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ANNUAL REPORT



**U.S. FEDERAL TRADE COMMISSION
WASHINGTON, D.C.**

***Annual
Report
of the***

**Federal
Trade
Commission**

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COMMISSIONERS

ROBERT PITOFSKY

Robert Pitofsky was sworn in as 54th Chairman of the Federal Trade Commission on April 12, 1995. At the time he was nominated by President Clinton to chair the Commission, Chairman Pitofsky was a Professor of Law at the Georgetown University Law Center and Of Counsel to the Washington, D.C. law firm of Arnold & Porter. He also has held positions at the Federal Trade Commission as a Commissioner (1978-1981) and as Director of the Bureau of Consumer Protection (1970-1973).

Chairman Pitofsky chaired the Defense Science Board Task Force on Antitrust Aspects of Defense Industry Downsizing in 1994. He has been a member of the Council of the Administrative Conference, the Board of Governors of the D.C. Bar Association, and the Council of the Antitrust Section of the American Bar Association. In addition, he has been Dean of the Georgetown University Law Center, a professor at New York University School of Law, and Visiting Professor of Law at Harvard Law School.

Chairman Pitofsky's publications include legal casebooks on both trade regulation and antitrust law. He received a B.A. degree from New York University and an L.L.B. from the Columbia School of Law.

SHEILA F. ANTHONY

Sheila F. Anthony was sworn in as a member of the Federal Trade Commission on September 30, 1997. She was appointed by President Clinton to a term that expires on September 25, 2002. Before appointment, Commissioner Anthony served as Assistant Attorney General for the Office of Legislative Affairs at the Department of Justice from 1993 to 1995. As Assistant Attorney General, Commissioner Anthony was the liaison between the Department and Congress, and the liaison to the White House Legislative Affairs Office. In addition, she was responsible for implementing the strategy to carry out the Department's legislative initiatives. Prior to government service, Commissioner Anthony practiced law at Dow, Lohnes & Albertson, Washington, D.C., where she specialized in intellectual property law.

Commissioner Anthony is a graduate of the University of Arkansas and the Washington College of Law, American University. She is a member of the Bars of the District of Columbia and the Supreme Court of Arkansas.

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MOZELLE W. THOMPSON

Mozelle W. Thompson was sworn in as a Commissioner of the Federal Trade Commission on December 17, 1997. He was appointed by President Clinton to a term that expires on September 25, 2003. Before appointment, Commissioner Thompson was Principal Deputy Assistant Secretary of the Treasury, where he was responsible for overseeing domestic spending and credit policies, including the operations of the Federal Financing Bank and the Office of Government Financing.

Prior to joining the Treasury Department, Commissioner Thompson served as Senior Vice President and General Counsel to the New York State Finance Agency and its four sister corporations. In addition, he was an adjunct associate professor at Fordham University School of Law, and also was an attorney with the New York firm of Skadden, Arps, Slate, Meagher and Flom.

Commissioner Thompson is a graduate of Columbia College and Columbia Law School, and Princeton University's Woodrow Wilson School of Public and International Affairs. After law school, Commissioner Thompson served as a law clerk to U.S. District Court Judge William M. Hoeveler, Miami, Florida.

ORSON SWINDLE

Orson Swindle was sworn in as a Commissioner of the Federal Trade Commission on December 18, 1997. He was appointed by President Clinton to a term that expires on September 25, 2004. Prior to his appointment, Commissioner Swindle had a distinguished military career. He also served as Assistant Secretary of Commerce for Development, where he managed the Department of Commerce's national economic development efforts, directing six offices across the country. Commissioner Swindle was State Director of the Farmers Home Administration for the U.S. Department of Agriculture, financing rural housing, community infrastructure, businesses, and farming.

As a Marine aviator serving in South Vietnam, Commissioner Swindle was shot down over North Vietnam on November 11, 1966, while flying his 205th combat mission. He was captured by the North Vietnamese and held as a Prisoner of War in Hanoi for the next six years and four months. On March 4, 1973, Commissioner Swindle was released from captivity. He retired from the U.S. Marine Corps in 1979, with the rank of Lieutenant Colonel. His 20 military decorations awarded for valor in combat include two Silver Stars, two Bronze stars, and two Purple Hearts.

Commissioner Swindle is a graduate of Georgia Tech and the Florida State University Graduate School of Business.

OVERVIEW

The Federal Trade Commission enforces a variety of federal anti-trust and consumer protection laws. The Commission seeks to ensure that the nation's markets function competitively and are vigorous, efficient, and free of undue restrictions, and it works to enhance the smooth operation of the marketplace by eliminating acts or practices that are unfair or deceptive.

The Commission also undertakes economic analysis to support its law enforcement efforts and to contribute to the policy deliberations of various federal, state, and local government bodies. In addition to carrying out its statutory enforcement responsibilities, the Commission advances the policies underlying Congressional mandates through non-enforcement activities, such as consumer education, business education, and competition advocacy work before other government entities. This report describes the Commission's accomplishments in fiscal year 1998.

COMPETITION MISSION

The Competition Mission is based upon the fundamental premise of the antitrust laws that competition produces the best products and services at the lowest prices, spurs efficiency and innovation, and strengthens the U.S. economy. Unreasonable restraints on competition harm both consumers and businesses. The Commission's Competition Mission is to ensure that markets function competitively by eliminating unreasonable competitive restraints, preventing anticompetitive mergers and acquisitions, and encouraging governmental reliance on market solutions.

Mission Focus

The challenges to accomplishing this Mission are formidable because the Commission's allocated resources have not kept pace with surging levels of mergers and acquisitions, or the increasingly complex and sophisticated nature of nonmerger activity. Yet, consistent with the agency's commitment to competitive markets, the Commission has sought to minimize the burden its Competition Mission actions place on ordinary business activities.

The Commission has focused its Competition Mission resources on enforcement actions in markets and industries that are likely to have a direct impact on consumers. In fiscal year 1998, more than half of the Mission's resources, measured by staff hours devoted to large cases,

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were at work in six key areas of the economy: health care, pharmaceuticals, information and technology, energy, consumer goods and services, and defense (where the consumer as taxpayer is the beneficiary). The Commission's actions:

- Protected the purchasers of prescription pharmaceuticals from the risk of increases in distribution costs. In its *Drug Wholesalers* case, the Commission secured a preliminary injunction in federal district court, preventing the proposed mergers of the nation's four largest pharmaceutical wholesalers into two companies. This case was particularly important because the drug wholesaling market affects virtually every consumer in the country.
- Ensured that grocery shoppers in parts of the Mountain States continue to have access to a range of supermarkets at competitive prices, by permitting the merger of Albertson's and Buttreys Food and Drug Stores only on condition that eleven supermarkets be sold to an independent buyer. These divestitures preserved competition in several markets in Montana and Wyoming.
- Preserved competition in the market for household cleaners by permitting S.C. Johnson to acquire Dow Brands only on condition that it divest the "Spray 'n Wash," "Spray 'n Starch," and "Glass Plus" businesses to Reckitt & Colman.
- Protected taxpayer interests in efficient and cost-effective defense procurement – by preserving competition in the defense industry – through the review and modification of TRW's \$942 million acquisition of BDM International. This transaction was permitted only on condition that the firms divest a portion of their previously competing units having the capability to engage in systems engineering and technical assistance (SETA) work on missile defenses.
- Ensured the continuation of effective competition in the production and sale of drugs used for the early treatment of heart attack victims – in order to ensure that heart patients continue to have access to competitive prices for these drugs – by permitting the merger of Roche Holding and Corange only upon divestiture of Corange's cardiac thrombolytic agents to a Commission-approved buyer.
- Protected producers and consumers of natural gas by ensuring that competing pipeline facilities remain available. A consent order with The Williams Companies and MAPCO provided that, as a condition of their merger, they divest some pipeline capacity to an

unrelated operator of propane terminals, and allow any new competing pipeline to connect with their system in Wyoming.

Commission actions in nonmerger cases likewise addressed anti-competitive conduct that threatened consumer welfare. The Commission's actions:

- Prevented associations of health care providers from collectively increasing prices to consumers and third-party payers. In *M.D. Physicians of Southwest Louisiana*, a group of doctors, representing the majority of physicians in the area around Lake Charles, Louisiana, settled allegations that they had unlawfully fixed the prices charged to managed care plans. In *Institutional Pharmacy Network*, five institutional pharmacies settled allegations that they unlawfully fixed prices for serving patients in Oregon long-term care institutions; the Commission's action prevented an unwarranted increase in the reimbursement levels the firms received from Medicaid. In *Urological Stone Surgeons*, three firms and two doctors settled allegations that they had fixed the professional price for lithotripsy procedures in their area. In all three cases, Commission orders restrained further anticompetitive conduct.
- Ensured a competitive market for the cardboard boxes in which virtually all consumer products are packaged or shipped. The agency settled allegations that Stone Container, the world's largest manufacturer of linerboard, a component of corrugated boxes, had attempted to orchestrate an industry-wide price increase. The order settling this case prohibited Stone Container from entering into any agreements with competitors to raise, fix, or stabilize prices.
- Helped to ensure that the computer hardware industry continues to develop in a competitive way. The Commission issued an administrative complaint against Intel, charging that the firm illegally tried to cement its dominance over the microprocessor market. It alleged that Intel improperly pressured three of its customers to license key patents on Intel's terms, by denying them continuing access to technical information necessary to develop computer systems based on Intel microprocessors. The consent order settling this case – negotiated and finalized in fiscal year 1999 – prevents Intel from withholding or threatening to withhold advance technical information or refusing to sell microprocessors to customers who are involved in intellectual property disputes with Intel unless there is a legitimate business reason for termination.

Anticipating Future Antitrust Enforcement Trends

Effective antitrust enforcement must take into account rapid technological development and the increased globalization of the marketplace. The Commission continues to refine its analysis to adapt to these changes and to structure enforcement mechanisms that protect competitive markets and avoid undue intrusions. During fiscal year 1998, the Commission:

- Considered the application of antitrust principles to Internet business. The *Internet Auto Dealers* case applied the established law against boycotts in this new commercial context, resulting in a consent agreement under which a group of 25 traditional dealers agreed to cease trying to force a cutoff of supply to competing dealers that offered low prices through marketing on the Internet.
- C Continued its commitment to work with state antitrust agencies to leverage antitrust resources. The Commission engaged in several joint investigations with the states, including *Shell / Texaco* and *Tenet Healthcare / Doctors Regional Medical Center*, enabling it to conduct thorough investigations with fewer Commission resources, and reducing the burden on business by allowing joint interviews and joint requests for documents and information.
- C Cooperated with foreign antitrust agencies to enforce the antitrust laws in cases where the actors and effects may be subject to scrutiny in foreign countries as well as in the United States, including such transnational mergers as *Guinness / Grand Metropolitan*.

Minimizing the Burden on Business

The Commission obviously cannot avoid all burdens on business if it is to investigate and enforce the law. Nonetheless, the agency constantly reassesses its policies and procedures to streamline them to eliminate any unnecessary requirements. During fiscal year 1998, for example, the Commission:

- Adopted internal training and review policies to narrow the scope of second requests in merger cases.
- Modified the terms of outstanding orders in seven matters to account for changed legal or factual circumstances.
- Prepared five staff advisory opinions in the health-care area to guide business as to the lines separating permissible from impermissible conduct.

Programs Under the Competition Mission

The Commission implements its Competition Mission through three programs: the Hart-Scott-Rodino (HSR) Premerger Notification Program, the Mergers and Joint Ventures Program, and the Nonmerger Program.

Premerger Notification Review Program

This program protects consumers from mergers that are potentially anticompetitive. Before enactment of the HSR Act, mergers often were consummated and assets and operations were combined before the antitrust agencies learned of the transactions. It was then difficult, if not impossible, to “unscramble the eggs” and to restore the benefits of a competitive market. The HSR Act requires entities that meet certain size requirements and that plan significant acquisitions to file notice in advance with the Commission and the Antitrust Division of the Department of Justice. Consummation of the merger must be delayed for statutorily prescribed periods of time. The HSR Act thus allows the antitrust agencies to identify and to stop anticompetitive mergers before they actually take place.

The program strives to minimize the burden on businesses that are required to comply with the HSR Act. To improve voluntary compliance, the Commission’s Premerger Office provides assistance to filers in understanding the Act’s requirements, primarily through responses to tens of thousands of telephone inquiries annually.

The HSR Act – by requiring merging firms to provide advance notice and essential information to the Commission and the Department of Justice – has become an essential component of antitrust enforcement. Moreover, Commission and Department enforcement of the Act – with its emphasis on quickly identifying and permitting the consummation of mergers and acquisitions that do not threaten competition – has made parties to mergers and acquisitions more certain of the timing of stages along the investigation path, enabling them to plan business activities with greater confidence. The Commission is able to make more reliable enforcement decisions because it has access to all relevant data concerning the competitive effect of a merger. This increased certainty has led to more accurate decisions and has also led to a process that facilitates negotiated outcomes. In sum, the Premerger Program is an important example of efficient antitrust enforcement that protects the consumer’s interest in a competitive market while minimizing costs to business.

During fiscal year 1998, the number of premerger filings increased for the seventh year in a row and totaled 4,728. This represents a 28-percent increase over fiscal year 1997, and a threefold increase since fiscal year 1991.

The Premerger Office works closely with the private bar to minimize unnecessary filings and to make the process work as efficiently as possible. The Premerger Office's activities in fiscal year 1998 included responding to over 40,000 phone calls seeking information concerning the reportability of transactions under the HSR Act and the details involved in completing and filing premerger forms. Approximately one half of the calls asked whether a proposed transaction was covered under the reporting requirements, while the other half concerned details involved in filing the notices of proposed transactions.

The HSR Act is designed to ensure swift and efficient review of proposed mergers only if the parties comply with the Act's requirements and provide complete information. Imposition of civil penalties can be appropriate when parties fail to do so. For instance, during fiscal year 1998, Loewen Group and Loewen Group International, firms that own and operate funeral homes and cemeteries, agreed to pay a penalty of \$500,000 to settle allegations that they failed to notify the antitrust agencies before acquiring stock in a competitor, Prime Succession.

Mergers and Joint Ventures Program and Enforcement Activities

The Mergers and Joint Ventures Program seeks to prevent mergers and acquisitions that are likely to harm competition and consumers, primarily through the review and analysis of filings received under the Premerger Notification Program. The Mergers and Joint Ventures Program also investigates joint ventures and interlocking directorates among competing firms that may have anticompetitive effects similar to those of mergers. The program has three essential components:

- C Detecting potentially harmful mergers before they occur by monitoring merger activity and screening all significant mergers identified through the Premerger Notification Program;
- C Investigating those mergers that the screening process has targeted for further inquiry; and
- C Taking appropriate action to prevent (or undo) those mergers or portions of mergers that, after investigation and analysis, appear likely to substantially lessen competition.

With respect to some mergers, the Commission can effectively prevent harm to consumers and competition only by preventing the merger entirely or, where the merger has already been consummated, by undoing it. In most cases, however, competition can be preserved by more narrowly tailored relief that still allows the overall merger or transaction to proceed. Determining the kind of relief necessary entails investigations that are designed to answer fundamental questions about the merger and the affected relevant product and geographic markets, such as:

- C Is the merger likely to result in a lessening of actual or potential competition, increase the market power of the merging firms, or lead to market dominance or a significant increase in the likelihood of collusion?
- C Is the merger likely to increase barriers to entry or expansion or to foster interdependent conduct among firms?

To protect consumers from mergers that may substantially lessen competition, the most efficient and cost-effective strategy is to prevent such mergers before they occur. The Commission has authority under Section 13(b) of the Federal Trade Commission Act to seek a preliminary injunction in federal district court to stop such a merger. More often, however, the Commission resolves the competitive problem through consent agreements with the merging parties. Where anti-competitive mergers have been consummated, the Commission may rely on administrative remedial powers to restore the lost competition. In either case, the principal (though not exclusive) remedy is the prompt divestiture of assets that are sufficient to restore competition.

During fiscal year 1998, Commission staff opened investigations of 352 transactions, including 344 initial-phase investigations (45 of these were later converted to full-phase) and 8 full-phase investigations. The Commission issued requests for additional information or documentary materials under the HSR Act (“second requests”) for 46 of the 352 proposed transactions. Preliminary injunction cases were authorized in three transactions, and the agency prevailed in district court in all three. Two of these cases – *Cardinal Health / Bergen Brunswig* and *McKesson / AmeriSource* – were planned mergers of drug wholesalers. Those were abandoned after the court issued its injunction. In the third case, *Tenet Healthcare*, the parties appealed the preliminary injunction, and the matter remained in litigation at the end of the fiscal year. Subsequently, the Court of Appeals reversed the

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district court ruling. Finally, in seven other cases the parties abandoned their transactions after being informed of the agency's concerns.

The Commission's merger investigations included a number of complex and significant transactions in the defense, health care, and computer and software industries where Commission efforts helped protect competition in the midst of intense restructuring as a result of rapidly changing economic forces and technology. Notable examples include the merger between defense contractors TRW and BDM International, and an acquisition involving computer technology firms Intel and Digital.

During the year, the Commission accepted for public comment 23 new consent agreements (14 of which were finalized during the year) in the following industries:

Health care	3
Defense and technology	3
Foods and consumer services	9
Industrial applications	4
Oil and natural gas	<u>4</u>
Total	23

The Commission continued to improve the remedies for preventing the anticompetitive effects of proposed mergers, continued its efforts to ensure that the remedies focus as narrowly as possible on those anticompetitive effects, and made significant gains in achieving divestitures more quickly. During fiscal year 1998, the Commission continued its efforts, begun in previous years, to shorten the time to effect divestitures ordered to remedy anticompetitive mergers. The Commission has done so by insisting that consent orders include various provisions that advance that goal. Examples include shorter divestiture periods, broader asset packages, and signed purchase agreements for divestitures before the orders at issue become final. In addition, the Commission has used so-called "crown jewel" provisions, which provide for the divestiture of an alternative, generally more marketable package of assets by a trustee if the respondent fails to divest the basic package of assets by a specific date.

Finally, the Commission has moved to ensure the integrity of agreements to divest by seeking civil penalties against firms that fail to comply with their divestiture obligations. During fiscal year 1998, the agency obtained \$4 million in penalties from three companies:

- Columbia/HCA agreed to pay a penalty of \$2.5 million to settle allegations that it violated a 1995 Commission order to divest hospitals in Utah and Florida in a timely manner.
- CVS agreed to pay a penalty of \$600,000 to settle allegations that it violated a 1997 consent order and asset maintenance agreement growing out of its acquisition of Revco. The Commission alleged in its complaint that CVS had not maintained the competitiveness of the computer systems in those stores that it was required to divest.
- Rite Aid Corporation agreed to pay a penalty of \$900,000 to settle charges that it failed to divest three drug stores in Maine and New Hampshire, as required by a 1994 consent order with the Commission.

Nonmerger Program and Enforcement Activities

Through its Nonmerger Program, the Commission addresses three main areas of potential anticompetitive conduct: horizontal restraints, distributional arrangements, and single firm violations. The Horizontal Restraints Program is directed at investigating collusive or other collaborative activities involving direct competitors that may harm consumers, such as price fixing. Such activities can harm consumers by raising prices and reducing the quantity and quality of available goods and services. Although some types of agreements among competitors – such as those that produce standard setting or the promulgation of legitimate ethical codes – can be procompetitive and even essential, these types of agreements also can be abused in ways that harm consumers.

The Distributional Restraints Program seeks to protect consumers from anticompetitive consequences of certain vertical agreements among firms at various levels in the chain of distribution. An agreement on minimum resale price between a manufacturer and a distributor is an example of a distributional practice that has a harmful effect on consumers and is considered *per se* illegal.

The Single Firm Program seeks to prevent firms from creating or maintaining market power through conduct that injures consumer welfare, thereby reducing output below the competitive level and maintaining supracompetitive prices. While neither the existence of market power nor the attempt to gain market share is unlawful in itself, achieving market power by practices that unreasonably exclude competition is unlawful. Conduct investigated under this program that may be unlawful includes exclusive dealing arrangements, tying

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arrangements, and price and non-price predation. Such practices can have the effect of driving competitors from a market through means other than vigorous competition on the merits.

Under the nonmerger programs, the Commission opened 43 initial-phase investigations during fiscal year 1998. Four of these investigations were converted to full-phase, along with seven others that had been opened in earlier years.

The Commission accepted 11 consent agreements for public comment (with 8 of them made final during the year). The consent agreements accepted for public comment included:

- Chrysler Dealers, Unnamed (Internet-related boycott)
- Fastline Publications (boycott and agreement to restrict price advertising)
- Institutional Pharmacy Network (price-fixing)
- M.D. Physicians of Southwest Louisiana (concerted action to obstruct managed care plans, to set prices, and to thwart cost containment measures)
- Sensormatic Electronics Corporation (agreement to restrict comparative advertising)
- Stone Container Corporation (solicitation to fix prices)
- Urological Stone Surgeons, Inc. (price-fixing)

CONSUMER PROTECTION MISSION

The goal of the Commission, through its Consumer Protection Mission, is to prevent fraud, deception, and unfair business practices in the marketplace. The Commission pursues this objective by identifying – through its experience with a variety of law enforcement and other strategies – those practices that cause substantial consumer injury. The Commission focuses its Consumer Protection Mission resources on preventing these practices through law enforcement actions, and on preventing consumer injury through education.

Consumer and Business Education

Consumer and business education is the first line of defense against fraud and deception. The program plans, develops, and implements mission-related campaigns targeted to both broad and segmented consumer and industry audiences. This effort encourages informed consumer choice and competitive business practices in the marketplace, and is viewed as a cost-effective way to help minimize consumer injury and obtain compliance with the law. With each major enforcement initiative, the Commission launches an education campaign using

both traditional and new media to reach as many consumers as possible. Highlights from fiscal year 1998 include:

- *Publications.*—The Commission issued 78 publications – 40 new and 38 revised, 65 for consumers and 13 for businesses. The public was sent approximately 4.6 million copies of publications and accessed an additional 1.1 million through *ConsumerLine* and *BusinessLine* on the Commission’s Web site, *www.ftc.gov*.
- *www.consumer.gov.*—The first Internet site to offer one-stop access to federal consumer information was an initiative of the Commission launched in December 1997. The site, which allows consumers to locate and link to appropriate and late-breaking information, now includes more than 60 participating federal agencies.
- *Privacy.*—At the request of the Vice President, the Commission developed *About Privacy*, a comprehensive resource of information on consumer privacy, on the Commission’s Web site. *About Privacy* explains how to protect personal information both online and offline and helps consumers voice their privacy preferences. It also gives consumers the information they need to contact credit bureaus, state motor vehicle offices, and marketing organizations via the Internet, telephone, or mail.
- *Year 2000 (Y2K) Problem.*—The Commission was designated the lead agency for the Consumer Affairs Sector of the President’s Council for the Y2K Conversion. The Commission was charged with administering the federal government’s Y2K consumer information hotline (1-888-USA-4-42K), publishing consumer education materials, and developing a consumer-oriented Y2K Web site as part of *www.consumer.gov*.
- *Internet Users.*—As part of the Commission’s effort to educate Internet users about Web resources and pitfalls, the Commission undertook a major effort to develop new partnerships with Internet service providers, computer manufacturers and retailers, associations, and the media. In cooperation with state Attorneys General, the Commission issued *Site-Seeing on the Internet: A Consumer’s Guide to Travel in Cyberspace*. This handbook highlights the kinds of information and the services available in cyberspace and offers tips to protect personal information. *Advertising and Marketing on the Internet: Rules of the Road* was issued as a guide to businesses, and a 60-second public service announcement was distributed to radio stations nationwide.

Federal-State Coordination

The Commission works closely with other federal agencies, states, and local authorities in a variety of coordinated law enforcement efforts and task forces, including individual cases involving fraud and deceptive advertising, efforts to boost industry compliance with rules and regulations, and consumer and law enforcement training programs. By sharing information and resources, these joint efforts are able to more effectively target issues that have a direct impact on consumers. One of the most effective tools in the battle against fraud has been the law enforcement “sweep.” In fiscal year 1998 alone, the Commission led 13 sweeps; they involved 249 actions, 61 of which were brought by the Commission. Recent initiatives include:

- *Project Risky Business.*—The Commission, the Securities and Exchange Commission (SEC), and 20 members of the North American Securities Administrators Association brought approximately 60 cases directed at scores of bogus entertainment and media-related investment opportunity scams. This project stopped over \$100 million in ongoing fraud.
- *Operation Missed Giving.*—The Commission and 40 state charities enforcement agencies, with the help of AARP, brought 39 actions against defendants making fraudulent solicitations for a wide variety of charitable donations. The Commission’s cases in the sweep involved over \$10 million in consumer injury.
- *Operation Eraser.*—In the first coordinated effort to enforce the Credit Repair Organization Act, the Commission led a federal-state sweep targeting 31 credit repair companies that falsely promised they could restore consumers’ creditworthiness for a fee.
- *Operation Cold Call.*—Commission staff helped create and execute an unprecedented criminal law enforcement sweep of over 60 telemarketing rooms under California’s telemarketing registration statute. Participants included the FBI, California Attorney General’s office, Los Angeles District Attorney’s office, and others. The results to date: 15 telemarketers indicted and over \$100,000 paid in fines.

International Enforcement Cooperation

International efforts focus on consumer protection in the global electronic marketplace. The present challenge is to encourage the development of a global marketplace that offers safety, transparency,

and legal certainty. The Commission continues to combat cross-border fraud, through litigation, education, and international cooperation, and to investigate foreign scam artists harming U.S. citizens and the laundering of ill-gotten gains to off-shore accounts.

- *International Monitoring.*—As the marketplace becomes more global, law enforcement monitoring efforts also must become more global. The Commission’s Consumer Sentinel, the first binational consumer fraud database that tracks consumer complaints in multiple jurisdictions, is an important step in that direction. So too are the international “surf” initiatives to monitor the World Wide Web. Over the past three years, the Commission, together with over 120 agencies from the United States and 25 foreign countries, has participated in 13 Surf Days, covering a range of subjects (such as credit repair, false health claims, and children’s privacy) and producing thousands of warnings to potential violators of the law.
- *Cross-Border Task Forces.*— In fiscal year 1998, the Commission joined the Mexico-USA-Canadian Health Fraud Task Force, which works to identify trends, coordinate enforcement activities, and develop joint consumer and business education messages. The group is modeled on another task force in which the Commission is active – the US-Canada Telemarketing Fraud Task Force.

Programs Under the Consumer Protection Mission

The Consumer Protection Mission is advanced by six programs – Advertising Practices, Enforcement, Financial Practices, Marketing Practices, Service Industry Practices, and Planning and Information – supported by the Office of Consumer and Business Education, and the Commission’s regional offices. Regional staff are responsible for a wide variety of consumer protection cases in all the programs and serve as contacts for Congressional offices, state Attorneys General, and other state and local consumer protection officials.

Advertising Practices Program

The Advertising Practices Program enforces the nation’s “Truth-in-Advertising” laws. Whether ads appear on television or radio, in newspapers or magazines, or on the Internet, these laws require companies to tell the truth and to back up their claims with reliable, objective evidence. The program uses a variety of tools to protect consumers from misleading claims, including law enforcement actions in federal

and administrative courts, liaison and guidance to industries, advocacy for effective self-regulation by the advertising industry and better screening of ads by the media, and consumer education. Working to protect consumers' health, safety, and economic interests, the program's efforts span a broad range of products and trade practices.

- *Advertising for Foods, Over-the-Counter Drugs, Dietary Supplements, and Medical Devices.*—The Advertising Practices Program devotes substantial resources to ensuring the accuracy of health claims in advertising and has taken action against companies making deceptive representations. The program also works with the burgeoning dietary supplement industry to encourage accuracy in claims for these products. In addition to traditional law enforcement actions, business education materials are formulated to help companies develop the kind of substantiation necessary to support health claims in advertisements for these products.
- *Tobacco and Alcohol Advertising.*—The Advertising Practices Program leads the Commission's efforts to stop the deceptive or unfair marketing of tobacco and alcohol. In addition, the program enforces federal laws requiring health warnings on ads and packaging for cigarettes and smokeless tobacco and publishes annual Reports to Congress monitoring cigarette advertising and marketing.
- *Children's Advertising and Consumer Privacy.*—The Commission has long been a leader in protecting children from unfair or deceptive advertising and marketing practices. In recent years, the program has been a leading voice in the ongoing debate about privacy and commerce on the Internet, especially with regard to the collection of information from and marketing directed to children.
- *Advertising in New Media.*—New technologies have opened new avenues for companies to communicate useful product information to prospective customers. The program has taken an active role in recent years in ensuring that the same standards of accuracy apply to all advertising claims made, whether on the Internet, in infomercials, in home shopping, or in other new forms of commerce.

Enforcement Program

The Enforcement Program protects consumers from deception and fraud in three ways. First, the program protects consumers by stopping deceptive marketing practices that cause economic losses. Second, the

program ensures that companies ordered to stop deceptive practices comply with those orders. Third, the program ensures that consumers receive important information required by various laws and rules to help them make accurate comparisons and informed decisions. The program also regularly reviews these rules to keep them current.

- *Marketing Practices Causing Economic Injury.*—The Enforcement Program prosecutes firms that hurt consumers financially through ads that are false or misleading. It investigates and issues reports on diverse issues relevant to consumers on a daily basis, such as whether scanner prices in retail stores match the advertised prices, and whether milk and dairy packages contain the amount of product stated on the label.
- *Compliance with Commission Orders.*—Violations of the FTC Act may result in an administrative order, directing the responsible individuals or companies to stop their unlawful practices. The program monitors all consumer protection orders to ensure that such individuals or companies comply by ceasing their deceptive practices and fulfilling any obligations, such as providing redress to injured consumers. If a company’s practices violate an order, the program typically contacts the company to make sure it understands its obligations and where its practices have fallen short, which usually results in full compliance. In some instances, because of the egregiousness or willfulness of the violative conduct, formal action and civil penalties are sought to stop and deter additional violations.
- *Rule Enforcement.*—The Enforcement Program enforces a variety of laws, rules, and guidelines that require sellers to provide consumers with important pre-purchase information. For example, the Care Labeling Rule requires clothing to be labeled with cleaning instructions; the Mail or Telephone Order Rule requires sellers to ship merchandise within the time promised or let consumers know there will be a delay; the Appliance Labeling Rule requires major home appliances to be labeled with energy efficiency information; and the Environmental Marketing Guides tell marketers how to advertise the environmental benefits of their products without misleading consumers. The program aims at helping consumers and businesses to understand their rights and duties through education and answering inquiries. If a company’s practices significantly violate a rule, the program pursues formal action and civil penalties.

- *Regulatory Reform.*—Keeping rules and guides up-to-date so they continue to be meaningful, and repealing outdated, unnecessary ones is an important role of the program, accomplished by reviewing all rules and guides every 10 years. Thus far, the program has reviewed over 40 rules and guides; approximately 60 percent were repealed after review, and others were revised or consolidated (in some cases to harmonize requirements with international standards to facilitate international trade).

Financial Practices Program

The Financial Practices Program promotes fairness and accuracy in the provision of financial services and in the use of financial information. Credit and leasing play important roles in the daily lives of most Americans – who use credit cards, take out loans, or lease major products, and they present challenging consumer protection issues, such as protecting the privacy of sensitive financial information. The program identifies and addresses these issues, so that consumers continue to benefit from the widespread availability of financial services.

- *Discrimination, Debt Collection, and Home Equity Fraud.*—The Financial Practices Program enforces laws against illegal discrimination, abusive debt collection practices, and home equity fraud. Discrimination in credit – charging higher prices or denying credit based on reasons unrelated to creditworthiness, such as race or gender – continues to be a serious problem, and the credit program seeks to ensure that everyone is able to obtain credit on his or her own merit. Abusive debt collection practices can contribute to personal bankruptcy, job loss, and other problems, and the program uses enforcement and education to raise the standards in this area. Finally, the program leads nationwide efforts to enforce laws against fraudulent home equity practices, which target consumers who are poor or who already have problems with credit, and can result in the loss of consumers' homes.
- *Accuracy and Privacy of Credit Information.*—The Financial Practices Program works to ensure that the financial information maintained about consumers, which can be used to screen applicants for loans, jobs, and insurance, is accurate. This effort is pursued through enforcement of the Fair Credit Reporting Act, which holds credit bureaus and furnishers of information responsible for the accuracy of credit information, gives consumers the right to check and correct their credit reports, and limits how financial

information can be used. The program also continues to take a leading role in nationwide efforts to protect consumer privacy. Building on expertise gained at three previous privacy workshops, the Commission conducted a Congressionally requested study of “look-up services” (computer databases that contain identifying information about consumers). It facilitated a self-regulatory agreement among providers of these services to limit public access to sensitive information, one way to help stem the burgeoning problem of “identity theft.” In June 1998, the Commission issued *Privacy Online – A Report to Congress*, which reported on the Commission’s extensive survey of 1,400 Web sites’ information practices, assessed the effectiveness of self-regulatory initiatives in protecting consumer privacy online, and recommended legislation to protect children’s online privacy.

- *Costs of Credit and Leasing.*—Another major focus of the program is to ensure that consumers have accurate and complete cost information before they enter into credit and leasing transactions, information that allows them to compare offers and make informed purchasing decisions. The Commission pursues this by challenging deceptive advertising and disclosures about significant payments hidden in fine print, thus ensuring that consumers are given accurate and readable cost disclosures before they make purchases.

Marketing Practices Program

The Marketing Practices Program fights schemes that use high and low technology to defraud consumers. The program’s mandate is to study trends, bring law enforcement actions, conduct regulatory and policy review, and educate consumers in connection with deceptive practices that occur in the sale of consumer goods and services. The priorities of the program keep pace with fraudulent and deceptive schemes causing the greatest harm to consumers.

- *Internet Fraud.*—Fraud on the Internet threatens consumer confidence in the online marketplace. The Marketing Practices Program is a national leader in the law enforcement effort to study online trends and use innovative approaches to deter fraud and deception on the Internet. Information captured in the Commission’s consumer fraud database is used to identify problem areas and to monitor online solicitations, Web sites, user groups, and other commercial practices to detect possible deception and fraud. Internet surf days are used to deter merchants from making

deceptive claims by identifying Web sites that make claims likely to be false or misleading, and sending e-mails to the operators of those sites. The e-mails tell site operators what is legally required of them if they sell on the Internet.

- *Telemarketing and Direct Mail Fraud.*—Telemarketing and direct mail fraud are longstanding priorities. The Marketing Practices Program enforces the Telemarketing Sales Rule, and since adoption of the Rule in late 1995, telemarketing fraud has fallen from number 1 to number 10 in the National Attorneys General report on consumer problems. The program continues to organize law enforcement sweeps with federal and state law enforcement partners to keep telemarketing crooks on the run and get restitution for victims. A similar approach to direct mail fraud is showing similar effects.
- *Telecommunications.*—With the deregulation of the telephone industry, the telephone billing and collection system became available to a variety of vendors. While these developments benefited consumers, they also opened the door to greater opportunities for scams. Fraudulent operators, taking advantage of this new billing system, have found numerous ways to “cram” unauthorized charges on consumers’ telephone bills. In fiscal year 1998, the Commission received over 12,000 consumer complaints about cramming. The Commission has responded aggressively to the problem. Since April 1998, the Commission has brought four cases to stop telephone billing fraud and to obtain redress for consumers. To address cramming more broadly, the Commission proposed to revise its 900-Number Rule to require that there must be express authorization by consumers for “telephone-billed purchases,” and to provide for dispute resolution protections for such purchases.

Service Industry Practices Program

The American economy has long led the world in consumer services. This demand for services provides opportunity not only for legitimate business activity, but also for deceptive activity. The Service Industry Practices Program promotes the truthful sale of health care, professional, and other vital services.

- *Health Care and Weight Loss.*—Each year consumers spend billions of dollars purchasing pills, potions, new technologies, and therapies for health care and weight loss. The Commission works with other federal agencies, state Attorneys General, and other

partners to combat misleading claims by these providers. Law enforcement actions are accompanied by initiatives such as those undertaken to identify misleading Internet claims, and to lead a coalition of industry, academic, and government experts to combat the rising threat of obesity through voluntary industry guidelines and education.

- *Investment and Other Financial Frauds.*—American consumers invest vast sums not only in stocks and bonds, but also in less traditional offerings – collectibles, mining ventures, telecommunications partnerships, movies and art, and other “hot” offerings. The Service Industry Practices Program has successfully brought law enforcement actions against investment frauds since the 1980’s.
- *Career Placement and Scholarships.*—Fraud artists also prey on consumers concerned about finding jobs and financial assistance for college. Recent targets of enforcement have been firms who advertised nonexistent Post Office jobs as a means to sell useless exam materials and telemarketers who falsely promise “guaranteed” college grants. Consumer education plays an important role in preventing this type of fraud.
- *Project Scofflaw and Criminal Liaison.*—Commission actions can quickly halt consumer frauds, freeze assets for consumer redress, and create a “road map” for parallel criminal prosecution. The Service Industry Practices Program works with the Department of Justice to coordinate criminal prosecutions. The program also coordinates “Project Scofflaw,” an effort to systematically track defendants under Commission-related federal court orders, identify violators, and work with criminal authorities to prosecute violators for criminal contempt.

Planning and Information Program

The Planning and Information Program develops, analyzes, and supplies information to target law enforcement and educational efforts, measure the impact of Mission activities, and allocate resources.

- *Consumer Sentinel.*—Consumer Sentinel is a binational, multi-state consumer fraud database that uses the Internet to provide secure access to over 158,000 consumer complaints submitted to over 150 law enforcement organizations across the United States and Canada. The site provides law enforcement access to telemarketing, direct mail, and Internet complaints from the Commission’s Consumer Information System database and from various law

enforcement partners. The site also provides other information useful for investigations and prosecutions.

- *Consumer Response Center.*—As part of the Commission’s effort to build a comprehensive nationwide consumer fraud database, the Consumer Response Center responds to and collects information on consumer complaints and inquiries received by telephone, mail, and e-mail. In fiscal year 1998, its first full fiscal year of operation, the Center answered approximately 116,500 consumer complaints and inquiries and added them to the Consumer Information System database. Overall, the database has grown to over 314,000 entries.
- *International Coordination.*—The Planning and Information Program coordinates the international work of the Consumer Protection Mission. A high priority in this area is the creation of legal and technological mechanisms for information sharing among international law enforcers.
- *Operations.*—The Planning and Information Program administers the core financial, administrative, and litigation support activities of the Mission. In addition, the program manages the agency’s consumer protection redress activities. Another important responsibility is the coordination of strategic planning and performance measurement. Strategic planning is integrated with budgeting to provide a road map to guide staff activities and accomplish the Mission’s goal and objectives.

ECONOMIC ANALYSIS AND LEGAL SUPPORT

The Bureau of Economics provides economic support to the Commission’s antitrust and consumer protection activities, advises the Commission and other government entities about the impact on consumers and competition of various regulatory reform initiatives, and analyzes economic phenomena in the nation’s industrial economy as they relate to antitrust and consumer protection.

The primary mission of the Commission is to assist in the enforcement of the antitrust and consumer protection laws. In fiscal year 1998, the Bureau continued to provide guidance and support to those activities.

In the antitrust area, economists offered advice on the economic merits of potential antitrust actions. Situations in which the marketplace performed reasonably well were distinguished from situations in which the market might be improved by Commission action. When enforcement actions were initiated, economists worked to integrate economic analysis into the proceeding, to provide expert testimony, and to devise remedies that would improve market competition.

In the consumer protection area, economists assessed the benefits and costs of alternative policy approaches. Potential consumer protection actions were evaluated not only for their immediate impact, but also for their longer-run effects on price, product variety, and overall consumer welfare.

Although the Commission is primarily a law enforcement agency, it is also charged with analyzing data and publishing information about the nation's industries, markets, and business firms. Much of this work is undertaken by the Bureau of Economics. In fiscal year 1998, economists conducted studies on selected topics in antitrust and consumer protection.

The Bureau of Economics also provided economic support and input to the Commission's Consumer and Competition Advocacy Program, which provides advice to federal, state, and other regulatory entities concerning the economic impacts of existing and proposed trade regulations.

Antitrust

In the antitrust area, economists participated in all investigations of alleged antitrust violations and in the presentation of cases in support of complaints. Economists also advised the Commission on all proposed antitrust actions and provided economic expertise for matters in litigation. These activities consumed the bulk of the Bureau's resources assigned to directly support the Commission's antitrust responsibilities.

The Bureau also maintains a small research program in support of the Commission's antitrust activities. Ongoing antitrust-related studies included (1) a descriptive study of the pharmaceutical industry, (2) a study of the price and output effects of franchise transfers and mergers in the carbonated soft drink bottling industry, (3) a study of the effects of the entry of branded generic drugs on the pricing and output of branded drugs, (4) a study of the aftermath of several hospital mergers, and (5) an examination of the effects of Commission divestiture orders.

Consumer Protection

In the consumer protection area, economists evaluated proposals for full-phase investigations, consent negotiations, consent settlements, and complaints. In addition, economists routinely provided day-to-day guidance on individual matters, provided litigation support services, and made policy recommendations directly to the Commission.

In addition to the Bureau's direct support for individual consumer protection case matters, staff economists worked on consumer protection topics of interest to the Commission. During fiscal year 1998, the Bureau continued to examine (1) the effects on consumer perception of various nutrient disclosures and cautionary disclosures in ads for food products that make health or nutrition claims, (2) the content and extent of advertising for foods and drugs, (3) the relationship between price and quality in service industries, and (4) a description of the rent-to-own industry.

Consumer and Competition Advocacy

During fiscal year 1998, the Bureau of Economics staff provided economic support and input for advocacy comments. Comments were filed with several federal agencies, including the Copyright Office, the Food and Drug Administration, the National Telecommunications and Information Administration, and the Treasury on various competition and consumer issues. In addition, numerous comments were sent to state utility commissions about alternative ways to structure rules that will guide the deregulation of electricity transmission and generation to allow competition in wholesale and retail sales of electric power.

**CONSUMER AND
COMPETITION
ADVOCACY**

The interests of consumers are not always well represented in some legislative and regulatory forums. Consequently, laws or regulations are sometimes promulgated that may harm consumers by restricting entry, limiting competition, chilling innovation, raising prices, or reducing the quality of goods and services. The goal of the Commission's advocacy activities is to inform appropriate governmental and self-regulatory bodies about the potential effects on consumers, both positive and negative, of proposed legislation, rules, or industry guides or codes. The advocacy program in the Office of Policy Planning is the central source of planning, coordination, review, and information for the staff's work in this area.

During fiscal year 1998, 26 comments were filed. These comments included several comments to the Federal Energy Regulatory Commission and to state public utility commissions encouraging competition in the electricity industry, at both wholesale and retail levels. Comments also covered other areas such as regulations governing pesticide-treated articles, direct broadcast satellite services, the ability of telephone companies to offer advanced telecommunications, food-labeling requirements, medical product promotion, sentencing guidelines for telemarketing fraud, electronic fund transfers of federal

payments, real estate broker and salesperson licensing, and precious metals marketing requirements. In addition to comments to the Federal Energy Regulatory Commission, comments were addressed to other federal agencies, state agencies and legislatures, and a national association of public officials.

**MANAGEMENT AND
ADMINISTRATION**

Administrative Services

The Administrative Services Office provides day-to-day administrative support to the Commission in a number of areas, including building security, building facilities, property management, mail management, and printing and reproduction. These efforts are largely directed toward improving workplace conditions. In fiscal year 1998, Administrative Services renovated and refurbished dozens of offices and moved staff, furniture, and equipment to accommodate the new organizational groupings resulting from the restructuring of the Office of the Executive Director. The high-volume publication distribution center was also relocated, including staff and stock. In addition, Commission employees are now enjoying the convenience of an ATM machine that was installed near the cafeteria, and children at the agency's Day Care Center are enjoying a new playground, complete with the latest in play equipment and safety features.

Financial Management

As part of the restructuring of the Office of the Executive Director, all financial services were consolidated into the new Financial Management Office (FMO). The FMO's ongoing responsibilities include maintenance of the Commission's central accounting system, records, and reports; ensuring that effective financial policies and procedures are developed and maintained to support mission operations and to take full advantage of available technologies; issuing accurate and timely financial reports to program offices, the Department of the Treasury, Congress, and the Office of Management and Budget; preparation, justification, and execution of the Commission's annual budgets; effective allocation and monitoring of the Commission's fiscal resources; management of Commission-wide contracting and acquisition processes and systems; and oversight of financial services received by the Commission from the Department of the Interior's Administrative Service Center. The FMO also carries out Commission-wide management programs for audit follow-up and reviews and reports to the President and Congress on internal controls.

Significant FMO accomplishments included the consolidation of acquisition, finance, and budget responsibilities into a single financial management organization, revision of the Commission's budget submissions to provide a more unified agency-wide presentation, consolidation of the travel credit card and small purchase credit card programs under one contractor, completion of the Commission's first set of Audited Financial Statements, receipt for the Financial Statements of an unqualified audit opinion – the highest possible rating, initial development of a comprehensive five-year financial management plan, and continued timely and accurate delivery of Commission-wide financial services.

Human Resources Management

The Human Resources Management Office (HRMO) engages in recruitment, position classification, benefits, performance management, employee and labor relations, and training. The HRMO was reviewed by the Office of Personnel Management (OPM) during fiscal year 1998, to determine the agency's adherence to civil service laws and regulations in general hiring, training, records maintenance, expert and consultant hiring, and overall customer satisfaction. OPM's conclusions were positive. HRMO also completed implementation of the Federal Payroll Personnel System (FPPS), thereby facilitating the processing of electronic human resources data.

Information and Technology Management

The mission of the Information and Technology Management Office (ITM) is to provide information technology services to the Commission, its staff, and the public. As a result of a reorganization of functions, ITM focused its attention this year on the technological infrastructure and the office systems that provide the Commission with the tools and the information needed to conduct and manage its competition and consumer protection missions.

To ensure that the ITM program provided the services and systems that are most important to its customers, a "Board of Directors," made up of several senior managers within the Commission, including the Executive Director, Directors of the Bureaus of Competition and Consumer Protection, Deputy Director of the Bureau of Economics, and Director of the Northwest Regional Office (representing the regional offices), provided advice and direction to the program, as well as reviewing and approving its budget proposals. In fiscal year 1998,

the ITM Board of Directors assumed the responsibilities of a “capital investment review” process. In this process, ITM staff identifies both the full anticipated costs and the benefits of potential new projects.

ITM efforts for fiscal year 1998 were organized around four basic types of services: (1) providing reliable base systems and services, (2) providing responsive customer support, (3) continuing the development of products and services begun in previous years, and (4) beginning new initiatives.

Providing Reliable Base Systems and Services

Commission staff rely heavily upon many of the systems provided by ITM, including the local and wide-area networks, telephone and phonemail systems, central computing facility, administrative and law enforcement computer applications, video/audio conferencing systems, equipment loan program, facsimile services, PCs on the desktops, local printers, and others. Those systems and services have greatly increased the productivity of the entire agency. In addition to those technological systems, ITM provided direct support to Commission staff and the public through offering training services, maintaining an extensive library collection and providing various types of library services, and providing support for investigations and litigation.

In fiscal year 1998, ITM staff worked closely with agency attorneys and economists on several law enforcement investigations and litigations, including the pharmaceutical companies merger matters within the Competition Mission and the Internet “surf week” project within the Consumer Protection Mission. ITM staff provided expert technological advice and assistance to the investigatory and litigation staff in those and other matters, including assistance to staff responsible for publishing the tobacco advertising reports and the energy studies. The Textile Registration Number application was made available to the public and Commission staff over the Internet.

Providing Responsive Customer Support

The ITM systems and services that fall into this category include those provided through the Help Desk, including installation and repair of PCs and other office equipment, telephone menu “trees” used throughout the Commission, and others.

Specifically in fiscal year 1998, ITM purchased and installed over 350 new Pentium class personal computers on desktops throughout the agency. ITM staff also implemented a complex telephone system in the

Bureau of Consumer Protection's Consumer Response Center and installed a new telephone and voicemail system in the Midwest Regional Office. ITM provided more audio and video teleconferencing services as the agency increased its number of routine broadcasts of Commission meetings, Commission events, public hearings, and oral arguments to regional offices and other off-site locations.

Continuing the Development of Products and Services Begun in Previous Years

In fiscal year 1998, ITM continued ongoing work on several important initiatives designed to provide new or better systems and services:

Premerger System.— ITM developed and implemented a new and more efficient system in fiscal year 1998 to replace the Premerger Notification System, which was originally implemented in fiscal year 1984, as a result of the Hart-Scott-Rodino (HSR) Antitrust Improvements Act.

Year 2000 (Y2K) Issues.—Because of design considerations, many computers, computer systems, and, indeed, electronic devices that contain a computer chip may malfunction beginning in the year 2000. ITM has been working on this problem for several years, and by the end of fiscal year 1998, ITM completed the work on all but one central application considered to be critical to agency operation. The last critical application is scheduled to be completed in fiscal year 1999. ITM also prepared to support the Bureau of Consumer Protection's efforts, in conjunction with those of other federal agencies, to educate consumers about the risks that may exist in products with embedded computer chips.

Internet.—In fiscal year 1998, ITM added to the Commission's own successful Internet and Intranet a multi-agency site, called *consumer.gov*, that provides the public with useful consumer information from many federal agencies. Commission staff from both ITM and the Bureau of Consumer Protection were recognized in this effort by Vice President Gore's National Performance Review and awarded a "Hammer" award, given to individuals or agencies who help create a government that "works better and costs less."

Beginning New Initiatives

ITM began a major upgrade of the e-mail system used throughout the agency and began development of a project to convert the desktop operating system from Windows for Workgroups to WindowsNT. Both of those projects will be completed in fiscal year 1999 and will provide more reliable operation to all Commission staff.

APPENDIX

This appendix includes summaries of the Commission's law enforcement, rulemaking, education, and advocacy activities for fiscal year 1998.

LAW ENFORCEMENT

Commission law enforcement actions may be triggered by calls or letters from consumers or businesses, Congressional inquiries, referrals from federal/state/local officials, or public information on consumer, business, or economic subjects.

If the Commission believes a violation of the law has occurred, it may obtain voluntary compliance by entering into a *Part 2 administrative consent agreement* with a company or individual respondent and then issuing a final complaint and a final *consent order*. A company or individual signing a consent order need not admit a violation of the law, but must agree to stop the injurious practices.

If voluntary compliance is not secured, the Commission may issue a *Part 3 administrative complaint*. This results in a formal administrative proceeding, much like a court trial, held before an Administrative Law Judge (ALJ), at which evidence is submitted, testimony is heard, and witnesses are examined and cross-examined. If a respondent and Commission counsel supporting the complaint decide to settle the case through a consent agreement, and the Commission determines that the proposed settlement is adequate to resolve the allegations in the complaint, the Commission may accept the consent agreement for public comment and thereafter issue a *Part 3 consent order* ending the proceeding. If the proceeding continues to completion, the ALJ issues an *initial decision* and any or all parties may appeal that decision to the Commission. If the Commission ultimately finds a law violation, it may issue a cease-and-desist order or other appropriate relief in conjunction with a Commission opinion. These *final orders* issued by the Commission may be appealed by respondents to a U.S. Court of Appeals (and, ultimately, to the U.S. Supreme Court).

In cases involving ongoing consumer fraud, the Commission may file a complaint in federal district court. The court can then order the defendants to immediately stop the practices cited in the complaint, and freeze their assets before further consumer injury occurs. In these cases, the Commission seeks *consumer redress*, or refunds for consumers who have been injured, and/or a *permanent injunction* barring the practices in the future.

The Commission may also file federal court complaints in competition cases, seeking to enjoin particular mergers, acquisitions, or practices and/or to secure other types of legal and equitable relief.

In addition, when a company or individual violates a Commission rule, a statute enforced by the Commission, or a prior Commission order, a complaint may be filed in federal district court seeking *civil penalties* and an injunction against future violations.

RULEMAKING

The Commission also issues Trade Regulation Rules, other types of rules, and industry guides. The Commission may begin a rulemaking proceeding if it finds evidence of unfair or deceptive practices in an industry or pursuant to particular statutory authorization or directive. Throughout each such proceeding, the public has opportunities to participate in a number of ways, such as through the filing of written comments, which the Commission considers along with the entire rulemaking record before making a decision on the proposed rule. A Commission rule may be challenged in any of the U.S. Courts of Appeals. When issued, the rules have the force of law. The Commission continually reviews its rules and guides, and amends or repeals them as needed.

EDUCATION

The Commission is committed to educating consumers and businesses about their rights and responsibilities under the statutes and regulations it enforces and to encourage informed consumer choice and competitive business practices in the marketplace. For example, for each major consumer protection law enforcement or rulemaking initiative, an education campaign is launched. A campaign may consist of printed materials – which are also made available on the Commission Web site – specialized Internet pages, and/or public service announcements. The Commission views the consumer and business education effort as a cost-effective way to help minimize consumer injury and obtain compliance with the law.

ADVOCACY

The Commission presents comments, upon request, to other agencies and entities concerning the effects of regulation on competition and consumers. At the request of lawmakers or agency officials, the Commission often provides comments or testimony to assist legislatures' consideration of pending bills or to assist agency rulemaking proceedings. These submissions advocate policies that will enhance both competition and consumer choice.

COMPETITION MISSION
PART 2 CONSENT ORDERS AND CONSENT DECREES ISSUED

Title	Number	Action Date	Type of Matter	Product/Service
Cablevision Systems Corporation	C3804	4/98	Merger	Cable television operations
College of Physicians and Surgeons of Puerto Rico	971 0011	10/97	Boycott	Medical services
CUC International, Inc.	C3805	5/98	Merger	Full-service timeshare exchange services
Degussa Corporation	C3813	6/98	Merger	Hydrogen peroxide
Digital Equipment Corporation	C3818	7/98	Merger	Microprocessors
The Dow Chemical Company	C3785	2/98	Merger	Chelants
Ethyl Corporation The Associated Octel Company Limited	C3814 C3815	6/98 6/98	Anticompetitive supply agreements	Lead antiknock compounds
Fastline Publications, Inc.	C3819	7/98	Agreements to ban price advertising	Buying guides for new and used farm equipment
Global Industrial Technologies, Inc.	C3825	9/98	Merger	Glass furnace silica refractories
Guinness PLC	C3801	4/98	Merger	Premium scotch and gin
Insilco Corporation	C3783	1/98	Merger	Large and small welded aluminum tubes
Institutional Pharmacy Network	C3822	8/98	Price fixing	Institutional pharmacies
Jitney-Jungle Stores of America, Inc.	C3784	1/98	Merger	Supermarkets
LandAmerica Financial Group, Inc. (formerly Lawyers Title Corporation)	C3808	5/98	Merger	Title plant operations
M.D. Physicians of Southwest Louisiana, Inc.	C3824	8/98	Price fixing	Physician services
Roche Holdings Ltd.	C3809	5/98	Merger	Pharmaceuticals

Title	Number	Action Date	Type of Matter	Product/Service
S.C. Johnson & Son, Inc.	C3802	4/98	Merger	Soil and stain remover products, glass cleaner products
Sensormatic Electronics Corporation Checkpoint Systems, Inc.	C3795 C3796	4/98 4/98	Advertising restrictions	Electronic article surveillance systems
Shell Oil Company	C3803	4/98	Joint venture	Gasoline, diesel fuel, kerosene jet fuel, crude oil
SkyChefs, Inc.	C3828	9/98	Merger	In-flight catering
Stone Container Corporation	C3806	5/98	Price fixing	Linerboard
TRW Inc.	C3790	4/98	Merger	Missile systems, systems engineering and technical assistance
Urological Stone Surgeons, Inc.	C3791	4/98	Price fixing	Lithotripsy treatment of kidney stones
The Williams Companies, Inc.	C3817	6/98	Merger	Pipeline transportation of natural gas liquids

**PART 2 CONSENT
ORDERS ISSUED**

Cablevision Systems Corporation

Cablevision settled allegations that its acquisition of Tele-Communications, Inc. (TCI) cable systems would substantially reduce competition in two markets in Paramus and Hillsdale, New Jersey, where Cablevision and TCI were the only service providers. The complaint alleged that acquisition would significantly increase concentration in these two communities, leaving only Cablevision to provide cable television service, and thereby increasing the likelihood that the price of cable television services would increase and/or the quality of that service would decrease. The consent order required the divestiture of TCI’s cable systems in the two towns. Cablevision would have to obtain Commission approval of its buyer within six months after signing the consent order. The company would not be required to complete the divestiture within this six-month period if the required municipal government approvals took longer to obtain. If Cablevision did not obtain Commission approval for an acquirer

within the six-month period, the Commission could appoint a trustee to divest the Paramus and Hillsdale cable systems.

College of Physicians and Surgeons of Puerto Rico

The College of Physician-Surgeons and three physician groups settled allegations that they engaged in illegal conduct when they collectively demanded price-related changes under the Puerto Rican government managed-care plan for the indigent. The Commission and the Puerto Rico Attorney General's Office alleged that the defendants violated the antitrust laws by attempting to coerce the Puerto Rican government to recognize the College as the exclusive bargaining agent for all physicians of Puerto Rico, and by calling a strike of all physicians in Puerto Rico for all non-emergency patient care. The settlement prohibited the College and the three large physician groups that actively supported the boycott from jointly participating in boycotts or refusing to provide medical services, and from jointly negotiating prices or other more favorable economic terms for doctors. The agreement also called for the College to pay \$300,000 to the catastrophic fund administered by the Puerto Rico Department of Health.

CUC International, Inc.; HFS Incorporated

CUC, a leading membership-based consumer services company, settled allegations that its proposed acquisition of HFS would create a virtual monopoly in the worldwide market for full-service timeshare exchange services, which could lead to higher prices and a reduction in services for customers. HFS, a leading franchiser of brand-name hotels, residential real estate, and car rental companies, owns Resort Condominiums International, Inc., the world's largest provider of timeshare vacation exchanges, with approximately 65 percent of the market. To remedy the alleged anticompetitive effects resulting from CUC's acquisition of HFS, the consent order required the parties to divest one of their timeshare exchange companies to reestablish a viable competitor in the market.

Degussa Corporation; Degussa Aktiengesellschaft

Degussa Corporation and its parent company, Degussa Aktiengesellschaft, settled allegations that their proposed acquisition of E.I. du Pont de Nemours' worldwide hydrogen peroxide business, as

originally structured, would substantially lessen competition in the highly concentrated North American market for this widely used chemical. According to the Commission's complaint, Degussa's proposed acquisition of DuPont's hydrogen peroxide business would have increased concentration in an already highly concentrated industry, making coordinated activity among producers more likely. The complaint relied upon projections in company documents of higher hydrogen peroxide prices if the originally proposed acquisition was consummated. Under the terms of the consent order, instead of acquiring all of DuPont's hydrogen peroxide assets, Degussa would acquire one plant and obtain Commission prior approval if it attempted to acquire either of the two plants that DuPont retained. In addition, the settlement required Degussa to provide the Commission with prior notification before acquiring any other hydrogen peroxide facilities in North America.

Digital Equipment Corporation

Digital settled allegations that the sale of its microprocessor assets to Intel Corporation threatened competition by placing production of Digital's Alpha chip solely in the hands of Digital's principal competitor, Intel. The Alpha chip was regarded by many as the fastest microprocessor in the world at that time, and its combination with Intel would possibly endanger the continuing and future development of the Alpha technology. The consent order resolved these concerns by requiring that Digital license Alpha technology to Advanced Micro Devices, a developer and producer of high-performance microprocessors, and to Samsung Electronics, a developer and producer of semiconductors, or some other Commission-approved licensees. Digital was also required to begin the process of certifying International Business Machines, or another Commission-approved company, as an alternative production source for Alpha chips. These licenses would ensure that there are adequate and independent supplies of Alpha microprocessors, safeguarding that Intel does not have exclusive control over Alpha production, and would further the continuing development of Alpha microprocessors.

The Dow Chemical Company

Dow settled allegations that its proposed \$500 million acquisition of Sentrachem Limited, a South African chemical company operating in the United States through its wholly owned subsidiary, Hampshire

Chemical, would combine two of only three U.S. producers of chelating agents (also known as chelants). The complaint alleged that the merger may substantially lessen competition in the research, development, manufacture, and sale of chelants and would likely lead to a unilateral price increase for this product. Chelants are used in cleaners, pulp and paper, water treatment, photography, agriculture, food, and pharmaceuticals to neutralize and inactivate metal ions. As a condition to completing the proposed \$500 million tender offer for Sentrachem, the consent order required Dow to divest Hampshire's chelant business to Akzo Nobel N.V., a Dutch chemical company that is a leading European producer of chelants. The settlement was designed to maintain competition in the U.S. market for chelants.

*Ethyl Corporation; The Associated Octel Company Limited;
Great Lakes Chemical Corporation*

Octel and Ethyl, the world's two largest manufacturers of lead antiknock gasoline additives, settled allegations that they violated the antitrust laws by arranging to close an Ethyl plant and have Ethyl obtain all of its future supply from Octel under an anticompetitive supply agreement. According to the complaint, Octel and Ethyl entered into an agreement between October 1993 and March 1994 whereby Ethyl agreed to stop manufacturing lead antiknock compounds and, in return, Octel agreed to supply Ethyl with a limited volume of these compounds. This agreement, combined with particular portions of the resulting supply agreement, served to diminish competition between Ethyl and Octel. The consent order required that Octel and its parent corporation, Great Lakes Chemical, modify price and volume provisions of its contract with Ethyl; barred consumer price disclosures between the companies; and provided prior notification of acquisition of any assets used in the distribution of lead antiknock compounds in the United States or the manufacture of lead antiknock compounds worldwide.

Fastline Publications, Inc.;
Mid-America Equipment Retailers Association

Fastline and Mid-America, a trade association representing farm equipment dealers, settled allegations that their agreements to ban price advertising for new farm equipment in Fastline's publications violated federal law. According to the Commission, the agreements deprived consumers of the benefits of competition among farm equip-

ment dealers and of truthful and nondeceptive price information. The consent order prohibited Fastline and Mid-America from restricting the advertising of prices for farm equipment in the future. In addition, Mid-America was enjoined from participating in any boycott regarding the advertising of prices for farm equipment, and Fastline was prohibited from restricting the advertising of prices for farm equipment.

Global Industrial Technologies, Inc.

Global settled allegations that its proposed acquisition of AP Green Industries would violate federal antitrust laws by combining the two largest domestic producers of glass-furnace silica refractories. According to the complaint, the merger of the two companies would likely lessen competition by eliminating rivalry between Global and AP Green and, as a result, would lead to higher prices and less product innovation. The complaint also alleged that entry by new competitors into the production of glass-furnace silica refractories is unlikely because of extensive product testing requirements and large sunk capital investment. In addition, the complaint states that even if there were large price increases, buyers of the refractories would be unlikely to substitute other materials or import glass-furnace silica refractories. The consent order required Global to divest AP Green's silica refractories business to Robert R. Worthen and Dennis R. Williams (jointly or through a corporation called Utah Refractories Corporation) or to another Commission-approved buyer.

Guinness PLC; Grand Metropolitan PLC

The \$36 billion merger between Guinness and Grand Metropolitan was given tentative approval by the Commission after the companies agreed to sell three of their top-selling premium brands of liquor. According to the Commission, Guinness, with total sales of about \$8 billion in 1996, and Grand Metropolitan, with total sales of about \$14 billion, are competitors in the sale and distribution in the United States of premium scotch and premium gin. The Commission was concerned that the proposed merger, which would create the seventh largest food and drink company in the world, would eliminate substantial competition between the two companies and increase concentration in these already very highly concentrated markets, resulting in higher prices to consumers. The consent order required Guinness and Grand Metropolitan to divest the worldwide rights to certain brands and to divest their Dewar's Scotch, Bombay Original gin, and

Bombay Sapphire gin brands, worldwide, to one or two acquirers acceptable to the Commission.

Insilco Corporation

Insilco settled allegations that its acquisition of Helima-Helvetion's aluminum tube manufacturing facilities created a virtual monopoly or near monopoly in the North American markets for welded-seam aluminum tubing used in radiators and charged air coolers, in violation of federal antitrust laws. The Commission also charged that the transfer of competitively sensitive information from Helima to Insilco in advance of the purchase violated federal law and was likely to lessen substantially competition in the highly concentrated markets. The consent order required Insilco to divest two of the Helima aluminum tube mills and associated assets to a Commission-approved buyer. If Insilco failed to divest the mills in a timely manner, the Commission was authorized to appoint a trustee to divest all five of the mills located at the former Helima plant in Duncan, South Carolina. Insilco also was prohibited from obtaining or providing, without specific safeguards, the type of competitively sensitive, customer-specific price and cost information it obtained from Helima in any future premerger discussions.

Institutional Pharmacy Network; Evergreen Pharmaceutical, Inc.;
NCS HealthCare of Oregon, Inc.;
NCS HealthCare of Washington, Inc.;
United Professional Companies, Inc.; White, Mack and Wart, Inc.

Five institutional pharmacies settled allegations that they unlawfully fixed prices, leading to higher reimbursement levels for serving Medicaid patients in Oregon long-term care institutions. Institutional pharmacies are specialized pharmacies that provide prescription drugs to patients in institutions such as nursing homes and assisted living facilities. The complaint alleged that the five pharmacies negotiated jointly through the Institutional Pharmacy Network (IPN), and that their purpose in negotiating collectively was to maximize their leverage in bargaining over reimbursement rates with the managed care organizations, because they recognized that competition among them would drive down reimbursement rates. The consent order prevented IPN or its member institutional pharmacies from engaging in any joint price negotiations or price agreements in the future, but

would allow IPN and its institutional pharmacy members to engage in legitimate joint conduct.

Jitney-Jungle Stores of America, Inc.;
Bruckmann, Rosser, Sherrill & Co., L.P.; Delchamps, Inc.;
Delta Acquisition Corporation

Jitney-Jungle settled allegations that its \$228 million acquisition of outstanding Delchamps shares would violate antitrust laws by substantially reducing competition among these supermarket operators in the highly concentrated Gulfport-Biloxi, Hattiesburg, and Vicksburg areas of Mississippi, and in the Pensacola area of Florida. To restore competition, the consent order permitted the acquisition so long as Jitney-Jungle divested a total of 10 supermarkets to Supervalu Inc. Supervalu, a large wholesaler of supermarket products, may, in turn, divest the stores to R & M Foods, Inc., and Southeast Foods, Inc., under the settlement.

LandAmerica Financial Group, Inc.
(formerly Lawyers Title Corporation)

LandAmerica Financial, formerly Lawyers Title Corporation (LTC), settled allegations that LTC's proposed acquisition of the title insurance operations of Reliance Group Holdings, Inc., including Reliance Group's indirect subsidiaries Commonwealth Land Title Insurance Company and Transnation Title Insurance Company, would reduce competition in local markets for title plant services. Title plant services are used in underwriting title insurance and for other purposes in the real estate industry. The consent order required LTC to divest title plants in 11 localities in 3 states and in the District of Columbia to a buyer or buyers approved by the Commission within six months. In addition, the order required LTC to maintain the viability and marketability of the title plants until the divestiture was completed.

M.D. Physicians of Southwest Louisiana, Inc.

A group of doctors, M.D. Physicians of Southwest Louisiana (MDP), a majority of the physicians in the area around Lake Charles, Louisiana, settled allegations that it unlawfully fixed prices, which increased the cost of physician services and medical insurance coverage for consumers in the southwestern part of the state. The complaint alleged that MDP served as a vehicle for its doctors to fix prices

charged to managed care. The consent order prevented MDP or its members from engaging in any joint price negotiations or price agreements in the future, but permitted MDP to engage in conduct that is reasonably necessary to operate any “qualified risk-sharing joint arrangement” or, upon prior notice to the Commission, any “qualified clinically integrated joint arrangement.”

Roche Holdings Ltd.

Roche settled allegations that its proposed \$11 billion acquisition of Corange Limited would eliminate competition in the U.S. markets between the two leading suppliers of drugs for cardiac thrombolytic agents, which are drugs used to treat heart attack victims, and for chemicals – known as drugs of abuse testing (DAT) reagents – used to test urine samples for the presence of illegal substances. The consent order, while permitting the acquisition, required Roche, among other things, to divest Corange’s U.S. and Canadian cardiac thrombolytic agent businesses and Corange’s worldwide DAT reagent business to Commission-approved buyers. The order also provided for the appointment of interim trustees to monitor the smooth transition of divested assets and to ensure that the acquirers receive the necessary technical assistance to manufacture and sell the divested products.

S.C. Johnson & Son, Inc.

S.C. Johnson settled allegations that its \$1.125 billion acquisition of DowBrands, including Dow’s “Spray ‘n Wash,” “Spray ‘n Starch,” and “Glass Plus” brands, would adversely affect competition and potentially raise the prices U.S. consumers pay for soil and stain removers and glass cleaners, two widely used household cleaning products. The consent order required S.C. Johnson to sell all assets related to Dow’s “Spray ‘n Wash,” “Spray ‘n Starch,” and “Glass Plus” businesses to Reckitt & Colman, the U.S. wholly owned subsidiary of the British company, Reckitt & Colman PLC. If S.C. Johnson failed to complete the sale of these assets to Reckitt & Colman, the company would be required to divest the “Spray ‘n Wash,” “Spray ‘n Starch,” and “Glass Plus” businesses, as well as, at a Commission-approved buyer’s option, DowBrands’ Urbana, Ohio, manufacturing plant and DowBrands’ “Yes” laundry detergent, “Vivid” color-safe bleach, and oven cleaner businesses.

Sensormatic Electronics Corporation; Checkpoint Systems, Inc.

Sensormatic Electronics and Checkpoint Systems, the two largest marketers of the electronic article surveillance systems used in retail stores to prevent shoplifting, settled allegations that they agreed to restrict comparative advertising in violation of federal law. Sensormatic Electronics and Checkpoint Systems were required to nullify the section of their June 27, 1993, agreement that restricts comparative advertising regarding harm their products may cause to consumers and to merchandise and were barred from entering any agreements that prohibit or restrict truthful, non-deceptive advertising in the future.

Shell Oil Company; Texaco, Inc.

Shell Oil and Texaco settled allegations that their proposed joint venture could raise gasoline prices by tens of millions of dollars and would violate federal antitrust laws. According to the complaint, the proposed joint venture would have resulted in lessening competition in the market for gasoline and jet fuel in the Western and Northwestern United States; gasoline and diesel fuel on the island of Oahu, Hawaii; refined light petroleum products in the Southern United States; and the market for asphalt in the northern portion of the state of California. The consent order required Shell Oil and Texaco to divest a package of assets, including a refinery, a terminal, and retail gasoline stations to Commission-approved buyers.

Sky Chefs, Inc.; Onex Corporation; SC International Services, Inc.; Gerald W. Schwartz

Sky Chefs, one of the largest providers of in-flight food services to the airline industry, settled allegations that its acquisition of Ogden Corporation's in-flight catering operations would eliminate competition at the McCarran International Airport in Las Vegas, Nevada. According to the Commission's complaint, the consolidation of services at McCarran International Airport would likely lead to increased prices for the airlines operating there because they cannot readily or economically find an alternative caterer. In addition, the agency's complaint alleged that a new caterer is unlikely to enter the market because of substantial sunk costs and the need to capture a large market share to become profitable. The consent order required the companies to restructure their proposed transaction to exclude Ogden's operation in Las Vegas from the assets Sky Chefs will

acquire. Ogden subsequently sold its Las Vegas operation to a third in-flight caterer, Dobbs International Services.

Stone Container Corporation

Stone Container, the world's leading manufacturer of linerboard, a corrugated box component, settled allegations that it attempted to orchestrate an industry-wide price increase, in violation of federal antitrust laws. The Commission alleged that, following a failed attempt to increase the price it charged for linerboard in 1993, Stone Container temporarily shut down production at its own mills and bought up competitors' excess inventory as part of an intentional effort to build industry support for a price increase. The consent order barred Stone Container from urging any competitor to raise, fix, or stabilize prices or price levels sales for linerboard. The order also prohibited Stone Container from engaging in other joint pricing action with regard to third parties.

TRW Inc.

Defense contractor TRW settled allegations that its acquisition of BDM International would substantially lessen competition in the market for research, development, manufacture, and sale of a Ballistic Missile Defense System. The consent order required TRW to divest a portion of the systems engineering and technical assistance (SETA) operations of BDM prior to completing the \$942 million acquisition of the company.

Urological Stone Surgeons, Inc.;
Stone Centers of America, L.L.C.; Urological Services, Ltd.;
Donald M. Norris, M.D.; Marc A. Rubenstein, M.D.

Urological Stone Surgeons, three firms and two doctors who operate Parkside Kidney Stone Centers, settled allegations that they illegally fixed the prices for professional urologist services for lithotripsy procedures (a non-surgical, shock-wave treatment for kidney stones) performed at Parkside facilities over the past several years. The consent order prohibited similar price-fixing activity in the future and barred the Parkside owners from renewing contracts with insurance companies and other third-party payers that include the fixed fees. The settlement also required the respondents to notify the Commission 45 days before entering into certain future agreements or ventures.

The Williams Companies, Inc.

Williams and MAPCO, natural gas and propane pipeline transportation companies, settled allegations that portions of their merger could raise prices for consumers and violate federal antitrust laws. The Commission found that the merger could drive up propane costs for Midwestern consumers by more than \$2 million per year and raise costs of transportation for producers of natural gas liquids in Wyoming by \$8 million or more per year. The consent order required Williams to provide Midwest pipeline capacity to Kinder Morgan Energy Partners, an operator of propane terminals, and to allow any new competing pipeline to connect to its Wyoming gas processing plants.

PART 3 ADMINISTRATIVE COMPLAINTS

Title	Number	Action Date	Type of Matter	Product/Service
Intel Corporation	D9288	6/98	Monopolization	Microprocessors
Monier Lifetile LLC	D9290	9/98	Joint Venture	Concrete roofing tile
Summit Technology, Inc.	D9286	3/98	Price fixing	Laser eye surgery equipment and technology
Tenet Healthcare Corporation	D9289	8/98	Merger	Acute-care inpatient hospital services

PART 3 ADMINISTRATIVE COMPLAINTS*Intel Corporation*

The Commission issued an administrative complaint alleging that Intel, the world's largest manufacturer of microprocessors, used its monopoly power to cement its dominance over the microprocessor market. The Commission alleged that Intel illegally used its market power when it denied three of its customers continuing access to technical information necessary to develop computer systems based on Intel microprocessors, and took other steps to punish them for refusing to license key patents on Intel's terms. These three companies – Digital Equipment Corporation, Intergraph Corporation, and Compaq Computer Corporation – hold important patents on microprocessor and related technologies. When they sought to enforce those patents against Intel or other computer companies who buy Intel products, Intel retaliated by cutting off the necessary technical information and threatening to cut off the supply of microprocessors, the Commission alleged.

Monier Lifetile LLC; Boral Ltd.; LaFarge S.A.

The Commission issued an administrative complaint alleging that Boral and LaFarge violated federal antitrust laws by establishing a joint venture, Monier Lifetile, that combined the concrete roofing tile (CRT) manufacturing divisions of the two largest producers of CRT in the United States. CRT is the predominant roofing material used in new home construction in areas of the Southwest and Florida. The Commission charged that the joint venture could lessen competition, lead to increased prices, and reduce quality in the market for CRT. The

Commission also alleged that because of the high cost of entering and producing the tile compared to the low potential sales revenues, entry into the CRT market by a new competitor was not likely to deter or counteract the likely anticompetitive effects of the joint venture.

Summit Technology, Inc.; VISX, Inc.

The Commission issued an administrative complaint alleging that Summit and VISX, two firms that compete in the market for equipment and technology employed in photorefractive keratectomy (PRK), a form of eye surgery that uses lasers to correct vision, violated anti-trust laws by creating a patent pool that raised prices and eliminated competition. According to the complaint, Summit and VISX are the only two firms with FDA approval to market the laser equipment used for PRK in the United States. Instead of competing with each other, the firms placed their competing patents in the patent pool in order to share the proceeds each and every time a Summit or VISX laser was used. Summit and VISX agreed to settle these charges, and the Commission issued a consent order that prohibited Summit and VISX from fixing prices in the future or agreeing in any way to restrict each other's sales or licensing of their PRK lasers and patents. In addition to charging price-fixing, the Commission charged that VISX fraudulently acquired a key patent from the U.S. Patent & Trademark Office. VISX continued litigating this charge.

Tenet Healthcare Corporation; Doctors Regional Medical Center; Poplar Bluff Physicians Group, Inc.

The Commission issued an administrative complaint challenging the \$40 million proposed merger of Lucy Lee Hospital, owned by Tenet Healthcare, and Doctors Regional Medical Center, the only two general hospitals in Poplar Bluff, Missouri. According to the complaint, the acquisition would eliminate price, cost, and quality competition that now exists between these two hospitals and put consumers at risk of paying more for health care. The administrative complaint follows a preliminary injunction proceeding initiated jointly by the Commission and the Missouri Attorney General in federal district court. On July 30, 1998, the U.S. District Court for the Eastern District of Missouri issued a preliminary injunction blocking the proposed transaction pending the outcome of an administrative trial before the Commission.

PART 3 CONSENT ORDER ISSUED

Title	Number	Action Date	Type of Matter	Product/Service
Automatic Data Processing, Inc.	D9282	10/97	Merger	Automobile salvage yard information systems network

**PART 3 CONSENT
ORDER ISSUED***Automatic Data Processing, Inc.*

Automatic Data Processing (ADP) settled charges that its acquisition of the assets of AutoInfo resulted in a monopoly and substantially reduced competition in five markets in the information network industry for salvage yard parts trading. The consent order would reestablish a competitor to ADP by requiring that ADP divest the former AutoInfo assets as an ongoing business, grant the acquirer a paid-up, perpetual, non-exclusive license to the “Hollander Interchange” (the cross-indexed numbering system of interchangeable auto parts), and provide updates to the Hollander Interchange until the acquirer can create its own updates. The order also required ADP, for one year after divestiture, to allow the acquirer to draw on ADP’s technical assistance, and to allow certain contractual customers to switch to the acquirer’s product without penalty.

PRELIMINARY INJUNCTIONS

Title	Number	Action Date	Type of Matter	Product/Service
Cardinal Health Inc.	971 0120	3/98	Merger	Prescription drug wholesaling
McKesson Corporation	981 0025	3/98	Merger	Prescription drug wholesaling
Tenet Healthcare Corporation	971 0090	4/98	Merger	Acute-care inpatient hospital services

PRELIMINARY INJUNCTIONS

Cardinal Health Inc.; Bergen Brunswig Corporation

The proposed merger of two of the nation’s largest drug wholesalers into one company was enjoined by the federal court after the Commission filed a complaint and motion for a preliminary injunction in the Federal District Court for the District of Columbia. The Commission had authorized its staff to seek a federal court order to prevent Cardinal Health’s acquisition of Bergen Brunswig. The Commission argued in court for a preliminary injunction to halt the merger on grounds that it would violate federal antitrust laws by substantially reducing competition in the provision of drug wholesaling services. Following the court’s granting of the Commission’s motion for a preliminary injunction pending administrative trial, the companies decided to abandon the proposed merger plans.

McKesson Corporation; AmeriSource Health Corporation

The proposed merger of two of the nation’s largest drug wholesalers into one company was enjoined by the federal court after the Commission filed a complaint and motion for a preliminary injunction in the Federal District Court for the District of Columbia. The Commission had authorized its staff to seek a federal court order to prevent McKesson’s acquisition of AmeriSource Health. The Commission argued in court for a preliminary injunction to halt the merger on grounds that it would violate federal antitrust laws by substantially reducing competition in the provision of drug wholesaling services. Following the court’s granting of the Commission’s motion for a preliminary injunction pending administrative trial, the companies decided to abandon the proposed merger plans.

*Tenet Healthcare Corporation; Doctors Regional Medical Center;
Poplar Bluff Physicians Group, Inc.*

The federal court enjoined the proposed \$40 million merger of Lucy Lee Hospital, owned by Tenet Healthcare, and Doctors Regional Medical Center, after the Commission filed a complaint and motion for a preliminary injunction. The Commission subsequently issued an administrative complaint challenging the \$40 million proposed merger of the only two general hospitals in Poplar Bluff, Missouri. According to the complaint, the acquisition would eliminate price, cost, and quality competition that now exists between these two hospitals and put consumers at risk of paying more for health care. The preliminary injunction proceeding was initiated jointly by the Commission and the Missouri Attorney General in federal district court. On July 30, 1998, the U.S. District Court for the Eastern District of Missouri issued a preliminary injunction blocking the proposed transaction pending the outcome of an administrative trial before the Commission.

CIVIL PENALTY ACTIONS

Title	Number	Action Date	Type of Matter	Product/Service
Columbia/HCA Healthcare Corporation	961 0013	8/98	Order violation	Inpatient hospital services
CVS Corporation	C3762	3/98	Order violation	Drug stores
Loewen Group, Inc.	971 0012	4/98	Premerger notification	Funeral homes and cemeteries
Rite Aid Corporation	C3546	2/98	Order violation	Drug stores

CIVIL PENALTY ACTIONS

Columbia/HCA Healthcare Corporation

Columbia/HCA agreed to pay a \$2.5 million civil penalty to settle allegations that it violated a 1995 Commission order to divest hospitals in Utah and Florida in a timely manner. The complaint also alleged that Columbia/HCA failed to honor a hold-separate agreement relating to the Utah hospitals, and violated an earlier Commission order by failing to satisfy the conditions on which the Commission had approved its acquisition of a competing hospital chain.

CVS Corporation

CVS agreed to pay a \$600,000 civil penalty to settle allegations that the company violated a 1997 consent order and asset maintenance agreement it signed with the Commission to settle charges stemming from CVS’s 1997 acquisition of Revco D.S., Inc. Under the terms of the 1997 agreement, the companies agreed to preserve the continued viability, marketability, and competitiveness of the Revco drug stores to be divested, including “all pharmacy files, documents, instructions, papers, books, computer files and records and all other records in any media relating to the Retail Drug Store Business.” In its complaint, the Commission alleged that consumers were denied the full benefits of competition, including automated access to complete, up-to-date, accurate prescription dispensing records, because CVS removed the computerized pharmacy record-keeping systems from 113 Revco pharmacies prior to the divestiture to Eckerd that was required by the consent order and asset maintenance agreement.

Loewen Group, Inc.; Loewen Group International, Inc.

Loewen Group and Loewen Group International agreed to pay a \$500,000 civil penalty to settle allegations that Loewen failed to notify the Commission and the Department of Justice before it acquired stock in a competitor, Prime Succession. The government alleged that the prior notification was required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which is designed to give the government an opportunity to review certain acquisitions and mergers before consummation to determine whether they would violate federal anti-trust laws. The Loewen Group, headquartered in Burnaby, British Columbia, Canada, owns and operates funeral homes and cemeteries in the United States through its wholly owned subsidiary, Loewen Group International, based in Kentucky.

Rite Aid Corporation

Rite Aid, operator of the nation's largest chain of drug stores, agreed to pay a \$900,000 civil penalty for failing to divest three drug stores in Maine and New Hampshire as required by a 1994 order issued by the Commission. Rite Aid agreed to issuance of that order to resolve antitrust concerns arising out of Rite Aid's acquisition of LaVerdiere Enterprises. Rite Aid was to have divested the drug stores, located in Bucksport and Lincoln, Maine, and Berlin, New Hampshire, in order to create competition for consumers in those three towns. According to the complaint, each of these small towns is located at least an hour from the next closest pharmacy and in each town the acquisition would have combined the only chain pharmacies providing pharmaceuticals at retail.

ORDER MODIFICATIONS

Title	Number	Action Date	Type of Matter	Product/Service
Columbia/HCA Corporation and: ¹ Galen Health Care, Inc. HCA-Hospital Corporation of America Healthtrust Inc. Medical Care America, Inc. Medical Center Hospital	C3472 C3505 C3538 C3544 D9256	8/98 8/98 8/98 8/98 8/98	Merger	Inpatient hospital services
Cooper Industries, Inc.	C3469	12/97	Merger	Industrial fuses
Honickman, Harold A.	D9233	3/98	Merger	Soft drink bottling
Montedison S.p.A.	C3580	1/98	Joint venture	Polypropylene
Reckitt & Colman plc	C3306 C3571	3/98 3/98	Merger	Rug cleaning and deodorizing products
Rite Aid Corporation	C3546	5/98	Merger	Drug stores
Schnuck Markets	C3585	6/98	Merger	Supermarkets

¹Entities listed are those acquired by Columbia/HCA.

ORDER MODIFICATIONS *Columbia/HCA Corporation*

The Commission granted the petition of Columbia/HCA to modify several consent orders that settled antitrust concerns stemming from the acquisition of hospitals in various areas of the United States. The consent orders were modified to replace the requirement that Columbia obtain the Commission’s approval before acquiring hospitals in certain local areas of the United States or allowing its hospitals in those areas to be acquired with the requirement that the company provide advance written notice 30 days before such sales or acquisitions.

Cooper Industries, Inc.

The Commission granted the petition of Cooper Industries to set aside a portion of a 1993 consent order and amended other parts of the consent order. The Commission set aside provisions of the order which required Cooper to license and divest low-voltage industrial fuse technology that it gained in its acquisition of Brush Fuses. Neither Cooper

nor a Commission-appointed trustee was able to find a buyer interested in acquiring the assets. The Commission modified another provision of the order requiring prior Commission approval of certain acquisitions and substituted a provision requiring prior notification.

Harold A. Honickman

The Commission granted the petition of Harold A. Honickman to reopen and modify a July 1991 consent order (also modified in July 1992 and March 1993) to end his obligation to obtain prior approval before acquiring the assets of or the rights related to any bottling operation in the New York metropolitan area. Prior approval was required under the 1991 consent order settling charges that Honickman's 1987 acquisition of Seven-Up Brooklyn substantially reduced competition in the production, distribution and sale of carbonated soft drink brands in the New York metropolitan area.

Montedison S.p.A.

The Commission granted the petition of Montedison to modify an order. The Commission's action eliminated the prior approval provision in the order and substituted a limited prior notice provision for certain acquisitions. The 1995 order with the company required Montedison and the Royal Dutch/Shell Group of Companies to divest Shell's U.S. polypropylene business to settle charges that the formation of Montell Polyolefins, a \$6 billion joint venture between the companies, could substantially reduce competition in several polypropylene and polypropylene-related production and licensing markets, and reduce U.S. export sales.

Reckitt & Colman plc

The Commission granted the petition of Reckitt & Colman to set aside consent orders issued in 1990 and 1995. As a result of the Commission's action, the company will no longer be required to seek prior approval from the Commission before acquiring carpet deodorizer and rug-cleaning product businesses in the United States.

Rite Aid Corporation

The Commission granted the petition of Rite Aid to reopen and modify a 1994 consent order to eliminate the requirement to divest a

retail pharmacy in Bucksport, Maine, that the company acquired when it bought the LaVerdiere Enterprises chain of drug stores. In February 1998, Rite Aid agreed to pay a \$900,000 civil penalty for failing to comply with the terms of the 1994 consent order, which required the company to divest the Bucksport assets and two other pharmacies. A trustee appointed by the Commission was able to divest two properties in January 1997, but as the company's petition explained, neither the company nor the trustee has been able to divest the Bucksport store.

Schnuck Markets

The Commission granted the petition of Schnuck Markets to reopen and modify a 1995 consent order to permit Schnuck's to donate to St. Louis Community College used equipment from its store in Granite City, Illinois, for use in the school's Culinary Studies program.

COURT DECISION

Title	Number	Action Date	Type of Matter	Product/Service
California Dental Association	D9259	10/97	Horizontal restraints	Dental services

COURT DECISION *California Dental Association*

The U.S. Court of Appeals (Ninth Circuit) affirmed the Commission's March 26, 1996, opinion and enforced an order that prohibited the California Dental Association (CDA) from imposing a host of restrictions on the advertising and solicitation practices of its members. The order was the result of the Commission's determination that CDA illegally restrained the advertising of the price, quality, and availability of dental services.

STAFF ADVISORY OPINIONS

To	Date	Subject/Issue
Alliance of Independent Medical Services, LLC	12/97	Network of ambulance and ambulette services providers formed to contract for transportation services with third-party payers
Associates in Neurology	8/98	Independent provider association of neurologists in Los Angeles area
Community Hospital, Inc.	12/97	Corporate restructuring of nonprofit hospital corporation
North Mississippi Health Services	1/98	Sales of pharmaceuticals by nonprofit hospital to patients of the hospital's cancer treatment center
Phoenix Medical Network, Inc.	5/98	Physician network of osteopathic services providers

**STAFF ADVISORY
OPINIONS**

Alliance of Independent Medical Services, LLC

Commission staff advised the Alliance of Independent Medical Services (AIMS) that it had no present intention to recommend a challenge to AIMS' proposal to create and operate a network of ambulance, ambulette, wheelchair van, and fly-car transportation service providers in New York State.

Associates in Neurology

Commission staff advised a group of neurologists in the Los Angeles area that they did not intend to recommend a challenge to the neurologists' plan to establish an independent provider association known as Associates in Neurology (AIN). AIN, which plans to contract with managed care organizations to provide in-office neurology services and hospital visits on a capitated basis, would be composed of 11 independent neurologists who currently practice in various communities in north Los Angeles County.

Community Hospital, Inc.

Commission staff advised Community Hospital that a proposed corporate restructuring to create NewCo as a parent entity that will wholly own all subsidiaries would not be challenged on antitrust grounds. Staff concluded that the proposed corporate structure falls

squarely within the bounds of current judicial standards, and it does not appear that the corporate restructuring would create entities that would be deemed capable of engaging in concerted action with one another, within the terms of Section 1 of the Sherman Act.

North Mississippi Health Services

Commission staff advised North Mississippi Health Services (NMHS) that it would be permissible under the Nonprofit Institutions Act for NMHS to provide cancer drugs at cost, plus handling expenses, through its Cancer Patient Fund to cancer patients who have been screened and certified as indigent by the Cancer Center, an off-site division of NMHS, even though these patients are not patients of NMHS's hospital.

Phoenix Medical Network, Inc.

Commission staff advised the Phoenix Medical Network that they had no present intention to recommend a challenge to its proposal to establish and operate a physician network in the Erie, Pennsylvania, area.

**CONSUMER PROTECTION MISSION
PART 2 CONSENT ORDERS ISSUED**

Title	Number	Action Date	Type of Matter	Product/Service
Altmeyer Home Stores, Inc.	C3816	6/98	Fair Credit Reporting Act	Employment applications
America Online, Inc. CompuServe, Inc. Prodigy Services Corp.	C3787 C3789 C3788	3/98 3/98 3/98	Inadequate disclosure of charges	Internet service provider
Ashland, Inc.	C3775	1/98	False and unsubstantiated claims	Motor vehicle engine treatment
Beuckman Ford, Inc. Frank Bommarito Oldsmobile, Inc. Lou Fusz Automotive Network, Inc. Suntrup Buick-Pontiac-GMC Truck, Inc.; Suntrup Ford, Inc. Toyota Motor Sales, U.S.A., Inc. Volkswagen of America, Inc.	C3777 C3774 C3780 C3779 C3776 C3778	1/98 1/98 1/98 1/98 1/98 1/98	Consumer Leasing Act	Automobile lease advertising
Beylen Telecom, Ltd.	C3782	1/98	International telephone connection fraud	Internet site
Bogdana Corporation	C3820	8/98	Unsubstantiated health benefit claims	Dietary supplements
Civic Development Group, Inc.	C3810	6/98	Fundraising fraud	Professional fund-raising
Eye Research Associates, Inc., d/b/a Eye Care Associates	C3807	5/98	Unsubstantiated performance claims	Eye care treatment
Foote, Cone & Belding Advertising, Inc. Rubin Postaer & Associates, Inc.	C3792 C3794	4/98 4/98	Consumer Leasing Act	Automobile lease advertising
Grey Advertising, Inc.	C3793	4/98	Consumer Leasing Act, Truth-in-Lending Act	
Global World Media Corporation	C3772	10/97	Safety claims	Herbal mood enhancer
Herbal Worldwide Holdings Corp.	C3827	9/98	Unsubstantiated weight-loss claims	Dietary weight-loss product
Honeywell, Inc.	C3823	8/98	Unsubstantiated efficacy and health claims	Air purifiers

Title	Number	Action Date	Type of Matter	Product/Service
London International Group, Inc.	C3800	4/98	Unsubstantiated comparative or quantifiable claims	Condoms
Mega Systems International, Inc.;	C3811	6/98	Infomercials	Self-help and health-related products
Jeffrey Salberg	C3798	4/98		
Tru-Vantage International LLC	C3812	6/98		
Howard S. Berg	C3797	4/98		
Roger J. Callahan	C3799	4/98		
Jeanie Eller				
Mid-South PCM Group, PC	C3773	11/97	Unsubstantiated performance claims	Eye care treatment
Nutrivida, Inc.	C3826	9/98	Unsubstantiated advertising claims	Dietary supplement
Sears, Roebuck & Co.	C3786	2/98	Misrepresentation of reaffirmation agreements	Debt collection
TrendMark, Inc.	C3829	9/98	Unsubstantiated health-related claims	Weight-loss products
Venegas, Inc.	C3781	1/98	Unsubstantiated health benefit claims	Dietary supplement
Western Direct Marketing Group, Inc.	C3821	8/98	Unsubstantiated health benefit claims	Advertising for dietary supplement

**PART 2 CONSENT
ORDERS ISSUED**

Altmeyer Home Stores, Inc.

A consent order with a retailer of draperies and curtains settled allegations that it failed to tell job applicants denied employment when information in the applicants' credit records played a role in the denials. The Commission also alleged that Altmeyer failed to tell the applicants the name and address of the company that provided the credit-history information. That failure prevented consumers from exercising their rights under the Fair Credit Reporting Act (FCRA) to correct any erroneous entries in their credit reports. The order remedied the violations charged and prohibited Altmeyer from engaging in similar violations of the FCRA in the future.

*America Online, Inc. (AOL); CompuServe, Inc.;
Prodigy Services Corp.*

The Commission approved consent orders with three Internet service providers settling allegations that the companies failed to make clear that consumers had an affirmative obligation to cancel before the trial period ended. As a result, consumers who failed to cancel were enrolled automatically as members and began incurring monthly charges. The orders barred the companies from misrepresenting the terms or conditions of any online service trial offer or stating that an online service is free unless they disclose clearly and conspicuously the terms and conditions of any offer. In addition, the order with AOL required the company to disclose the manner in which fees or charges are assessed or calculated and barred misrepresentation about the terms and conditions of any electronic fund transfer from a consumer account.

Ashland, Inc.

Ashland agreed to settle allegations that advertisements for the Valvoline Company's Teflon-containing TM8 Engine Treatment product were false and unsubstantiated. Valvoline is an unincorporated division of Ashland. Through the use of advertisements that ran on radio, TV, and the Internet, and in magazines and leaflets, Valvoline represented that TM8 bonds Teflon to engine parts and that it reduces engine wear by up to 75 percent. The order prohibited Ashland from making any claims about the performance or attributes of any engine treatment unless it possesses and relies upon competent and reliable evidence to support the claims.

*Beuckman Ford, Inc.; Frank Bommarito Oldsmobile, Inc.;
Lou Fusz Automotive Network, Inc.;
Suntrup Buick-Pontiac-GMC Truck, Inc., and Suntrup Ford, Inc.;
Toyota Motor Sales, U.S.A., Inc.; Volkswagen of America, Inc.*

The Commission approved six consent orders with two major automobile manufacturers and four St. Louis, Missouri-area dealerships that settled allegations of omitting or burying key cost information in small and at times unreadable print in their lease advertisements. Federal laws and regulations require that lease and credit advertising containing certain "triggering" terms – such as "down payment" or "monthly payments" – disclose clearly and conspicuously certain other

essential triggered terms of the deal. The Consumer Leasing Act (CLA) and its implementing Regulation M govern lease transactions. The complaints against the four St. Louis dealerships also alleged violations of the Truth in Lending Act (TILA) and its implementing Regulation Z in connection with advertisements for financed purchase plans. The orders prohibited future violations of the CLA by the six companies and, in addition, future violations of the TILA by the four automobile dealerships.

Beylen Telecom Ltd.; NiteLine Media, Inc.; Ron Tan

Beylen, Niteline, and Ron Tan, an officer of Beylen, settled allegations that the companies' computer program surreptitiously disconnected consumers from their local Internet service provider and reconnected their computer modems to the Internet through an international telephone call, all without the consumers' knowledge. The companies were able to do this because their computer program also turned off the consumers' modem speakers so that they could not hear the disconnect or the dialing of the international number. The order required payment of redress funds to AT&T and MCI, which will issue credits to their customers who were billed for the international calls, and to the Commission, which will issue refunds to customers of other long-distance carriers.

Bogdana Corporation; Bogda Gruber; Joseph L. Gruber

Bogdana and its officers agreed to settle allegations that they made false and unsubstantiated health claims in their advertisements for two dietary supplement products – Cholestaway and Flora Source. The complaint alleged that Bogdana had promoted both products as cures or preventatives for a wide variety of serious diseases and health conditions, such as high cholesterol and high blood pressure. The order prohibited Bogdana and its officers from making efficacy, performance, or safety claims for any food, drug, or dietary supplement, unless they have competent and reliable scientific evidence to back the claims.

Civic Development Group, Inc.; Community Network, Inc.; David Keezer; Richard McDonnell; Scott Pasch

Two professional fundraising companies and their officers agreed to settle allegations that they misrepresented to consumers nationwide

that contributions they were soliciting on behalf of a nonprofit organization, the American Deputy Sheriff's Association, would benefit law enforcement in their own communities. Specifically, the companies were charged with misrepresenting that contributions would buy bulletproof vests, provide death benefits for deceased officers' surviving family members, or otherwise benefit local law enforcement. The order prohibited the companies from misrepresenting, in any way, how or where a solicited charitable donation would be used.

*Eye Research Associates, Inc. (d/b/a Eye Care Associates);
Sami G. El Hage, O.D.*

Eye Research Associates (doing business as Eye Care Associates) and its owner, Sami G. El Hage, O.D., were prohibited from claiming that Controlled Kerato-Reformation (CKR) or any similar procedure corrects nearsightedness and astigmatism. In addition, the order required El Hage to have competent and reliable scientific evidence before making any health benefit claims that CKR or a similar procedure can, for example, stabilize vision after a few weeks or months of treatment, prevent or reverse nearsightedness in children, and enable pilots and other career professionals to meet occupational vision requirements. The order also required that El Hage notify eye care providers who attended his seminars, inform them of the order, and request that any materials that violate the order not be used.

*Foote, Cone & Belding Advertising, Inc.; Grey Advertising, Inc.;
Rubin Postaer & Associates, Inc.*

The Commission approved consent orders with three national advertising agencies to resolve allegations they violated the FTC Act and the Consumer Leasing Act in connection with car leasing advertisements. The orders settled allegations that the agencies developed and disseminated deceptive "zero down" and "penny down" lease advertisements for Mitsubishi Motor Sales of America, Inc., American Honda Motor Corp., and Mazda Motor of America, Inc., respectively. The complaint against Grey also alleged that Grey created and disseminated deceptive advertisements about automobile balloon payment credit that violated the FTC Act and the Truth in Lending Act. Among the provisions included in the orders: the companies may not misrepresent in any motor vehicle lease advertisement the total amount due at lease signing or delivery, the amount down, and/or the down payment, capitalized cost reduction, or other amount that reduces the

capitalized cost of the vehicle (or that no such amount is required). Any advertisement that highlights an amount “down” or mentions certain other amounts due at lease inception (or states that there is no such charge) would have to give an equally prominent statement of the total amount due at lease inception. The order with Grey also contained provisions that prohibit the company, in any closed-end credit advertisement involving motor vehicles, from misrepresenting the existence and amount of any balloon payment or the annual percentage rate.

Global World Media Corporation; Sean Shayan

Global World Media and Sean Shayan, the company’s owner, agreed to settle allegations that the company’s marketing of a supplement product promoted as a natural herbal “high,” Herbal Ecstasy, which included advertisements in media with large youth audiences, made explicit and unqualified false claims about the product’s safety and did not disclose the health and safety risks of using the product. The Commission also alleged that the company included in its advertisements an endorsement pertaining to the safety and lack of side effects of Ecstasy made by Dr. Steven Jonson of Tel Aviv, Israel, who in fact is a fictitious person. The order required that all future safety claims made by Global World Media or Shayan for any food, drug, or dietary supplement must be truthful and substantiated, and that their advertising and labeling of Ecstasy or any other product containing ephedra will warn consumers about the potentially serious safety risks of taking the product. They will also refrain from promoting Ecstasy or any similar product for its mind-altering effects in media with a predominantly youthful audience. Finally, the order prohibited misrepresentations of testimonials or endorsements of any product.

Herbal Worldwide Holdings Corp.; José Diaz; Eduardo N. Naranjo

Herbal Worldwide Holdings and the company’s two principal officers, José Diaz and Eduardo N. Naranjo, agreed to settle allegations that they made unsubstantiated weight loss claims for Fattaché, a purported dietary product, in advertisements that ran extensively on Spanish-language television stations. Fattaché is composed of psyllium, chitosan (from deacetylated shellfish shells), glucomannan, and apple pectin. The order settles allegations that the respondents did not possess a reasonable basis for these claims, because much of the research relied on by the respondents did not address the weight loss

and fat absorption effects discussed in the advertisement, and/or the results of the research could not be applied to the population as a whole because of methodological weaknesses. The order prohibits the respondents from representing that Fattaché or any dietary supplement, food, or drug can cause or contribute to achieving or maintaining weight loss without dieting, or that such a product prevents the absorption of ingested fat, helps eliminate ingested fat, or has any beneficial effect, unless the claims are supported by competent and reliable scientific substantiation. The order also prohibited the respondents from representing any product endorsement or testimonial unless they have evidence to support that the experience is, in fact, typical or similar.

Honeywell, Inc.

Honeywell agreed to settle allegations that the company made unsubstantiated efficiency and allergy relief claims for its Honeywell Air Purifiers – portable, room air cleaners designed for use in homes and offices – which contain “enviracaire” True HEPA (high efficiency particulate air) filters. Honeywell is one of the country’s leading manufacturers of air purifiers. The Commission alleged that advertisements for Honeywell’s air purifiers claimed that its products remove nearly all, or “99.97 percent,” of the impurities from the air that people breathe, including mold spores, dust mite allergens, bacteria, and viruses, and that Honeywell’s claim that its air cleaners provide noticeable allergy relief was deceptive. The order prevented Honeywell from making any representation regarding the efficacy, benefits, or performance of any air-cleaning product without reliable evidence to substantiate the claim.

London International Group, Inc.

The Commission approved a consent order against London International, a condom manufacturer, that settled allegations that the company’s advertisements were unsubstantiated and deceptive. The Commission alleged that the company represented that its Ramses brand condoms are 30 percent stronger than the leading brand of condom and break 30 percent less often. Under the terms of the order, London International was prohibited from making comparative claims about the strength, efficacy, or risk of breakage of any condom in the future unless the company possesses and relies upon competent and reliable scientific evidence to back up the claims.

*Mega Systems International, Inc.; Tru-Vantage International, LLC;
Howard S. Berg; Roger J. Callahan; Jeanie Eller; Jeffrey Salberg*

The Commission approved five consent orders in connection with Commission allegations that advertising claims made in radio and television infomercials produced by Mega Memory Systems, Inc., were false and unsubstantiated. The order with Tru-Vantage International prohibited the company from making claims that Howard Berg's Mega Reading is successful in teaching individuals to increase their reading speed above 800 words per minute while substantially comprehending and retaining the material. The order with Jeannie Eller prohibited claims about the extent to which individuals who use Jeannie Eller Action Reading will learn to read. The order with Roger J. Callahan prohibited claims about Dr. Callahan's Addiction Breaking System and its ability to reduce an individual's compulsive desire to eat, smoke, and use alcohol or heroin. The order also required Callahan to pay \$50,000 in consumer redress. The orders with Mega Systems International, Jeffrey Salberg, and Howard Berg required them to disclose a consumer warning regarding their products in television advertisements that are at least 15 minutes long and to disclose the same audio message in radio advertisements that are at least 5 minutes long. In addition, Mega Systems, Salberg, and Berg were barred from making deceptive claims about their products in the future. Mega Systems and Salberg also will pay \$500,000 in consumer redress.

*Mid-South PCM Group, PC; Eye and Vision Clinic, PC;
International Computerized Orthokeratology Society, Inc.;*
J. Mason Hurt, O.D.

The Commission approved a consent order with Mid-South PCM Group, Eye and Vision Clinic, International Computerized Orthokeratology Society, and J. Mason Hurt, O.D., settling allegations that claims that an eye care treatment called Precise Corneal Molding orthokeratology (PCM ortho-k) can permanently cure vision deficiencies are false and unsubstantiated. PCM ortho-k is an eye care service that purports to reduce or eliminate dependence on eyeglasses and contact lenses. It is marketed as a non-surgical alternative to surgical eye procedures such as laser PRK (photorefractive keratectomy) and RK (radial keratotomy). The order prohibited Hurt from making any false claims and required reliable scientific evidence for any future success or efficacy claims.

Nutrivida, Inc.; Frank Huerta

Nutrivida and its principal, Frank Huerta, agreed to settle allegations that they made unsubstantiated claims in infomercials for Cartilet, a dietary supplement composed of shark cartilage. The respondents claimed that Cartilet capsules are effective in the symptomatic relief, treatment, or cure of cancer, and effective in the symptomatic relief or treatment of rheumatism, arthritis, diabetes, fibroids, bursitis, circulatory problems, and cysts. In addition, the complaint alleged as unsubstantiated the claim that the testimonial from the consumer who appears in the advertisement for Cartilet shark cartilage capsules reflects the typical or ordinary experience of consumers who used the product. The order prohibited the respondents from making specific claims for Cartilet – or for any other product – unless the respondents possess and rely upon competent and reliable scientific evidence to substantiate the representations. In addition, the order prohibited the use of testimonials unless they reflect the typical or ordinary experiences that could be expected from use of the product, or a disclosure is made indicating that the experience is not typical, and required the respondents to disclose that any radio or video advertisement 15 minutes in length or longer is a paid advertisement.

Sears, Roebuck & Co.

Sears agreed to settle allegations that it induced consumers who filed for bankruptcy protection to agree to reaffirm their Sears credit account debts, in order to keep their Sears credit card or merchandise. The Commission alleged that Sears falsely represented that these “reaffirmation agreements” would be filed with the bankruptcy courts, as required by law, and that the consumers would be legally obligated to pay their credit account debts. The Commission action was coordinated with settlement of a class action lawsuit against Sears filed in the U.S. Bankruptcy Court in Boston. The order prohibited Sears from misrepresenting that any reaffirmation agreement it obtains will be filed with the bankruptcy court, that any reaffirmation agreement is binding, or any other material fact while attempting to collect debts subject to a pending bankruptcy proceeding. In addition, the order barred Sears from collecting debts that have been discharged in bankruptcy court proceedings. The order also preserved the Commission’s right to file an action in federal district court to seek full redress for consumers if Sears’ refunds to debtors pursuant to the class action lawsuit settlement total less than \$100 million. The class action settle-

ment required Sears to completely redress debtors, with interest, for payments wrongfully obtained.

TrendMark, Inc.; E. Robert Gates; William McCormack

The Commission approved a consent order in connection with the marketing of a weight loss program called the “THIN-THIN” Diet that was advertised on TrendMark’s Web site and through unsolicited commercial e-mail sent to users of America Online (AOL). The Commission alleged that TrendMark, a multi-level network marketing company, and principals William McCormack and E. Robert Gates did not have adequate substantiation for their advertisement claims that consumers using the THIN-THIN Diet program would lose significant amounts of weight or experience other health-related benefits without changing their diet and that these claims were validated by scientific studies. The order prohibited TrendMark and its owners from misrepresenting the results of any weight loss program or product they offer and required them to have scientific data to back up any claims about the health benefits, performance, or efficacy of any food, drug, or device.

Venegas, Inc.; Angel Venegas

Venegas and the company owner, Angel Venegas, agreed to settle allegations that they made unsubstantiated health claims about Alen, a powdered nutritional supplement composed of wheat germ, wheat bran, soybean extract, and seaweed extract. The consent order prohibited the respondents from making any representations as to the benefits, performance, or efficacy of any food, drug, or dietary supplement without possessing and relying upon competent and reliable scientific evidence to support the claims.

Western Direct Marketing Group, Inc.;
Western International Media Corporation

Western Direct, an advertising agency that created and produced television infomercials for Bogdana Corporation’s Cholestaway and Flora Source dietary supplements, agreed to settle allegations that it engaged in deceptive practices in connection with developing these infomercials. The Commission alleged that the advertising agency knew or should have known that there was no basis for claims that Cholestaway or Flora Source would lower serum cholesterol and blood

pressure, or cause weight loss or other health benefits. The order prohibited Western Direct from making the challenged representations or any other representations for food or dietary supplements or drugs unless they possess competent and reliable scientific evidence that substantiates such representations.

PART 3 ADMINISTRATIVE COMPLAINT

Title	Number	Action Date	Type of Matter	Product/Service
Continental Gown Cleaning Service, Inc.	D9287	5/98	Care Labeling Rule	Wedding gown cleaning

PART 3 ADMINISTRATIVE COMPLAINT*Continental Gown Cleaning Service, Inc.*

In an administrative complaint, the Commission alleged that Continental Gown, a New York-based drycleaning operation, four related companies, and two corporate officers provided wedding gown manufacturers with care labels that violate the Care Labeling Rule, and falsely advertised that Continental Gown was the only drycleaner able to clean gowns with those labels. Continental Gown was also charged with making false advertising representations to wedding gown manufacturers and consumers that its “Zurcion Method” was a patented dry-cleaning process and that it was the only safe and effective method for cleaning and preserving wedding gowns. The agency sought an order that would prohibit the companies from claiming that the Zurcion Method is the only safe and effective way of cleaning wedding gowns or other formal wear. It would also prohibit them from providing care labels to manufacturers of apparel and from falsely stating that any care instruction complies with the Care Labeling Rule. In addition, the order would require that the companies have evidence for any claims they make about the safety and effectiveness of any cleaning or preserving service they sell. If the companies offer a guarantee of their cleaning or preservation services, the order would require them to tell consumers the terms and conditions of the guarantee. The order also would require the companies to tell garment manufacturers and bridal shops to which they provided care labels or promotional materials that the labels are not accurate and that other cleaners can clean and preserve garments that have the “Zurcion Method” label attached to them.

PART 3 CONSENT ORDERS ISSUED

Title¹	Number	Action Date	Type of Matter	Product/Service
Jenny Craig, Inc.	D9260	2/98	Unsubstantiated advertising claims	Weight-loss programs
Metagenics, Inc.	D9267	10/97	Unsubstantiated performance claims	Calcium supplement
(Quaker State Corp.) Blue Coral, Inc.	D9280	12/97	Unsubstantiated performance and efficacy claims	Motor vehicle engine lubricant
Weight Watchers International, Inc.	D9261	12/97	Unsubstantiated advertising claims	Weight-loss programs

¹A company name shown in parentheses is for identification of the case only.

PART 3 CONSENT ORDERS ISSUED

Jenny Craig, Inc.; Jenny Craig International, Inc.

The Commission approved a consent order with Jenny Craig to resolve deceptive advertising allegations in connection with the diet program's claims about weight loss, weight loss maintenance, price, and safety, as well as its use of consumer testimonials and endorsements. Among other things, the settlement set the level of substantiation Jenny Craig and its subsidiary, Jenny Craig International, Inc., must have before making any claims about the success of customers in achieving or maintaining weight loss, and required that consumer experience testimonials either reflect the general results of Jenny Craig customers or be qualified by disclosures that reveal the generally expected results or make clear that the results portrayed are not typical.

Metagenics, Inc. (d/b/a Ethical Nutrients); Jeffrey Katke

Metagenics and corporate officer Jeffrey Katke settled allegations that they made unsubstantiated claims about the effectiveness of Bone Builder, their over-the-counter calcium supplement, in preventing bone loss in post-menopausal women who already have experienced bone thinning, in reducing bone pain, and in preventing osteoporosis. The order also settled allegations that the respondents made unsubstantiated claims that their product was more effective than other calcium supplements. The order required the respondents to have scientific substantiation for any claim that Bone Builder or any food, drug, or food or dietary supplement containing calcium will treat or prevent any disease, disorder, or condition, including those relating to bone

ailments or osteoporosis, or that any food, drug, or food or dietary supplement is more effective than any other product in treating or preventing any disease, disorder, or condition.

(Quaker State Corp.)

Blue Coral, Inc.; Blue Coral-Slick 50, Inc.; Blue Coral-Slick 50, Ltd.

The Commission approved a consent order with three Quaker State subsidiaries that advertisements about Slick 50, the best-selling auto engine treatment in the United States, were false and unsubstantiated. The agreement settled allegations that advertisements for Slick 50 that tout tests showing improved engine performance are false and claims of reduced engine wear are unsubstantiated. The order barred any claims about the performance, benefits, efficacy, attributes, or use of any engine treatment, oil additive, or Slick 50 engine lubricant unless the companies possess and rely on competent and reliable evidence to substantiate the claims. In addition, it prohibited the companies from claiming that any other Slick 50 motor vehicle lubricant reduces wear on a part, extends the part's life, lowers engine temperature, reduces toxic emissions, increases gas mileage, or increases horsepower, unless they can substantiate the claim.

Weight Watchers International, Inc.

The Commission finalized a consent order with Weight Watchers, settling allegations that questioned the adequacy of the company's substantiation for certain weight loss and maintenance claims made in advertising between 1988 and 1992. The order set out the types of evidence needed to support Weight Watchers' future weight loss and weight loss maintenance claims. It required that claims about maintenance success include additional disclosures about the actual maintenance experience of Weight Watchers' customers, as well as the statement "For many dieters, weight loss is temporary." In addition, under the agreement, Weight Watchers will state, in connection with any atypical testimonial about weight loss or maintenance success, the generally expected success for program participants or will indicate that dieters should not expect to experience similar results. Also included in the order were provisions to ensure that Weight Watchers franchisees comply with the terms of the settlement.

INITIAL DECISIONS

Title	Number	Action Date	Type of Matter	Product/Service
Novartis Corporation	D9279	3/98	Unsubstantiated performance claims	OTC pain reliever
Trans Union Corporation	D9255	7/98	Fair Credit Reporting Act	Target marketing

INITIAL DECISIONS *Novartis Corporation; Novartis Consumer Health, Inc.*

In an initial decision, an Administrative Law Judge found that Novartis, a subsidiary of Novartis AG, a Swiss pharmaceutical company, disseminated false and unsubstantiated advertisements claiming that Doan's pills are more effective in relieving back pain than other over-the-counter pain relievers. The order barred Novartis Corp. and Novartis Consumer Health, Inc., the marketers of Doan's, from representing that the product is more effective than other over-the-counter products unless they possess and rely upon competent and reliable scientific evidence, including at least two clinical studies, to substantiate their claims. In addition, the order required Novartis to have scientific substantiation for any claims they make regarding the efficacy, safety, benefits, or performance of any over-the-counter analgesic they market. The order further prohibited Novartis from making superiority claims unless they have competent and reliable scientific evidence, including at least two clinical studies, to support the claim. Administrative Law Judge decisions can be appealed to the Commission.

Trans Union Corporation

An Administrative Law Judge ordered Trans Union to stop distributing and selling target marketing lists based on consumer credit data, except for certain authorized purposes. Trans Union, based in Chicago, Illinois, is one of the three major credit bureaus in the United States. Trans Union gathers information on consumers and sells consumer reports containing credit data. Performance Data, a division of Trans Union, is engaged in the target marketing business, which involves selling goods and services directly to specifically targeted consumers by mail or telephone. In 1992, the Commission alleged that Trans Union's sale of target marketing lists violated the Fair Credit Reporting Act (FCRA). Those allegations were upheld by an Administrative Law Judge in a 1993 summary decision and by the

Commission in 1994. In 1996, the Judge's finding that there was no real dispute as to the facts of the case was rejected by the U.S. Court of Appeals, which returned the case to the Commission. The Commission then remanded the case for trial. On remand, the Judge concluded that Trans Union's target marketing lists are consumer reports that are furnished to persons who do not have a permissible purposes under the FCRA, thus violating the FCRA. Administrative Law Judge decisions can be appealed to the Commission.

FINAL ORDERS

Title	Number	Action Date	Type of Matter	Product/Service
Automotive Breakthrough Sciences, Inc.	D9275	9/98	Unsubstantiated performance claims	Automotive braking system
Brake Guard Products, Inc.	D9277	1/98	Unsubstantiated performance claims	Automotive braking system

FINAL ORDERS *Automotive Breakthrough Sciences, Inc.; ABS Tech Sciences, Inc.; Richard Schops*

The Commission issued an order making final an initial decision by an Administrative Law Judge in regard to Automotive Breakthrough Sciences, ABS Tech Sciences, and their principal, Richard Schops. In 1997, the Judge found that the respondents made false and unsubstantiated advertising claims that their ABS/Trax system is an antilock braking system (ABS) as effective as manufacturer-installed ABS brakes with respect to wheel lock-up, skidding, and control in panic stops; that it complies with performance standards established by the Society of Automotive Engineers and the National Highway Traffic Safety Administration; and that it will qualify a vehicle for automobile insurance discounts in a significant proportion of cases. The Commission upheld the Judge's decision. Under the order, respondents must discontinue advertisements for their ABS/Trax system. The company was also barred from using the term "ABS" in its advertising and marketing, and from misrepresenting the performance, benefits, and safety characteristics of the brakes.

Brake Guard Products, Inc.; Ed F. Jones

The Commission issued an order making final an initial decision by an Administrative Law Judge in regard to Brake Guard Products and Ed F. Jones, its president. The initial decision found that Brake Guard made false and unsubstantiated advertising claims that its Brake Guard Safety System, also known as Advanced Braking System or Brake Guard ABS, is an antilock braking system (ABS) as effective as manufacturer-installed ABS brakes; that it complies with a performance standard established by the Society of Automotive Engineers; and that it will qualify a vehicle for automobile insurance discounts in a

significant proportion of cases. Brake Guard sold the systems to dealers who charged consumers between \$283 and \$349, and it sold between 400,000 and 500,000 of the systems between 1990 and 1994, earning revenue in excess of \$10 million during that time, according to the Commission opinion. The final order barred the company and Ed F. Jones from using the term “ABS” in marketing their braking devices, from misrepresenting the performance characteristics of the braking devices, and from misrepresenting the availability of insurance discounts resulting from installation of the brakes and their compliance with certain government standards.

PERMANENT INJUNCTIONS

Title ¹	Number	Action Date	Type of Matter	Product/Service
(Advantage Marketing Company) Ed Boehlke	X970010	6/98	Franchise Rule	Work-at-home job programs
(ATMS, Woofter Investment) Konrad King, Inc.	X970041	5/98	Telemarketing Sales Rule	Foreign lottery tickets
College Assistance Services, Inc.; John Giuffrida; Linda Love; Conni Canella; Randolph Canella	X960093 X960093	1/98 1/98	Scholarship fraud	College scholarship search services and finances
Consumer Credit Services, Inc.	X980067	5/98	Telemarketing Sales Rule	Advance-fee credit cards
Corren Enterprises, Inc. (Reno Boyd, d/b/a) Plantation Marketing, Inc.; William Beecher, Inc.	X980029 X980030	2/98 4/98	Telemarketing Sales Rule	Advance-fee credit cards
(CRA Champion Credit, Inc.) Joel Younker	X980066	5/98	Credit Repair Organization Act	Credit repair file segregation claims (e-mail)
Credit Development International (Nio Cano, d/b/a) Charles Johnson Bryan McCord	X980004 X980004 X980004	6/98 6/98 6/98	Investment fraud, pyramid scheme	Internet investment - preapproved credit cards
(Dayton Family Productions, Inc.) Rosario Filosi	X970058	2/98	Telemarketing Sales Rule	Film investments
The Dean Thomas Corporation Michael Brant	X970045 X970045	1/98 1/98	Telemarketing fraud	Charitable badge-related fundraising
(Eureka Solutions International, Inc.) Frank J. Cillo	X970087	6/98	Telemarketing Sales Rule	Invention promotion services
(Fraud Action Network) FANS, Inc.	X960023	2/98	Telemarketing Sales Rule	Prize promotion "recovery room"
(G.M. & Assocs.) Marc Hart	X980065	6/98	Telemarketing Sales Rule	Advance-fee credit cards
Image Sales & Consultants; Michael Dewayne Dague	X970059	6/98	Deceptive billing	Magazine advertising

Federal Trade Commission

Title ¹	Number	Action Date	Type of Matter	Product/Service
(Independent Travel Agencies of America, Inc.) David E. Mueller	X950028	12/97	Franchise Rule	Travel agent training program
(International Direct, Inc.) Maier S. Levine; Vivian D. Levine	X970040	8/98	Mail or Telephone Order Merchandise Rule	Flier inserts for mail order shopping
Jeff Russell & Associates (Jeff Russell, d/b/a)	X980088	8/98	Telemarketing Sales Rule	Advance-fee credit cards
Lundgren & Associates, PC	X980077	7/98	Fair Debt Collection Practices Act	Debt collection
M.J.S. Financial Services, Inc.; Resource Travel Services, Inc.	X980018	5/98	Telemarketing Sales Rule	Advance-fee credit cards
(National Grant Foundation) Carol Clough; Harriet Kaye; Beverly Jansen Anthony Consalvo	X980002 X980002	3/98 5/98	Scholarship fraud	Scholarship search service
(National Scholastic Society, Inc.) University Society Publishers	X970043	4/98	Telemarketing Sales Rule	Magazine subscriptions
Parade of Toys, Inc.; Robert E. Bouckhout Dennis W. Vaughan Megan N. Wall	X970067 X970067 X970067	1/98 1/98 1/98	Franchise Rule	Display rack business opportunity
Pinnacle Financial Services (Gary Walton, d/b/a)	X980016	6/98	Telemarketing Sales Rule	Advance-fee loans
Premier Card Services	X980025	5/98	Telemarketing Sales Rule	Advance-fee credit cards
(Raymond Urso) National Bureau of Better Business, Inc. David Bennett	X970068 X970068	4/98 6/98	Franchise Rule	Display rack business opportunity
Southwest Publishing (Leon Saja, d/b/a) Donald Ritta; Stealth Publications, Inc.	X970042 X970042	7/98 9/98	Telemarketing fraud	Charitable badge-related fundraising
(SureCheK Systems, Inc.) Steve Lovern	X970082	6/98	Telemarketing Sales Rule	Advance-fee credit cards
TouchNet, Inc.	X980024	6/98	Franchise Rule	Internet design business opportunity

Title ¹	Number	Action Date	Type of Matter	Product/Service
(Toys Unlimited International, Inc.) Robert G. Garrow	X970074	8/98	Franchise Rule	Display rack business opportunity
The Tracker Corporation of America	X970072	7/98	Telemarketing Sales Rule, Truth-in-Lending Act	Credit card protection
Travel Bahamas Tours, Inc.	X970029	6/98	Telemarketing Sales Rule, Truth-in-Lending Act	Travel packages
(World Class Network, Inc.) World Class Travel, LLC; Jerome L. Goldberg	X970031	11/97	Multi-level marketing fraud	Travel agent credential mill

¹A company name shown in parentheses is for identification of the case only.

**PERMANENT
INJUNCTIONS**

Advantage Marketing Company; Ed Boehlke

The Commission reached a settlement with Advantage Marketing and its president, Ed Boehlke, in connection with a get-rich-quick, work-at-home scheme. The Commission, as part of “Operation Missed Fortune,” a federal-state crackdown on get-rich-quick, self-employment schemes, alleged that Boehlke falsely advertised in free, weekly newspapers that consumers could earn between \$200 and \$1,000 weekly assembling products at home. Consumers who responded to the advertisements were told that for a fee of about \$40, they would be enrolled in the defendant’s work-at-home program. The order barred false or misleading statements about work-at-home opportunities in the future, required disclosure of material terms and conditions of any refund policy, and prohibited false or misleading representations about the performance, benefits, or efficacy of any product or service or the terms under which products or services are sold. The order also required that Boehlke possess and rely upon a reasonable basis to substantiate earnings claims.

*(ATMS; Woofter Investment Corporation)
Konrad King, Inc.; Konrad King*

Konrad King, and his company, Konrad King, Inc., settled Commission allegations stemming from their role in the Commission’s

case against Woofter Investment Corporation. The Commission alleged that the defendants played supporting roles in a telemarketing fraud perpetrated by Canadian telemarketers who deceptively and illegally sold shares in foreign lotteries by laundering their credit card transactions, acting as a lottery agent, and providing “customer service” for them. The Commission alleged that King assisted and facilitated the deceptive telemarketing practices and engaged in credit card laundering, in violation of the Telemarketing Sales Rule. The order prohibited King and his computer consulting company from providing services to any company involved in the unlawful sale of lottery tickets, chances, or interests.

College Assistance Services, Inc.;
Conni Canella; Randolph Canella; John Giuffrida; Linda Love

College Assistance Services (CAS) and its officers settled allegations in connection with the sale of scholarship search services. The Commission brought this case under “Project \$cholar\$cam,” a law enforcement and consumer education campaign to protect college-bound students and their families from fraudulent college scholarship services that “guarantee” that customers will receive a scholarship – usually \$1,000 – in return for up-front fees ranging from \$10 to \$400. CAS agreed to settle allegations it misrepresented its ability to obtain college scholarships for consumers. The order banned the defendants from selling scholarship search services and required each to post a \$200,000 bond before engaging in a telemarketing business or assisting others engaged in such a business.

Consumer Credit Services, Inc.; Eric A. Peterson

Consumer Credit Services, Inc. (CCS), based in Las Vegas, Nevada, settled allegations that it defrauded consumers nationwide through the deceptive telemarketing of credit cards and lines of credit for an up-front fee. The Commission, joined by the State of Nevada as co-plaintiff, charged CCS and its president, Eric A. Peterson, with violating the FTC Act, the Telemarketing Sales Rule, and the Nevada Deceptive Trade Practices Act, by falsely representing that consumers would receive a major credit card or a \$2,500 unrestricted line of credit in return for paying CCS an up-front fee ranging from \$149.95 to \$179.95. The order prohibited the defendants from engaging in the alleged deceptive practices and required them to pay \$5,000 to the State of Nevada to be used for consumer protection initiatives.

*Corren Enterprises, Inc.(Reno Boyd, d/b/a);
Plantation Marketing, Inc.*

Reno Boyd and Plantation Marketing agreed to settle allegations that they fraudulently offered consumers a major unsecured credit card in return for an advance one-time processing fee ranging from \$79.95 to \$130.00. The defendants targeted consumers with credit problems and told them that they were being offered or preapproved for a Visa or MasterCard, with absolutely no security deposit and regardless of their past credit history. Defendants did business as third-party telemarketers for SureCheK Systems, Inc., which was doing business as Consumer Credit Corp., a company that the Commission brought an action against in July 1997 under project "Peach Sweep." The orders prohibited the defendants from falsely representing that consumers would receive a credit card in exchange for a payment of a fee.

CRA Champion Credit, Inc.; CRA Financial Services, Inc.;
Avshalom Hazan; Joel Younker

The Commission reached an agreement with CRA Champion Credit and CRA Financial Services, and the companies' two principals, settling allegations that they misrepresented the credit repair services they offered by promising to remove accurate negative information from consumers' credit reports, when, in fact, such information cannot be removed. The defendants also were charged with violating the Credit Repair Organization Act (CROA) by seeking advance payment for credit repair services and misrepresenting the credit repair services that the defendants claimed they would perform. The order with CRA Champion, CRA Financial, and Avshalom Hazan permanently prohibited them from advertising, marketing, selling, or otherwise offering credit repair services. A separate settlement with Joel Younker prohibited him from misrepresenting any material fact in connection with the advertising, marketing, or selling of credit repair services and required him to post a performance bond in the amount of \$50,000 before again entering the credit repair business.

*Credit Development International and Drivers Seat Network
(Nia Cano, d/b/a); Leaders Alliance, Inc.;*
Charles Johnson; Jaime Martinez; Bryan McCord

The Commission reached a settlement with three principals of a pyramid scheme promoted through the Internet that had falsely prom-

ised investors that for an initial investment of \$130 and monthly payments of \$30, they would earn up to \$18,000 a month and receive an unsecured credit card with a high credit limit. The order provided for the sale of assets totaling \$1.6 million in consumer redress and enjoined the defendants from operating pyramid or Ponzi schemes, or any program that promises income primarily from the recruitment of others, rather than the sale of a product. The orders also prohibited misrepresentations in the sale of marketing opportunities and specifically about the earnings and benefits, such as receiving unsecured credit cards, from participating in any such program. It also required liquidation of the businesses through which the pyramid scheme operated.

Dayton Family Productions, Inc.; Rosario Filosi

Rosario “Ray” Filosi, one of the defendants named in the “Project Field of Schemes” investment fraud cases, was permanently banned from engaging in or assisting others in telemarketing activities. The ban is part of an agreement settling charges that Filosi and others made numerous misrepresentations when soliciting consumers to invest in films produced by filmmaker Lyman Dayton. (Lyman Dayton was not named as a defendant in the Commission’s complaint.) The defendants allegedly claimed that Mr. Dayton’s prior films had generated 5-to-1 returns for investors, and that Mr. Dayton and his films had won certain awards, including a Cannes Film Festival award. The Commission also alleged that the defendants sold substantially more units in their film investment partnerships than they claimed they would sell. In addition to the permanent ban, the settlement prohibits Filosi from misrepresenting the risk and profitability of investments in films or other investments or products.

The Dean Thomas Corporation; The Game Club, Inc.; Preferred Publishing Company, Inc.; Professional Publishers, Inc.; Thomas Publishing Company, Inc.; Michael Brant; Dean R. Thomas

The Dean Thomas Corporation, its president Dean R. Thomas, Michael Brant, and other affiliated companies agreed to settle Commission allegations stemming from their role in “Operation False Alarm,” a joint federal/state law enforcement effort directed at deceptive fundraising on behalf of law enforcement officers, firefighters, and other community organizations. The Commission’s complaint alleged that the defendants convinced small businesses to

pay for “advertising” in their publications by falsely claiming that the businesses had previously ordered the advertisements, that their booklets enjoy widespread distribution in the businesses’ local communities, and that advertising proceeds would support a local, civic purpose. The order prohibited all of the defendants from making false or misleading representations in connection with the sale, distribution, marketing, or sponsorship of any advertisement, publication, or product, and from misrepresenting their affiliation with any organization. In addition, they were prohibited from selling, renting, or otherwise disclosing any identifying information about any customer who purchased advertisements from them. Individual defendants were also prohibited from using aliases or otherwise misrepresenting their true identity.

Eureka Solutions International, Inc.; Frank J. Cillo

Eureka Solutions and Frank J. Cillo settled Commission allegations that they misrepresented the likelihood of financial gain to consumers who purchased their invention promotion services. The Commission alleged that few, if any, of the defendants’ clients realized any appreciable amount of money from their inventions. The Commission actions were part of a law-enforcement sweep, “Project Mousetrap,” targeting fraudulent invention promotion services. The order prohibited the defendants from making false statements about, or omitting, any material aspect of their invention promotion or related services, and specifically prohibited misrepresentations about the likelihood that clients will realize financial gain or that the defendants have successfully marketed clients’ invention ideas. In addition the order required that in the future the defendants disclose their success rate in writing to potential clients.

*(Fraud Action Network, Inc.)
FANS, Inc.*

Rena Warden, a defendant in the Commission’s lawsuit against Fraud Action Network, Inc. (FANS), agreed to settle allegations stemming from her role in a alleged recovery service scheme. In March 1996, the Commission alleged that FANS misrepresented to consumers that it would recover all or a substantial portion of the money lost in previous telemarketing scams. The defendants then told consumers that for a fee of 10 to 20 percent of the consumer’s previous losses – or a minimum fee of \$400 – FANS would recover their losses

within six weeks to three months. Warden was involved in FANS' day-to-day operations. The order prohibited Warden from making any material misrepresentations in connection with any telemarketing effort and from violating any provision of the Telemarketing Sales Rule in the future.

*(G.M. & Assocs.)
Marc Hart*

Marc Hart, an independent telemarketer for SureCheK Systems, a business that claimed it could obtain unsecured credit cards – even for consumers with past credit problems – for up-front “processing fees” of up to \$129, settled allegations that in almost all cases it failed to provide the cards and, in others, it failed to disclose additional processing and annual fees, in violation of federal law. The Commission alleged that Hart, a third-party telemarketer, called consumers, and guaranteed that regardless of their past credit history, SureCheK could secure Visas or MasterCard with no security deposit. Hart was charged with violating federal law, including the Telemarketing Sales Rule. The order barred false and misleading statements about securing credit cards, required disclosure of material facts relating to the cost or conditions for receiving extensions of credit, and barred the defendant from selling the victims list.

Image Sales & Consultants, Inc.; Michael Dewayne Dague

Image Sales & Consultants and its president, Michael Dague, agreed to settle Commission allegations stemming from their role in “Operation False Alarm,” a joint federal/state law enforcement campaign targeting telemarketers that sold small businesses advertisements in publications with child safety or other civic-purpose themes. The Commission alleged that in most cases the publications for which the advertisements were solicited were never distributed in the business’s community as claimed. Furthermore, once a business purchased an advertisement, it faced repeated billing for more advertisements – whether authorized or not – and aggressive collection tactics for unauthorized invoices – including threats that the bill will be turned over to a collection agency. The order prohibited the defendants from using any alias, misrepresenting their identities, or selling or transferring the names or other identifiable information of previous customers contacted by the defendants in connection with the sale of advertisements or advertising sponsorships. The order also permanently banned

Michael Dague from engaging or participating in the sale or distribution of any advertising or publication.

*Independent Travel Agencies of America;
Travel Industry Council, Inc.; David Eugene Mueller*

David Eugene Mueller settled allegations that he falsely promised purchasers of his training program that they would be “licensed” or “certified” to operate home-based travel agencies, achieve earnings of \$25,000 in their first year of operation, and receive, among other things, benefits such as free computers and free or deeply discounted travel. Mueller was the sole owner and operator of the now-defunct Independent Travel Agencies of America and the Travel Industry Council. In February 1995, the Commission filed a complaint charging that Mueller and his companies engaged in a host of deceptive practices, including making unsubstantiated success and earnings claims, and violated the Franchise Rule by failing to provide potential franchisees with required pre-purchase information. The order permanently banned Mueller from participating or assisting in the promotion or sale of travel industry business opportunities and from violating the Franchise Rule in the future.

International Direct, Inc.; Maier S. Levine; Vivian D. Levine

International Direct, a mail order house, its counterpart, American Security Products, and their officers settled allegations that they violated the Mail or Telephone Order Merchandise Rule and the FTC Act by failing to deliver mail order goods in a timely manner, issue refunds, or provide notification of delays to consumers. In two separate orders, all of the defendants are prohibited from violating the Rule in the future. In addition, the individual defendants are banned from various aspects of the mail order business, including permanent mail order activity bans on Maier S. Levine and Vivian D. Levine.

Jeff Russell & Associates; Jeff Russell

Jeff Russell, an independent telemarketer for SureCheK Systems, a business that claimed it could obtain unsecured credit cards – even for consumers with past credit problems – for up-front “processing fees” of up to \$129, settled allegations that in almost all cases it failed to provide the cards and, in others, it failed to disclose additional processing and annual fees, in violation of federal law. The Commission

alleged that Russell, a third-party telemarketer, called consumers and guaranteed that regardless of their past credit history, SureCheK could secure Visas or MasterCard's with no security deposit. Russell was charged with violating federal law, including the Telemarketing Sales Rule. The order banned Russell from future telemarketing of credit cards and required him to post a \$50,000 bond before engaging in telemarketing or assisting others engaged in telemarketing.

Lundgren & Associates, PC; Alvin R. Lundgren

Alvin R. Lundgren, principal of Lundgren & Associates, settled allegations that he repeatedly violated the Fair Debt Collection Practices Act (FDCPA) and Section 5 of the FTC Act when attempting to collect debts by threatening to take legal action when none was intended and by misrepresenting the amount he was entitled to collect under state law. Lundgren's practice was dedicated almost exclusively to the collection of insufficient fund checks on behalf of check guarantee businesses and merchants. The order prohibited Lundgren from violating any provisions of the FDCPA in the future and required him to include, for the next 10 years, in any written communication with a consumer from whom he is attempting to collect a debt, two disclosures explaining to consumers their rights under the FDCPA.

M.J.S. Financial Services, Inc.; Resource Travel Service, Inc.; Valerie Ranger; Michael Jerome Smith

Michael Jerome Smith, Chief Executive Officer of M.J.S. Financial and Resource Travel, and Valerie Ranger, an officer of Resource Travel, telemarketers who "guaranteed" consumers they could obtain unsecured credit cards – even if the consumers had past credit problems – for up-front "processing fees," settled Commission allegations that their claims were false and violated federal laws. The Commission alleged that most consumers received nothing for the fee they paid; other consumers received an application form for a credit card, which required additional fees. The order barred the defendants from telemarketing in the future, banned their use of unsigned bank drafts to debit consumers' accounts, and prohibited them from misrepresenting credit offers.

National Grant Foundation, Inc.;
Carol Clough; Anthony Consalvo; Beverly Jansen; Harriet Kaye

Anthony Consalvo, the principal defendant in one of the Commission's cases in "Project \$cholar\$cam," a nationwide crackdown on fraudulent telemarketed scholarship search services, settled allegations that he misrepresented the likelihood of obtaining scholarships and grants through the use of his service. The order permanently banned Consalvo, vice president of National Grant Foundation, from selling college scholarship services in any manner and from telemarketing or assisting others in telemarketing in the future. He was also required to pay \$585,000 in consumer redress. Defendants Kaye, Jansen, and Clough agreed to an order that banned them from selling scholarship search services in the future.

National Scholastic Society, Inc.;
University Society Publishers Periodicals; David C. Beasley, Jr.

National Scholastic Society and David C. Beasley, Jr., agreed to post a \$250,000 performance bond before engaging in any telemarketing activities in the future, resolving allegations against them by the Commission and the State of New Jersey. The Commission and the New Jersey Attorney General filed a complaint in federal district court against the company and its owner, as part of a nationwide crackdown on fraudulent magazine marketers. The complaint alleged that the defendants, in response to a toll-free call, misrepresented (1) the reasons why they needed consumers' credit card information and (2) that they would not bill charges to consumers' credit card accounts without the consumers' written authorization. In addition, the Commission and the State of New Jersey alleged that the defendants violated the Telemarketing Sales Rule by failing to disclose the odds of winning a prize, the conditions associated with the defendants' coupon offer, and that the defendants did not allow cancellation. The order permanently prohibited defendants from making the misrepresentations alleged in the complaint and prohibited them from violating the Rule. In addition to the \$250,000 bond, the order required the defendants, if they tape record any portion of a sales call with consumers, to include in the tape recording all material elements of the sale.

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*Parade of Toys; Wonderful World of Toys;
Robert E. Bouckhout; Dennis W. Vaughn; Megan N. Wall*

Parade of Toys and its principal, Robert E. Bouckhout; Wonderful World of Toys and its officer, Dennis W. Vaughn; and Megan N. Wall settled allegations that they misrepresented their affiliation with well-known companies, their access to thousands of hot, licensed products, and the earnings consumers would make; and that they used phony references or skills to endorse the businesses and to repeat the earnings claims made by the defendants. The order banned Bouckhout from selling business ventures and required him to pay redress in an amount to be determined based upon the resolution of a state court action involving Parade of Toys. The order also banned Vaughn from advertising, promoting, or selling any franchise or business venture and prohibited Wall from making misrepresentations in the sale of franchises or business ventures and from violating the Franchise Rule.

Pinnacle Financial Services (Gary Walton, d/b/a)

Gary Walton, doing business as Pinnacle Financial Services, settled Commission allegations that he allegedly assisted Canadian telemarketers in their fraudulent advance-fee loan scheme directed at U.S. citizens. In addition, the Commission alleged that Walton also advertised that he could obtain loans for consumers regardless of their past credit histories for an up-front fee. The order required Walton to post a \$75,000 performance bond for the protection of future consumers before he markets any credit-related goods or services and prohibited him from making false representations regarding such goods or services in the future.

*Premier Card Services; Angela André; Darryl André;
Anthony Q. Roberts; Bryan D. Smith*

Darryl André, Angela André, Bryan Smith, and Anthony Roberts, operating under a host of assumed names, including Premier Card Services, settled federal and state allegations that they deceptively marketed credit cards for a one-time up-front fee. Specifically, the Commission and the Illinois Attorney General alleged that the defendants promised consumers a major credit card with a high credit line for a \$97.50 “processing fee.” Under the order, the defendants are prohibited from making false representations regarding any sales offer or

credit card offer in the future, and from violating the Telemarketing Sales Rule.

(Raymond Urso)

National Bureau of Better Business, Inc.;

David Bennett

Defendants in a display-rack business opportunity for greeting cards and perfumes settled Commission allegations that they engaged in a host of deceptive practices that violated the FTC Act and the Franchise Rule, including misrepresenting the earnings potential and availability of profitable locations for their racks, using phony references to tout the scheme, and using a sham better business bureau to lend credibility to the enterprise. The orders barred the defendants from misrepresenting business opportunities in the future, from engaging in any business activities with one another, and from using aliases in their business dealings.

Southwest Publishing (Leon Saja, d/b/a); Stealth Publications, Inc.;

Donald L. Ritta

Leon Saja, doing business as Southwest Publishing, settled allegations that he fraudulently solicited donations on behalf of various nonprofit law enforcement, firefighting and veterans' organizations. The Commission allegations against Leon were filed as part of "Operation False Alarm," a joint federal/state sweep targeting badge-related fundraising fraud. Saja also agreed to a \$500,000 judgment, and a requirement that he post a \$100,000 bond if he continues in the charitable fundraising business. The order also included Stealth Publications, a subcontractor retained by Saja to solicit contributions, and Stealth's former president, Donald L. Ritta.

(SureCheK Systems, Inc.)

Steve Lovern

SureCheK Systems, a business that claimed it could obtain unsecured credit cards – even for consumers with past credit problems – for up-front "processing fees" of up to \$129, settled allegations that in almost all cases it failed to provide the cards and, in others, it failed to disclose additional processing and annual fees, in violation of federal law. SureCheK Systems used third-party telemarketers to call consumers, guaranteeing that regardless of their past credit history,

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they could secure Visas or MasterCard with no security deposit. Six telemarketers working for SureCheK also were charged with violating federal law, including the Telemarketing Sales Rule. The order with SureCheK barred false and misleading statements about securing credit cards, required disclosure of material facts relating to the cost or conditions for receiving extensions of credit, barred the defendants from selling their victim list, and required \$11,000 in consumer redress. One of the independent telemarketers, Steve Lovern, also settled the Commission allegations.

TouchNet, Inc.; TouchTone Telecommunications & Advertising, Inc.; Eric Carino; Malissa Carino

The Commission reached a settlement with operators of a company that promoted Internet business opportunities to consumers. The Commission alleged that defendants falsely represented that for a one-time fee of \$3,195, investors could earn \$15,000 a month by becoming “Internet Consultants” as a result of defendants’ training workshop. The order banned the defendants from operating or promoting any business opportunity, franchise, or business venture in the future; prohibited them from making false or misleading claims about the income, profits, or sales a purchaser could realize; and required that they rescind contracts with the consumers who invested in their “business opportunity.”

*(Toys Unlimited International, Inc.)
Robert G. Garrow*

Robert G. Garrow settled allegations that he violated the Franchise Rule. This case was brought under “Operation Trade Name Games,” a project that targeted scam artists who used the allure of selling trademarked products of well-known manufacturers – such as The Walt Disney Company or Warner Bros. – to hook would-be entrepreneurs. The Toys Unlimited defendants operated a display rack business opportunity that featured merchandise of the Disney Company. The settlement with Garrow prohibited him from violating or assisting others to violate the Franchise Rule, and from misrepresenting, or assisting others to misrepresent, material facts in connection with telemarketing or the sale of business ventures or franchises.

The Tracker Corporation of America; I. Bruce Lewis

Tracker and its president, Bruce Lewis, agreed to be permanently barred from engaging in the credit card protection and credit card registration business as part of a resolution of the allegations against them. Tracker sold a credit card protection program to consumers for a fee of \$189, representing that consumers would receive protection of up to \$10,000 for any losses resulting from the unauthorized use of their credit cards. The Commission alleged that Tracker's telemarketers, during their sales pitch, violated the FTC Act and the Telemarketing Sales Rule by making false or misleading statements to induce consumers to purchase Tracker's services. The settlement also prohibited the defendants from making any misrepresentations of fact material to a consumer's purchasing decision.

Travel Bahamas Tours, Inc.; Richard A. Raskin

Travel Bahamas Tours and company president Richard A. Raskin settled allegations that they misrepresented that the travel packages they were selling were sponsored by certain hotels and that they offered a 30-day unconditional refund. According to the Commission, the travel promotion was not sponsored or endorsed by any hotels, and until the Commission brought allegations against the defendants as part of a travel scam project, "Operation Trip-Up," the defendants routinely failed to honor consumers' requests for refunds. The order prohibited Raskin and his company from violating the Telemarketing Sales Rule or the Truth in Lending Act and prohibited any misrepresentations in connection with the sale of any travel-related products or services. Raskin will be required to obtain a performance bond in the amount of \$250,000 before resuming any telemarketing activities relating to the sale of travel or of magazines – a business in which Raskin was previously engaged.

*(World Class Network, Inc.)**World Class Travel, LLC; Jerome L. Goldberg*

Jerome L. Goldberg settled Commission allegations stemming from his involvement with World Class Network, a multi-level marketer of travel agent credentials and a work-at-home travel agency business opportunity, which was charged by the Commission as part of "Operation Trip-Up," a March 1997 crackdown on travel-related fraud. The Commission alleged that the defendants falsely represented

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that their travel tutorial kit would allow purchasers to receive the professional courtesy discounts and upgrades traditionally available to travel agents on their own travel accommodations, and to operate and achieve specified earnings in an at-home travel business. Goldberg is the former owner of World Class Travel, which purportedly provided support and ticketing for World Class Network's distributor/travel agents. The order prohibited the defendants from participating in any pyramid marketing program and from misrepresenting potential earnings, benefits, or other material facts in connection with the sale of a travel agent business opportunity.

CIVIL PENALTY ACTIONS

Title	Number	Action Date	Type of Matter	Product/Service
Bonlar Loan Co., Inc.	X980031	10/97	Equal Credit Opportunity Act, Fair Credit Reporting Act	Consumer loans
Dell Computer Corporation	X980070	4/98	Mail Order Rule	Personal computers
Designer Checks, Inc.	X980078	6/98	Mail or Telephone Order Merchandise Rule	Bank checks and accessories
Ilissa Bridals, Ltd.	X980079	7/98	Care Labeling Rule	Wedding gowns
Mori Lee, Inc.	X980076	7/98	Care Labeling Rule	Wedding gowns
Toys Unlimited International, Inc.; Andrew B. Moss	X970074	8/98	Franchise Rule	Display rack business opportunity
Zoran Ladicorbic, Ltd.	X980072	7/98	Care Labeling Rule, Textile Fiber Product Identification Act, Wool Act	Women's clothing

CIVIL PENALTY ACTIONS *Bonlar Loan Co., Inc.; Larry Metnick*

Bonlar Loan Co., a finance company that makes small loans to low-income consumers who often have poor credit histories, and its president, Larry Metnick, settled Commission allegations that it systematically violated requirements of the Equal Credit Opportunity Act (ECOA) and its implementing Regulation B and the Fair Credit Reporting Act (FCRA) when taking and processing loan applications. Specifically, Bonlar was charged with failing to provide consumers who were denied loans with written notice of adverse action, such as denial, and their right to receive in writing the specific reasons for such action, as required under the ECOA and Regulation B. In addition, Bonlar allegedly failed to inform consumers that a credit report influenced its decision to deny the loan and failed to provide consumers with the name and address of the reporting agency that furnished the credit report, in violation of the FCRA. Bonlar also allegedly violated Regulation B by asking an applicant's marital status in impermissible circumstances and using impermissible terminology. The order, filed by the Department of Justice on behalf of the Commission, prohibited the defendants from violating the ECOA and FCRA in the future and required payment of a \$40,000 civil penalty.

Dell Computer Corporation

Dell Computer settled Commission allegations that it violated the Mail Order Rule when it advertised and sold a Dell Dimension computer system bundled with a package of third-party software (Dell Software Suite) that was not ready to be shipped. The Commission's complaint alleged that Dell violated the Rule by soliciting orders for the software, either by mail or phone, when it had no reasonable basis to expect to be able to ship some or all of the software within the time stated in the solicitation, or if no time was stated, within 30 days of receiving a properly completed order; failing to offer the buyer the option of either to consent to a delay in shipping or to cancel the order and receive a prompt refund; and failing to offer the buyer a prepaid means to exercise those options. The order, filed by the Department of Justice on behalf of the Commission, prohibited Dell from violating the Rule and required the payment of an \$800,000 civil penalty.

Designer Checks, Inc.

Designer Checks agreed to settle allegations that the company violated the Mail or Telephone Order Merchandise Rule, which requires certain disclosures to consumers about mail and telephone orders. According to the Commission, Designer Checks offered bank checks and accessories, such as checkbook covers, pens, and folios, to consumers, but failed to offer consumers an option either to consent to a delay in shipping orders or to cancel the order and receive a refund when the company knew it would not be able to fulfill the consumer's order within the time period advertised. The consent order prohibited the company from violating the Rule in the future and required it to pay a \$48,000 civil penalty.

Ilissa Bridals, Ltd.; Demetrios James Elias

Ilissa Bridals and Demetrios James Elias, an officer of Ilissa, will pay \$20,000 in civil penalties for using care labels provided by a drycleaner, Continental Gown Cleaning Service, Inc., that falsely stated that Continental was the only drycleaner able to clean the gowns manufactured by Ilissa. According to the Commission, Continental's labels and the use of these labels violated the Care Labeling Rule because they failed to provide adequate instructions for drycleaning these garments. The labels failed to state at least one type of solvent

that may be used on the gowns and failed to explain how the normal drycleaning process must be modified for these delicate garments.

Mori Lee, Inc.; Morvin Leibowitz; Arthur Udell; Mitchell Udell

Mori Lee and its officer, Arthur Udell, and individual defendants, Morvin Leibowitz and Mitchell Udell, will pay civil penalties of \$40,000 for using care labels provided by a drycleaner, Continental Gown Cleaning Service, Inc., that falsely stated that Continental was the only drycleaner able to clean the gowns manufactured by Mori Lee. According to the Commission, Continental's labels and the use of these labels violated the Care Labeling Rule because they failed to provide adequate instructions for drycleaning these garments. The labels failed to state at least one type of solvent that may be used on the gowns and failed to explain how the normal drycleaning process must be modified for these delicate garments.

Toys Unlimited International, Inc.; Andrew B. Moss

Toys Unlimited International and its principal settled Commission allegations that they violated the Franchise Rule. The defendants operated a display rack business opportunity that featured merchandise of the Disney Company. The order prohibited defendant Moss from any involvement whatsoever in the marketing and sale of franchise and business opportunity ventures, either directly or assisting others, and required the payment of a \$15,000 civil penalty.

Zoran Ladicorbic, Ltd.

A designer and manufacturer of women's clothing, Zoran Ladicorbic, agreed to pay a \$14,000 civil penalty to settle allegations that it violated the Care Labeling Rule by failing to attach care labels to the garments it sold. In addition, Zoran also allegedly failed to comply with the Textile Act and the Wool Act, which require disclosures about the fiber content and country of origin of garments. The Commission's complaint alleges that Zoran failed to identify the generic name and percentage weight of the fibers in its garments and failed to specify the country where the clothes were manufactured. In addition to the civil penalty, the order barred Zoran from violating the Care Labeling Rule and the Textile and Wool Acts and regulations in the future.

CONSUMER REDRESS ACTIONS

Title ^{1,2}	Number	Action Date	Type of Matter	Product/Service
AmeraPress, Inc.	X980020	4/98	Business opportunity fraud	Business venture - sale of printed items
Andy Watson (G. Andrew Watson); Midwest Management Associates, Inc.	X980035	9/98	Credit Repair Organizations Act	Credit repair
Audiotex Connection, Inc.	X970021	11/97	International telephone connection fraud	Internet service provider
(Business Opportunity Center, Inc.) Market Systems, Ltd. Richard A. Herbert, M.D. Tami Brennan McClure	X950048 X950048 X950048	1/98 1/98 1/98	Franchise Rule	Herbal "alcohol neutralizer"
The Century Corporation	X970044	4/98	Billing fraud	Advertisements in charitable publications
(Coastal Gaming, Inc.) Peter Aro Jason McDuffie	X970079 X970079	7/98 7/98	Telemarketing Sales Rule	Casino gambling ship investments
Compass Northeast Credit Service (Nathaniel Harrell, d/b/a)	X980032	6/98	Credit Repair Organizations Act	Credit repair
The Concept Network (National Idea Network, Inc., d/b/a)	X970064	11/97	Investment fraud	Invention promotion services
CRA Champion Credit, Inc.; Avshalom Hazon	X980066	5/98	Credit Repair Organizations Act	Credit repair
Credit Repair Network Allied Credit Services; Phillips Hall, Inc. New England Financial Second Federal Credit, Inc.	X980040 X980042 X980054 X980041	7/98 7/98 7/98 7/98	Credit Repair Organizations Act	Credit repair
Credit Services (John Mancini, d/b/a) Quaite & Associates (Donald Quaite, d/b/a)	X980034 X980033	8/98 8/98	Credit Repair Organizations Act	Credit repair
(Dayton Family Productions, Inc.) Fred Davidson; Richard S. Hart John Rubbico	X970058 X970058	2/98 11/97	Telemarketing fraud	Film investments
Deco Consulting Services, Inc.	X970002	12/97	Scholarship fraud	Scholarship search services

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Consumer Redress Actions

Title^{1,2}	Number	Action Date	Type of Matter	Product/Service
Design Travel (Roger S. Dolgin, d/b/a)	X970032	8/98	Telemarketing Sales Rule	Travel packages
Direct American Marketers, Inc.	X980023	10/97	Direct mail fraud	Prize promotion
DWC (Dixie W. Cooley, d/b/a)	X980053	8/98	Credit Repair Organizations Act	Credit repair
Dynasty International, Inc. Orion & Associates, Inc.	X980027 X980028	3/98 1/98	Telemarketing Sales Rule	Advance-fee credit cards
(Equifin International, Inc.) F. Jerald Hildreth	X970062	12/97	Telemarketing fraud	Stamps, philatelic investments
Eureka Solutions International, Inc.	X970087	4/98	Investment fraud	Invention promotion services
(Falcon Crest Communications, Inc.) Nicholas DeRico	X960016	10/97	Investment fraud	Mobile radio and paging licensing services
FutureNet, Inc.	X980022	4/98	Investment pyramid scheme	Internet service business opportunity
(Global E) Interstate, Inc.	X960075	12/97	Telemarketing Sales Rule	Advance-fee loan
GreenHorse Communications, Inc.	X980058	4/98	Franchise Rule	Internet business opportunity
Inetintl.Com, Inc. (Inet International) Erik R. Arnesen Craig A. Lawson	X980055 X980055 X980055	9/98 8/98 9/98	Franchise Rule	Internet service business opportunity
International Direct, Inc.	X970040	8/98	Mail or Telephone Order Merchandise Rule	Flier inserts for mail order shopping
JewelWay International, Inc.	X970054	12/97	Pyramid scheme	Multi-level marketing
Licensed Products, U.S.A., Inc.	X970069	1/98	Franchise Rule	Carousel display rack business ventures
Mag-Topia, Inc. Robert Florida	X970057 X970057	12/97 10/97	Telemarketing Sales Rule	Magazine sales and prize promotions
(Mega Systems International, Inc.) Kevin Trudeau Kenneth Wright	X980014 X980013	1/98 1/98	False and unsubstantiated advertising	Self-help and health-related products

Title ^{1,2}	Number	Action Date	Type of Matter	Product/Service
Metro Data, Inc. Dennis R. Bell Marilyn N. Koblasz	X960112 X960112 X960112	12/97 12/97 12/97	Job placement fraud	Employment services
(Metropolitan Communications Corporation) Michael Flaherty Sheldon Weaver	X940024 X940024	11/97 11/97	Investment fraud	Specialized mobile radio licenses
(Multinet Marketing, LLC) Clarence J. Servaes, Jack M. Servaes	X960081	10/97	Telemarketing Sales Rule	Magazine subscription prize promotion
National Consulting Group, Inc.	X980010	5/98	Franchise Rule	Medical billing business opportunity
National Grant Foundation, Inc.	X980002	9/98	Scholarship fraud	Scholarship search service
National Invention Services, Inc.	X970063	7/98	Investment fraud	Invention promotion services
(National PC Systems, Inc.) AKOA, Inc.; Jeffrey L. Rayden Edward E. Rayden Larry D. Wayne	X970081 X970081 X970081	3/98 11/97 3/98	Direct mail fraud	Computer repair service contracts
National Scholarship Foundation, Inc.	X980003	9/98	Scholarship fraud	Scholarship search service
North East Telecommunications, Ltd. Daniel Coutinho; Michael A. Saffer	X960082 X960082	1/98 5/98	Investment fraud	Mobile radio and paging license services
Raymond Urso; Bridgeport & Associates, Inc. Scott Gunn Bernard Koenig; Marcia Koenig; Maria K. Associates Susan Perkins Jeffrey Shoobs	X970068 X970068 X970068 X970068 X970068	3/98 3/98 3/98 3/98 3/98	Franchise Rule	Display rack business opportunity
Southwest Marketing Concepts, Inc. ³	X970037	5/98	Telemarketing fraud	Professional fundraising
Southwest Publishing	X970042	7/98	Telemarketing fraud	Charitable badge-related fundraising
(SureCheK Systems, Inc.) Douglas S. Derickson	X970082	6/98	Telemarketing Sales Rule	Advance-fee credit cards

Title ^{1,2}	Number	Action Date	Type of Matter	Product/Service
Tippecanoe Mining, Inc.	X970052	1/98	Telemarketing fraud	Gold and silver mining investments
Trans-Asian Communications, Inc.	X970076	3/98	Prepaid phone card fraud	Prepaid telephone cards

¹A company name shown in parentheses is for identification of the case only.

²Redress or disgorgement funds were also obtained from the following:

Beylen Telecom, Inc. (see page 60)

Roger Callahan, M.D. (see page 64)

Anthony Consalvo (National Grant Foundation) (see page 85)

Jeffrey Salberg (see page 64)

³Disgorgement.

**CONSUMER REDRESS
ACTIONS**

*AmeraPress, Inc.; The Home Business Group, Inc.; Vendworx, Inc.;
Voxcom Sales, LLC*

AmeraPress, Voxcom Sales, Home Business Group, and Vendworx agreed to pay \$500,000 in consumer redress to settle allegations their seminar business practices violated the FTC Act. The Commission alleged that the defendants induced purchasers to invest substantial amounts of money by representing at seminars and in follow-up telephone calls that their business ventures, involving the sale of prepaid calendars, business cards, trading cards, and similar items, would earn investors from \$20,000 to \$200,000 annually. As a result, individual consumers spent from \$1,800 to \$10,000 on defendants' products and materials. The Commission charged that, in numerous instances, the consumers did not achieve the level of earnings promised by the defendants. In addition to the consumer redress, the order prohibited future violations of the FTC Act.

*Andy Watson (G. Andrew Watson);
Midwest Management Associates, Inc.*

Midwest Management and its principal, G. Andrew Watson, settled allegations that they had violated the FTC Act and the Credit Repair Organizations Act (CROA) by making deceptive claims about their ability to improve consumers' credit records by removing negative information from their credit reports even when the information was accurate and not obsolete, and by charging advance fees for these services. The order prohibited future misrepresentations with regard

to credit repair services, and required them to cease collection from consumers on all credit repair contracts with outstanding balances and to notify those customers that their contracts are rescinded and that no further payments are due. The defendants also were prohibited from violating any provisions of the CROA in the future. Watson also was required to pay \$25,000 in consumer redress.

*Audiotex Connection, Inc.; Internet Girls, Inc.; PromoLine, Inc.;
David Zeng*

Audiotex Connection, affiliated companies Promo Line and Internet Girls, and founder David Zeng agreed to pay long-distance telephone companies over \$2.74 million to be used for telephone bill credits for 38,000 consumers to settle allegations that they were running a high-tech Internet scam. The Commission alleged that the defendants used a purported “viewer” software program to disconnect consumers from their local Internet service providers and reconnect them to costly international numbers assigned to the country of Moldova. Once consumers downloaded and activated this software, it automatically disconnected their modems from their local Internet service providers, turned off the speakers on the modems, and silently dialed international telephone numbers to reconnect consumers to the Internet through an expensive long-distance telephone call. The order prohibited the practices alleged in the complaint, and required the defendants to redress consumer victims by paying funds to AT&T and MCI, which will issue credits to their customers who were billed for the calls, and to the Commission, which will issue refunds to customers of other long-distance carriers who were billed for the calls.

*(Business Opportunity Center, Inc.)
Market Systems, Ltd.; Natural Health Systems, Inc.;
Richard A. Herbert, M.D.; Tami Brennan McClure*

Operators of a bogus business opportunity scheme that marketed franchises to sell herbal capsules they claimed could neutralize or detoxify the effects of alcohol settled Commission allegations that their claims were deceptive and misleading and their business practices violated the Franchise Rule. The defendants will pay approximately \$64,000 to settle the Commission allegations. In addition, the order barred the defendants permanently from selling any alcohol reducing agent, misrepresenting any product or service, offering or

selling any business venture, selling their customer lists, and violating the Rule.

The Century Corporation; Clifford Belvin; Richard A. Haffenden

The Century Corporation and two of its officers settled allegations that they convinced small businesses to pay for “advertising” in their publications by falsely claiming that their booklets enjoyed widespread distribution in the businesses’ local communities. The Commission alleged that the defendants misrepresented that businesses had previously authorized advertising for which they were obligated to pay, and that businesses had ordered the advertisements billed to them and must pay the invoices or face collection action. In most cases, according to the Commission, the publications for which the advertisements were solicited were never distributed in the business’s community as claimed. The order prohibited defendants from making any misrepresentation of material fact in connection with the sale, offering for sale or distribution, or marketing or sponsorship of any advertisement, publication, or product, and they must first obtain a \$500,000 performance bond before participating in such activities in the future. The order also prohibited the defendants from disclosing their customer lists, and held individual defendants Haffenden and Belvin jointly and severally liable for \$55,000 in consumer redress.

(Coastal Gaming, Inc.)

Shoreline Gaming, Inc.; South Florida Gaming, Inc.; Peter Aro; Jason McDuffie; James C. O. Slaton

Peter Aro and Jason McDuffie, principals of Coastal Gaming, settled Commission allegations that they misrepresented to potential investors that the investments they were offering in casino gambling ships would yield high returns, that celebrities were in line to promote the investment opportunities, and that there was a \$1 million escrow account in place to guarantee the investment. The orders prohibited the defendants from making false representations in connection with investments in casino gambling ships or any other investment opportunity generally. In addition, Aro was required to first obtain a \$500,000 performance bond before engaging in any future telemarketing activity. The orders also imposed a monetary judgment in the amount of \$5,000,000 on each of the defendants.

*Compass Northeast Credit Service (Nathaniel Harrell, Jr., d/b/a);
Valerie Harrell*

A final order was entered against Compass Northeast Credit, Nathaniel Harrell, Jr., and Valerie Harrell when the defendants failed to reply to the Commission's complaint allegations that they operated deceptive credit repair schemes by falsely promising consumers that they could restore their creditworthiness for an advance fee, in violation of the Credit Repair Organization Act (CROA), and by misrepresenting the credit repair services that would be performed. The order prohibited the defendants from representing that anyone can improve consumer credit reports by removing truthful negative information, making any misrepresentation about their ability to improve any particular consumer's credit report, and making any material misrepresentation about any product or service they sell. The order also prohibited the defendants from accepting money in advance of performing credit repair services and required them to otherwise comply with the CROA. The orders further required them to notify any credit bureau to which they have made a negative report about any of their customers that the negative item should be removed and to notify any customers who may still owe money for credit repair services that they are no longer obligated to pay. The defendants were also required to pay a \$235,609.50 judgment.

*The Concept Network (National Idea Network, Inc., d/b/a);
Wayne R. Obitz; Harry E. Scharf, III; Robert J. Zarko*

Harry Scharf, CEO, and Wayne Obitz, Executive VP, of National Idea Network, doing business as the Concept Network, agreed to pay \$40,000 each as part of a settlement of Commission allegations. The Commission had alleged that Scharf and Obitz, through National Idea Network, offered to sell invention promotion services while promising consumers who paid up to \$12,000 each a reasonable likelihood of financial gain. The Commission alleged, however, that only a handful of the firm's hundreds of clients actually obtained a licensing agreement and only a few made any appreciable amount of money. In addition to the \$80,000 in consumer restitution, the order prohibited the challenged conduct, required the defendants in the future to disclose in writing to potential clients their client success rate over the past five years, prohibited any contact with the potential client until three days after providing the written disclosure, and required the defendants to give potential clients seven days to cancel any agreement

they have signed. National Idea Network executive Robert J. Zarko also signed the order.

CRA Champion Credit, Inc.; CRA Financial Services, Inc.; Avshalom Hazan; Joel Younker

CRA Champion Credit, CRA Financial Services, and the companies' two principals, Avshalom Hazan and Joel Younker, settled allegations that they misrepresented the credit repair services they offered by falsely promising to remove accurate negative information from consumers' credit reports. The defendants also were charged with violating the Credit Repair Organization Act by seeking advance payment for credit repair services and misrepresenting the credit repair services that they would perform. The order with CRA Champion, CRA Financial, and Avshalom Hazan permanently prohibited them from advertising, marketing, selling, or otherwise offering credit repair services. A separate order with Joel Younker prohibited him from misrepresenting any material fact in connection credit repair services and required a \$50,000 performance bond before he again enters the credit repair business. The order also required the defendants to refund approximately \$7,900 to consumers and rescind any 1997 contracts that still had any unpaid balances.

Credit Repair Network; Allied Credit Services and Phillips Hall, Inc.; New England Financial; Second Federal Credit, Inc.; Raymond J. Caluori; Frank DeMaio; Henry J. Frattaroli, Jr.; Howard Hall

Four corporate defendants and four individuals settled allegations that they were violating the FTC Act and the Credit Repair Organizations Act by making deceptive claims about their ability to improve consumers' credit records by removing negative information from consumers' credit reports even when the information was accurate and not obsolete, and by charging advance fees for these services. The orders prohibited future misrepresentations with regard to credit repair services and required the defendants, among other things, to cease collection on all credit repair contracts with outstanding balances and to notify those customers that their contracts are rescinded and that no further payments were due. Each of the four defendant companies will pay the following consumer redress: Credit Repair Network, \$16,000; New England Financial, \$5,000; Phillips Hall, \$1,500; and Second Federal Credit, \$1,000.

*Credit Services (John Mancini, d/b/a);
Quaite & Associates/The Credit Solver (Donald Quaite, d/b/a)*

Two credit repair companies and their principals settled Commission allegations that they violated the FTC Act and the Credit Repair Organizations Act by making deceptive claims about their ability to improve consumers' credit records by removing negative information from consumers' credit reports even when the information was accurate and not obsolete, and by charging advance fees for these services. In addition to prohibiting future misrepresentations with regard to credit repair services, the orders with defendants required them to cease collection from consumers on all credit repair contracts with outstanding balances and to notify those customers that their contracts are rescinded and that no further payments were due. Also, Donald Quaite agreed to pay \$10,000, and John Mancini agreed to pay \$18,000 in consumer redress. In addition, Mancini agreed to return approximately \$36,000 in uncashed, postdated checks to consumers.

Dayton Family Productions, Inc.;
Fred Davidson; Richard S. Hart; John Rubbico

The Court entered a default judgment against John Rubbico as a result of a Commission complaint charging Rubbico and other defendants with making numerous misrepresentations when soliciting consumers to invest in films produced by filmmaker Lyman Dayton. (Lyman Dayton was not named as a defendant in the Commission's complaint.) The defendants allegedly claimed that Mr. Dayton's prior films had generated 5-to-1 returns for investors, and that Mr. Dayton and his films had won certain awards, including a Cannes Film Festival award. The Commission also alleged that the defendants sold substantially more units in their film investment partnerships than they claimed they would sell. Rubbico failed to file an answer to the Commission's complaint. The order permanently banned Rubbico from engaging in, or assisting others, in telemarketing activities. In addition to the permanent ban, the settlement prohibits Rubbico from misrepresenting the risk and profitability of investments in films or other investments or products.

*Deco Consulting Services, Inc.; Unimark Industries, Inc.;
Dania Denis; Jesse Nieves*

Deco Consulting Services, Unimark Industries, Dania Denis, and Jesse Nieves settled allegations that, from 1990 until October 1996, they conducted a fraudulent program to telemarket college scholarship services to high school and college students and their parents throughout the United States. According to the Commission, in addition to misrepresenting that students would receive a specified amount in scholarships or grants, Denis and Nieves falsely represented that they would refund the service fee to those who did not obtain scholarships or grants by using their services. In addition to permanently barring Nieves from engaging in any telemarketing, the order permanently barred Nieves and Denis from the promotion, advertising, marketing, sale, or offering for sale of scholarship search services. The order also included a \$100,000 judgment against the defendants that would be used to pay court-approved fees and any possible consumer redress.

Design Travel (Roger S. Dolgin , d/b/a); Design Travel of Santa Rosa

Roger S. Dolgin, a telemarketer who promised “resort accommodations” and “luxury cruises,” but delivered third-rate hotels and ferry boat rides, settled Commission allegations that he deceptively marketed travel services in violation of federal law. The order barred Dolgin, doing business as Design Travel, from any telemarketing in the future. In addition, it barred him from marketing any travel packages or services; banned any processing of credit card charges, debit card charges, or checks that have not been signed personally by the owner; and prohibited misrepresentations of material fact in connection with the sale of any products or services. Dolgin also will pay \$125,000 in consumer redress.

Direct American Marketers, Inc.; Anthony C. Brown

Direct American Marketers (DAMI) settled allegations that it falsely represented that it was a sweepstakes judging or payout operation. DAMI sent mail to consumers using more than 200 different company names, such as “Awards Claim Center,” “Consumer Cash Claims,” and “Prize Transfer Sweepstakes,” and directed consumers to call a 900 number to redeem their prize or cash award. The Commission alleged that what consumers got for making the call was a \$25 phone bill and the chance to enter a sweepstakes in which the

odds of winning the grand prize were about 1 in 5 million. The order barred DAMI and its president, Anthony C. Brown, from engaging in any prize promotions that involve pay-per-call services in the future. In addition, they will pay \$500,000 for consumer redress.

DWC (Dixie W. Cooley, d/b/a)

Dixie W. Cooley, individually and doing business as DWC, was charged with using unsolicited e-mail (commonly known as “spamming”) to operate a credit repair scam. According to the complaint, Cooley’s “spam” solicitations promoted a file segregation scheme that claimed that consumers who responded to her e-mail and purchased her “product” (at a cost of \$19.95 to \$79.00) would learn how to create a new credit identity by obtaining a new social security number. The order entered by the court against Dixie W. Cooley prohibited her from misrepresenting that file segregation is legal and any other fact material to a consumer’s decision to purchase any goods or services, and required her to pay \$15,451.75 for consumer redress.

*Dynasty International, Inc.; Orion & Associates, Inc.;
Christopher W. Anderson; Paul J. Melech, Jr.*

Defendants Dynasty, its principal Christopher Anderson, Orion, and Paul J. Melech, Jr., each working as a third-party telemarketer for SureCheK Systems, Inc. (doing business as Consumer Credit Corp. (CCC)), a company that the Commission brought an action against in July 1997, settled Commission allegations that they falsely represented that consumers would receive a credit card in exchange for a payment of a fee. CCC used various telemarketers, including Dynasty and Orion, to solicit business under CCC’s name and offered consumers a major unsecured credit card in return for an advance one-time processing fee ranging from \$79.95 to \$130.00. The defendants targeted consumers with credit problems, and told them that they were being offered or preapproved for a Visa or MasterCard, with absolutely no security deposit, and regardless of their past credit history. The fees were withdrawn from consumers’ bank accounts and deposited into CCC’s account, sometimes without the consumers’ authorization. After paying the fee, the majority of the consumers never received the credit cards. The orders prohibited the defendants from misrepresenting that they will provide consumers with credit cards or arrange for such cards, that consumers’ credit applications have been approved, and that consumers will receive credit cards

regardless of their creditworthiness. In addition, the order with the defendants in the Orion case required them to pay \$9,000 in consumer redress, and the order with the Dynasty defendants required them to pay \$22,000 in consumer redress.

*Equifin International, Inc.; Financial Frontiers, Inc.;
F. Jerald Hildreth*

F. Jerald Hildreth and his telemarketing companies, Equifin International and Financial Frontiers, settled Commission allegations that they misrepresented that the U.S. “error” postage stamps and other related philatelic items they marketed and sold were safe, easily liquidated investments likely to provide consumers with substantial rates of return. In truth, the Commission alleged, the defendants sold stamps at up to 10,000 percent of legitimate market price, making it virtually impossible for consumers ever to recoup their investments or to liquidate their holdings at anywhere near the prices they paid. The order required Hildreth to post a \$300,000 bond for the protection of future investors before he engages in the sale of stamps or any other investment opportunities. The order also required Hildreth to pay \$50,000 in satisfaction of a monetary judgment of \$3,761,872 and contained provisions halting the challenged conduct.

*Eureka Solutions International, Inc.; OEM Communications, Inc.;
Gregory S. Bender*

Eureka Solutions, OEM Communications, and company president Gregory Bender settled Commission allegations that they misrepresented the likelihood of financial gain to consumers who purchased their invention promotion services. The Commission alleged that few, if any, of the defendants’ clients realized any appreciable amount of money from their inventions. The order prohibited the defendants from making false statements about, or omitting, any material aspect of their invention-promotion or related services and specifically prohibited misrepresentations about the likelihood that clients will realize financial gain or that the defendants have successfully marketed clients’ invention ideas. In addition, Gregory Bender will turn over approximately \$25,000 to the Commission for consumer redress.

(Falcon Crest Communications, Inc.)

Nicholas DeRico

Nicholas DeRico, a sales representative of Falcon Crest Communications, settled allegations that he sold bogus brokerage services to consumers who owned federal telecommunications licenses. The defendants touted themselves as experienced license brokers with an excellent track record of selling or leasing FCC licenses. The defendants delivered few if any offers to buy or lease the licenses, according to the Commission complaint. The Commission alleged that their scheme was deceptive and violated federal law. The order required DeRico to pay \$441,781.95 in monetary redress and required him to obtain a bond of \$450,000 before engaging in telemarketing activities.

FutureNet, Inc.; FutureNet Online; Chris Lobato; Alan J. Setlin

Chris Lobato and Alan J. Setlin, two former officers of FutureNet, an alleged pyramid scheme, settled Commission allegations that their scheme violated federal law. The Commission alleged that FutureNet claimed that its recruits could earn substantial income for the rest of their lives by joining a multi-level marketing program selling Internet access devices. The Commission alleged that the bulk of the income from the FutureNet marketing plan did not depend on sales of the Internet devices they were purportedly selling, but rather almost entirely on the recruitment of new distributors – the typical profile of an illegal pyramid. Since 90 percent of investors in any pyramid program actually lose money, the defendants' earnings claims were false and violated federal law. The order barred the defendants from engaging in pyramids in the future, barred them from doing business with the other principals involved in FutureNet, and required that they post a \$1 million bond before engaging in any multi-level marketing plans in the future. Based on financial disclosures filed by the defendants, no consumer redress was ordered. However, should those financial disclosure statements be found to be false, the defendants would be liable for \$21 million in consumer redress.

(Global E)

Interstate, Inc.; Adelino Calvo, Jr.; Alice R. Silvers;

Robert R. Silvers; Tod A. Silvers

Tod Silvers, owner of Interstate Inc., Alice Silvers, and Robert Silvers agreed to pay \$374,000 in settlement of charges that they ran

a deceptive advance-fee loan scheme business. The defendants allegedly promised consumers that for about \$19 in processing fees, they could provide them with unsecured credit cards regardless of their creditworthiness. In fact, the Commission alleged, the defendants only delivered a list of banks that issue credit cards and general credit information. The order prohibited all defendants from making false representations regarding such services in the future; barred them from violating the Telemarketing Sales Rule, which among other provisions makes it illegal for any telemarketer who guarantees consumers a loan or other credit to ask for money in advance; and prohibited them from using or providing others with any financial, credit-related, or personal information about consumers that they obtained.

GreenHorse Communications, Inc.; Lynn Haberstroh

GreenHorse Communications and its president, Lynn Haberstroh, settled allegations that they violated the Franchise Rule by promising fabulous earnings for investors in an Internet Web site development business. GreenHorse ran advertisements claiming that by working only part-time, investors in the Internet Web site development business could expect to earn as much as \$134,992 within their first year in business. The company sold franchises for \$14,000 to \$15,000. The order barred future violations of the Franchise Rule and required the defendants to offer refunds and contract cancellation to any investor in the business opportunity. Finally, the order barred them from selling, renting, or transferring their customer lists or information about their customers.

*Inetintl.Com, Inc. (Inet International);
Erik R. Arnesen; Craig A. Lawson*

A federal district judge issued a preliminary injunction, appointed a permanent receiver and froze the assets of a company and three individuals that lured investors into paying as much as \$10,000 to buy a business franchise that promised a fabulous return on their investment, but delivered little or nothing. The Commission's complaint alleged that Inet International, its principal, and managers claimed investors could earn \$100,000 in their first year marketing Internet

access and Internet-related goods and services, but that most investors earned little or no income. The Court ordered the payment of a total of \$1,756,676 for consumer redress. The default judgement against Craig A. Lawson barred him for life from engaging directly or indirectly in the sale or offering for sale of any business venture, franchise, or investment opportunity. Erik R. Arneson, Inet's president, agreed to an order that required him to post a performance bond in the amount of \$250,000 before engaging in the advertising, promotion, marketing, offering for sale, sale or distribution of franchises, business ventures, or investment opportunities.

International Direct, Inc.; American Security Products, Inc.;
Daniel T. Connolly; Debra A. Levine Connolly

International Direct, American Security Products, and their officers, Daniel T. Connolly and Debra A. Connolly, settled Commission allegations that they violated the Mail or Telephone Order Merchandise Rule and the FTC Act by failing to deliver mail order goods in a timely manner, issue refunds, or provide notification of delays to consumers. The order prohibited the defendants from future violations of the Rule, permanently barred Debra Connolly from engaging in the mail order business, and prohibited Daniel Connolly from violating the Mail Order Rule and from occupying a position of authority in a mail order business. All of the defendants agreed to a suspended judgment in the amount of \$7 million – which would become payable if it is determined that they misrepresented their financial disclosure information.

JewelWay International, Inc.;
Bruce A. Caruth; Angela D. Charette; Robert J. Charette, Jr.;
Beverly Stewart; Greg G. Stewart; Donilyn A. Walden

JewelWay International, and its corporate officers, Bruce Caruth, Robert Charette, Jr., Donilyn Walden, Greg Stewart, Angela Charette, and Beverly Stewart, settled Commission allegations that they made deceptive earnings claims and promised lucrative earnings and other benefits to induce almost 200,000 consumers to invest more than \$1000 per person in an illegal multi-level marketing plan, or pyramid scheme. The order prohibited the challenged conduct, and required Caruth, Robert and Angela Charette, and Walden to pay \$5 million in redress to the approximately 150,000 representatives who invested in JewelWay's program but earned no money.

Licensed Products, U.S.A., Inc.;
Equipment Wholesalers of America, Inc.;
American Marketing Systems, Inc.; Sports Centers of America, Inc.

The defendants in the Licensed Products case were charged with violating the Commission's Franchise Rule. This case was brought as one of the 18 enforcement actions initiated under "Operation Trade Name Games," a cooperative law enforcement effort between the Commission and several state Attorneys General. Operation Trade Name Games targeted scam artists who used the allure of selling trademarked products of well-known manufacturers – such as The Walt Disney Company, Warner Bros., The Coca-Cola Company, Pepsi-Cola Company – to hook would-be entrepreneurs. A default order was issued against the four corporate defendants that placed them into permanent receivership, included strong conduct prohibitions, and contained a judgment in the amount of \$5,749,832.

Mag-Topia, Inc.; Robert Flarida

Robert Flarida, the owner of Mag-Topia, a telemarketing company, settled Commission allegations that his fraudulent practices violated federal laws. The Commission alleged that the company misrepresented to consumers that they had won valuable prizes worth more than the amount consumers were required to pay to "participate" in the promotion, failed to disclose the odds of receiving a particular prize, and failed to disclose that no purchase is necessary to win a prize, in violation of the FTC Act and the Telemarketing Sales Rule. Flarida agreed to an order that banned him from magazine sales and prize promotions for life and barred him from selling or giving away his "customer" lists to anyone, including other telemarketers. It also barred any misrepresentations in the sale of any goods or services and barred violations of the Telemarketing Sales Rule. In addition, Flarida will pay consumer restitution in the amount of \$22,850. A default judgement was issued against the corporate defendant that permanently banned it from engaging in any prize promotion or telemarketing and required payment of \$926,714.56.

(Mega Systems International, Inc.)
Kevin Trudeau; Kenneth Wright

Three marketers of self-help and health-related products promoted in radio and television infomercials settled Commission allegations

that advertisement claims for their products were false or unsubstantiated. Kevin Trudeau developed and hosted radio and TV infomercials for a range of products in conjunction with two infomercial production companies, Mega Systems and Tru-Vantage. The Commission alleged that many of the claims made for the products sold through these infomercials were false or unsubstantiated. The defendants will pay a total of \$1.1 million to settle the allegations, and one defendant, Kevin Trudeau, will be required to establish a \$500,000 escrow account, which will be used to repay consumers should he commit similar law violations in the future.

Metro Data, Inc.; Dennis R. Bell; Marilyn N. Koblasz

Two officers of Metro Data settled Commission allegations that their employment services company engaged in fraudulent activities in charging consumers up-front fees in return for “special access” to specific job openings, but typically provided little, if anything, of value. Specifically, Metro Data falsely represented that it had arrangements with employers nationwide to “pre-screen” or “pre-qualify” candidates to fill job vacancies, and charged consumers \$495 for these services. The orders permanently barred Bell and Koblasz from offering any job placement services and from engaging in any telemarketing business, or from assisting others engaged in telemarketing or job placement. The order with Bell included a \$77,424.27 money judgment that will be suspended based on his financial disclosure document. The order with Koblasz required an \$864.43 restitution payment.

(Metropolitan Communications Corporation)

Michael Flaherty; Sheldon Weaver

Michael Flaherty and Sheldon Weaver settled Commission allegations that their scheme to market and sell FCC Specialized Mobile Radio licenses as “low-risk, high-return” investments through telemarketing and program-length infomercials was fraudulent. The Commission alleged that defendants charged consumers \$7,000 each for license application preparation services based on false promises about the high earnings and low risk of the initial investment. Investors could have applied directly to the government without the “application preparation services” for about \$200. One order required Jackler to pay \$1.6 million to victims of the scams, permanently barred him from selling application preparation services for licenses or permits issued

by any U.S. Government agency or any investment which involves such licenses, prohibited misrepresentations about FCC licenses and investments generally, and required a bond for any future telemarketing. Orth will be permanently barred from telemarketing investments, prohibited from misrepresenting FCC licenses and other investments generally, and required to pay \$20,000 for consumer redress.

*(Multinet Marketing, LLC)
American Family Sweepstakes, LLC; World Class Vacations, Inc.;
Clarence J. Servaes; Jack M. Servaes*

Multinet Marketing, its related companies, and their principals, Clarence Servaes and Jack Servaes, settled allegations that they fraudulently offered purportedly valuable prizes to consumers to induce the purchase of products such as a vacation or a diamond and sapphire bracelet, charging the consumers' credit cards for \$300 to \$600. In fact, defendants misrepresented the value of the prizes or failed to disclose additional costs and conditions attached to the prizes. The order required Clarence and Jack Servaes to pay more than \$50,000 in consumer redress and post a performance bond in the amount of \$500,000 before engaging in any telemarketing activities in the future. In addition, the defendants were prohibited from violating the Telemarketing Sales Rule and from misrepresenting the value of any prize offered in a promotion; the need for consumers to purchase goods or services to participate in a prize promotion; and the nature, quality, or value of any goods or services offered in connection with a prize promotion.

National Consulting Group, Inc.; Brian G. Fisher

National Consulting Group (NCG) and its principal, Brian Fischer, settled Commission allegations that its earnings claims for its \$7,995 home-based medical "billing center" business opportunity were false, and that it failed to give investors disclosure documents required by federal law. The order required NCG and Brian Fischer to pay approximately \$100,000 in consumer redress and barred them from misrepresenting income, profits, or sales of any franchise or business venture, from violating the Franchise Rule, and from aiding anyone else in violating that Rule.

National Grant Foundation, Inc.; Grant Research & Publishing, Inc.; Dennis J. Colonna; Wallace Millman

National Grant Foundation, Grant Research & Publishing, and two individual defendants settled allegations that they misrepresented the likelihood of obtaining scholarships and grants through the use of his service. The order permanently banned the defendants from selling college scholarship services in any manner and from telemarketing or assisting others in telemarketing in the future. In addition, the defendants were prohibited from withdrawing money from a consumer's bank account or billing charges to a consumer's credit card without obtaining either written or oral authorization that is tape recorded and available for verification. Furthermore, the defendants were prohibited from selling, renting, leasing, transferring, or otherwise disclosing any customer lists, or any other identifiable information about previous customers. The defendants were also required to pay \$585,000 in consumer redress.

National Invention Services, Inc.; John F. Lee

National Invention Services, Inc. (NISI), and its president and CEO, John F. Lee, settled Commission allegations that they misrepresented the likelihood of financial gain to consumers who purchased their invention promotion services. The order required the defendants to pay approximately \$745,000 in consumer redress. In addition to prohibiting the challenged conduct, the order also required the defendants to disclose, in writing, their success rate to prospective clients and to obtain and retain a signed copy of the court-ordered disclosure statement from each new customer, as well as from each current customer solicited by NISI for any further services.

(National PC Systems, Inc.)

AKOA, Inc.; Eastway International, Inc.; Rayco, Inc.; Edward E. Rayden; Jeffrey L. Rayden; Larry D. Wayne

Edward Rayden, Jeffrey Rayden, and Larry Wayne, principals in National PC Systems, settled Commission allegations that they operated a computer repair services contract scam. The order prohibited them from making any false or misleading representations when selling goods and services to consumers over the phone or by mail. In addition, Jeffrey Rayden was required to pay \$40,000 in consumer redress and was banned from participating in the sale of service

contracts where such sales account for more than 10 percent of the revenues generated. The order with Wayne required him to obtain a \$100,000 performance bond before participating in the service contract business in the future.

National Scholarship Foundation, Inc.;
National Business Reporting Bureau, Inc.;
Dorothy Beam; Sandra K. Brown; Calvin Morse; Eleanor Morse;
James P. McKenna; Timothy Quinn

National Scholarship Foundation (NSF) and its officers settled Commission allegations that they fraudulently promoted generally worthless scholarship services and business information reporting services across the country. More specifically, the Commission alleged that NSF did not fulfill its promise to find sources for its customers that would likely lead them to college scholarships worth a minimum of \$1,000. In addition, according to the Commission, NSF rarely honored its refund guarantee. The order banned them from providing scholarship services and business information reporting services. The order also required the defendants to pay \$50,000 in monetary redress. In addition to the bans, the order barred defendants from engaging in telemarketing credit services and from assisting others in telemarketing credit services unless they first obtain a \$100,000 performance bond.

North East Telecommunications, Ltd.; Strategies Telecom, Inc.;
Tannen Advertising, Inc.; Daniel L. Coutinho; Mark Goldstein;
Dilraj Mathauda; Michael A. Saffer; Anthony Vandeputte

The defendants settled allegations that they falsely represented that consumers were likely to earn substantial profit through leasing, transferring, or selling FCC paging licenses, that such investments were relatively low risk or excellent investment opportunities, and that investors would derive income or profit from their FCC licenses without having to construct a paging system themselves. The order permanently enjoined Michael Saffer and other defendants from engaging in the challenged practices. The order also permanently barred Saffer from engaging in telemarketing investment opportunities and from assisting others in telemarketing unless he first obtains a \$2,800,000 performance bond. The other defendants must obtain \$100,000 performance bonds. In addition, the orders against Saffer and the other defendants included a \$2.8 million redress judgment.

Raymond Urso; Bridgeport & Associates, Inc.; Maria K. Associates, Inc.; Prestige Advertising, Inc.; Scott Gunn; Bernard Koenig; Marcia Koenig; Susan Perkins; Jeffrey Shoobs

Defendants in a display-rack business opportunity for greeting cards and perfumes agreed to settle Commission allegations that they misrepresented the earnings potential and availability of profitable locations for their racks, used phony references to tout the scheme, and used a sham better business bureau to lend credibility to the enterprise. Scott Gunn was barred from telemarketing for life; Raymond Urso was required to post a \$2 million bond before engaging in telemarketing; and Bernard and Marcia Koenig and Scott Gunn were prohibited from selling business opportunities. The orders barred all individual defendants from misrepresenting business opportunities in the future and from engaging in any business activities with one another. The orders also required payment of a total of \$61,218 by the six individual defendants.

Southwest Marketing Concepts, Inc.; Stephen T. Inmon

Southwest Marketing, doing business as *The Journal – The Voice of Law Enforcement*, and its principal, Stephen Inmon, settled Commission allegations that they misrepresented to businesses solicited by phone and mail in almost every state their affiliation with law enforcement and that advertising in *The Journal* was a meaningful way to support important causes, such as fighting crime or drug abuse. Defendants were also charged with billing businesses for advertisements that had, in fact, not been ordered or authorized. The order prohibited the defendants in the future from making the representations alleged in the complaint and required the defendants to pay a \$40,000 monetary judgment. In addition, the order required the defendants to make an affirmative disclosure in all written or oral sales communications that they are not affiliated with any governmental or law enforcement agency or nonprofit organization and that payments to the defendants are not a charitable donation or contribution of any kind.

*Southwest Publishing (Leon Saja, d/b/a);
Stealth Publications, Inc.; Donald L. Ritta*

Leon Saja, an Arizona fundraiser, d/b/a Southwest Publishing, settled Commission charges that , fraudulently solicited donations on behalf of various nonprofit law enforcement, firefighting and veterans’ organizations. The Commission charges against Saja, were filed as part of “Operation False Alarm,” a joint federal/state sweep targeting badge-related fundraising fraud. The order prohibited the practices detailed in the complaint and also included a \$500,000 judgment. In addition to the \$500,000 judgment, Saja must post a \$100,000 bond if he continues in the charitable fundraising business. The settlement also includes Stealth Publications, a subcontractor retained by Saja to solicit contributions. The Commission also reached a separate settlement that with Stealth’s former president, Donald L. Ritta that did not include a monetary judgment or bond.

*(SureCheK Systems, Inc.)
Douglas S. Derickson*

Defendant SureCheK, a business that claimed it could obtain unsecured credit cards – even for consumers with past credit problems – for up-front “processing fees” of up to \$129, and one of its principals, Douglas S. Derickson, settled Commission allegations that in almost all cases they failed to provide the cards and, in others, they failed to disclose additional processing and annual fees, in violation of federal law. The order with SureCheK barred false and misleading statements about securing credit cards, required disclosure of material facts relating to the cost or conditions for receiving extensions of credit, barred the defendants from selling their victims list, and required Derickson to pay \$11,000 in consumer redress.

*Tippecanoe Mining, Inc., d/b/a Global Mining Consulting
and Hope Mining, Inc.; Mark Ford; Stephen P. Noell*

Tippecanoe Mining, a telemarketing company doing business as Global Mining and Hope Mining, and its principals, Stephen P. Noell and Mark Ford, agreed to pay monetary judgments totaling \$2,409,759 to settle Commission allegations over their allegedly deceptive scheme to sell interests in a gold and a silver mine located in Colorado. The defendants allegedly told consumers that they 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 LaPlata County, Colorado. In addition, to bolster consumers' confidence, they falsely represented that the U.S. Government had verified the presence of valuable mineral deposits in the mines. Investment units sold for \$15,000 each. In addition to requiring the monetary judgments, the order prohibited the defendants from, among other things, misrepresenting the risk and profitability of mining investments.

Trans-Asian Communications, Inc.; Raj Telekom, Inc.;
Trans American Systems, Inc.; Rajesh Kalra

Trans-Asian Communications, a seller of prepaid phone cards, and its owner settled Commission allegations of deception in the advertising and sale of the phone cards. According to the Commission, Rajesh Kalra, through his corporations, Trans-Asian Communications, Raj Telekom, and TransAmerican Systems, attracted consumers with false promises of prepaid phone cards at extremely low rates. The order prohibited the defendants from making any misrepresentations concerning prepaid phone cards, required a \$1,000,000 performance bond before Kalra can market the cards again, required a \$40,000 redress payment, and imposed a \$1 million judgment if he is found to have misrepresented any material financial information provided as a basis for the settlement.

CIVIL CONTEMPT ACTIONS

Title¹	Number	Action Date	Type of Matter	Product/Service
American Business Supplies, Inc. Michael Chierico	X960074 X960074	6/98 8/98	Telemarketing order provisions - failed to pay redress	Office supplies
Fortuna Alliance, LLC	X960059	6/98	Failed to pay redress	Internet investment pyramid scheme
Southwest Publishing (Leon Saja, d/b/a)	X970042	12/97	Failed to cease deceptive fundraising claims	Charitable badge-related fundraising
(The Sterling Group, LLC) Michael Anderson, Denyse Anderson	X980056	6/98	Failed to repatriate frozen assets	Direct media advertising

¹A company name shown in parentheses is for identification of the case only.

CIVIL CONTEMPT ACTIONS *American Business Supplies, Inc.; Michael Chierico; Teri Chierico; Interstate Office Supplies, Inc.; Nationwide Office Products, Inc.*

In June 1998, a U.S. District Judge found a Florida telemarketing operation and its owners, Michael Chierico and Teri Chierico, in civil contempt for violation of a 1996 Federal Trade Commission consent judgment. In its ruling, the court found that the couple's violation of the judgment caused at least \$7.2 million in consumer injury. Under the terms of the order, the Chiericos will forfeit a \$200,000 performance bond and nearly \$1 million in additional cash. The Chiericos also are ordered to pay an additional \$2 million for consumer redress. In addition, the judge banned them from engaging in telemarketing and direct mail marketing of office supplies. In August 1998, Michael and Teri Chierico were found in contempt of the June 1998 order due to failure to pay the additional \$2 million for consumer redress. If the Chiericos failed to pay these monies as a result of the August order, they faced arrest and incarceration until such time as they demonstrated they had complied with the order.

Fortuna Alliance, LLC;
Augustine Delgado; Donald R. Grant; Libby Gustine Welch

The court granted the Commission's motion for civil contempt against two defendants in an Internet pyramid scheme case. The court issued a contempt order citing Fortuna and its principal, Augustine Delgado, for failure to provide an additional \$2.2 million needed to pay consumer refunds in full. This contempt action cleared the way for the final mailing of refund checks to victims who invested in Fortuna. The contempt order also prohibited the defendants from promoting any marketing or investment program until the refund deficiency, plus interest, was paid to consumers. In May 1996, Fortuna and its officers were charged with violating federal laws by operating an illegal pyramid scheme. The defendants settled the case and agreed to a full refund of "membership" fees for every Fortuna member. This settlement returned approximately \$5.5 million to investors in the United States and 70 foreign countries. The contempt citation provided for an additional \$2.2 million in redress that will go to consumers who received partial refunds.

Southwest Publishing (Leon Saja, d/b/a); Stealth Publications, Inc.

Leon Saja, an Arizona fundraiser, doing business as Southwest Publishing, was charged with fraudulently soliciting donations on behalf of various nonprofit law enforcement, firefighting and veterans' organizations. The Commission charges against Saja were filed as part of "Operation False Alarm," a joint federal/state sweep targeting badge-related fundraising fraud. In November 1997, after the parties agreed to a stipulated preliminary injunction, the Commission filed civil contempt charges against Saja, alleging that he continued fundraising misrepresentations in violation of the preliminary injunction. Prior to a scheduled hearing on the motion in December 1997, Saja agreed to settle the contempt allegations. The contempt settlement imposed additional injunctive provisions and required Saja to pay \$20,000 to the Commission.

(The Sterling Group, LLC)
Michael Anderson; Denyse Anderson

A U.S. district court found defendants Denyse Anderson and Michael Anderson in contempt of court for failing to repatriate almost \$1.3 million in assets located in an offshore trust. As a result of the

contempt order, the Andersons were jailed until the money was recovered. The contempt order stemmed from a 1998 case against Affordable Media, doing business as The Sterling Group, that alleged that the defendants, including the Andersons, promised prospective investors at least a 25-percent profit, as well as the return of their principal, within 90 days, if they invested in the defendants' "Media Units" – blocks of television commercials that promoted various products with purportedly proven consumer appeal. The court found for the Commission at a preliminary injunction hearing. As a result, the Andersons stipulated to a preliminary injunction that prohibited them from promoting, selling, or assisting others in any investment opportunity, and freezing the assets in their possession or control. The Commission filed this contempt action when defendants failed to turn over \$1.3 million that was kept in an offshore account.

CRIMINAL CONTEMPT ACTION

Title	Number	Action Date	Type of Matter	Product/Service
Ronald Dante	X900025	11/97	Misrepresentations	"Permanent makeup" workshops

**CRIMINAL CONTEMPT
ACTION***Ronald Dante*

A jury in Los Angeles, California, convicted Ronald Dante of 10 of the 11 counts of criminal contempt filed against him. Dante, who failed to appear on the last day of his trial, was considered a fugitive and was being sought under a bench warrant. The original complaint against him, filed in 1990, alleged that Dante, doing business as the Perma-Derm Academy and the American Dermalogy Association, misrepresented both the training he provided at his "permanent makeup" workshops and the certification he awarded to attendees. The Commission alleged that Dante violated the resulting 1991 court order by failing to make the required disclosures in connection with permanent makeup classes offered by the Permanetics Institute, a company he primarily owned and operated under an assumed name. Dante further violated the order by making misrepresentations regarding potential earnings in connection with paralegal courses offered by the American Professional Institute, a subsidiary of Permanetics.

CONSUMER AND BUSINESS EDUCATION

CONSUMER PROTECTION MISSION

Publications

The Commission issued 78 additional publications – 40 new and 38 revised, 65 for consumers and 13 for businesses. The public was sent approximately 4.6 million publications and accessed an additional 1.1 million publications through *ConsumerLine* and *BusinessLine* on the Commission’s Web page, www.ftc.gov.

www.consumer.gov

The launch of www.consumer.gov provided consumers with the first Internet site to offer one-stop access to federal consumer information. The site was arranged by 10 subject areas, allowing consumers to locate and link to appropriate and late-breaking information quickly and easily. Consumer.gov was a cooperative effort among 45 participating federal agencies led by the Commission. The site was awarded the Parenting Q&A Seal of Approval in recognition of its contribution to excellence in content for parents.

Consumer Privacy

The Commission added a privacy information page to its Web site (www.ftc.gov). This page, a one-stop shop for consumer privacy, gave consumers the information they need to contact credit bureaus, state motor vehicle offices, and marketing organizations in order to protect their privacy. In addition, the page provided hyper-links to each of the three major credit reporting bureaus and the Direct Marketing Association’s opt-out pages.

Internet Users

As part of its effort to educate Internet users about how to be ready for the Web, the Commission undertook a major effort to develop new partnerships with Internet service providers, computer manufacturers and retailers, associations, the media, and numerous others. The Commission sent a “How to Be Web Ready” bookmark to organizations and corporations nationwide. In cooperation with the state attorneys general, the Commission also issued “Site-Seeing on the Internet: A Consumer’s Guide to Travel in Cyberspace.” This

handbook highlighted the kinds of information and the services available in cyberspace, and offered tips to protect personal information. As part of this educational effort, the Commission distributed a 60-second public service announcement to radio stations nationwide.

Fraud Report

The Commission issued its second annual fraud report, "Fighting Consumer Fraud: New Tools of the Trade." The report focused on how Internet fraud occurs and how the Commission and its partners use Internet technology for enforcement, detection, deterrence, and education.

Car Leasing

The Commission and the Federal Reserve Board (FRB) announced a joint education effort designed to assist consumers in understanding car leasing and new disclosure requirements. Publications and "hot-links" to the FRB Web site were posted on the Internet at www.ftc.gov.

Home Equity Fraud

Responding to a growing number of consumer complaints, the Commission launched a campaign to educate consumers about how to protect themselves when seeking home equity loans and reverse mortgages. The materials highlighted issues for consumers to consider before using their homes to guarantee loans, explained common fraudulent practices, and offered tips on how consumers can protect themselves.

Investments

The Commission joined the Securities and Exchange Commission, the North American Securities Administrators Association, and a broad alliance of public and private organizations in a campaign to educate consumers about investing and saving. The first national round table was held at the Commission.

Scholarship Scams

The Commission continued promoting scholarship scam messages to new partners. The class-ring and yearbook manufacturer Herff-Jones Inc. joined in partnership with the Commission to promote our scholarship scam messages. Additionally, existing partners continued to distribute consumer education messages on telemarketing fraud.

Public-Private Coalitions

The Commission continued participating in several public-private coalitions, including the Leasing Education Team, the EFT 99 Initiative, the Financial Services Education Coalition, the Consumer Literacy Consortium, and Jump Start (an effort to get personal finance curriculum in the nation's school systems), and an interagency group, the American Savings Education Council.

RULEMAKING ACTIVITIES**CONSUMER
PROTECTION MISSION**

*Fiber Products Identification Act; Wool Products Labeling Act;
Fur Products Labeling Act*

The Commission amended the Rules and Regulations under the Fiber Products Identification, Wool Products Labeling, and Fur Products Labeling Acts. The Textile and Wool Rules were amended to allow the listing of generic fiber names for fibers that constitute less than 5 percent of the total fiber weight of covered products; eliminate the requirement that the front side of a label bear the words, “Fiber Content on Reverse Side”; streamline and simplify the requirements for placing information on labels; incorporate the names and definitions for manufactured fibers in the International Organization for Standardization; and modify the definitions for terms such as “mail order catalog,” “invoice,” and those generated and disseminated electronically through the Internet or e-mail. The Wool Rules have also been modified to add examples of fiber labeling for articles made from the hair of cross-bred, wool-bearing animals. In addition, the Textile, Wool, and Fur Rules were amended to specify that a Commission registered identification number (RN) will be subject to cancellation if, after a change in the material information contained on the RN application, a new application that reflects current business information is not promptly received by the Commission. The amended Rules were effective on March 16, 1998.

ECONOMIC ANALYSIS
ECONOMIC REPORTS AND WORKING PAPERS

ECONOMIC REPORTS Economic Reports are major, published reports, usually containing original research and entailing a substantial commitment of resources, concerning an issue of current policy interest or of long-term impact on Federal Trade Commission antitrust or consumer protection missions.

ECONOMIC WORKING PAPERS Economic Working Papers are preliminary, unpublished work products of the Commission, resulting from original research by Bureau of Economics staff, either in connection with ongoing agency activities or as independent analyses.

Are Retailing Mergers Anticompetitive? An Event Study Analysis. (WP #216), John David Simpson and Daniel Hosken, January 1998.

Identifying the Firm-Specific Cost Pass-Through Rate. (WP #217), Orley Ashenfelter, David Ashmore, Jonathan B. Baker, and Signe-Mary McKernan, January 1998.

Physician Networks, Integration and Efficiency. (WP #218), Seth Sacher and Louis Silvia, April 1998.

Price Movements over the Business Cycle in U.S. Manufacturing Industries. (WP #219), Bart J. Wilson, FTC, and Stanley S. Reynolds, Univ. Of Arizona, June 1998.

The Competitive Effects of Mergers between Asymmetric Firms. (WP #220), Charles J. Thomas, August 1998.

ADVOCACY FILINGS

Agency	Date	Subject/Issue	Commission Staff Comments...
FEDERAL GOVERNMENT			
Copyright Office, Library of Congress	3/98	Direct broadcast satellite services	Supported a policy which would permit direct satellite broadcast operators, within the scope of their license, to retransmit local broadcast channels to their home markets.
Environmental Protection Agency	7/98	Pesticide-treated articles	Raised concerns about the advertising and labeling of "antibacterial" or "antimicrobial" agents in providing protection against bacteria or germs.
Federal Communications Commission	9/98	Wireline services offering advanced telecommunications capability	Suggested that the FCC strengthen proposed requirements for advanced service affiliates to receive non-incumbent local exchange phone company status.
Federal Energy Regulatory Commission	2/98	New England Power Pool	Suggested alternative approaches concerning market power monitoring and mitigation by the New England Power Pool independent system operator, New England, Inc.
	5/98	Independent system operators	Raised comments concerning the question of whether independent system operators should have monitoring and sanctioning functions.
	9/98	Merger filing requirements	Supported FERC's Revised Filing Requirements for merger applicants in the electric industry.
Food and Drug Administration	11/97	Food labeling regulations	Supported proposed revisions to FDA's human and animal food labeling regulations.
	4/98	Medical product promotion by health-care industry	Discussed the Commission's consent order addressing Eli Lilly & Company's acquisition of PCS, a major pharmacy benefits management company.
	8/98	Labeling claims for dietary supplements	Highlighted and supported the FDA proposed requirement that structure/function claims in food labeling must be substantiated.
Justice Department	3/98	U.S. sentencing guidelines for telemarketing fraud	Concurred with the Department of Justice's stated position to the Sentencing Commission: that telemarketing fraud is a distinctive form of fraud, and that the current sentencing guidelines fail to recognize the seriousness of telemarketing fraud.

Advocacy Filings

Agency	Date	Subject/Issue	Commission Staff Comments...
National Telecommunications and Information Administration	3/98	Privatizing Internet Domain Name System	Supported the proposal that the administration and the registration of domain names be provided competitively by private, for-profit entities, and that certain other technical functions be carried out cooperatively by a diverse collection of interested parties via a new, not-for-profit corporation.
Treasury Department	12/97	Electronic funds transfer of Federal payments	Supported the Department of the Treasury's proposed rule to require the use of electronic funds transfer for all Federal payments, with the exception of tax refunds, starting January 2, 1999.
STATES			
Louisiana Public Service Commission	5/98	Market structure, market power, reliability, and independent system operators	Commented on the Louisiana Public Service Commission investigation into whether electric industry restructuring and competition in the provision of retail electric service was in the public interest.
	8/98	Stranded costs and benefits	Commented on the potential anti-competitive effects of one aspect of stranded costs and benefits arising from electric industry restructuring and competition in the provision of retail electric service in Louisiana.
	9/98	Consumer protection, public policy, and environmental issues	Recommended that the Louisiana Public Service Commission consider implementing strong consumer protection measures in any regulations governing the competitive electricity industry, and that it do so as early in the deregulation/restructuring process as possible.
Maine Public Utilities Commission	5/98	Market power in electricity	Recommended that if horizontal market power problems surface and are not remedied, then the Maine Public Service Commission may wish to recommend that the Legislature consider various steps to encourage new transmission or generation capacity that could remedy the market power problems without resorting to reregulation.
Michigan Public Service Commission	8/98	Market power issues	Commented on procedures and mechanisms through which to implement retail competition and enhance wholesale competition in the electric industry in Michigan.

Agency	Date	Subject/Issue	Commission Staff Comments...
Mississippi Public Utilities Commission	8/98	Competition in provision of retail electric service	Stated that a proposal from Entergy Transco entails two significant potential threats to competition and no unique efficiency benefits for the electric industry in Mississippi.
Nevada Public Utility Commission	9/98	Affiliate transactions in electric or natural gas service	Gave qualified support to a set of rules designed to strike a balance between preventing discriminatory conduct by utilities and their affiliates and preserving possible economies of vertical integration.
Texas Public Utility Commission	6/98	Relationships between regulated electric utilities and affiliated entities	Responded to an invitation to submit comments to the Public Utilities Commission of Texas concerning relationships between regulated electric utilities and their affiliated entities operating in unregulated markets.
Utah Public Service Commission	7/98	Electrical deregulation and customer choice	Recommended that the Utah Public Service Commission consider including discussion of the following consumer protection issues in its report: consumer information disclosures; billing, credit, and collection practices; customer privacy concerns; utility affiliate rules; licensing; and consumer education.
Virginia Commonwealth Joint Subcommittee	7/98	Electric industry regulatory reform	Commented on Virginia electric industry regulatory reform, including the benefits of competition (lower prices, improved service, and innovation) to both Virginia's citizens and businesses.
Virginia Real Estate Board	9/98	Real estate broker and salesperson licensing requirements	Commented on the proposed changes to the Virginia real estate broker and salesperson licensing including concerns over a possible adverse impact from those changes on competition and consumer welfare.
West Virginia Public Service Commission (Charleston)	7/98	Electric industry regulatory reform and competition in provision of retail electric service	Commented on procedures and mechanisms, including use of the factors set forth in the Merger Guidelines issued jointly by the Department of Justice and the Commission, through which to forecast and implement retail competition in the electric industry in West Virginia.

Advocacy Filings

Agency	Date	Subject/Issue	Commission Staff Comments...
OTHER			
Industry Canada	10/97	Precious metals marketing regulations	Suggested revision of the sections of the Canadian Precious Metals Marking Regulations that address articles marked as gold plate and articles marked as platinum, since these sections differ from the Commission's Jewelry Guides and from international standards.
National Association of Attorneys General	8/98	"Green Guides" for electricity	Advised that the key concepts that NAAG should apply in developing Draft Guidelines for environmental claims for electricity are maintaining flexibility by stating general principles that advertisers can apply on a case-by-case basis, and providing guidance to marketers through examples rather than fixed standards.

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