint filed on 7/1/97 in Kennebec County Superior Court alleges sale of unregistered securities, offers and sales by unlicensed agents, and employment of unlicensed agents.

Entity that Brought the Case: State of Maine Securities Division
Media Contact: Judy Dorsey at (207) 624-8553

MARYLAND:
Defendant: Max Re Corporation, F. Ridgley Todd and Moses C. Williamson
Location: Baltimore County, Maryland
Summary of Case:

> Order to Show Cause was issued on April 15, 1997 to Max Re Corporation, F. Ridgley Todd and Moses C. Williamson of Baltimore County, Maryland. The Order alleges fraud in the sale of unregistered securities by an unregistered agent through the solicitation of investor funds into foreign construction projects promising unsubstantiated high returns. This scheme was directed by a real estate agent and was an ethnic/ affinity type scheme, aimed at minority investors.

Entity that Brought the Case: Maryland Securities Division
Media Contact: Robert McDonald at (410) 576-6360

Defendant: Bennie R. Harrie II, The Havilah Company and Bennie Harris & Associates

Location: Currently in Texas
Summary of Case

Order to Show Cause was issued on June 11, 1997 to Bennie R. Harris, II, the Havilah Company and Bennie Harris & Associates, who are now located in Texas after operating in the MD-DC-VA area, as well as other states. The Order alleges fraud in the sale of unregistered unrealistically high yields. This scheme was directed by an alleged former clergyman, and was an affinity type scheme, preying on clergy and religious groups.

Entity that Brought the Case: Maryland Securities Division
Media Contact: Robert McDonald at (410) 576-6360

MASSACHUSETTS:
Defendant: EZ-Score and Richard Chipperfield (President)
Location: Westerly, RI
Summary of Case:

The Division filed a complaint alleging that President Richard Chipperfield and EZ-Score have fraudulently taken investor money. EZ-Score promotes itself as a company that produces and sells basketball training machines. The Division is alleging that Chipperfield and EZ-Score took money with the promise of returning the initial investment plus 8% and shares in EZ-Score. The investor who initially contacted the Division invested at a meeting Chipperfield at a trade show in Boston. The initial complainant lost $6,000, a substantial portion of her savings. She has not received any payment or securities in EZ-Score in over three years despite repeated requests.

Entity that Brought Case: The Commonwealth of Massachusetts
Media Contact: Matt Nestor at (617)727-3548

MISSISSIPPI:
Defendant: Charles D. (Chuck) Myers
Location: Gulfport, MS
Summary of Case:

Myers raised approximately $800,000 in investor funds to purchase certain old and gas leases in counties located in Texas. The plan called for his partners in Texas to resale the leases to major oil companies for a profit. In the beginning, the plan worked and investors got a quick return on their money, thereby causing many investors to reinvest with Myers. In the end, Myers kept over $120,000 for personal use rather than send the funds to Texas. Myers plead guilty and received a sentence of 13 months in a federal penal institution; was ordered to pay restitution; and will be on supervised probation for 5 years upon completion of serving time in the penal institution.

Name of Entity who Brought Case: Secretary of the State of Mississippi, Securities Enforcement Division
Media Contact: David Blount, Communications Director, (601)359-6342

MISSOURI:
Defendant: Millenium Processing Systems, Inc., POS Systems Management, Inc., Jim Eberhart, Palm Beach Associates, Greg Wedell a.k.a. Gregg Wedell
Location: Palm Beach, Florida
Summary of Case:

Gregg Wedell and Jim Eberhart offered securities in the form of investment contracts with

Millenium Processing Systems, Inc. ("Millenium") and POS Systems Management, Inc. ("POS") to at least two Missouri residents. The securities were not registered for sale in the State of Missouri. Neither Eberhart nor Wedell were registered as agents in the State of Missouri. Millennium was not registered as a broker-dealer in the State of Missouri. An Order to Cease and Desist was issued by the State of New Hampshire against Gregg Wedell. These facts were not disclosed to the Missouri Residents.

Entity that Brought the Case: Missouri Office of Secretary of State
Media Contact: Douglas F. Wilburn, Commissioner of Securities, at (573) 751-4704

MONTANA:
Defendant: Future Vision, Scott Jeffrey Levine, Sabrina Levine, David John Stamegna, Jeffrey Scott Richmond, Washington Dispatch Data 220 SMR Partnership, 1381 SMR Corporation Simron, Inc.,Todd Krissell
Location: various locations in the US and Canada
Summary of Case:

Future Vision solicited and sold unregistered securities in Montana. The Levines and Stamegna were the officers of Future Visions. The salesperson was not registered, but sold general partnership units and partnership in specialized mobile radio industry. We are also charging fraud and failure to disclose such as Levine and Richmond's disciplinary history.

Entity that Brought the Case: Montana Securities Department
Media Contact: Paul Bergen at (406) 444-2040

OHIO:
Defendant: Theodore E. Mong II, former President of Liberty Bell Association, IN.
Location: Newark, OH
Summary of Case:

Mong was indicted on 81 counts, including 32 counts of selling securities without a license, 31 counts of selling unregistered securities, 8 counts of false representations in selling securities, 8 counts of securities fraud, one count of receiving stolen property and one count of corrupt activities under the Ohio Corrupt Activities Act (a first degree felony).
The Division's investigation found that Mong, through Liberty Bell Association, Inc., sold promissory notes to approximately 40 OH investors who were defrauded out of approximately $1.5 million. Many investors were elderly and were convinced to transfer and invest their IRA funds. Mong had previously been licensed to sell securities with an OH brokerage firm, before he opened his own store-front unlicensed firm.

Entity that Brought the Case: Ohio Department of Commerce, Division of Securities
Media Contact: Commissioner Thomas E. Guyer at (614) 728-2724

Defendant: Michael D. Mahaffey
Location: Hillard, OH
Summary of Case:

An interest in frozen embryos from a cow named Missy Cool that was not registered for sale in the State of Ohio or exempt from such registration was sold to an Ohio investor for $9,000. Mahaffey was the Managing Partner of the joint venture.

Entity that Brought the Case: Ohio Department of Commerce, Division of Securities
Media Contact: Commissioner Thomas E. Guyer at (614) 728-2724

Defendant: Plaza Partners General Partnership; Net-One Consulting, Inc.; and Mark D. McClafferty
Location: Carson City, Nevada

Summary of Case:

A telephone solicitation of general partnership interests in Plaza Partners General Partnership was made to an Ohio resident by Net-One Consulting, Inc. of Carson City. McClafferty is the President of Net-One Consulting. Literature was subsequently mailed to the prospective investor. The Division found that the offering was for the sale of securities, not for "true" general partnership interests, and was not registered for sale in the State of Ohio or exempt from such registration.

Entity the Brought the Case: Ohio Department of Commerce, Division of Securities
Media Contact: Commissioner Thomas E. Guyer at (614) 728-2724

Defendant: Bruce Schuerger, CRD #809091
Location: Fairfield, OH
Summary of Case:

Accounts were opened at Scherger's licensed Dealer for an OH couple in excess of $200,000. He "sold away" from the Dealer and sold them stock, promissory notes, and an interest in a Specialized Mobile Radio (SMR) license in companies in which he had a financial interest and he was the sole proprietor. The securities were not registered for sale in the State of Ohio or exempt from such registration. He misrepresented the investments, including the risk and return, and omitted to state that the proceeds would not be invested as promised.

Entity that Brought the Case: Ohio Department of Commerce, Division of Securities
Media Contact: Commissioner Thomas E. Guyer at (614) 728-2724

Defendant: Fact Gold Technologies Canada, LTD; Richard Furrer, and M. Ward Hughes
Location: Vancouver, British Columbia
Summary of Case:

An OH resident invested $18,114.00 towards common shared of stock of Fact Gold Technologies Canada, LTD, described as a gold-refining operation that was not registered for sale in the State of Ohio, or exempt from such registration. Furrer the CEO, and Hughes the CFO of FACT, both were involved in the sales of the shares of stock.

Entity that Brought the Case: Ohio Department of Commerce, Division of Securities
Media Contact: Commissioner Thomas E. Guyer at (614) 728-2724

Defendant: Frederick Steven Greetham
Location: Wellington, OH
Summary of Case:

Greetham sold Ohio investors promissory notes totaling approximately $80,000 in Equishare Timber Industry, and in International Timber Management, Inc., an Idaho corporation in the timber industry, while he was not licensed to sell securities in the State of Ohio. The notes were to be secured by a security agreement on standing timber in Idaho, as well as a mortgage on the land on which the timber was located.

Entity that Brought the Case: Ohio Department of Commerce, Division of Securities
Media Contact: Commissioner Thomas E. Guyer at (614) 728-2724

Defendant: Gaming World, LTD
Location: St. John's Antigua, West Indies
Summary of Case:

Gaming World, Ltd. has stated is engaged in offering real time sports wagering services and other gaming related products on the Internet.

Entity that Brought the Case: Ohio Division of Securities
Media Contact: Commissioner Thomas E. Guyer at (614) 728-2724

PENNSYLVANIA:
Defendants: Global Financial, Inc. d.b.a. GFI Financial, Inc (Global Financial), American Benefit Consultants (American Benefits), Virgil Womack, Joseph Rock
Location: Tiffon, Georgia and Macon, Georgia
Summary of Case:

> The Cease and Desist finds that Global Financial and American Benefit offered and sold "Commercial Promissory Notes" at $25,000 apiece to Pennsylvania residents in violation of securities and agent registration provisions of the Pennsylvania Securities Act of 1972. Womack is the president of Global; Rock is an agent for American Benefits. Global's stated business purpose is to finance and develop international projects such as "constructing state of the art medical facilities in Hungary," a "water treatment facility in Zaire," and "roadways and infrastructures in was torn Bosnia."

Entity that Brought Case: Pennsylvania Securities Commission
Media Contact: Scott Lane, Assistant Director of Enforcement, (412) 565-5083

Defendants: ATM USA Corporation Acquisition Program -- Special Series (ATM Program), ATM USA Corporation, d.b.a. Convenient Banking Systems (ATM USA), William H. Miracle, Christian Smith
Summary of Case:

> The Order finds that Smith, representing ATM USA, offered for sale units in ATM Program in May 1997 for $7,500 per unit in violation of the securities registration provisions of the 1972 Act. ATM Program was purportedly formed to acquire, install and operate seven automatic teller machines in the Houston, Texas, area. Miracle is an officer and incorporator of ATM USA.

Entity that Brought Case: Pennsylvania Securities Commission
Media Contact: Scott Lane, Assistant Director of Enforcement, (412) 565-5083

Defendant: Gulfstar Corporation (Gulfstar) and Daniel W. Fisher
Location: Dallas, Texas
Summary of Case:

> The Order finds that Gulfstar offered and sold fractional undivided working interests in two oil and gas drilling programs, Stockholm Southwest OZ Project and Dorothy Field Project, to Pennsylvania residents in violation of the securities registration requirement of the 1972 Act. Fisher is the president of Gulfstar.

Entity that Brought the Case: Pennsylvania Securities Commission
Media Contact: Scott Lane, Assistant Director of Enforcement, (412) 565-5083

Defendants: Explo Oil, Inc., Carlos V. Sandoval, Ralph O. Berry, III
Summary of Case:

> The Order finds that Explo Oil offered fractional undivided working interests in a Kentucky drilling project, Doc Hays Nos. 7J and 7R, to Pennsylvania residents in violation of the 1972 Act. Sandoval and Berry are the president and vice president of marketing of Explo, respectively.

Entity that Brought Case: Pennsylvania Securities Commission
Media Contact: Scott Lane, Assistant Director of Enforcement, (412) 565-5083

Defendants: Petrox Energy Corporation, William G. Buck
Summary of Case:

The Order alleges that Petrox offered fractional undivided working interests in two Texas drilling programs, R.C. McClure and Eva Johnson, to Pennsylvania residents. Buck is the president of Petrox. Respondents also failed to disclose to potential investors the existence of a 9/12/95 Final Order against Buck issued by the Virginia State Corporation Commission permanently enjoining him from the future violations of securities laws and fining him $50,000. Respondents violated securities registration and anti-fraud provision of the 1972 Act.

Entity that Brought Case: Pennsylvania Securities Commission
Media Contact: Scott Lane, Assistant Director of Enforcement, (412) 565-5083

QUEBEC:
Defendant: Rapid-o-Bloc, Roger Gosselin, Leo Nadeau
Location: Levis, Quebec
Summary of Case:

Cease-trading order was issued by the Director of Market Regulation of the Commission on May 30, 1997. The persons enjoined were offering to the public to participate in a multiple level marketing scheme which was deemed to constitute an investment contract, no receipt had been issued for a prospectus and the persons involved were not registered as securities dealers.

Entity that Brought Case: Quebec Securities Commission
Media Contact: Jacques Breton, Quebec Securities Commission, (514) 873-5326

Defendant: Centre d'achat Communications AC inc., Denis Guertin
Location: Quebec City, Quebec
Summary of Case:

(See above)

Entity that Brought Case: Quebec Securities Commission
Media Contact: Jacques Breton, Quebec Securities Commission, (514) 873-5326

Defendant: Lantech Communications, Inc., Rejean Lamothe
Location: Quebec City, Quebec
Summary of Case:

(See above)

Entity that Brought Case: Quebec Securities Commission
Media Contact: Jacques Breton, Quebec Securities Commission, (514) 873-5326

SOUTH CAROLINA:
Defendant: Hancock Consulting Services, Inc.
Location: Costa Mesa, CA and Walnut, CA
Summary of Case:

The company was said to offer all the documentation necessary to participate in FCC Interactive Video Data Service Auction. It was found that the company offered unregistered investment contracts for sale. (See Alabama)

Entity that Brought the Case: South Carolina Securities Commission

Media Contact: Robb McBurney at (803) 734-9921

VIRGINIA:
Defendant: Blue Rider Entertainment, Inc. d.b.a. Blue Rider Pictures, Inc.
Location: Santa Monica, CA
Summary of Case:

> Defendant offered and sold a security in the form of a unit that consisted of 250 shares of common stock for the purpose of funding the production of films. Defendants were charged with selling an unregistered security.

Name of Entity that Brought Case: Virginia Securities Division
Media Contact: Max Zoeckler, Chief of Enforcement, (804) 371-9081

WASHINGTON:
Defendant: Taramar Venture Capital, Kidsnet Connect, LLC and Dawn Lillie
Location: Los Angeles, CA 90025
Summary of Case:

> Respondents violated the registration and anti-fraud provisions of the Washington State Securities Act by offering investments in the form of limited liability company units, which were not registered with the state; acted as unlicensed securities brokers and salespersons; and failed to disclose material facts or misrepresented material facts about the investment.

Entity that Brought the Case: Washington State Department of Financial Institution, Securities Division
Media Contact: Deborah Bortner, Securities Division, (360) 902-8797

WISCONSIN:
Defendant: Millennium Processing Systems, Inc.
Location: Newport Beach, CA
Summary of Case:

> Offer of ATMs with accompanying lease program allowing investors to be passive.

Entity that Brought the Case: State of Wisconsin Department of Financial Institutions
Media Contact: Bob Bonner, (608) 261-9541 or 1-800-47CHECK

Defendant: ATM Direct, Inc.
Location: Tempe, AZ
Summary of Case:

> Offer of ATMs with accompanying lease program allowing investors to be passive.

Entity that Brought the Case: State of Wisconsin Department of Financial Institutions
Media Contact: Bob Bonner at (608) 261-9541 or 1-800-47CHECK

Defendant: Quest Production Partners
Location: Las Vegas, NV
Summary of Case:

> Funding of a motion picture through a limited liability partnership.

Entity that Brought the Case: State of Wisconsin Department of Financial Institutions
Media Contact: Bob Bonner, (608) 261-9541 or 1-800-47CHECK

Defendant: Desert Gold Partners
Location: Hollywood, CA
Summary of Case:

> Offer and sale of "general partnership" interests to fund a motion picture, investors can be passive.

Entity that Brought the Case: State of Wisconsin Department of Financial Institutions
Media Contact: Bob Bonner, (608) 261-9541 or 1-800-47CHECK

2/9/1 (Item 1 from file: 716)
DIALOG(R)File 716:Daily News Of L.A.

09184005
SUITS FILED IN PHONE FRAUD; FTC CHARGES VALLEY COMPANIES
Daily News of Los Angeles (LA) - Thursday, July 3, 1997
By: Deborah Adamson Daily News Staff Writer
Edition: Valley Section: BUSINESS Page: B1
Word Count: 458

TEXT:
Ten San Fernando Valley companies were charged with bilking consumers in investment schemes as part of a 61-case, nationwide sweep, federal regulators said Wednesday.

In "Project Field of Schemes," the Federal Trade Commission along with securities regulators from 20 states and two Canadian provinces joined forces to help crack down on telemarketing investment frauds. Telemarketing schemes overall defraud consumers out of $40 billion annually, the FTC said.

In Los Angeles, the FTC filed civil lawsuits last week against the Valley firms and five other Southland companies to halt their activities. These businesses offered partnerships to set up either 900-number services, Internet service providers in major cities or an Internet virtual shopping mall.

They falsely promised everything from a 600 percent return in the first year to doubling or tripling investors' money in as little as one day, the FTC said. Many victims were elderly investors who lost large portions of their retirement savings.

"They took the money and ran," said FTC spokeswoman Ann Guler. "We want to alert consumers to the importance of being careful of investments sold over the phone or the Internet."

The FTC is asking the court for a permanent injunction and consumer refunds. The defendants face civil penalties of up to $11,000 per violation.

California regulators also are taking action against many of the defendants, ordering several firms to cease their activities and issuing search warrants for others.

Nationally, consumers in the FTC cases alone paid more than $150 million to the defendants.

The 10 Valley defendants are Intellicom Services Inc., Connectkom Services Inc., World Net Development Group, Frontline Consulting, Granite Consulting, Riviera Consulting, Brookside Management, All Administrative Services, Prostaff Administrators and Support Staff Administrators.

Company officials could not be reached for comment Wednesday afternoon.

Officials said some of the schemes included:

Telemarketers projected as much as a 10 to 1 return on investments in the unregistered common stock of a company raising $2 million to reopen a gold mine in La Plata, Colo. The firm allegedly lied that the federal government confirmed the presence of millions of dollars worth of gold in the mine.

A firm projected earnings of up to 600 percent a year on investments in a partnership that supposedly was ready to unveil a virtual shopping mall on the Internet. But consumers who invested were left with worthless stock. The company did not actually develop the Internet shopping mall.

Consumers visiting the World Wide Web site of a Tucson, Ariz., firm read that they could earn up to $2,250 a week by participating in a multilevel marketing program to sell fine jewelry. The FTC alleged that this was really a pyramid scheme where most participants could only make money by recruiting others to sell, not by selling jewelry.

DESCRIPTORS: VALLEY; CONSUMER FRAUD INVESTMENT; TELEMARKETING; PROJECT
FIELD OF SCHEMES ; US; FTC; LAWSUIT; LIST<

LEVEL 2 - 5 OF 13 STORIES

The Hollywood Reporter

July 3, 1997

LENGTH: 479 words

HEADLINE: New film telemarket crackdown

BYLINE: David Robb

BODY:

The Federal Trade Commission, as part of its ongoing "**Field of Schemes**" crackdown on telemarketing scams, has accused several Nevada film production and telemarketing companies of violating the FTC Act and the Telemarketing Sales Rule, which prohibit companies from misrepresenting "any material aspect of an investment opportunity" to potential investors.

The FTC, in a lawsuit filed in U.S. District Court in Nevada, charged that the production and telemarketing companies behind a pair of films called "The Last Resort" and "Wolf Creek" (retitled "Wind River") misled and deceived investors in the projects by misrepresenting the resume of the films' producer, Lyman Dayton, who is not named as a defendant in the case.

The FTC claims that the defendant corporations in the case _ J.J. Dayton and Associates, Dayton Family Prods. and High Voltage Pictures _ have told potential investors that Dayton's past films have generated, on average, profits for investors of roughly $5 for every dollar invested, when "in fact, Lyman Dayton's past films have not generated, on average, profits for investors of roughly $5 for every dollar invested in the films. Instead, the films have generated, on average, substantially fewer profits, or no profits at all, for the investors who invested in the films." Dayton's past films include "Seven Alone," "Solo," "Red Fury," "Baker's Hawk" and "Dream Machine."

The FTC also accused the defendants of lying to investors about awards that Dayton allegedly won for his previous films. According to the FTC's suit, the defendants told investors that Dayton won NATO's 1985 award for producer of the year; that "Baker's Hawk" won the MPAA's award for best family picture of the year, and that "Dream Machine" won a Cannes Film Festival award.

"In truth and in fact," the FTC said in its suit, "Lyman Dayton and/or his films have not won" any of the awards allegedly touted by the defendants.

The defendants are also accused of misrepresenting to prospective investors that they would raise $2.625 million from the sale of general partnerships to produce and market "The Last Resort," when in fact the defendants raised $4.1 million. The FTC also alleged that the defendants told investors that they would raise $3.5 million to produce and market "Wolf Creek," when in fact they raised $4.5 million.

The individual defendants named in the suit are Kevin Roy, president of J.J. Dayton & Associates; Ignacio Jimenez and Glen Burke, consultants to the film and telemarketing companies; John Iavarone, president of High Voltage Pictures; Fred Davidson, president of Dayton Family Pictures, and John Rubbico, the head of a company called JJ Family Film Prods.

High Voltage president Iavarone said his legal counsel had advised him that he could not comment at this time, but said that he and his company will be "exonerated."

LANGUAGE: ENGLISH

LOAD-DATE: July 3, 1997

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LEVEL 2 - 6 OF 13 STORIES

Los Angeles Times

July 3, 1997, Thursday, Orange County Edition

SECTION: Business; Part D; Page 6; Financial Desk

LENGTH: 601 words

HEADLINE: TELEMARKETING COMPANY'S ASSETS FROZEN;
REGULATION: SEIZURE PART OF 20- STATE PROBE OF ALLEGED SCAMS INCLUDING INFLATED STAMP PRICES.

BYLINE: E. SCOTT RECKARD, TIMES STAFF WRITER

DATELINE: NEWPORT BEACH

BODY:

An Orange County telemarketing outfit accused of selling stamps to elderly investors at up to hundredfold markups was seized as part of a 20-state investigation into diverse new investment scams, authorities said Wednesday.

Equifin International Inc. in Newport Beach, which also operated as Financial Frontiers Inc., has been turned over to a receiver and its assets frozen on order of a federal judge, said Ann Jones, director of the Federal Trade Commission's Los Angeles office.

Ann Guler, who headed the FTC investigation into Equifin, said the operation specialized in "error" stamps that deviate from the intended design, such as the mistakenly printed upside-down Lindbergh airplane.

Some such stamps are indeed rare and expensive, but Equifin was selling $ 5 to $ 7 stamps for $ 525, and $ 40 to $ 50 blocks of four stamps for $ 1,960, Guler said.

"The kinds of errors they had were minor color misprints or perforations not in the right place," Guler said.

Through his lawyer, Equifin owner F. Jerald Hildreth denied wrongdoing and said he would battle in court to recover his company.

In Washington, federal and state regulators said the Equifin case was part of a national enforcement and consumer education program, "Project **Field of Schemes.**" They said telemarketing fraud costs investors $ 40 billion a year.

*

The schemes include not just old standbys like pyramid scams, but frauds involving movie production, Internet "shopping malls" and snail ranching, they said.

"Losses from these nontraditional investment schemes are outpacing the amount defrauded from consumers in all other kinds of telemarketing scams," said Mark Griffin, president of the North American Securities Administrators Assn.

California Department of Corporations officials said they had issued six cease-and-desist orders and served six search warrants, mainly in the San Fernando Valley, targeting investments in Internet-related products and services.

In one case, the regulators said an 85-year-old, partially deaf Ohio man lost his entire $ 15,000 stake in Home Net Partners of Agoura, whose president, James C.Q. Slaton, allegedly described it as a government-approved investment.

Regulators said in a lawsuit that Home Net bilked consumers of $ 300 million, promising up to 600% returns on investments in "virtual shopping malls" and pay-per-call telephone services with 900 numbers.

Authorities obtained an asset freeze in the federal suit, which also seeks restitution.

Slaton's lawyer, Irv Einhorn in Los Angeles, wasn't available for comment.

In the Equifin case, Hildreth and his company are accused of misrepresenting to elderly people that their stamps would appreciate by 50% per year for three years, could easily be sold at any time and were safe investments.

Hildreth's lawyer, Steve Silverstein, said he has asked the U.S. 9th Circuit Court of Appeals to overturn the seizure order by U.S. District Judge Dickran Tevrizian in Los Angeles.

The Newport Beach company "should never have been seized," said Silverstein, who contended that his client made "almost nothing" in profits. "Our stamps weren't sold at any greater markup than many pharmaceutical products," he said.

The FTC is seeking court orders installing a receiver permanently and continuing the asset freeze. A hearing on the agency's request is scheduled before Tevrizian today.

FTC lawyers said Hildreth's company had been operating since at least July 1994 and appeared to have had $ 3 million in sales during that time. The FTC is seeking to have those funds repaid to investors.

LANGUAGE: English

LOAD-DATE: July 3, 1997

LEVEL 2 - 7 OF 13 STORIES

Los Angeles Times

July 3, 1997, Thursday, Home Edition

SECTION: Business; Part D; Page 5; Financial Desk

LENGTH: 161 words

HEADLINE: CAMPAIGN TARGETS INVESTMENT FRAUD

BYLINE: From Associated Press

DATELINE: WASHINGTON

BODY:

A campaign of enforcement and consumer education programs to combat an ever-increasing array of sophisticated high-tech investment scams was announced Wednesday by federal and state regulators.

Called "Project **Field of Schemes,**" the effort is aimed at new types of investment fraud involving such areas as movie production, Internet "shopping malls" and snail ranching--as well as old standbys like pyramid schemes and conventional telemarketing fraud.

"Losses from these nontraditional investment schemes are outpacing the amount defrauded from consumers in all other kinds of telemarketing scams," said Mark Griffin, president of the North American Securities Administrators Assn. Such losses were estimated at $ 40 billion a year.

Griffin's association includes securities regulators from the 50 states, the District of Columbia, Puerto Rico and Mexico. Securities regulators from 21 states and two Canadian provinces are involved in the campaign.

LANGUAGE: English

LOAD-DATE: July 3, 1997

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LEVEL 2 - 8 OF 13 STORIES

News Tribune

July 03, 1997, Thursday

SECTION: Business; Pg. B6

LENGTH: 697 words

HEADLINE: CRACKING DOWN ON INVESTMENT FRAUD ;
FEDERAL, STATE OFFICIALS LAUNCH EDUCATIONAL, ENFORCEMENT EFFORT AIMED AT SCHEMES THAT BILK INVESTORS OF $40 BILLION A YEAR

BYLINE: Mike Maharry; The News Tribune

BODY:

Patrick Richardson Sr. of Spanaway first said no when a telemarketer tried to sell him shares in a California company building a World Wide Web site for children.

But the saleswoman, Dawn Lillie, was persistent. She called back. She mailed sales brochures to Richardson.

And finally, the retired Air Force captain agreed to invest $ 6,500 in the company - mainly because Lillie assured him that in a month or so, "when the cash flow got going," he would start getting a return of $ 500 a month on his investment.

That was back in January. By late February, he was getting suspicious. The Web site was on line, but there weren't many advertisers. Lillie wasn't returning his phone calls, and he hadn't gotten any dividends.

In mid-March, he wrote to the company's Los Angeles headquarters and asked for a refund. In April he wrote a second letter.

"I'm on a fixed income, and I really can't afford to lose that much money," said Richardson, 58, who served briefly in Vietnam during his 24 years in the Air Force.

He copied that second letter to state and federal regulators, and their investigations put him into an international law-enforcement sweep announced Wednesday called "Project **Field of Schemes.**"

His case - the only one in Washington - was one of 61 law enforcement actions in 21 states and two Canadian provinces designed to fight the growing number of investment-related telemarketing scams, according to the Federal Trade Commission.

Deborah R. Bortner, administrator for the securities division of the Washington Department of Financial Institutions, said those scams "are bilking small investors out of an increasing portion of the estimated $ 40 billion lost to telemarketing fraud each year."

The "**Field of Schemes**" effort is largely educational, but some of the cases are likely to be referred for criminal prosecution and nine are in the courts now.

Bortner said Lillie's company, Taramar Venture Capital, had violated the anti-fraud provisions of the Washington State Securities Act by misrepresenting the income potential of the investment in Kidsnet Connect Limited Liability Corporation and failing to provide financial statements on the company.

She said the company also failed to register the investments or the salespersons with the Securities Division, as state law requires.

Marvin Butler, who took a reporter's call to the Taramar offices at an 800 number, refused to discuss the allegations or to say what he did for the company.

"In all honesty, we haven't committed any type of fraud whatsoever," Butler said. "But I'm not going to say any more. It's just going to be no comment to everything else."

He refused to discuss Richardson's request for a refund. Bortner, however, said she doubted Richardson would ever get his money back.

"One problem with out-of-state scams is that trying to reach the people responsible is like grabbing mercury - they just scatter," she said. "A lot of times it's just not worth it for law enforcement to spend a lot of time or money trying to apprehend these people."

The most state officials can hope for is that publicity will scare the con artists out of the area.

"They don't stay where they're not wanted, that's for sure," Bortner said. "They're like cockroaches - when you get them into the light of day, they disappear."

She urged would-be investors to check with her department before handing any money over to a securities salesperson.

The investor should ask if the salesperson is registered and if the investment itself is registered. The Securities Division can also provide consumers with educational materials on how to protect against investment scams. Much of that information is available on the division's Web site.

"The tactics of investment swindlers can be powerful and, unfortunately, quite effective," Bortner said. "Their pitch is usually a variation of the kind of claims we hear used over and over. It includes promises of guaranteed income, a track record of big profits and name-dropping of recognizable organizations or individuals who supposedly are already on board.

"Our best advice is simple: Don't buy investments over the phone."

GRAPHIC: SIDEBAR: To find out if an investment or a salesperson is registered in Washington, would-be investors are urged to call the Securities Division of the

Department of Financial Institutions 1-800-372-8303, or 1-360-902-8760. Educational materials are also available on the division's Web site: http:; ; www.wa.gov; dfi; securities
LOAD-DATE: July 03, 1997

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FOR RELEASE: JUNE 17, 1997

FTC WORKSHOP TO EXPLORE EXPANSION OF 900 NUMBER RULE TO COVER INTERNATIONAL PAY-PER-CALL SERVICES

Consumer groups and telecommunications industry participants in a two-day workshop at the Federal Trade Commission beginning Thursday, June 19, at 9 a.m. will examine increased consumer complaints about unauthorized calls to pay-per-call services, calls by minors, and "phantom billing," where consumers allege no one was at home when a call showing up on their bill purportedly was made. Participants also will look at industry concern over the level of allegedly inappropriate chargebacks for pay-per-call services and possible solutions to these and other billing and collection issues. The FTC Workshop on Pay-Per-Call Rulemaking is part of the FTC's proceeding on whether to expand its 900-Number Rule to cover audio information and entertainment services accessed by dialing telephone numbers that begin with numbers other than "900" and to review whether the rule has been effective in curing abuses associated with 900-number services. The workshop -- in room 432 at FTC headquarters, 600 Pennsylvania Avenue N.W., in Washington, D.C., is open to the media and the public.

Congressman Bart Gordon of Tennessee will deliver the opening remarks at the workshop. Participants will include representatives of AT&T, Consumers Union, MCI, the National Association of Attorneys General and the National Consumers League. A full agenda and list of participants is attached: in addition, there will be an opportunity for public participation both afternoons.

Copies of the **agenda**, as well as a **notice** the FTC published in the Federal Register in March announcing the rule review are available from the FTC's web site at *http://www.ftc.gov* and also from the FTC's Public Reference Branch, Room 130, 6th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580; 202-326-2222; TTY for the hearing impaired 202-326-2502. To find out the latest news as it is announced, call the FTC NewsPhone recording at 202-326-2710.

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(900work)

Investment Swindles: How They Work and How to Avoid Them

Including 16 questions that can turn off an investment crook

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The Multi-Billion Dollar Business of Investment Fraud

Americans are investors. We purchase stocks and bonds, contribute to savings programs, own real estate, participate in futures and options markets, acquire collectibles, provide start-up capital for new business ventures, buy franchises, and the list goes on. The strength of our economy is in large measure the product of our combined investments.

Perhaps more so than any people in the world, we enjoy an ever-expanding variety of investments to choose from, coupled with the freedom to make our own investment decisions. It's our money and we can invest it as we wish.

Unfortunately, some unscrupulous promoters abuse our freedom to choose by concocting investment schemes that have zero possibility of making money for anyone other than themselves. Such persons promise investment rewards they cannot possibly deliver and have no intention of delivering.

They are swindlers.

Many of them are very good at it. Their annual take through lying and deceit is in the billions of dollars. If one estimate of $10 billion a year lost to investment fraud is accurate, that's more money than the combined annual profits of the nation's three major automakers! Some say even that estimate may be too low.

Successful investment swindlers use every trick in the book, and some that aren't even recorded, to convince you that none of the descriptions and precautions in the following apply to them. After all, they are offering you a once-in-a-lifetime opportunity to make a lot of money quickly and you do trust them, don't you? As will be seen, some of their methods of gaining your trust are truly ingenious.

Who are the Investment Swindlers?

They are a faceless voice on a telephone. Or a friend of a friend. They may perform surgery on their victims' savings from a dingy back office or boiler-room or from an opulent suite in the new bank building. They may wear three-piece suits or they may wear hard hats. They may have no apparent connection to the investment business or they may have an alphabet-soup of impressive letters following their names. They may be glib and fast-talking or so seemingly shy and soft-spoken that you feel almost compelled to force your money on them.

The first rule of protecting yourself from an investment swindle is thus to rid yourself of any notions you might have as to what an thus to rid yourself of any notions you might have as to what an investment swindler looks like or sounds like. Indeed, some swindlers don't start out to be swindlers. There are case histories in which individuals who held positions of trust and esteem-accountants, attorneys, bona fide investment brokers and even doctors-have sacrificed their ethics for the fast buck of running an investment scam.

In still other cases, investment programs that began with legitimate intentions went sour through happenstance or poor management--leading the promoter to mishandle or abscond with investors' capital. Whether an investment is planned as a scam or simply becomes one, the result is the same.

This is why, as we will discuss, protecting your savings against fraud involves at least three steps: Carefully check out the person and firm you would be dealing with; take a close and cautious look at the investment offer itself; and continue to monitor any investment that you decide to make. No one of these precautions alone may be sufficient.

Who are the Victims of Investment Fraud?

If you are absolutely certain it could never be you, the investment swindler starts with a big advantage. Investment fraud generally happens to people who think it couldn't happen to them.

Just as there is no typical profile for swindlers, neither is there one for their victims. While some scams target persons who are known or thought to have deep pockets, most swindlers take the attitude that everyone's money spends the same. It simply takes more small investors to fund a large fraud. In fact, some swindlers deliberately seek out families that may have limited means or financial difficulties--figuring such persons may be particularly receptive to a proposal that offers fast and large profits. A favorite pitch is that small investors can become rich only if they learn and employ the investment strategies used by wealthy persons. Naturally, the swindler will teach them!

Although victims of investment fraud can differ from one another in many ways, they do, unfortunately, have one trait in common: Greed that exceeds their caution. Plus a willingness to believe what they want to believe. Movie actors and athletes, professional persons and successful business executives, political leaders and internationally famous economists have all fallen victim to investment fraud. So have hundreds of thousands of others, including widows, retirees and working people--people who made their money the hard way and lost it the fast way.

How Investment Swindlers Find (or Attract) Their Victims

Swindlers attempt to mimic the sales approaches of legitimate investment firms and salespersons. Thus, the fact that someone may contact you in a particular way--by phone, mail, or even through a referral--should not in itself be viewed as an indication that the investment is or isn't shady. Many totally reputable firms also use the same methods to effectively and economically identify individuals who may have an interest in their investment products and services.

Bearing in mind that investigate before you invest is good advice no matter how you are approached, these are some of the methods con men commonly employ to contact their victims-to-be.

* Telephone

So-called telephone boiler-rooms remain a favorite way for swindlers and their sales squads to quickly contact large numbers of swindlers and their sales squads to quickly contact large numbers of potential investors. Even if a swindler has to make 100 or 200 phone calls to find a mooch (one of the terms swindlers use for their victims), he figures that the opportunity to pocket thousands of dollars of someone's savings is still good pay for the time and cost involved.

* Mail

Some sellers of fraudulent investment deals buy bona fide mailing lists--names and addresses of persons who, for example, subscribe to a particular investment-related publication, who have responded to previous direct mail offers, or who have other characteristics that swindlers look for. In the hope of avoiding notice by postal authorities, mail order swindlers may not make a direct or immediate pitch for your money. Rather, they often seek to entice you to write or phone for more information. Then comes a call from the salesperson or the person who closes the deal. Some may phone even if you didn't respond to the mailing.

* Advertisements

A newspaper or magazine ad may offer (or at least hint at)profit opportunities far more attractive than available through conventional investments. Once you've taken the bait, the swindler will then attempt to "set the hook." Even though investment crooks know that regulatory agencies regularly monitor ads in major publications, some nevertheless use such publications in the hope of being able to hit-and-run before an investigator shows up. Others advertise in narrowly circulated publications they think regulators may be less likely to see.

* Referrals

One of the oldest schemes going involves paying fast, large profits to initial investors (actually from their own or other peoples' investments) knowing that they are likely to recommend the investment to their friends. And these friends will tell their friends. Soon, the swindler no longer needs to find new victims; they will find him.

* The "Reputable" Business

Some swindlers go first class. Using profits from previous swindles, they rent plush offices, hire an interior decorator and professional-sounding receptionist and open what has the appearance--but not the reality of a reputable investment firm. You may even have to phone for an appointment, and once there don't be surprised to be kept waiting (that's intended to make you all the more eager). This kind of swindler's success depends on how long he can keep his victims from knowing they are being cheated. Investors are assured that their large profits are being reinvested to earn even larger profits. Such a swindler may join local civic groups, contribute to charities, and generally play the role of solid citizen.

Techniques Investment Swindlers Use

Their techniques are as varied as their methods of establishing contact. If there is a common denominator, however, it is their ability to be convincing. The skills that make them successful are essentially the same skills that enable any good salesperson to be successful.

But swindlers have a decided advantage: They don't have to make good on their promises. In the absence of this responsibility, they have no reluctance to promise whatever it takes to persuade you to part with your money. These are some of their techniques:

* Expectation of Large Profits

The profits a swindler talks about are generally large enough to make you interested and eager to invest--but not so large as to make you overly skeptical. Or he may mention a profit figure he thinks you will consider believable and then, as a further enticement, suggest that the potential profit is actually far greater than that. The latter figure, of course, is the one he hopes you will focus on. Generally speaking, if an investment proposal sounds too good to be true, it probably is.

* Low Risk

Some are so blatant as to suggest there's no risk--that the investment is a sure money maker. Obviously, the last thing a swindler wants you to think about is the possibility of losing your money. (If you ask how you can be certain your money is safe, you can count on a plausible-sounding answer. Besides, at this point, he figures you will believe what you want to believe.)

To make his pitch more credible, a swindler may acknowledge that there could be some risk--then quickly assure you it's minimal in relation to the profits you will almost certainly make. A con man may become impatient or even aggressive if the question of risk is raised--perhaps suggesting that he has better things to do than waste time with people who lack the courage and foresight needed to make money! With this kind of put down, he hopes you won't bring up the subject again.

* Urgency

There's usually some compelling reason why it's essential for you to invest right now. Perhaps because the investment opportunity can "be offered to only a limited number of people." Or because delaying the investment could mean missing out on a large profit (after all, once the information he has confided to you becomes generally known, the price is sure to go up, right?).

Urgency is important to a swindler. For one thing, he wants your money as quickly as possible with a minimum of effort on his part. And he doesn't want you to have time to think it over, discuss it with someone who might suggest you become suspicious, or check him or his proposal out with a regulatory agency. Besides, he may not plan on remaining in town very long.

* Confidence

They don't call them con men for nothing! They sound confident about the money you are going to make so that you will become confident enough to let go of your savings. Their message is that they are doing you a favor by offering the investment opportunity. A swindler may even threaten (pleasantly or otherwise) to end the discussion by suggesting that if you are not really interested there are many other people who will be. Once you protest that you are interested, he figures your savings are practically in his pocket.

Although you can't necessarily spot a con man by the way he talks, most are strong-willed, articulate individuals who will dominate the conversation-even if they do it in a low-key, friendly sort of way. The more they talk, the less chance you have to ask questions.

Several Investment Swindles and How They Worked

There's a saying among swindlers that it's not the scam that counts, it's the sell. Judging from the number of arcane and often outlandish schemes that have been employed to separate otherwise prudent people from their money, the saying would seem to reflect reality. The evidence is that if people can be made believers, they can be sold practically anything. Consider several of the ways in which hustlers of phony investments have won the confidence of persons whom they planned to victimize.

The Old-Fashioned Ponzi Scheme

It's become one of the oldest and most often employed investment schemes because it's proven to be one of the most lucrative. While there are innumerable variations, here is how a person we will call Frank C. practiced it. At the outset, Frank approached a relatively small number of influential persons in the community and offered them the opportunity to invest--with a guaranteed high return--in a computer-generated program of arbitrage in foreign currency fluctuations. To be sure, it sounded high tech and sophisticated but Frank had his eye on sophisticated and well-heeled victims.

Within a short period of time, he approached and sold the scheme to still other investors--then promptly used a portion of the money invested by these persons to pay large profits to the original group of investors. As word spread of Frank's genius for making money and paying profits, even more would-be investors anxiously put up even larger sums of money. Some of it was used to recycle the fictitious profit payments and, like a pebble in the water, the word of fast and fabulous rewards produced an ever-widening circle of eager investors. And more money poured in.

And Frank C. left town a wealthy man.

The Infallible Forecaster

Jim L. (among his many aliases) had a full-time job in the daytime, but with assets that consisted only of a phone, patience and an easy way of talking he managed to parlay a nighttime sideline into an ill-gotten fortune. The routine went like this.

Jim would phone someone we'll call Mrs. Smith and quickly assure her that, "No," he didn't want her to invest a single cent. "Never invest with someone you don't know," he preached. But he said he would like to demonstrate his firm's "research skill" by sharing with her the forecast that so-and-so a commodity was about to experience a significant price increase. Sure enough, the price soon went up.

A second phone call didn't solicit an investment either. Jim simply wanted to share with Mrs. Smith a prediction that the price of so-and-so a commodity was about to go down. "Our forecasts will help you decide whether ours is the kind of firm you might someday want to invest with," he added. As predicted, the price of the commodity subsequently declined.

By the time Mrs. Smith received a third call, she was a believer. She not only wanted to invest but insisted on it--with a big enough investment to make up for the opportunities she had already missed out on.

What Mrs. Smith had no way of knowing was that Jim had begun with a calling list of 200 persons. In the first call, he told 100 that the price of so-and-so a commodity would go up and the other 100 were told it would go down. When it went up, he made a second call to the 100 who had been given the "correct forecast." Of these, 50 were told the next price move would be up and 50 were told it would be down.

The end result: Once the predicted price decline occurred, Jim had a list of 50 persons eager to invest. After all, how could they go wrong with someone so obviously infallible in forecasting prices?

But go wrong they did, the moment they decided to send Jim a half million dollars from their collective savings accounts.

All That Glitters

Not only did the two brothers have a fancy office building with their own company name on it, but the investment offer seemed sound and straightforward: "Instead of buying gold outright and holding it for appreciation, make a small downpayment that the firm could use to secure financing that would permit much larger quantities of gold to be bought and held for the investor's account." That way, when the price of gold rose--as was "sure to happen"--investors stood to realize highly leveraged profits.

The company provided storage vaults where investors could view the wall-to-wall stacks of glittering bullion. By the time authorities caught wind of the scheme's suspicious smell and looked for themselves, it turned out the only thing gold was the color of the paint on the cardboard used to construct look-alike bars of bullion.

The counterfeit gold, however, proved far easier to find than the millions of dollars of investors' money. Most of that is still missing.

16 Questions That Can Turn Off an Investment Swindler

The first line of defense against investment fraud is your inalienable right to ask questions and--until you get the right answers--to say "No." And mean no. Not surprisingly, this is usually an investment swindler's first point of attack. To keep you from asking questions, he asks them! Invariably, the questions have "yes" answers, such as "You would at least be interested in hearing about such a fantastic investment opportunity, wouldn't you?" or "You would like to make a large amount of money in a short period of time with little or no risk, right?"

One difference between a reputable investment firm and a swindler is that reputable firms encourage you to ask questions, to obtain as much information as possible, to clearly understand the risks involved, and to be entirely comfortable with any investment decision you make. The only thing a swindler wants is your money These are some of the questions that swindlers don't like to hear:

1. Where did you get my name?

   If the response is that you were chosen from a "select list of intelligent and prudent investors," that select list may be the telephone directory, or a purchased list of persons who've bought certain types of books, subscribed to particular magazines, or responded to newspaper ads. If you have made ill-advised investments in the past, you can be pretty sure your name is on someone's alumni list. It's the list swindlers prize most: Easy preys who are eager to recoup (but are doomed to repeat) their earlier losses.

2. What risks are involved in the proposed investment?

   Except for obligations of the U.S. Treasury, which are considered risk-free, all investments involve some degree of risk. And some investments, by their nature, involve greater risks than others. Keep in mind that if the salesman had knowledge of a sure-thing, big-profit investment opportunity, he wouldn't be on the phone talking with you.

3. Can you send me a written explanation of your investment so I can consider it at my leisure?

   For someone peddling fraudulent investments, that can be a double turnoff. For one thing, most crooks are reluctant to put anything in writing that might cause them to run afoul of postal authorities or provide material that, at some point, might become evidence in a fraud trial. Secondly, swindlers don't want you to do anything at your leisure. They want your money now.

   Accordingly, it's a good rule of thumb that any investment which "absolutely has to be made immediately" shouldn't be made at all. You may not always be right, but you are less likely to be sorry.

4. Would you mind explaining your investment proposal to some third party, such as my attorney, accountant, investment advisor or banker?

   If the answer goes something along the lines of "normally, I'd be glad to, but there isn't time for that," or if the salesman snaps back by asking "can't you make your own investment decisions." these are virtually certain clues that your final answer should be an emphatic "No."

5. Can you give me the names of your firm's principals and officers?

   Although some persons who establish and operate dishonest firms change their own names as often as they change their firms' names, even the hint that you are the kind of investor who checks into things like that can be a fast turn-off for a swindler.

6. Can you provide references?

   Not just another list of other investors who supposedly became fabulously wealthy (the names you get may be the salesman's boss or someone sitting at the next phone), but reputable and reliable recommendations such as a bank or well-known brokerage firm that you can easily contact.

7. Do you have any documents such as a prospectus or risk disclosure statement that you can provide?

   This may not be available in connection with all types of investments but in many investment areas--such as securities, futures and options trading--it's required. And there can be requirements that you be provided with this information and acknowledge in writing that you have read and understood it. Obviously, it's not the sort of information a swindler is likely to distribute.

8. Are the investments you are offering traded on a regulated exchange, such as a securities or futures exchange?

   Some bona fide investments are and some aren't, but fraudulent investments never are. Exchanges have strict rules designed to assure fair dealing and competitive price determination. There are also in-place mechanisms to provide for rule enforcement and to impose severe sanctions against those who fail to observe the rules.

9. What governmental or industry regulatory supervision is your firm subject to?

If the salesman rattles off a list that ranges from the FBI to the Boy Scouts, tell him you'd like to check the firm's good standing before making an important investment decision. Then verify the response. Few things discourage a swindler faster than the thought that his first visitor the next morning may be from a regulatory agency.

If, on the other hand, you are told his particular area of investment isn't subject to regulation (perhaps because everyone in his business is an ethical, upstanding citizen), take that explanation for whatever you think it's worth. At the very least, keep in mind that any ongoing supervision which isn't being provided by a regulatory organization or agency will have to be provided by you.

10. How long has your company been in business?

In any kind of business activity, there can be advantages to dealing with a known, established company. This isn't to say that new businesses aren't starting up all the time or that the vast majority aren't perfectly reputable. But if you find yourself talking with someone who doesn't seem to have a past, it can be worthwhile to find out why. Many swindlers have been running scams for years but understandably aren't anxious to talk about it.

11. What has your track record been?

Before you accept a salesman's assurance that he can make money for you, you have the right to know what his performance has been in making money for others. And ask to have the information (if there is any) in writing. Boasting over the phone is one thing; putting it down on paper is quite another. In any case, even if you are able to obtain a documented performance record, don't lose sight of the fact that past performance in itself provides no assurance of future performance.

12. When and where can I meet with you or with another representative of your firm?

Chances are a crooked operator--particularly if he is operating out of a telephone boiler-room--isn't going to take the time to visit with you and even more certainly doesn't want you to see his place of business.

13. Where, exactly, will my money be? And what type of regular accounting statements do you provide?

In many investment areas, such as futures trading, firms are required to maintain their customers' funds in segregated accounts at all times. Any mingling of investors' funds with those of the firm or its principals is prohibited. You might also want to find out what, if any, routine outside audits the firm's account records are subject to.

14. How much of my money would go for commissions, management fees and the like?

And ask whether there will be other costs such as interest or storage charges, or whether the investment agreement involves any type of profit sharing arrangement in which the firms' principals participate. Insist on specific answers, not glib and evasive responses such as "that's not important" or "what's really important is how much money you are going to make." And, again, get it in writing, just as you would any other type of contract.

15. How can I liquidate (i.e. sell the item I'd be investing in) if and when I decide I want my money?

If you find that the investment is illiquid, or there would be substantial costs if liquidated, or that you are unable to get straight and solid answers, these are all things to consider in deciding whether you want to invest.

16. If disputes should arise, how can they be resolved?

Short of having to go to court to sue someone, does the company or regulatory organization provide a mechanism for resolving disputes equitably and inexpensively through arbitration, mediation, or a reparations procedure? Aside from seeking important information, you may be able to detect whether the salesperson is uncomfortable or impatient with this line of questioning. Swindlers generally will be.

Before You Invest, Investigate

Asking some or even all of the questions just suggested isn't likely to produce straight answers from a crooked investment promoter but, as indicated, the very fact that you are asking such questions can be a turn-off. Bear in mind, however, that no matter how persistently or skillfully you pose the questions, experienced con men are at least equally skilled in evading them, in providing downright dishonest answers, and in refocusing the conversation on your "tremendous profit opportunity."

Bear in mind also that, while separating you from your money is the swindler's primary goal, the very last thing he wants you to do is check him out. That could cause you not to invest or, worse still, alert regulators that someone they know well has set up shop in a new area or is running a new scam.

For this reason, most con men deliberately make themselves difficult to investigate: By tailoring their schemes to operate in regulatory cracks where federal or national regulatory organizations may lack clear-cut jurisdiction; by operating in states or communities where authorities are known to be short-staffed or occupied with more pressing criminal activities; by changing their names or modus operandi, by stressing the urgency of the investment so you won't have time to investigate; and by targeting victims who may not know how or where to check them out.

Moreover, as described in various swindle scenarios, con men have numerous and ingenious ways of seeking to convince you there is no need to investigate. For example, your friends, neighbors or business associates invested and they made money, right? That, of course, is why ever-popular Ponzi schemes (named after the first person to perfect the referral technique) are so prevalent--and why you should never make investments based on tips, no matter how trustworthy the source.

While there is no way to know for certain whether a particular investment will make money or lose money, there is one thing you can be certain of: Any money you hand over to an investment swindler is lost the moment you part with it. The question is, how do you check out someone who is offering what sounds like an irresistible investment offer? Here are some of the ways:

* Find out whether the local police department or Better Business Bureau has complaints on file.

If so, you can make your investment decision accordingly. But be aware that the absence of local complaints doesn't necessarily mean a firm or individual is on the up-and-up. It may simply mean that investors haven't yet become aware that they've been bilked. Or it may mean you will have the distinction of becoming the first victim in town. It could also mean that other victims have been too embarrassed to report their losses. Regrettably, that's not uncommon.

* Make a phone call to the financial editor of your local newspaper.

Although newspapers don't give endorsements or make investment recommendations, they may be aware of a swindler who is working a scam in the area--and may even have published a warning article that you happened to miss. Then too, if readers are being pitched with suspicious-sounding investment offers, that's something an investigative reporter might want to look into.

* If the investment offer isn't local, don't be reluctant to make a long distance phone call or two.

It could be that the police, Better Business Bureau or newspaper in the community where the offer is coming from will be able to provide information. Again, however, even the absence of such complaints doesn't necessarily mean the firm is legitimate. Some swindlers--particularly telephone boiler-room operators--try to maintain a low profile in their local areas. That lessens the likelihood of their coming to the attention of local authorities; it prevents prospects from dropping by to see their operations; and it makes it more difficult for out-of-towners to discover what they are up to.

* Check to see if your city or state has a consumer protection agency.

Many do. If so, there may be information there about the person or firm that's offering the investment you are interested in. In any case, the agency should be able to provide names, addresses and phone numbers of other places you can check.

* Contact regulators.

The majority of individuals and companies offering investments to the public are subject to some sort of regulation--and may be subject to multiple regulation. Those which trade in futures contracts and options on futures contracts are regulated by the Commodity Futures Trading Commission, a federal agency, and by National Futures Association, an industry-wide self-regulatory organization authorized by Congress. In the securities and securities options business, the federal regulatory agency is the Securities and Exchange Commission. There is also an industry self-regulatory organization, the National Association of Securities Dealers.

The Federal Trade Commission has jurisdiction over advertising, franchises and business opportunities. Deals involving interstate promotion of land sales are regulated by the federal Department of Housing and Urban Development.

By contacting the appropriate regulatory organization, you can generally find out whether the firm or person is properly registered to engage in that type of business and whether any public disciplinary actions have been taken against them. A list of some of the regulators you can check with is provided on the inside back cover of this booklet.

* Write or phone law enforcement agencies.

Whether or not a person or firm is subject to the scrutiny of a regulatory organization, the fact is that fraud is against the law in every state of the nation. And if it involves interstate commerce--including the use of the mails or phone lines--federal criminal statutes apply. If an investment sounds suspicious, check with the appropriate agency. They may be able to furnish information or conduct an investigation of their own. The following are some you could contact:

The office of the local public prosecutor, the state attorney general, and the state securities administrator. Someone in the local courthouse should be able to give you names, addresses and phone numbers.

If the mails are used in promoting or operating a phony investment scheme, federal Postal Inspectors want to know about it. The postmaster in your community can put you in touch with them. Fraud involving any form of interstate commerce is also of interest to the Federal Bureau of Investigation. The nearest office should be listed in your phone directory. The listing on the inside back cover of this booklet includes headquarter addresses of the U.S. Postal Inspector in Charge and the FBI.

Sure it can take some time, effort and possibly expense to thoroughly check out an investment proposal, but if you have any doubt about whether it's worth the trouble, talk with people who didn't and wish they had!

Finally, Don't Lose Touch with Your Money

The need to exercise good financial sense doesn't stop once you've decided to invest. It's possible, all your precautions notwithstanding, that you may have turned your money over to a swindler. It's also possible that what didn't start out to be a swindle may turn into one if the promoter finds himself in financial trouble or with too many poor investments on his hands. That can lead to cover-up bookkeeping or, worse yet, a decision by the promoter to take flight with what's left of his customers' money.

It's important to continuously monitor your investments and to be alert for any telltale signs that things aren't quite the way they should be. The person who sold you the investment, for example, may suddenly become inaccessible--continuously tied up on the telephone or unwilling to return your calls, busy with clients, or out-of-town on important business matters. Or various documents or accounting statements you were promised don't arrive. Or information you do receive is vague or at variance from what you had been led to expect. Or money that was supposed to have been paid to you isn't received, and instead of checks you get excuses.

If you become suspicious or overly uncomfortable with an investment you've made--and if you are unable to totally resolve your concerns--the best thing you can do is try to get out of it. And do so as quickly as possible. That means demanding your money back, accompanied, if necessary, by threats to contact authorities.

You might or might not get it. The best you can hope for, if indeed there's fraud involved, is that the swindler may decide to refund your money rather than risk having you blow the whistle while he is still on the prowl for new investors. If that happens, consider yourself more fortunate than most.

Be aware, if you do decide to try and get a refund, that the person who was smooth-talking enough to get your money in the first place will unleash all his skills to persuade you to leave it with him. No doubt, he will have some answer for all of your concerns. And some explanation for all apparent irregularities. And, no doubt you will be told that backing out now would be anything from contractually illegal to a terrible financial mistake. Swindlers figure that every once in a while some of their more fidgety investors simply have to be reconvinced. He may tell you that you are so close to making really big money, or the investment now looks even more profitable than originally expected.

Believe him at your own peril.

If you do insist on a refund of your investment, insist on it immediately Ask to pick it up yourself, or offer to pay the cost of having it sent by overnight mail or wired directly to your bank. Don't settle for "it will take a week or two" or "the check is in the mail." As everyone knows, checks seem to be lost more often than any other type of mail!

If you don't get your investment back (and chances are you won't), or even if you do and still suspect a swindle, report it promptly to the appropriate authorities and regulatory officials. They may be able to conduct an investigation and, if called for, seek legal action to impound whatever funds the firm still has..

Bottom line, the unfortunate reality is that very few victims of investment fraud ever again see a cent of their money. It's also a reality that the business of swindling will continue to flourish as long as unwary investors provide prey for unscrupulous promoters. Hopefully, the information in this booklet--if heeded--will help to assure that a swindler's next fortune won't be made at the expense of your misfortune.

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May 2, 1997

Federal Trade Commission
Room 159
6th Street and Pennsylvania Avenue NW
Washington, DC 20580

RE: 900-Number Rule Review -- Comment FTC File No. R611016
Request to Participate in Public Workshop

Dear Sir:

The National Consumers League respectfully submits these comments in response to the Federal Trade Commission's March 12 request for comments regarding the review of the 900-Number Rules. NCL is a private, nonprofit, membership organization representing consumers in the marketplace and the workplace since its founding in 1899. Because NCL receives a significant number of complaints concerning pay-per-call services through its National Fraud Information Center, we would like to participate in the public workshop which the FTC will convene on this subject on June 19 and 20, 1997.

NCL's Role in Fighting Telephone-Related Fraud and Abuse

NCL has taken an active role in educating consumers and advocating for appropriate consumer protections concerning telephone-related fraud and abuse. In 1992, the League created the National Fraud Information Center, a unique hotline service, 1-800-876-7060, through which consumers can seek advice about telephone solicitations and report possible fraud and deception.

In 1996, the NFIC expanded its services to cover scams in cyberspace. Through the NFIC web site at http://www.fraud.org, consumers can get general advice about both telephone and Internet solicitations, pose specific questions by e-mail, and report possible fraud and deception via an online complaint form.

Consumers' reports to the NFIC about fraudulent or deceptive telephone and Internet promotions are uploaded daily to the data base maintained by the Federal Trade Commission and the National Association of Attorneys General. Reports are also distributed to over 160 individual federal, state and local law enforcement agencies.

This information alerts agencies to matters which they may wish to investigate. It also aids law enforcement authorities in prosecuting fraud or deceptive practices and identifying victims.

In addition to assisting consumers and law enforcement agencies through the fraud center, NCL raises public awareness about telephone-related fraud and deception through the Alliance Against Fraud in Telemarketing, a coalition coordinated by the League. The Alliance brings representatives from consumer protection and law enforcement agencies, consumer advocacy organizations, consumer helplines, businesses and trade associations together to learn about telephone-related fraud and abuse and share strategies for educating consumers about them. For instance, at an Alliance meeting last October, Federal Communications Commission staff made a presentation about international phone fraud. At the January, 1997 meeting of the Alliance, the NFIC's Internet fraud coordinator alerted members to the Moldova computer-generated international phone scam that was just emerging.

NCL also conducts consumer education and advocates for consumer protection by working with the media, distributing publications of its own and from other sources, making speeches, participating in conferences, meeting with members of the relevant industries, and submitting regulatory and legislative testimony. NCL commented on the 900-Number Rule when it was proposed in 1992 and participated in the workshops held by the FTC in that regard.

I. General Issues for Comment

1. The 900-Number Rule has been successful in reducing some of the abuses in pay-per-call promotions that spurred the enactment of the Telephone Disclosure and Dispute Resolution Act of 1992. Pay-per-call problems ranked as the 8th most frequent complaints reported to the NFIC in 1992, but fell precipitously after the Rule took effect, to 15th place in 1993, 16th place in 1994.

Services using 900 number prefixes are still promoted for weather forecasts, sports scores, polls, and even reports from certain Better Business Bureaus. It does not appear that that the Rule has been overly burdensome on legitimate 900-number service providers.

However, the Rule has not eliminated all pay-per-call problems. Pay-per-call complaints made to the NFIC have risen in the last two years, to 13th place in 1995 and 12th place in 1996. Most of the pay-per-call complaints that the NFIC now receives concern charges for 800 number calls; in 1996, the NFIC received three times as many complaints concerning 800 numbers as 900 numbers. In addition, consumers are also reporting fraud involving international phone numbers promoted for information and entertainment services. Furthermore, since the beginning of 1997, the NFIC has received dozens of complaints concerning computer-generated international phone scams. Ironically, it is probably the effectiveness of the Rule concerning pay-per-call services with 900-number prefixes that has led con artists to find alternate numbers through which to perpetrate their schemes. These abuses are resulting in exorbitant phone bills for consumers and substantial losses for telephone companies.

2. Consumers clearly benefit from the disclosures mandated by the Rule in advertising and at the beginning of the calls, which are intended to ensure that they understand how much the pay-per-call services will cost and exactly what services will be provided before they incur any expenses. The billing and collection provisions, and the responsibilities placed on entities that provide service in connection with pay-per-call services also protect consumers and the legitimate members of this industry. However, as Congress has recognized in Section 701 of the Telecommunications Act of 1996, the Rule must be updated and expanded in light of abuses in charges for calling toll-free numbers, changes in the telecommunications industry, and new forms of fraud.

The scope of the Rule must be broadened so that cost and other vital information is provided for all information and entertainment services for which a consumer will be charged on the basis of completing a call, regardless of the prefix used or whether the call is billed at a tariffed rate. The requirements for "presubscription agreements" must be tightened to prevent con artists from continuing to exploit that loophole. Furthermore, consumers should be provided with more information about the information and entertainment service providers on whose behalf they are being billed, and given more protection concerning disputed bills for these services.

II. Definitions

10. Pay-per-call services covered by the Rule should include any information or entertainment services for which a consumer will be charged on the basis of completing a call, regardless of the types of number dialed or whether the charge is greater than, or in addition to, the charge for transmission of the call. This change in the definition of pay-per-call services is needed to address the fact that the same types of information and entertainment services that have been provided through 900 numbers are now being provided through 800 and international phone numbers.

It is clear from the complaints that the NFIC receives concerning international pay-per-call services that consumers do not realize that they are making international calls, no matter whether they are direct-dialing the numbers or being connected to them by some other means. Furthermore, in the first few months of 1997, the NFIC has received 68 complaints from consumers concerning bills for international calls resulting from downloading pictures from certain Internet sites. Apparently, these viewer programs actually disconnected consumers from their regular Internet service providers and reconnected them to the Internet through an international phone number. This new form of fraud has saddled consumers with telephone bills ranging from hundreds to thousands of dollars, not only for the time that they viewed the pictures, but for the entire time they stayed on the Internet until they shut their computers off.

International calls usually cost far more than domestic long-distance calls, even if they are billed at the normal rate, with no additional charge for transmission. Consumers need the same disclosures and protection if they are connecting to information or entertainment services through international phone numbers as they do for pay-per-call services accessed through other numbers.

11. In light of deregulation in the telecommunications industry, and the emergence of resellers and others that may provide or facilitate pay-per-call services, the FTC should carefully examine the exclusion of "common carriers" from the definition of "service bureaus." The service that is being provided, not the entity that is providing it, should determine who is subject to the Rule.

12. Con artists have taken advantage of the "presubscription agreement" provision of the Rule to make unauthorized charges for calls to 800 numbers. Most of the 800 number complaints that the NFIC receives are from consumers who thought the calls were free but were either charged for them, or were charged for services they did not agree to as a result of the calls, such as club memberships or voice mail. In 1996, the NFIC received 85 complaints against one Texas-based company alone concerning unauthorized charges made for voice mail service after the consumers called an 800 number psychic service for "free" readings.

In some cases, the consumers assert that they never called the 800 numbers for which they were billed. In others, the charges resulted from children calling 800 numbers and providing their parents' credit card or bank account numbers in order to connect to sex lines or other pay-per-call services. One California woman was charged for collect calls from a Canadian company, apparently initiated by calls that her children made to an 800 number. She had attempted to prevent unauthorized pay-per-call charges by putting a 900 number block on her telephone.

The majority of disputed 800 number charges appear on consumers' phone bills, but the NFIC also receives complaints from consumers whose credit card accounts were charged or bank accounts were debited without their authorization as a result of calls to 800 numbers. Consumers are sometimes asked for financial information under various ruses; to verify their identities, for instance, or for the promised sweepstakes winnings to be deposited into their accounts. Consumers' financial information may already be in the possession of an information or entertainment service provider because it was previously supplied for another purpose, or it was obtained from other sources.

While consumers can contest unauthorized credit card charges, it is difficult for them to prove that they never agreed to pay for 800 calls, especially when they did call the numbers in question. It is even more difficult to dispute debits that have already been deducted from their bank accounts. Several consumers have reported to the NFIC that when they questioned the validity of 800 or 900 number charges, the information providers played them audio tapes "documenting" that the required disclosures had been made. However, these consumers contend that the voices on the tapes were not theirs or anyone in their households.

There is also the potential for abuse if presubscription agreements can be created by assessing the telephone charges to calling cards that are offered by pay-per-call promoters in connection with their information or entertainment services. If the calling cards are provided merely as a way to charge consumers for the calls they made to obtain them, and there is no prior written agreement detailing the terms of their use or cost, this would simply be an end-run around the Rule. As we have already seen, any loopholes that exist will be exploited by clever criminals.

If pay-per-call services are exempted from the preamble and other provisions of the Rule based on presubscription or comparable agreements, those agreements should be memorialized in writing. Such agreements should not be created merely by the act of providing credit card or bank account information, or subscribing to a calling card, on the telephone, and no charges or debits should be made until a copy of the written agreement has been sent to the consumer. This is especially important if the agreement is to result in recurring charges for services.

III. Advertising

13. The Rule should specify reasonable requirements for clear and conspicuous disclosure of cost and other information related to pay-per-call services advertised on the Internet or on commercial online services. This change is needed to ensure that consumers are provided with the same information in cyberspace that they are entitled to when they are solicited for pay-per-call services through other forms of media.

15. About one-quarter of the 900 number complaints that NFIC received in 1996 involved so-called sweepstakes. The consumers mistakenly believed that they had to call the 900 numbers in order to claim their winnings (which usually turned out to be coupons discounts on merchandise). Even when sweepstakes solicitations explain how to enter without making 900 number calls, as required by the Rule, they urge consumers to call instead, implying that their written entries may be delayed. Consumers are also discouraged from participating by mail with stern reminders that they will be disqualified if their entries do not conform to the exact specifications.

Furthermore, in print solicitations, the alternative entry information and the odds of obtaining the various prizes are usually found in small print, or on the back of the materials sent to consumers. The Rule should require that the alternative means of entry, odds of winning, and any prize descriptions that are made must be provided immediately after the first reference to the 900 number. In print materials, this information should appear on the front, in large type, directly adjacent to the 900 number. Consumers should not have to make another call to get the alternative entry information, especially in light of the air of urgency that most sweepstakes solicitations create.

16. The NFIC receives complaints from consumers about messages to call 900 numbers, 800 numbers, and international phone numbers left on their answering machines or pagers, or transmitted via E-mail. In some cases, there is no explanation for the call; in others, consumers are told that there is a family emergency, or an urgent legal problem.

It is impossible to leave detailed messages on most pagers, and answering machines provide only limited time for messages. Furthermore, unsolicited E-mail violates Internet codes of conduct and most service providers' written terms of service. Therefore, unsolicited messages left on answering machines, pagers and computers for services covered by the Rule should simply be prohibited.

IV. Operation & Standards

25. Most of the 900 number complaints the NFIC receives are from consumers who contend that they never made the calls for which they are being billed. These include situations in which:

- the only person at that number was out of town when the calls were made;
- at the time the calls were made, the consumer did not have that phone number;
- the consumer already had a 900 number block on the phone;
- the person's name, address and/or credit card number on the bill was not the consumer's;
- an elderly woman living alone was charged for calls to sex lines;
- the calls were made from a town in another state that the consumer never visited;
- the bill listed multiple charges for calls to different numbers at the exact same time and date.

These consumers believe that they have received fictitious, or "phantom" bills for calls that they never made. Several of the 900 number complaints that the NFIC received in 1996 were against a Seattle company that debited the bank accounts of consumers who claim they never made the calls. While blocking can help to reduce the potential for unauthorized 900 number charges, it does not prevent abuses that can occur when consumers' telephone numbers and other personal information, which can be obtained from a variety of legitimate and illicit sources, are used to falsely bill them for pay-per-call services.

V. Billing and Collection

28. While most of the complaints that the NFIC receives concerning pay-per-call services involve charges on consumers' telephone bills, charges are also made on credit cards or debited from consumers' bank accounts. In a small number of cases, bills for pay-per-call services are sent directly from the provider or from a non-telephone company entity. It is confusing to consumers when the name on the bill does not correspond to the service they may have used.

29. Presently, consumers are at the mercy of billing entities' good will policies concerning disputed charges for international calls. Some billing entities forgive part of the amount on a one-time basis; others insist on full payment. Consumers should not be faced with the possible loss of their long-distance service for failure to pay disputed international calls for information or entertainment services. Therefore, the dispute rights provided to consumers under the Rule must be expanded to cover calls to international numbers used to provide pay-per-call services.

31. To help consumers resolve problems with phantom bills and other disputed pay-per-call charges, the names of the actual information or entertainment services and how to reach them should appear on the bills. Many of the consumers who contact the NFIC are not sure who their complaint are against, and report that they have difficulty finding out how to contact the pay-per-call company. They are often given the "run-around" by being referred from one number to another, and frustrated in their attempts to find out the basis for the charges.

We applaud the FTC's efforts to combat pay-per-call abuses. NCL looks forward to participating in the discussions concerning the changes that are needed to protect consumers in the evolving marketplace for information and entertainment services.

Respectfully submitted,

Linda F. Golodner, President
National Consumers League

Susan Grant, Vice President Public Policy Director,
National Fraud Information Center

National Consumers League

curb continued deceptive and unfair practices, while still fostering the legitimate pay-per-call industry's growth. Following TDDRA, the FCC and this Commission formulated rules to implement the TDDRA's protections for consumers.(10)

Unfortunately, TDDRA and agency regulations did not stop pay-per-call fraud and abuse. After 900 safeguards were in place, unscrupulous providers migrated to toll free numbers. Following heightened scrutiny of 800 numbers by enforcement authorities and a rule making proposal by the FCC in 1994(11), providers found still new ways to deceive unwary consumers. In the latest cycle of abuse, providers, acting in concert with cooperative carriers and foreign telephone companies, furnish pay-per-call services from foreign locations at exorbitant rates. In response, last year Congress amended TDDRA to address providers' circumvention of the law.(12)

BY AMENDING TDDRA, CONGRESS AUTHORIZED THE COMMISSION TO CLOSE LOOPHOLES USED TO EVADE PAY-PER-CALL PROTECTIONS

In the 1996 Act, Congress revised TDDRA's provisions regarding toll free numbers to require that presubscription agreements be in writing. Also, the exclusion of services which were tariffed was eliminated. Furthermore, the 1996 Act expressly authorized this Commission to extend the pay-per-call definition to other services "susceptible" to similar unfair and deceptive practices.

The Conference Report states that the 1996 Act was intended to "close a loophole in current law, which permits information providers to evade the restrictions of . . . [TDDRA] by filing tariffs for the provision of pay-per-call."(13) The Report emphasizes Congressional intent that pay-per-call charges appear on a phone bill only if a customer knowingly ordered such services. In view of this history of pay-per-call fraud, Congressional concern about potential rule evasion is well-founded.

REGULATORY DEFINITION OF PAY-PER-CALL SERVICE SHOULD BE EXPANDED TO INCLUDE ALL SUCH SERVICES

The 900-Number Rule, in its present form, is of limited use to law enforcers. Rather than attempting to enforce the Rule, many states have resorted to enforcement actions under state unfair and deceptive practices acts.(14) There have also been legislative and regulatory responses to pay-per-call fraud and abuse on the state level.(15) Likewise, the Commission has based enforcement actions on § 5 of the FTC Act to curb similar telecommunications service abuses.(16)

The Rule's current definition of pay-per-call services in section 308.2 is inadequate in two respects. First, the definition is limited to calls accessed via a 900 number prefix (sec. 288(i)(1)(c)). This limitation has enabled some providers to promote pay-per-call services identical in all relevant respects to 900 number services, but without disclosing cost and otherwise complying with the Rule. As recognized in the Conference Report, use of 800, 500, 700 and 10XXX and other access mechanisms have enabled providers to avoid the requirements of the current Rule.(17) Not surprisingly, as had been the case with 900 services, these alternative services have been the source of consumer complaints alleging unexpected, exorbitant charges.

Second, as Congress recognized, the exclusion of "any service the charge for which is tariffed" also permitted providers to circumvent federal protections.(18) The 1996 Act's elimination of this exception will stop evasion by including exorbitant pay-per-call charges in carrier tariffs.(19) As a result of this change, the Rule's application will turn upon the type of conduct, not the status of a tariff or provider. Status exemptions of this sort look back to a past era of comprehensive regulation, but have no place in the emerging competitive telecommunications marketplace. Deregulation does not mean that telecommunications service providers are free to engage in fraudulent or abusive practices.

The Attorneys General believe that extending the regulatory definition to cover not just those services reached by a 900 number but also similar pay-per-call services however accessed is essential. This artificial distinction should be eliminated. Although this industry is difficult to define, two salient characteristics are that the purported sale of goods or services is accomplished by completing a telephone call to a particular telephone number and payment is combined with the cost of the transmission of the telephone call. If the definition of pay-per-call services is extended to include all such services, abusive and fraudulent practices will diminish significantly.

The proposed extension of the definition of "pay-per-call services" will serve Congressional intent to protect legitimate pay-per-call services that provide full, accurate disclosures. Consumers will be better equipped to distinguish legitimate from fraudulent services and will be better protected if they are subjected to unlawful pay-per-call charges.

We strongly recommend that the Commission extend the pay-per-call definition to include all services susceptible to unfair and deceptive practices by modifying 47 U.S.C. § 228 to provide as follows:(20)

(1) The term "pay-per-call services" means any service--

(A) in which any person provides or purports to provide--

(i) information or entertainment produced or packaged by such person;

(ii) access to simultaneous voice conversation services; or

(iii) any service, including the provision of a product, the charges for which are assessed on the basis of the completion of the call;

(B) for which **[the caller pays] THERE IS** a per-call or per-time-interval charge that is greater than, **[or]** in addition to, **OR INCLUDED WITH** the charge for transmission of the call; and

(2) Such term does not include directory services provided by a common carrier or its affiliate or by a local exchange carrier or its affiliate, or any service for which users are assessed charges only after entering into a presubscription or comparable arrangement with the provider of such service.

Also, the Commission should implement other modifications consistent with these principles. For example, revision of the name of the Rule would reflect its applicability to all pay-per-call services. Further, the definition of service bureau in sec. 308.2(i) should be revised to eliminate an automatic exemption for common carriers that perform such functions.(21)

RECOMMENDATION FOR ADDITIONAL MEASURES TO PREVENT EVASION BY UNSCRUPULOUS PROVIDERS

The Attorneys General believe that the pattern of consumer abuse requires additional measures to protect the public from mistreatment and to ensure integrity in the market place. We encourage the Commission to put into place the following protections to prevent fraudulent and abusive practices and continued problems in the pay-per-call industry.

1. The Rule should require that all presubscription or comparable agreements be documented in writing and sent to the party to be billed. The 1996 Act provides that presubscription agreements must be in writing as a precondition for billing for pay-per-call services obtained by calling toll-free numbers. This provision is consistent with recommendations that the Attorneys General have made previously. Although the 1996 Act and the FCC's regulations imply that consumers would receive a copy of a presubscription agreement, the Rule should expressly obligate pay-per-call providers to send a copy to the party to be billed. The copy could be transmitted by mail or by electronic medium, but oral transmission should be precluded.

The Attorneys General have received numerous complaints from consumers who were billed for pay-per-call services that were contracted by and provided to third parties. Telephone subscribers should not be billed for pay-per-call services provided to another person unless the subscriber has agreed to assume responsibility. Without notice that would be provided by sending the subscriber a copy of such agreement, scam operators are likely to find a way to "document in writing" an agreement which is unknown to the subscriber who is billed.

2. Advertisements and other marketing activities which promote pay-per-call services must include disclosures and otherwise comply with requirements of the Rule. The Commission should indicate expressly that any advertisement which has the purpose or effect of inviting the public to purchase pay-per-call services must include required disclosures. Section 308.3(i) should be revised to prohibit in pay-per-call advertisements reference to international or in other numbers (in addition to toll-free numbers) unless required disclosures are made. Moreover, sec. 308.5(i) regarding prohibitions related to toll-free numbers should be expanded to include circumstances where the calling party is solicited to call a pay-per-call service as a result of a call to a toll free number.

3. The imposition of recurring monthly charges for pay-per-call services should be prohibited in the absence of a written presubscription agreement. In addition to a charge for a call to a pay-per-call service, as indicated by numerous complaints, some unscrupulous providers impose small monthly "membership" charges on the basis of a single call. These small, recurring charges may go unnoticed for months. Not only do consumers dispute responsibility for the initial call, but also object to reoccurring monthly charges. The practice of misrepresenting subscription charges should be specifically prohibited by the Rule; reoccurring monthly charges should be prohibited unless based on a valid presubscription agreement.

4. Parties that bill and collect for pay-per-call services must make information about provider identity and other relevant data easily available to subscribers. Complaints indicate that charges for pay-per-call services are referenced as "voice mail" or "conference call", but not as pay-per-call services. This practice misleads and confuses subscribers. Further, complaints document the inability of subscribers to obtain information about exorbitant pay-per-call charges. Section 308.5(j) should be expanded to obligate pay-per-call providers and any third party billing on behalf of such companies, to have such information readily available for consumers.

In the past, the Attorneys General recommended that a pay-per-call provider's name be included on the bill. We continue to support this approach. The Rule should obligate both pay-per-call services and third parties billing for such services to make this information readily available to subscribers.

CONCLUSION

In view of past and current problems, as well as the potential for continued fraud and abuse, unauthorized charges, and consumer confusion, we urge the Commission to implement additional safeguards designed to protect consumers against these practices. If strong measures are not adopted, fraudulent and abusive practices will continue to compromise the growth of the legitimate pay-per-call industry, and undermine the policies of federal and state laws intended to stop these practices.

Dated this 9th day of May, 1997.

Respectfully submitted,

RICHARD BLUMENTHAL
Attorney General
State of Connecticut
Chairperson, Telecommunications Subcommittee
Consumer Protection Committee
National Association of Attorneys General

The following Attorneys General join in these comments:

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1. Included in the appendix are examples of complaints involving alternative dialing patterns that Attorneys General have recently received (App.102 - 114). Recent complaints about pay-per-call services using 900 numbers are included as well (App. 115-116). These complaints as well as past enforcement efforts demonstrate the need for a comprehensive approach pay-per-call fraud and abuse.

2. Comments and Recommendations of the Telecommunications Subcommittee of the Consumer Protection Committee of the National Association of Attorneys General, In the Matter of Proposed Telephone Disclosure Rule, FTC File No. R311001 (April 7, 1993).

3. "To Catch a Thief: Bell Atlantic Calls for Unity on Phone Fraud, Lucent Sets up Wireless Network Effort," Communications Billing Reports, p. 3 (March 11, 1997). An explanation for such an exorbitant

SOURCE News & Reports

Federal, State Crackdown on High-Tech Investment Scams

Jan. 30, 1996

WASHINGTON (AP) - Federal and state regulators today announced a crackdown on investment scams peddling paging licenses and "900" telephone services that have cost unwitting investors millions of dollars.

"Paging licensing and '900' number scams are the latest in a long line of swindles to be pawned off on an American public that seems to be blindly in love with anything and everything that is labeled 'high tech'," said Dee R. Harris, president of the North American Securities Administrators Association, a group of state securities regulators.

NASAA and the Federal Trade Commission announced a coordinated enforcement campaign that involved 85 actions against telemarketing firms peddling the paging licenses awarded by the Federal Communications Commission and pay-per-call "900" telephone number partnerships.

The firms mislead consumers by stating the FCC limits licenses for paging businesses in a particular market and so the licenses can sold and resold at a large profit, regulators said.

"In fact, there is no limit on the number of licenses a company may acquire in a market," the regulators said in a statement.

Aggressive telephone sales of these investments surged in 1995, they said. The enforcement crackdown included 20 state regulators.

Harris, state securities regulator for Arizona, said the announcement is aimed at warning people not be be "exploited by con artists promising low risks and fat returns on technology that, in fact, is extremely speculative..."

FOR IMMEDIATE RELEASE:

FTC, STATES UNVEIL "PROJECT ROADBLOCK" CRACKDOWN ON NEW HIGH-TECH TELESCAMS

Regulators Warn of Surge in Latest Generation of High-Tech Schemes; 20 States, FTC Move Against Paging License, "900" Number, Other Scams.

WASHINGTON, D.C.///JANUARY 30, 1996///In response to the latest wave in high-tech "information superhighway" investment scams that are fleecing unwary U.S. consumers, the Federal Trade Commission (FTC) and 20 state securities agencies today announced the results of "Project Roadblock." The coordinated state-federal campaign involved 85 actions targeting high-pressure telemarketing operations peddling over a quarter of a billion dollars of the new generation of investment swindles, including Federal Communication Commission (FCC)-awarded paging licenses and pay-per-call "900" number partnerships.

Jodie Bernstein, director of the FTC's Bureau of Consumer Protection, said: ""Project Roadblock" is a massive effort focusing on the newest genre of schemes pitching investments in emerging telecommunications systems. The technology is so captivating and the scams so enticing that the only roadblock that can really make a difference is one put together by this kind of broad-scale coordinated federal-state effort."

"Paging licensing and "900" number scams are the latest in a long line of swindles to be pawned off on an American public that seems to be blindly in love with anything and everything that is labeled "high tech,"" said North American Securities Administrators Association (NASAA) President Dee R. Harris, who also serves as director of securities for the Arizona Corporation Commission. "What we are saying today is very simple: don't be exploited by con artists promising low risks and fat returns on technology that, in fact, is extremely speculative and likely to pay off in only a small percentage of cases."

SCOPE OF THE PROBLEM

Though the entire array of telecommunications-related frauds continued to be a problem, the high-pressure telemarketing promotion of paging licenses and "900" number investment schemes surged during 1995. Over a quarter of the investment dollar losses of all types reported to a federal-state database between March- October 1995 involved high-tech "information superhighway" scams, with paging licenses and "900" numbers being among the most common. Individual investment losses reported by the FTC in paging license scams ranged from $2,900 to as much as $400,000.

The following cases turned up by the 20 state securities agencies and the FTC in "Project Roadblock" illustrate the nature and extent of the pager and "900" number schemes that are sweeping the nation:

- The Arizona Securities Division reports that a California company selling limited partnership interests for $5,000 in a "900" number scheme told investors that their investments were "backed by a US Treasury bond that secures their principal 100 percent." According to the FTC, the president of the company threatened to sue a 78-year-old woman when she refused to increase her investment in a "900" number partnership. The company falsely told investors that it had already set up "300 lines covering . . . you name it. They've all been set up throughout the U.S." In fact, they had no such lines. Investigators found that received funds were siphoned off to pay for sales commissions and expenses. One chart mailed to prospective investors suggested that if the partnership had 300 popular lines, somebody who invested $10,000 would get an annual return of $23,530.

- According to the FTC, a Florida telemarketing outfit pushing paging licenses not only falsely claimed to be a member of two trade associations, but also misled customers about the location of its offices. Telemarketers were instructed to say that they were calling from the company's headquarters in the World Trade Center, when in fact, they were making calls from a boiler room in Broward County, Florida. Hapless investors in this scheme were told they would receive a "$1,000 a month" return on their investment.

- The California Department of Corporations reported that a retired couple and a welder were among the victims of four related California firms peddling high-tech partnerships in "900" numbers and other schemes. The state investigation found that the partnership promotions took in $19.5 million between August 1994 and the end of 1995. The state estimates that 85 percent of the proceeds were diverted to the promoters, either directly or for expenses. Though they were promised their money back within 16 months and long-term profits of $70,000 or more, the investors have not received a penny to date.

Among the victims: a house-bound, elderly Alexandria, VA. woman, who was fleeced in four high-tech schemes, eventually losing her entire life savings of nearly $100,000 raised over four decades as a babysitter.

HOW THE SCHEMES WORK

Paging licensing scams begin when a promoter offers to secure a license for an investor that covers a paging frequency in a portion of the U.S. The con artist would have you believe that the license will be worth a fortune to major paging operators because the FCC only allows each person or company to obtain one license in any market. The idea that an enormous profit can be made on the resale or lease of the license is without foundation. In fact, there is no limit on the number of licenses a company may acquire in a market. While a fast-buck telemarketer may say otherwise, market experts will tell you that a paging company won't lease a paging license owned by someone else in order to build its customer base.

In pay-per-call "900" number investment scams, high-pressure telemarketers encourage you to purchase an interest in an "information provider" partnership. Instead of owning a "900" service outright, investors are pooled in partnerships, much like the investment arrangements made regarding oil & gas wells, equipment leases, and real estate. Typically, investors are not told the real costs for which information providers are responsible, including paying for national promotion, and forking over fees to any endorsers used in "infomercials" or other advertisements.

NASAA's Harris added: "The reason that we have investment regulation in the United States is to protect consumers against unscrupulous promoters who try to hide risks and exaggerate the potential for profit. In reality, if these promoters complied with state and federal requirements on disclosing risks and profits, very few investors would go within a mile of these investments. The truth is that these investments, if properly presented, are suitable only for sophisticated high-rollers who can afford to lose every penny that they put into them."

"If a company calls you touting the profits and minimizing the risks of investing in communications systems and licenses, hang up the phone," said the FTC's Bernstein. "Investors need to realize there are no easy profits in telecommunications investments. They require lots of capital and business savvy to have a chance of making any profit at all."

HELP FOR CONSUMERS

Both state securities regulators and the FTC are releasing information detailing ways in which investors can protect themselves from the new generation of "information superhighway" scams. Through NASAA, the states are releasing a free, five-page "Investor Bulletin" that explains the new "information superhighway" scams and how they can be avoided. The FTC is releasing its consumer alert brochure entitled "Telecommunications Scams Using FCC Licenses."

Consumers who want to check out a potential high-tech information superhighway scam should contact their state's securities division. The name of the agency and its phone number are available by calling the North American Securities Administrators Association at 202/737-0900. In the U.S., NASAA is the national voice of the 50 state securities agencies responsible for investor protection and efficient capital formation.

Consumers may also want to file a complaint by calling the National Fraud Information Center toll-free at 1-800/876-7060. Or write to: the Federal Trade Commission, Division of Service Industry Practices, Washington, D.C. 20580. Call: 202/326-2222.