

USE OF MASS MAIL TO DEFRAUD CONSUMERS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL SECURITY,
PROLIFERATION, AND FEDERAL SERVICES

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

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SEPTEMBER 1, 1998
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USE OF MASS MAIL TO DEFRAUD CONSUMERS

TUESDAY, SEPTEMBER 1, 1998

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL SECURITY,
PROLIFERATION AND FEDERAL SERVICES,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:25 p.m. in room SD-342, Senate Dirksen Building, Hon. Thad Cochran, Chairman of the Subcommittee, presiding.

Present: Senators Cochran, Levin, and Collins.

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. The committee will please come to order.

We are pleased to have all of you here for our hearing today. We are considering at this hearing a subject that aggravates and frustrates many Americans, the use of mass mailings that confuse and sometimes defraud consumers. We will examine some government look-alike mailings and sweepstakes-type solicitations and try to determine what Congress can do to discourage the use of these fraudulent and misleading mailings.

Each year the Postal Service receives thousands of postal customer complaints regarding the legitimacy of these mailings. A *New York Times* article on July 28 disclosed that from a contest at *Reader's Digest Magazine* in 1962, there now are over 300 firms mailing more than 400 million sweepstakes offerings annually. Sweepstakes offers can result in big profits for the companies involved; in fact, consumers are four to five times as likely, we are told, to buy a product if a sweepstakes offer is involved.

Since scheduling this hearing, our Subcommittee has been deluged with stories of consumers who have lost thousands of dollars—sometimes their life savings—to deceptive mailings. It is not just the sweepstakes offers that lure consumers into opening mail. Some mailers imply an association with the government. Other mailers cleverly entice consumers to join and contribute to or support organizations, or to buy unneeded products and services.

In 1990, President Bush signed into law the Deceptive Mailings Prevention Act, a bill which was specifically designed to crack down on government look-alike mailings. Nevertheless, consumers continue to receive a lot of mail looking suspiciously like government documents, or offering services already provided by the government.

We really have no way of finding out how many people have been taken in by deceptive mailings or the amounts of money they have lost or spent, but estimates for both of these are very high. According to the Federal Trade Commission, 52 percent of the complaints they receive on their Consumer Information System are related to sweepstakes, and over \$40 billion is lost to consumers annually as a result of telemarketing and sweepstakes scams, with telemarketing scams often originating in the mailbox.

Over the years the Federal Trade Commission, the Postal Inspection Service, and State Attorneys General have joined forces to crack down on prize promotion operators. Just last year, three Federal agencies, 25 State Attorneys General, and numerous local law enforcement agencies formed a strike force to collect and review direct mail. Project Mailbox resulted in 190 actions against companies that use the mail to con consumers.

This afternoon we will hear from three sets of witnesses. The first will be the distinguished Senator from Colorado, the Hon. Ben Nighthorse Campbell. He is the sponsor of S. 2141, the Honesty in Sweepstakes Act of 1998.

Our second panel includes Ken Hunter, Chief Inspector of the U.S. Postal Inspection Service; the Hon. Robert A. Butterworth, Attorney General for the State of Florida; and Stanley Pruss, Assistant Attorney General for the State of Michigan.

The third panel will be Richard A. Barton, Senior Vice President of the Direct Marketing Association, and Dr. William Arnold, Director of Gerontology at Arizona State University.

We are very pleased to have the cooperation and the assistance of this distinguished group of witnesses. We have also received some written statements from interested persons, and we are including those statements in our hearing record.¹

Before welcoming and recognizing our friend from Colorado, let me yield to my distinguished colleague on the panel, the Senator from Michigan.

Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Mr. Chairman, thank you for holding these hearings. It is a subject that I and my staff have devoted a tremendous amount of time to, and it is important that this Subcommittee take up this subject.

“You are a guaranteed cash winner.” “You are a guaranteed winner.” “Guaranteed winner notification.” Those phrases and others like them are used in millions of deceptive mail solicitations every year to get unsuspecting consumers to spend money to collect their hoped-for prizes. Not only are they told in black and white that they are winners, they are told that they are guaranteed winners of cash, cars, vacations, or other prizes. All the recipient has to do, according to many of these so-called sweepstakes offers, is paste the right color-coded sticker on the right envelope and send it to the right address at the right time, and Ed McMahon or some company representative or a “prize patrol” will be at the consumer’s doorstep to present the winnings.

¹The two prepared statements referred to appear in the Appendix on pages 207 thru 219.

Is such a guarantee real? No. It's a deception. The odds of winning some of the major sweepstakes, such as the Publishers Clearinghouse and American Family Publishers, range from 120 million to 1 to as much as 600 million to 1. With these odds and deceptive practices, it's not surprising that sweepstakes complaints account for more than 50 percent of the Federal Trade Commission's Consumer Information System complaints, and are one of the top problems reported to the U.S. Postal Service and State Attorneys General.

Deceptive language and complex prize package solicitations are received by unsuspecting consumers every day. In fact, one response to a sweepstakes solicitation usually guarantees that a person will get dozens more. The more you buy from a company offering the sweepstakes, such as magazine subscriptions, gardening supplies, or jewelry, the more sweepstakes solicitations you're going to receive. Sweepstakes solicitations often include two envelopes—one if you place an order to buy a product promoted by the company, and one if no order is placed. The envelopes have different addresses, or require different color-coded labels to identify those entries that contain orders from those that do not. Because of this, consumers are led to believe that they have a better chance of winning if they buy something, although current law prohibits different treatment between customers and non-customers.

Unfortunately, the elderly are the most vulnerable to the deceptions. Senior citizens are inclined to read their junk mail more than the rest of the population, and often live alone and on limited incomes. The thought of winning a big prize to give them resources for a better, less lonely lifestyle and to provide an inheritance to their children or grandchildren is very appealing. In the extreme cases—and there are far too many of them—senior citizens can spend so much money on sweepstakes promotions that they can no longer pay the rent. Frequently, a family member or a caregiver must step in.

State Attorneys General throughout the country receive thousands of complaints about deceptive sweepstakes promotions from the elderly. In Florida, a judge in the Guardianship Division wrote the Attorney General of Florida regarding the exploitation of the elderly by the sweepstakes industry. He said, "Several times a week it is necessary for our Court to determine the capacity of a senior citizen and to protect their assets from these types of sweepstakes exploitations."

Solicitations are cleverly presented—the color, print size, and graphics of the solicitation. The materials are assembled in a way to deceive the mind and the eye.

Take a look at this solicitation up here. The big print is that—it's an "Official Notification, Guaranteed and Bonded Sweepstakes." Big print: "The judging is now final. Mr. Bruce [last name] is one of our \$1,666,675 winners." Boy, you can't miss that if you're that Mr. Bruce whatever your last name is.¹

And then look at the next big print. "It's confirmed. Mr. Jack Sears and Mr. Bruce so-and-so have both won that prize."

¹The information submitted by Senator Levin appears in the Appendix on page 172.

Well, if you look at the print—which nobody can read—but if you get a magnifying glass, you'll see a little tiny line under that green line. That's the hook. That little line says, if anybody ever pauses to read it—and if you can't read it, if you don't have a magnifying glass—"If you have and return the grand prize winning number, we'll officially declare that it's confirmed that Jack Sears and Mr. Bruce have both won \$1,666,675."

Now, that to me is about as deceptive as you could possibly even conceive of. That little line, unreadable, is what takes these deceptive practice schemes off the hook under current law, and that's one of the things we've got to change. There are a number of proposals that would do exactly that.

One of our witnesses, an expert in gerontology and communications, will have more to say on that later.

In Michigan we have one company, Michigan Bulb Company, that relies heavily on sweepstakes to attract and keep customers of its gardening supplies. It uses offers such as a guarantee of winning \$250 in cash. Well, when you read the small print on the back of those kinds of offers, you will see where the hooks are and where the qualifications are.¹

Look at the small print. That's what now, under current law, lets these folks get away with the kind of scams that they're doing. It's those kinds of rules that nobody can read because they're so tiny, and no one would—after they've been told that they've won these huge prizes.

Recently, 32 Attorneys General and the District of Columbia got American Family Publishers—50 percent owned by a subsidiary of *Time-Warner*, by the way—to agree to stop certain deceptive sweepstakes practices. American Family Publishers also agreed to pay the States \$1.25 million as a result of a promotion that had induced a number of people to actually fly to Florida to claim a \$11 million prize. You've got people flying to Florida with money they don't have to claim a prize they haven't won because of these deceptions.

But at the same time that action was being taken against American Family Publishers, another deceptive mailing was being sent out by Guaranteed and Bonded Sweepstakes, that's a subsidiary of *Time-Warner*, guaranteeing that the recipient was a confirmed winner of \$1.6 million. That's the one we referred to. So often, when an action is taken against one company, another company springs up under a different name and continues the same practice.

The Chairman has referred to Project Mailbox, which AARP has run, to go after some of these phony prize awards, and what it showed was just the extensive nature of this scam.

Now, we have some laws on the books that prohibit the fraudulent or deceptive use of the mails. They just simply do not go far enough. Several of our witnesses will have suggestions for ways to strengthen current law and, hopefully, stop these abusive practices.

Here are a few suggestions that I think are serious and we ought to adopt:

One, give the Postal Service subpoena authority.

¹Letter to Richard A. Barton from Senator Levin, dated September 4, 1998, with attachments appear in the Appendix on page 112.

Two, make specific deceptive sweepstakes marketing techniques illegal.

Three, increase the fines. A \$10,000 fine for violation of an order doesn't do much. That's petty change for these scam artists.

We've got to have civil and administrative fines without first going through the order process. We ought to be able to have a fine, as we do in other laws, for violation of the law without first having to get an order of the FTC or the Postal Service, that in turn is violated. That's one step too many. It's unnecessary. We don't do it in other laws and we shouldn't require it here.

So we've just simply got to take the profit out of the sweepstakes scams so that we can shut down these deceptive operations. Congress has made efforts in the past to stop the scams, but they continue unabated. And in this cat and mouse game it is time for the government to stop acting like a pussycat, and instead become a tiger against the scammers who so shamelessly prey on the vulnerable with such deception and deceit.

Again, my thanks to you, Mr. Chairman, for scheduling this hearing.

Senator COCHRAN. Thank you, Senator Levin.

We're glad to have with us our distinguished colleague from Maine, Senator Collins.

OPENING STATEMENT OF SENATOR COLLINS

Senator Collins. Thanks very much, Mr. Chairman.

I want to start by thanking you for holding this hearing to explore deceptive mail and sweepstakes fraud, including the legislation that has been introduced by the distinguished Senator from Colorado, Ben Nighthorse Campbell, who has been a real leader in this area.

Deceptive mailings and sweepstakes fraud are a nationwide problem, and certainly my State of Maine is not immune from this problem. A constituent from Portland, Maine recently sent me one mailing that proclaimed in bold print, "You were declared one of our latest sweepstakes winners, and you are about to be paid \$833,337 in cash." Of course, this individual was not really a winner, as the fine print stipulated that the money was his only if he had the winning number and returned the grand prize winning number in time. But at least on this sweepstakes entry there was some fine print. Some mailings are even more deceptive.

Another constituent of mine from Machiasport recently received a notice marked "Urgent Delivery: A special notification of cash currently being held by the U.S. Government is ready for shipment to you." This looks very official and refers to the U.S. Government holding cash benefits. On the back of this, which says "Official Notice, Special Notification," it says that the consumer has only to send in \$9.97 in order to collect the money held by the Federal Government.

I wonder, Mr. Chairman, how many innocent consumers in Maine and throughout the Nation received this notice, thought that the Federal Government did indeed hold some cash that was due them, and sent in the \$9.97.

Now, I realize that there are some companies that promote legitimate sweepstakes and do so in a responsible manner, but too many

are engaging in deceptive and fraudulent practices to increase profits or make a quick buck at the expense of the American consumer. And as Senator Levin has pointed out, frequently they are targeting the most vulnerable citizens, our elderly, who may be living on very limited incomes.

As Chairman of the Permanent Subcommittee on Investigations, the agenda of the Subcommittee has focused on a lot of consumer fraud areas. We heard testimony in July during a hearing on telephone fraud from the National Consumers League that sweepstakes fraud consistently ranks as one of their top consumer complaints.

Mr. Chairman, we all want to make sure that we don't impose unnecessary regulation or legislation on private industry, but time and time again we hear from people who are engaged in deceptive practices that the consumer just has to be more careful, sort of the "consumer beware" approach. The problem with that is no matter how careful a consumer is, if the consumer is dealing with mailings that are deceptive and fraudulent, it is very difficult for even the most cautious and educated consumer to make informed and responsible choices.

So again, Mr. Chairman, I commend you for your leadership in this area and I look forward to hearing the testimony of our witnesses today.

Senator COCHRAN. Thank you very much, Senator.

We are pleased that Senator Ben Nighthorse Campbell is here today to appear as the first witness on this subject.

Senator, we welcome you and compliment you on the work you have done in this area, and would like you to proceed.

**STATEMENT OF HON. BEN NIGHTHORSE CAMPBELL,¹ A U.S.
SENATOR FROM THE STATE OF COLORADO**

Senator CAMPBELL. Thank you, Mr. Chairman, and thank you for scheduling this hearing on S. 2141, the Honesty in Sweepstakes Act of 1998.

Very frankly, after hearing the comments of the Ranking Minority Member, Senator Levin, I am beginning to think my bill doesn't go far enough. But clearly it is a vehicle on which I look forward to working with you and Senator Levin and all those, including Senator Collins, who have shown a great deal of interest in this issue.

But I believe the Honesty in Sweepstakes Act would be a big step in protecting consumers from deceptive mass mailing and marketing tactics. All three of you have alluded to the many stories you have heard from your own constituents. The letter that Senator Collins referred to as a constituent's letter is this letter, by the way; this was received by one of my staff members here in the Senate. It must have went out to millions of people, hundreds of millions of people, perhaps.

I believe that we are long overdue in trying to protect people from the ploys that are done by sweepstakes companies. They basically prey on the hopes and dreams of people, and the situation is clearly getting worse. I think this bill will go a long way toward

¹The prepared statement of Senator Campbell appears in the Appendix on page 43.

helping to protect our country's most vulnerable citizens, the susceptible people like seniors, perhaps those who are less educated, and certainly the poor. I have an education; I think I can read reasonably well; I think I understand generally what I am reading. But when I get these things in the mail, very frankly, they are so realistic, and there are ones that look like they are actually stock options. They have very flowery edges. When you first look at them, you think that they're negotiable, that you might be able to take them to the bank or somewhere and get money for them. Clearly, that's not true.

The New York Times, Mr. Chairman—you alluded to the Tuesday, July 28 article in *The New York Times*. It was a front-page article. Let me read just a couple of sentences from that article. This is part of it, about a lady by the name Edwards, an 88-year-old widow who played magazine sweepstakes and similar promotions passionately for years. In a 54-day period in 1995 she wrote 148 checks to 56 contests, and her family estimates that in 5 years she has spent more than \$60,000 on magazines that she never read, and worthless prizes, without ever winning a dime. That's a good example.

One part of the article talks about a man that was literally driven to suicide because he became destitute playing these sweepstakes games.

It talks about the American Family Publishing Company that is involved in 26 class action civil suits and 11 suits brought by individuals, seeking millions of dollars in restitution.

It goes further to talk about the kinds of things you mentioned, the bold print that says things like, "It's down to a two-person race with \$11 million. You and one other person were selected as the winning number. Whoever returns this first wins it all." I mean, they're really encouraging you to respond. Of course, the tiny print that you can't even see with a magnifying glass—remember, if you shrunk this thing down to the size you normally see in a letter, you can imagine how tiny that print gets that tells you you have to buy a bunch of magazines or do something else, jump through a bunch of hoops, but spend money in order to qualify as the one person that wins the \$11 million.

The article goes on to cover a number of other things that I think are just totally misleading. I won't read them all but, with your permission, Mr. Chairman, I would like to include this July 28 newspaper article for the record.¹

Senator COCHRAN. Without objection, so ordered.

Senator CAMPBELL. It could be anybody. Certainly, Mr. Chairman, you're an educated person, but if you got a letter saying, "Thad Cochran, you have already won \$24 million," it would probably get your interest. It does me, too. I have seen so many of them now that I just throw them away, but the first two or three of those that you get are really deceptive, and only careful reading of the fine print tells you that we are really skirting the edge on what I call the "truth in advertising" laws. We already have these in cigarettes and liquor and a number of other things that we think are dangerous for consumers, or where they might be deluded into

¹The article from *The New York Times*, dated July 28, appears in the Appendix on page 102.

thinking that they're going to get something for nothing, and we try to inform them. I think it's time we do that in our sweepstakes area, too.

I know that some people say that this may go too far and may infringe on First Amendment rights. It would seem to me that if there is a danger of doing that, then clearly it would have been thrown out by the courts a long time ago in advertising on other products that I've already mentioned.

But I think we do have a problem that's growing. We don't know the exact extent of it. The GAO is conducting a study now to try to find out the extent of it, but each State seems to be left to its own devices. In some States, the Attorneys General take them up if they get complaints, but their basic mission is not to protect everybody from every kind of abuse by different companies, and very often you are left to your own devices to go to court, and you are obviously up against a pretty big, well-oiled machine with a lot of lawyers, and an individual—particularly people of limited means—simply can't fight it through the courts and they are left pretty much at risk.

While drafting this bill I consulted with the offices of both Colorado Attorney General Gale Norton and Florida Attorney General Robert Butterworth. One key result of these consultations was the inclusion of a clause stating that nothing in this bill would preempt State law. This clause reserves the right of each State to enact its own additional guidelines or to take other legal action as it sees fit. I certainly appreciate their input and I am pleased to see that Attorney General Butterworth is here today and will be testifying a little bit later.

With that, Mr. Chairman, in the interest of time, I will just go ahead and submit the rest of my testimony for the record because I, too, look forward to hearing some of the testimony. But I know, as you do, that we are far down this road. We need to do something about it.

I would also like to include several other things that we have for the record. One of them is this letter from the Consumer Federation of America that endorses this bill. Senator Metzenbaum is very active with this group, our former colleague, and he also sent a letter with it, and I would ask that that be included in the record.¹

Senator COCHRAN. Without objection, it will be included in the record.

Senator CAMPBELL. We also have some testimony and a letter from the National Consumers League, also in support of this bill. They state, "This legislation would be very effective in preventing misleading and deceptive sweepstakes solicitations." And with your permission, I would like to also include that in the record, too.²

Senator COCHRAN. It will also be included in the record, Senator.

Senator CAMPBELL. With that, Mr. Chairman, I thank you for your consideration and look forward to hearing the witnesses.

Senator COCHRAN. Thank you very much for being here.

¹The letter from Howard M. Metzenbaum, U.S. Senator (Ret.), to Senator Campbell, dated August 24, 1998, appears in the Appendix on page 109.

²The letter from the National Consumers League, to Senator Campbell, dated July 17, 1998, appears in the Appendix on page 110.

I don't have any questions. I compliment you on your initiative in trying to get the Senate's attention by introducing this legislation. We do need to respond in an effective way to this crisis, and I think this will be very helpful to us as we consider the options for doing just that.

Senator CAMPBELL. Thank you, Mr. Chairman.

Senator COCHRAN. Senator Levin, do you have any questions?

Senator LEVIN. I just have one question, because I think this bill is on the right track.

How does the Postal Service in matters like this know what is inside the envelope in order to implement—for instance, section 2 of your bill, which says that “matters otherwise legally acceptable in the mail that constitute a solicitation or offer in connection with the sale or promotion of a product that uses any matter resembling a negotiable instrument shall not be carried or delivered by mail.” How does the Postal Service check to see what is inside of that envelope?

Senator CAMPBELL. I'm afraid I don't have an answer for that.

Senator COCHRAN. If you'll let me, Senator, I may be able to help.

I received one that looked just like a check the other day. It said, “Pay to the Order of Thad Cochran,” with my address here. That's inside the letter, but through the window you can see that it says that. That's what every check usually says.

Senator LEVIN. And how do they know it's not a check?

Senator COCHRAN. Well, then the Postal Inspection Service can confiscate it, I think. That's what the Campbell bill would do. It gives the Postal Inspection Service authority, when something actually clearly shows that it is a check—I think that's what the language says—that this falls within the prohibition of S. 2141. But this, apparently, is not prohibited by law at this time.

This looks like an official check. Look, an eagle up here in the corner of the envelope; “Buy and hold U.S. Savings Bonds;” “United States Mail;” “Special Notice to the Postmaster: Intended for delivery only to addressee. Please handle in accordance with postal regs.” It sounds like this is a check, right? I opened it thinking that it might be a check. Do you know what it was? It was an offer to loan me money. “No equity required. Interest may be tax-deductible. Borrow \$50,000 from us on your home as equity.”

This ought to be prohibited.

Senator LEVIN. I would love to be able to prohibit that, too. My question, though, is how does the Post Office know that it's not a check when they look at the outside? Do we want them to open the letter—everything that looks like a check?

Senator CAMPBELL. I think the probable answer would be that people who get these letters are the ones who open them, and if they are concerned about it, they then turn them in to the Postal Inspectors.

Senator LEVIN. Some responsibility has to lie with the people who are getting these checks, who are being deceived. I don't think the Postal Service should have the authority to just arbitrarily open letters because they assume there might be some sweepstakes offer in it.

Thank you, Mr. Chairman.

Senator COCHRAN. Senator Collins.

Senator COLLINS. I have no questions, thank you.

Senator COCHRAN. Thank you very much, Senator Campbell.

Senator CAMPBELL. Thank you, Mr. Chairman.

Senator COCHRAN. If our second panel of witnesses will please come forward, we will proceed to receive your statements.

The second panel includes Robert Butterworth, Attorney General of the State of Florida; Stanley Pruss, Assistant Attorney General of the State of Michigan; and Ken Hunter, who is the Chief Inspector of the Postal Inspection Service.

Mr. Hunter, I think I will call on you first and ask you to proceed.

**STATEMENT OF KEN HUNTER,¹ CHIEF INSPECTOR, U.S.
POSTAL INSPECTION SERVICE**

Mr. HUNTER. Thank you, Mr. Chairman. I first want to thank you and your fellow Senators for your interest in this issue of sweepstakes and government look-alike mailings. Your efforts here provide one more means to educate the American public to protect themselves. With your permission, I would like to submit my written testimony for the record and only briefly summarize it here.

Senator COCHRAN. That's certainly welcomed, and we appreciate that. It will be included in the record in full.

Mr. HUNTER. Thank you.

For over 200 years the Postal Inspection Service has been the investigative arm of the U.S. Postal Service. Our responsibilities include protecting postal employees, the mails, and the Postal Service from attack; auditing some postal operations; and protecting consumers from being victimized through the mails.

Congress originally created the Nation's mail service to maintain a reliable, efficient, effective, and secure means of communication. A recent Harris Poll affirms that the American public feels significantly more confident about the security of the mail than the telephone, Internet, or other means of electronic communication.

Postal Inspection Service employees are dedicated to preventing unscrupulous promoters from damaging that confidence in the mails.

This hearing calls attention to sweepstakes promotions that may deceive the public into believing they are prize winners. However, there are many sweepstakes promotions which are forthright in their approach to the consumer and do not violate any postal statute. The hearing also examines other marketing programs that falsely imply that they are affiliated with the government.

A detailed description of the existing civil and criminal laws and their application to sweepstakes, lotteries, and government look-alike mailings is included in my prepared testimony, but I would like to emphasize that if those statutes were adequate, we would not be here today. Senator Campbell has introduced legislation to deal with a gray area, the guaranteed winner claim that appears in many sweepstakes. We support the concept underlying the legislation and commend Senator Campbell. In my written testimony I have suggested some possible means of making the legislation even

¹The prepared statement of Mr. Hunter with attachments appears in the Appendix on page 47.

more effective; perhaps we could call them the “Levin amendments.”

Turning to the second type of promotion, the so-called government look-alike mailings, I am pleased to report that as a result of the enactment of the Deceptive Mailings Prevention Act of 1990, which you referred to, we have seen a decrease in the number of complaints regarding these kinds of mailings. Nevertheless, we continue to receive too many complaints.

At this time I would like to present to you examples of a sweepstakes scheme, a government look-alike scheme, and an awards scheme in which the Subcommittee staff expressed an interest.

The first example, the “Union Gram,” is a sweepstakes solicitation. It’s a notice alleging that funds were being held that the recipient was entitled to, and offering an additional redeemable documentation package in return for a \$19 processing fee. Those who sent in the fee received a booklet of almost worthless discount coupons. The promoter has signed a consent agreement to make refunds to all customers who complained about the promotion, and to permanently discontinue mailing the solicitation.

The second example, “Cash Claims Service,” using addresses at commercial mail receiving agencies in New York, Washington, and Arizona, mailed a series of postcards soliciting \$9.97—Senator Collins, this is the one that you held up—for “immediate delivery of up to \$775 cash,” allegedly being held by the government. Ultimately, the promoter agreed to a cease and desist order to permanently discontinue the scheme, return the mailed-in responses, and to make refunds.

Blair Down, a Canadian using a New York address, operated a series of promotions using different business names, and 70 different return mail addresses in the United States. He mailed millions of solicitations, many of which were sent to elderly recipients, representing that they had won valuable prizes. Those who sent in the requested fees received nothing in most cases. This exhibit is just one of the many solicitations that he used. I would like to direct your attention to the fine print on the bottom of the regular-sized copy you see on the chart, and I hope that copies were also provided to you for your review. As you can see, it is difficult to ascertain the rules of the contest, probably even with a magnifying glass.

While Mr. Down was conducting these promotions, he was in fact under indictment in Seattle, Washington, as a result of his involvement in telemarketing and direct mail ventures.

In February, a civil complaint was filed against Mr. Down alleging that he was engaged in mail fraud. The District Court issued an injunction allowing us to detain his mail, and an order freezing his bank accounts. Ultimately, a settlement was reached in which he agreed to forfeit \$12 million in the Seattle case, which will be used to make partial restitution to the victims in both cases.

While I am proud of our success in conventional law enforcement efforts, I am convinced that arrests, convictions, and civil judgments are only part of the way to effectively deal with consumer fraud. The results, unfortunately, of these efforts only come after the victims have lost their money and the con artists have spent it.

For this reason we have been working closely with consumer groups and industry to develop fraud and loss prevention strategies and share best practices. These efforts have produced dramatic results in the areas we have targeted. Currently we are working with the Federal Trade Commission, the Direct Marketing Association, U.S. Attorneys' Offices, the State Attorneys General, the Better Business Bureaus, State consumer protection groups, AARP, and others to help educate consumers regarding prevailing money order scams. Arming the public with information regarding scams is a good way to reduce the harm these promotions can cause, because all potential victims must make that initial choice to participate.

I am particularly pleased to announce here today that we have joined with the National Council of Better Business Bureaus to make possible a vision we share. We are meeting with other consumer and government agencies to solicit their support in launching what will be the most ambitious fraud prevention initiative ever attempted. By early spring, we plan to mail to every home in America—over 120 million addresses—a card containing valuable telemarketing fraud prevention tips and providing an 800 phone number to obtain additional assistance. The card is being designed for display by the telephone as a reference and prevention tool.

My written testimony includes several possible improvements in the statutes used to deal with deceptive mail order promotions. Briefly, these include the following, as was suggested in part by Senator Levin.

First, amending the false representation statute to require that promoters disclose their actual name and address;

Second, at present, multiple District Court actions are needed to obtain injunctions where the promoters use addresses in more than one judicial district. We recommend allowing any District Court with jurisdiction to issue one order that would cover all addresses;

Third, we are often frustrated by seeing con artists we have driven out of the mails simply continue the same scam, using telephones and private delivery services. We would like you to consider amending the law to permit the courts to issue civil penalties against those who follow this course;

Fourth, we recommend that authority be established to impose financial penalties upon persons who mail nonmailable matter; and

Fifth, as Senator Levin suggested, we suggest you consider providing the Postal Service with administrative subpoena authority, similar to that granted to other agencies, to improve our ability to take the prompt, effective action against mail order scams and lotteries. This drives at the issue on which you were engaged in the discussion with the Senator from Colorado.

In conclusion, I assure you that the Postal Inspection Service will continue to combine aggressive investigations and widespread public awareness campaigns to rid the mails of fraudulent schemes. The American public's confidence in the mail is not only important to the Postal Service, but also to the many thousands of businesses that rely on the mail as an important marketing tool.

Again, thank you very much for this hearing and allowing me this opportunity to discuss these important matters. We would be pleased to work with you regarding the legislative proposals.

Thank you.

Senator COCHRAN. Thank you, Mr. Hunter, for your helpful testimony and your suggestions for changes in the law that might very well be more effective in preventing this kind of consumer fraud from being practiced.

Our next member of the panel is Robert Butterworth, who is Attorney General of the State of Florida.

We welcome you, Attorney General Butterworth, and invite you to proceed with your testimony.

STATEMENT OF HON. ROBERT A. BUTTERWORTH,¹ ATTORNEY GENERAL, STATE OF FLORIDA

Mr. BUTTERWORTH. Mr. Chairman, Senators, thank you very much for this opportunity to appear before you today.

Florida welcomes millions of visitors each year, and we are delighted to have them. They are very essential to our State. However, there is one type of visitor we'd rather not have, namely, those who are lured to Florida not by its climate and tourist attractions, but—as Senator Levin stated—by empty promises of instant wealth. These are the unfortunate souls who fall victim to the kind of cynical deception that has become all too common in the world of sweepstakes marketing.

By now, most Americans are probably familiar with the people I am talking about. Their sad stories have appeared on national TV news broadcasts and in newspapers throughout the country. Their destination is Tampa, Florida, where entries for one of this Nation's largest sweepstakes operators, American Family Publishers, are processed. They come to claim the millions of dollars they are certain they have won, or are about to win, because a celebrity spokesman assured them as much in a letter. In many instances they come at a cost that they cannot afford.

One young single mother of two borrowed \$1,500 from her sister so she could fly to Florida to claim her ticket out of poverty and a rough neighborhood in Baltimore. Convinced she was one of only two people in the running for a \$10 million prize, she appeared at the processing center with her two little daughters in tow. Instead of confirmation of her good fortune, she received ridicule from a young office manager, who in essence spat on her dreams and sent her away.

We have a working relationship with the taxicab drivers at the airport, as well as the Greyhound Bus Station. They will take the people to American Family Publishers and wait for them. They will then take them to our office.

While the national spotlight has fallen on people such as this unfortunate young woman, they merely embody the most extreme symptom of an underlying problem that affects millions. Direct mail marketers have learned that tying the purchase of a product to a sweepstakes will enhance the chances of a sale. They have also learned that the more they can blur the distinction between entering a sweepstakes and purchasing a product, the more successful they will be in selling magazines.

¹The prepared statement of Mr. Butterworth with attachments appears in the Appendix on page 5900.

I may question the integrity of many sweepstakes marketers, but I do not question their intelligence. They are masters at devising complex and convoluted solicitations intended to confuse the average consumer and generate a sale.

While American Family Publishers is by no means the only company to employ deceptive tactics, our experience with that firm illustrates what we are up against in combatting sweepstakes swindlers. Last February, Florida filed a civil complaint against American Family Publishers and its celebrity spokesmen, Ed McMahon and Dick Clark. We did so after months of discussions with the company failed to resolve our concerns about deceptive marketing practices. It was during those discussions, which included Florida and many other States, that American Family Publishers launched a particularly deceptive solicitation—while they were negotiating with us, 30-some-odd States, they then launched another deceptive solicitation. Because of that action and its harmful impact on consumers, we did not feel we could continue participating in such multi-State talks.

Among tactics used in the solicitation were the false suggestions that recipients were one of only two winning ticket holders competing for an \$11 million prize. We've all seen those. The company also placed a tight deadline on claiming the prize, then required those who did not buy magazines to follow a more cumbersome and time-consuming process to enter the contest than those who did buy magazines. If you bought a magazine, you put the stamp on, you mailed it to Tampa. If you didn't buy a magazine, you clipped out—it says, "very carefully clip out" this little coupon, Scotch tape it—don't staple it, don't paper-clip it—Scotch tape it or glue it to an envelope, and it then goes to a non-order center in Waycross, Georgia. Remember, the one that gets to Tampa first wins, so if you put a stamp on it and order a magazine, it goes right to Tampa; if you decide, as you are allowed, to not buy a product, it goes to Waycross, Georgia. Most people think that if you mail it to Tampa, it might get to Tampa quicker than if you mailed it to Waycross, Georgia, and they're probably right.

The objective of such tactics is to convince the consumer that he or she must act quickly to claim the prize, and that the best way to do that is to purchase magazines. Our files are filled with consumer complaints which prove that these and other deceptive tactics actually worked—not only for American Family Publishers and the sale of magazines, but for other sweepstakes operators selling a wide variety of products.

The most disturbing of these cases involve especially vulnerable individuals such as the elderly, the infirm, and those with very limited means. An elderly gentleman from Clearwater, Florida, who suffers from dementia spent \$30,000 with Publishers Clearinghouse in only 18 months. When we visited him, it was hard for us and him to get around his apartment at the same time, he had so many magazines and other things that he had purchased via sweepstakes.

There is the 80-year-old lady from Seattle who postponed her scheduled surgery so that she would be home when her \$10 million check was to arrive.

A 78-year-old woman from Winter Springs, Florida, lives on food stamps and Social Security, but she could not resist the sweepstakes offers that came into her mailbox. She is now being hounded by collection agencies because the purchases she made to enter those sweepstakes were made with worthless checks. Obviously, she wasn't worried about her check being worthless, because she was going to win \$10 million.

It would be simple to write of such cases with the axiom, "A fool and his money are soon parted," but these people, as we know, are not fools. They are our neighbors, our parents, our grandparents, all good people who have fallen victim to companies that have sacrificed decency and ethics on the altar of the bottom line.

What is more, no one is beyond the reach of such companies. A couple months ago we filed our complaint against American Family Publishers, and a letter from the company, signed by Ed McMahon and Dick Clark, was delivered to my Tallahassee office. What I thought happened was that they were willing to settle their case because they thought they were wrong, but when I opened the letter I got a real big surprise. "Attorney General," the letter said, "you will definitely win the cash or merchandise prize that appears on your prize claim number label."

I really thought about taking action against them, but I didn't. And the reason why I didn't is that this really did come to my office on April 1, and I believe that that probably is the only day that that particular type of solicitation should be in our mailboxes. So I thought that they probably would have a pretty good defense against that particular suit.

But then I learned later that I was in real good company because a similar letter was sent to a church in Bushnell, Florida, informing God that He was a finalist for a multi-million dollar prize from American Family Publishers.

While the merchandise being sold may differ, the deceptive methods used by shady sweepstakes operators to sell them are often quite similar.

One hallmark of the deceptive solicitation is a degree of complexity for submitting a free entry that would turn an IRS tax code writer green with envy. All but lost in that deliberate complexity is the message that no purchase is necessary to enter the sweepstakes. Not only is that message obscured or given little or no prominence; it is often contradicted by the content of the solicitation piece.

As Senator Collins stated, they use such terms as "special handling" and "rush orders," often used to create the illusion of urgency, even though all orders are obviously handled in the same fashion.

False deadlines are designed to elicit immediate responses, even though a sweepstakes might not close for more than a year.

Our investigation of American Family Publishers revealed that people who purchased magazines through a sweepstakes often received two invoices, just days apart. This is sometimes a second part of the scam. Once they get you to buy the magazine, they will then send you a bill, and then a few days thereafter you will get another bill. Many people, believing that they didn't pay the first bill, will pay the second bill. Such tactics are intended to mislead

consumers, especially the elderly, into paying two, three, or four times. You would assume that if you pay two or three times for the same year, what you'll end up doing is getting some money back. That's not what happens. You end up getting that magazine maybe 2, 3, 4, or 5 years in the future, and many children and grandchildren are finding out that their parents or grandparents had paid-up subscriptions well into the next century. The reason for that problem, we believe, is that the solicitation company will receive about 80 or 90 percent of the actual billings the first year. Subsequent billings, they may not get any percentage on at all, so the more up-front money they can get, no matter for how many years, and we believe that a large percentage of the profit is there.

We have to actually strike at these and other deceptive practices. There are reforms that we would like to see.

First, there should be a clear separation between the process for entering a sweepstakes and the process for buying a product. In that same vein, any inferences that purchasing a product will enhance a consumer's chance of winning should be eliminated.

Claims that a consumer is already a winner also should not be allowed unless that consumer is in fact an unconditional winner. The same holds in those instances when a sweepstakes operator declares every solicited consumer a guaranteed winner, then sends those who respond a worthless trinket. In addition, phony claims that the consumer has become part of an elite group still vying for the grand prize, when in fact they are not, should be prohibited.

The number of solicitations sent to a single consumer for any particular sweepstakes should be limited to prevent exploitation of especially vulnerable individuals. You may very well get the fourth entry on the same sweepstakes; if you keep sending back cards, you will keep getting the solicitations.

Along the same lines, there need to be restrictions on the sale of lists containing the names of sweepstakes players. These are so-called "mooch lists" and they are pure gold in this particular business because these are people who have already been defrauded. The companies will sell these lists from one company to another.

The odds of winning a sweepstakes, which in some instances can be as high as one in hundreds of millions, should be clearly and prominently disclosed.

Envelopes and letters designed to look like official documents should not be allowed.

Safeguards to prevent multiple billings, and to prevent overpayments from being used to extend subscriptions without a consumer's permission, should be put in place.

Sweepstakes promoters should include in their solicitations a toll-free phone number for consumers to call for more information about a particular contest.

And finally, promoters should also provide a toll-free number that consumers can use to call to have their names taken off the company's mailing list, and those requests should be honored.

The task of reforming the sweepstakes marketing industry cries out for a comprehensive nationwide approach. You have acknowledged the wisdom of that approach, and we certainly appreciate what you are doing here today.

I would like to put into the record a resolution from the National Association of Attorneys General which we adopted at our summer meeting just a couple months ago, which established a Sweepstakes Subcommittee. It is chaired by Attorney General Jeff Modisett out of Indiana, and we would be glad to work with you, Senators, in this particular legislation.¹

Senator COCHRAN. Thank you very much, Assistant Attorney General Butterworth. We appreciate your testimony and your involvement in this effort to try to put a stop to this kind of fraud that is going on in our country. The resolution that you identified will be made a part of the record.

Mr. BUTTERWORTH. Thank you, sir.

Senator COCHRAN. Let us now turn to Stanley Pruss, who is Assistant Attorney General in the State of Michigan.

We appreciate your being here, Mr. Assistant Attorney General. You may proceed.

STATEMENT OF STANLEY F. PRUSS,² ASSISTANT ATTORNEY GENERAL IN CHARGE, CONSUMER PROTECTION DIVISION, MICHIGAN DEPARTMENT OF ATTORNEY GENERAL, STATE OF MICHIGAN

Mr. PRUSS. Thank you, Mr. Chairman, Members of the Committee.

I am the Chief of the Consumer Protection Division of the Michigan Department of Attorney General, and I am presenting this testimony on behalf of Attorney General Frank Kelley, who regrets that his schedule doesn't allow him to be here today.

This hearing provides a much-needed opportunity for greatly enhanced public scrutiny of marketing practices that are becoming increasingly unfair, deceptive, and unconscionable. It is our sincere hope and expectation that this hearing will not only heighten public awareness of these practices, but lead to meaningful State and Federal legislative action directed at combatting these shameful, predatory practices.

Primary among these marketing practices are the so-called sweepstakes promotions that are being increasingly used by both unscrupulous and legitimate members of the business community. We are all aware of these promotions, as we are all—to varying degrees—victims. These mailings are almost always unsolicited and unwanted; they are annoying and frustrating, yet they have been specifically designed by marketing experts to be tantalizing and alluring. The envelopes are designed to compel the recipient to open and examine the contents, and this is the hook. The most direct and effective allurements are personalized deception such as, “Carl Levin, you have just won \$50 million,” in bold 16-point print.

Many people, fortunately, recognize this calculated deception to sell goods or services and, most notoriously, magazines. Most of us simply don't have the time to unfold the numerous papers inside, to choose between the Jaguar or Mercedes Benz from the colored, adhesive-backed perforated stamps to affix to the return card. Yet many of our citizens do have the time, and these are, dispro-

¹The referenced resolution appears in the Appendix on page 178.

²The prepared statement of Mr. Pruss appears in the Appendix on page 77.

portionally, our senior and disabled citizens. The deceptive language of the promotions is so cleverly qualified that it is reasonable for some to think that they have won a prize that will bring sudden wealth. The sweepstakes promotions are, of course, designed to suggest that the recipient's eligibility for the prize is directly related to the extent of the purchase of the goods and services: Buy more and you will likely win more; respond quickly and you will win more; and never affix the "no" sticker to the return envelope.

The effectiveness of sweepstakes promotion as a marketing technique is in direct proportion to the magnitude of the deception and the cleverness with which it is purveyed. The marketing experts behind these unconscionable schemes know that there is a segment of our population that will, most literally, buy into the deception. And for that segment of our population, sweeps promotions can be devastating. The most vulnerable of our citizens will write check after check in response to these mailings in the elusive quest to win the grand prize.

Worse, those who fall victim to the marketing predators once are deliberately and knowingly set up to become victims again and again, when their names and addresses are sold to others who simply steal their money. I have with me today letters and testimonials from relatives of persons, typically senior citizens, who have come to discover that their loved ones have been exploited and who have lost tens of thousands of dollars in response to prize promotions. Some of our complainants inform us that their relatives have garages and basements full of magazines and other items from prize promoters and telemarketers.

The complaints include an elderly woman from Livonia, Michigan, who sent more than \$20,000 to prize promoters; a grandmother from Spruce, Michigan, who spent more than \$20,000 on sweepstakes in 1996 alone; and a woman in Michigan who has spent more than \$200,000 on sweepstakes promotions and whose home and garage are filled with sweepstakes promotional materials. These complaints beg the question of how one could ever expend such sums without becoming the focus, chosen target of predatory sweepstakes marketeers. The answer may line in this verbatim complaint we recently received from an 89-year-old resident of Owosso, Michigan:

"In the past I have ordered various items from Publishers Clearing House, have paid for some and returned others; and have received several notices stating I am a winner. One time a person called and stated that I was one of the last five people to win and ask (sic) if I would be home on a certain date and to have my family present. The last notice took the cake, they now have my comments, my family and my neighbors (sic) comments to my winning. I will soon be 90, and do not feel that I need this sort of harassment. It is a fraud and unfair to me and others that they be allowed to continue such false advertising. I, like any other person, would like to be a winner, but obviously, this will not happen. Please, help to stop this fraud, or help to make me a true winner."

You, Members of this Subcommittee, can help every senior citizen by putting a stop to these deceptive sweepstakes promotions.

In Michigan we have a horticultural company, Michigan Bulb, that has used sweepstakes promotions that we believed were unfair

and deceptive and thus violated the Michigan Consumer Protection Act. We threatened legal action against Michigan Bulb and it agreed to modify its Michigan sweepstakes mailings to address our concerns. The problem, however, is that the sweepstakes promoters find ever more ingenious ways to deceive and mislead the public. The compliance and enforcement efforts of States have not been able to stem the tide of deceptive solicitations nor anticipate the new marketing techniques that are increasingly being employed by an ever-widening array of businesses.

Of course, there are legitimate prize promotions that are effectively used by the best of our business community, but those businesses that depend on sweepstakes campaigns have not been able to conform their promotions to meet reasonable ethical or legal standards.

The Direct Marketing Association, a trade group that includes in its membership companies who use sweepstakes campaigns as their primary marketing practice, represents that these promotions are not inherently deceptive and even state that those who spend large sums of money on such promotions are “unstable.” The Direct Marketing Association’s position is astonishingly callous and outrageous. To suggest that these carefully designed and specially crafted sales promotions are not inherently deceptive is as outrageous and bizarre as having the CEOs of the tobacco companies come before this Congress and state that they are unaware of any evidence that tobacco is addictive or that it causes cancer. To state that those who respond to these deceptive solicitations are “unstable” is shameful, offensive, and wrong.

There are measures that can be taken that are simple and may be effective. Some of these measures are already under consideration by this Congress. Let me suggest a few.

Every mailing that contains a sweepstakes or prize promotion should have clear and distinct disclosures on the front of the envelope that inform the recipient that “This is a sweepstakes promotion—you have not automatically won and you need not purchase anything to win or to enhance your chances of winning.”

There should be clear and distinct disclosures specifying the odds of winning every prize. The official rules need to be clearly stated on the first page of the promotion materials in print that is large and legible, and not like this.

The enforcement authority should be able to seek civil penalties for every solicitation that fails to comply with these requirements.

Additional, enhanced civil penalties should be imposed in cases where the evidence indicates that senior or disabled citizens were targeted with the solicitation.

Last, this Subcommittee must not underestimate the creative faculties of predatory marketeers who design and craft these promotions. They will do their utmost to disguise or shadow any disclosure requirements that the law may impose. We will all have to maintain our vigilance and respond accordingly.

Thank you for inviting Attorney General Kelley to appear before this Subcommittee. Our department appreciates the opportunity to speak out on these issues and to provide written testimony for the permanent record.

Senator COCHRAN. Thank you very much, Assistant Attorney General Pruss. We appreciate your being here and your assistance to our Subcommittee.

When I was responding to a question—it was Senator Levin who asked Senator Campbell—about how we would effectively prohibit sending materials that appear to be a check, for example, and turn out not to be. I know that this envelope and the enclosure, that you can see through the window—and I mistakenly said that it clearly had printed on it, “Pay to the Order of Thad Cochran,” but now that I look at it again it just says, “To the Order of Thad Cochran.”

Is that one of the deceptive practices that you’re talking about, that we ought to be able to put a stop to, Mr. Hunter?

I have a couple of other examples. Here’s a staff member of mine who received a similar letter from someone else, and it appears to be a government or an official-kind of envelope, and the symbol over here looks like it could be on a check, and it says, “To the Order of,” and then the name of my staff member, a very similar kind of thing through the mail.

I would guess that 99 percent of the people who receive mailings like this will open them and see what they are, and both of these, incidentally, turn out to be offers to loan money. This is no sweepstakes scam, but just a deceptive way of getting attention to the fact that this company is willing to make you an equity loan on your home.

Is this the kind of thing that we can deal with legislatively? Or do we just have to continue to live with this kind of practice and have everybody put on notice to read the letters carefully and not be misled?

What is our advice to them? Mr. Hunter, do you want to try an answer to that?

Mr. HUNTER. I’d be happy to.

I think first we need, through this process and by working with the various entities that have an interest in it, to try to reach some agreement on further prohibitions on what is permissible, and in combination with that, to have some enhanced tools to quickly address suspect offers, such as the subpoena power that was suggested, so that when complaints begin to be received we can quickly go in to obtain the necessary information to determine whether or not it is in violation of the enhanced statutes.

What you held up clearly is misleading, the one that had an eagle on it that makes it appear more government-like in nature. I think that an honest company should be willing to clearly represent what they are offering to you, so that when you ultimately receive whatever it is, that you are not disappointed, that there is a congruence between your expectations and reality.

Senator COCHRAN. One other example that I brought with me today is from a staff member as well. This appears to be an official Census survey. It says it is from the “Federal Records Service Corporation,” “Do not fold,” and it’s a Washington address, and then you open this up and it’s like a Census form. They want you to tell them the names of your children, that this is a requirement, that you have to send this information in—“Federal legislation requires that all dependents born in this tax year must be listed by Social Security number on your income tax return.” Then it points out

that your newborn child may not be registered. They are enclosing this information.

Of course, it turns out not to be the Social Security at all, but some scam way of getting information about your family, sent in to this so-called "Records Service Corporation."

Is this legal? Or should this be prohibited by law?

Mr. HUNTER. We would have to look at that particular piece to ascertain whether it is legal or not, but there are many businesses that attempt to sell services that are available free from the government, such as with regards to Social Security.

Another example of a disturbing, misleading piece was a complaint that we received that appeared to be a jury notice, and it was for a young man who was away at college. It was received at his home, where his mother lived, and she—thinking it was a jury notice—arranged for him to leave school to come home. It was simply a misleading piece to entice the recipient to open it.

Senator COCHRAN. Would any of the pending bills or proposed changes in the law prohibit another example here, which I happened to receive? This looks like a Special Delivery piece of mail, entitled "Priority Express." The only other information on it is my name. Again, this one says, "Pay to the Order of William T. Cochran." I knew they didn't know me well since they didn't use Thad; they used the initial T. But that's my name and that's my address, but it turns out again to be another solicitation for an equity loan. They are willing to loan me \$80,000 instead of the \$50,000 offer that I got from the other company.

Is this violative of any rule? If it isn't, should we make it violative of Federal law?

Mr. HUNTER. That is probably one of the most difficult types to address. Without looking at it personally, I don't believe it is in violation. It's flattering because it's probably a knock-off on Postal Service Priority Mail; we appreciate the flattery but not the misuse of that well-known product.

I think there will always be a gray area, even if we better define what is prohibited in terms of techniques that are used to entice people to open it.

Senator COCHRAN. This is another one of these scams on raising money. On the back of it you have Ed McMahon and Dick Clark for the American Family Publishers, "Win now." This came to one of my staff members, but it purports to be some kind of official United States mail—"Important, Confidential Documents Enclosed." So this is sort of a new twist. I had never seen one of these before until my staff member showed it to me.

Is this the kind of thing, Mr. Attorney General, that you tried to put a stop to?

Mr. BUTTERWORTH. Senator, I have not seen that one, but if it has Ed McMahon and Dick Clark on it, I'm sure we would look at it.

Senator COCHRAN. On the back of it it says, "Win now. Match all three dollar amounts and you could win \$250, \$500, up to \$1,000, automatically. Break the bank," it says. Very enticing.

Senator Levin.

Senator LEVIN. Thank you very much, Mr. Chairman.

First, Mr. Hunter, let me ask you about the Postal Service's authority and how it is implemented in this area.

If we impose requirements on how these solicitations can be made and how they can be policed, we should find out in advance whether they are practical. We have to make sure that whatever we do really works in the real world out there. I am just wondering, in terms of the proposal that something that is inside an envelope, if it contains something that is not mailable, how do you know whether it's not mailable until after you get a complaint about it? By then most of the damage will be done, will it not?

Mr. HUNTER. Well, that's the issue that you were debating with Senator Campbell, and you're right. Of course, the difficulty is that on the other hand you don't want everything subject to inspection because then you cross over into another constitutional concern.

So I think what you have to do in a situation like that is, you do your best first to pass laws to try to clear up the ambiguity, and that's a real challenge because you're up against some very skilled marketing techniques. But then in terms of the enforcement, that you have a quick way to learn when something like that is happening.

One of the ideas I have that I'm working on with the Better Business Bureau and others—and we have to wait for the Y2K problem to be solved—is, I'd love to see a national capability to learn when complaints are received, when the individual Better Business Bureau receives them, the FTC receives them, the Postal Service receives them, the States receive them. What if we had an ability to store that information in a common fashion and tap it, so that when something happens and each of us receives, at first, one, two, three or four, so we probably don't do much, because in the scheme of things it has to reach a critical threshold so that we say, "My goodness, look, in the Nation there are a thousand of those out there now," and then move in quickly with the tools that you were advocating and I was advocating, the ability to go in with that subpoena and immediately to determine whether or not it's legitimate, whether or not they have the means to fulfill the offer that they're purporting to make—

Senator LEVIN. You don't currently have that power, is that correct?

Mr. HUNTER. Well, we're asking for these subpoena powers. Other agencies do; we do not, so that you could go in and require proof that they are able to fulfill the claims that they are making; and if they are not, then to invoke those other capabilities like withholding the mail until it can be resolved, so that you stop the bleeding, if you will, you stop people from being victimized. And of course, in that regard we're suggesting that some of those actions—because many companies use multiple addresses, that the action, when you take it in one location, would apply everywhere.

Senator LEVIN. The current mail fraud statute, as I read it, on the administrative side provides a civil penalty if there is an effort to evade a postal stop order. Is there a penalty or civil fine of any kind, directly for violating the existing law, for instance?

Mr. HUNTER. No, there is not.

Senator LEVIN. Now, is there any reason why we shouldn't add that—I'm not saying substitute it, but add it—to what we already

have in law? There are a whole lot of areas where we provide, for instance, civil fines for violation of law; we don't have to have an in-between step that you have to have an administrative proceeding, a stop order or some kind of an order, which in turn is violated, before we can impose a civil fine if there is a violation of the underlying law or regulation.

Is there any reason why we should not provide that authority to you to directly seek a civil fine?

Mr. HUNTER. Through the appropriate venues with the proper review on the behalf of the defendant, no, I don't think there is.

Probably the thing that we debated the most in preparing for this testimony was what I feel is an absence of tougher criminal penalties in some of these areas. We, of course, are advocating—and you did, too—increased civil penalties, but you may level those against people that can't pay them because they've already spent the ill-gotten gain, or for whom it's just not a sufficient penalty. But if you also have the alternative of offering someone a limited diet and recreational opportunities through a criminal prosecution, it may have even more of a salutary effect.

I don't know. We'd need to work on that one.

Senator LEVIN. All right. Well, we'll work with you on that one.

I want to just ask our Attorney General and our Assistant Attorney General here that question in terms of Florida and Michigan.

Is there an in-between step when you seek some kind of fine or administrative fine or civil penalty, that there has to be an order violated? Or can you go directly—through a process, obviously; you have to have a process before you can have a penalty or fine—but through that process, for the violation of your underlying statute?

Mr. BUTTERWORTH. Basically in this case, with American Family Publishers, we just filed a civil case against them. We are involved in discovery now and everything else. But in some cases, where they are very flagrant, we've been able to work with the postal inspectors, in essence get stop orders, and they work very well with us insofar as we know that a scam is occurring. They will take the mail from the boxes, and we go through the appropriate procedures in order to take down that operation, and a lot of times we do go criminally against them.

But it would help, as Mr. Hunter was saying, it would help us as attorneys general in working with the postal authorities.

Senator LEVIN. All right. So we're talking about a couple of things. One is being able to go directly for civil penalties, as well as strengthening your criminal penalties and whatever civil penalties we provide, directly, or for violation of a stop order. Is that correct?

Mr. BUTTERWORTH. Yes. And again, I think the biggest challenge is going to be how we word what is prohibited, and of course, there we need to hear from the third panel, the Direct Marketing Association, because hopefully you receive some agreement that legitimate members of the industry participate in so that we aren't fighting in a gray, ambiguous area with regards to whatever law there is.

Senator LEVIN. All right. Thank you.

Mr. PRUSS. In Michigan—I should know the answer to this question—is there a requirement for an in-between step, an inter-

mediate step, before you can seek either a civil fine or an administrative penalty or civil relief against someone who violates Michigan law?

Mr. PRUSS. Not really, Senator Levin. Our primary enforcement vehicle is the Michigan Consumer Protection Act, and anything that confuses a person with respect to their legal rights and obligations and duties and so forth is a per se violation of that act, and we can proceed in court for civil penalties, which aren't very high unless the violation is "knowing and persistent," in which case it's \$25,000. But not per diem, necessarily, and not per event. That's ambiguous and unclear.

There is, however, a notice procedure. Before we file in court we are obligated to file what is called a "Notice of Intended Action," an attempt to work this out consensually with the party. Absent that agreement, however, we can proceed directly to court.

Senator LEVIN. Thank you. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator Levin.

Senator Collins.

Senator COLLINS. Thank you very much, Mr. Chairman.

Mr. Hunter, I am particularly concerned about the government look-alike mailings. Senator Cochran held up the example that he received at home, and when I am looking at it more closely I notice at the bottom it says, "Buy and hold U.S. Savings Bonds." It has an eagle. It's the same color envelope that our expense reimbursement checks come in.

I also look at what Publishers Clearinghouse sends. The return receipt card is so similar to the legitimate return receipt card that the Postal Service uses—it's a different color, but other than that, it's set up in an extremely similar manner.

Similarly, the postcard which I brought up first, which fortunately you had a blown-up version of, that was sent to me by my constituent, "Urgent Delivery," "Official business, U.S. Government"—those words, used over and over again. And I want to read to you what my constituent wrote to me. She said, "This is the first time that I have known that the U.S. Government is holding money that belongs to me, and all I have to do is to send in less than \$10 and I can get my money." This is outrageous. This really troubles me. And I know that you quickly and effectively issued a cease and desist order to stop this individual and to order him to make refunds, but is that all we're doing? Shouldn't we at least impose a fine? Shouldn't we have a civil penalty process that the Postal Service can undertake up front, rather than only if he violates your order?

We just need to be much tougher on this. The reason people are answering is they assume that it must be legitimate, because how could someone do this, otherwise? How could they get these offers in the mail that look so official, that have U.S. Government on them? People understandably assume that we're protecting them.

I'd like to know, did anything else happen to this individual, other than his being ordered to give back the money?

Mr. HUNTER. Well, I think you're getting to the essence of what I was talking about and some of the proposals we're making. I think some of these civil and administrative procedures are not tough enough. So I agree; you have expressed it more articulately

than I could, and the three of us welcome you as the most articulate member of this panel. [Laughter.]

Senator COLLINS. But in this particular case, was there any fine imposed by anybody that you're aware of, by State government or by the FTC or—

Mr. HUNTER. Not that I'm aware of, no.

Senator COLLINS. See, that really troubles me, because that means that the chances of your getting off scot-free, or simply just being ordered to refund the money and that being the only penalty, is very troubling. There has to be more of a penalty for deliberately deceiving people, like this woman from Machiasport, Maine, into sending money. There has to be more of a penalty than just telling the deceptive individual or company, "Give the money back."

I would hope that all of us who are concerned about this issue can join together and work with you and your colleagues at the State level to figure out how we can toughen the laws so that there will be some sort of deterrent up front that will discourage people from engaging in these practices.

Mr. HUNTER. We would very much welcome that. Too often people start new schemes—I mean, recidivism in this area is a problem. It's just profitable enough; they make enough before we shut them down that they're enticed to do it again.

Senator COLLINS. The final comment I will make is that I suspect you also see that once you shut down one scam, that the individual pops up somewhere else with a different scam. That certainly is the pattern in a lot of telephone fraud cases, and also securities scams, which I've held hearings on. It's so frustrating to see, for example, a rogue broker who has ripped off elderly people and essentially stolen their savings be discharged by his brokerage firm, and then pop up and do business with another one.

I just think we need to be much tougher and make sure that this deception doesn't pay.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator, for your excellent comments. I think you have shown us the way, and that is that we ought to work together to try to put before the Senate a plan and a strategy reflected in legislation to toughen up these laws. We need to put a stop to some of these scams and these fraudulent practices. There's no telling—and we don't know—how much money it is costing the American people and how much heartache and difficulty families are suffering because of these activities that we need to do something about. Thank you very much.

Senator LEVIN. Could I just ask one additional question?

Senator COCHRAN. Sure.

Senator LEVIN. I will be proposing specific fines and penalties, administrative fines and penalties legislation, so that we don't have to go through this extra step which seems to me to be unnecessary. To go through a whole step to get an order, which you then have to prove is violated, before you can impose a fine or a penalty is just too big a loophole.

So what I'll be proposing will be at least the option of going directly to the fine or the penalty without having to go through that step, so that you don't have to have an extra and unnecessary step—unless you choose to take it, for whatever purpose you might.

But part of that proposal relates to the questions of, what is a violation? Right now, \$10,000 per violation, to me, is far too weak. We will be toughening that \$10,000 provision significantly. But what is a violation? If you send out 100,000 deceptive letters, is it one violation or 100,000 violations? I think it's 100,000 violations.

Mr. HUNTER. It would be very good to make that intent very clear as you draft that legislation, whether it's each piece of mail or each mailing—

Senator LEVIN. Well, I intend to do that, because if there was one deceptive letter sent to somebody that resulted in that person being defrauded, hopefully you would go after that person who sent that deceptive letter. One letter is enough to trigger our law.

Well, if there are 10,000 letters, there ought to be 10,000 violations. The only way we're going to deter these guys, it seems to me, is if we let them know that they're not going to profit from their deception. It's the only way to stop them. They're in it for profit. We have names there that are well-known and still trusted by people despite all the deceptions which they've helped to perpetrate. We have to stop it by going after the profit, taking the profit out of it, and it seems to me we can't any longer define a violation as sending out 1 million pieces of mail that are deceptive. That's a million violations to me, and I intend to make it clear that every letter that is deceptive, that violates our law, constitutes a violation in and of itself.

Mr. HUNTER. I like your thinking, and I also like your thinking that the losses don't need to build to a certain point, that there is a certain level of damage before action is taken. So I appreciate that.

Again, the biggest challenge is what is prohibited, and how do we best word this? But I am sitting here pinching myself, wondering if I'm asleep. I'm not used to hearings in which there is so much agreement, so I appreciate this and look forward to working with you.

Senator COCHRAN. Thank you very much for your assistance. We appreciate it, Mr. Hunter, and the Attorneys General who have been here with us today, thank you very much.

Our next panel is Richard Barton, who is Senior Vice President of the Direct Marketing Association, and Dr. William Arnold from Arizona State University. We thank you for being here today to help us understand what the problems are and what some of the possible solutions will be for dealing with this ever-growing crisis that we have in our country.

Mr. Barton, we have a copy of your statement. We will have it printed in the record in full. We encourage you to make such summary comments from that statement that you think are appropriate. You may proceed.

**STATEMENT OF RICHARD A. BARTON,¹ SENIOR VICE
PRESIDENT, DIRECT MARKETING ASSOCIATION, INC.**

Mr. BARTON. Senator Cochran, Senator Levin, and Senator Collins, I was going to say that I am very pleased to be here to testify before you. I'll have to amend that a little bit and say, I think I'm

¹The prepared statement of Mr. Barton appears in the Appendix on page 82.

very pleased to be here to testify before you to discuss with you the Direct Marketing Association's members and the legitimate sweepstakes—and the fraudulent sweepstakes, which we really want to make a clear, fine line distinction between the two when we are discussing that today, and what we as an industry can do to resolve both the problems that we've been discussing about fraudulent sweepstakes, defrauding people, and about what we consider—and we can discuss this later on—inappropriate or bad responses to what we consider legitimate sweepstakes, and what we can do to reduce those, also.

First, a short description of the Direct Marketing Association. We are a trade association with 4,100 members internationally, 3,700 domestic corporations, involved in every form of direct marketing—not only mail, but also telephone, growing marketing on the Internet, and any kind of direct response marketing. We estimate through WEFA studies that total direct marketing comes to about \$1.2 trillion in terms of total revenues, and about \$390 billion of that—these are not sweepstakes, Senator Levin—about \$390 billion of that, however, is through the mail. So we are dealing with what we consider a significant segment of the American economy, of which the sweepstakes are a part; not \$390 billion, but an important part that we would like to discuss with you.

Every fact that we have been able to put together over the past 30 or 40 years or so of legitimate sweepstakes shows that people like them, that they respond to them, and that in most cases they respond to them in a positive way. We estimate that probably more than a billion sweepstakes promotions—legitimate sweepstakes promotions—are sent out every year. It may even be more than that; we don't have precise numbers, but it's a lot.

Roper Surveys indicate that 29 percent of all American adults respond to one sweepstakes a year, at least one sweepstakes a year, and some of them respond to even more. That's 29 percent, or about 55 million Americans. Of those, about 38 percent of the 29 percent made a purchase by responding to the sweepstakes, and 62 percent did not make a purchase.

And finally, just to give you some idea of the significance of this to the economy, we estimate that approximately one-third, for example, of all magazine subscriptions in the country are sold through sweepstakes promotions.

We recognize with you definitely that the series of problems that you are talking about are of great concern to us. The first is that fraudulent sweepstakes are a growing problem, and they are simply a growing problem because of the popularity of those legitimate sweepstakes, and there are many knock-offs of the current legitimate sweepstakes. In fact, the Michigan Attorney General mentioned one which involved the Publishers Clearinghouse, which in fact was a fraudulent scam knock-off of Publishers Clearinghouse that was making the telephone calls. But we are very concerned about these fraudulent outfits because not only do they defraud people and cause people a lot of money, but they also cast aspersions upon a legitimate industry.

I have to emphasize throughout this entire conversation that we're having with you that the hallmark or the actual cornerstone of successful direct marketing is the trust of the American public,

because we're dealing at arm's length with the process. You don't go into a store and talk to an owner or a clerk whom you know; you're dealing with an arm's length process, and it is absolutely essential that people trust the process, trust us, and we have been very supportive of legislation and activities on the part of many of the people who are here today to try to eliminate fraud and even questionable promotions which don't cross the line of fraud.

The fraudulent sweepstakes, as you point out, are often aimed at the elderly. Legitimate sweepstakes generally are not aimed at anybody except a broad cross-section of the American public. They often look like legitimate sweepstakes to the point that they even copy the logos in many cases, but—and this is a very big but—in all cases, in one way or another, the fraudulent sweepstakes require some sort of payment before you can receive a prize or whatever they're offering, and that is absolutely not the case with legitimate sweepstakes. If anyone—and we use this in all of our literature—is asked to pay to receive a prize or a consideration from a sweepstakes promotion, that promotion is illegal, is a scam, and should not be responded to in any way other than to turn materials over to law enforcement officials.

This association, certainly in the 20 years that I've been associated with it and longer than that, has been involved in many activities to fight fraud. We deal on an almost daily basis with the Chief Postal Inspector, Ken Hunter, and his people in the Postal Inspection Service. We deal very closely with the Federal Trade Commission, with the State Attorneys General, and in what is usually a positive relationship with other law enforcement agencies. In fact, I have a pamphlet here, "Sweepstakes Advertising: A Consumer's Guide," which is a piece that the Direct Marketing Association sponsors in conjunction with the Postal Inspection Service to describe how to spot fraudulent sweepstakes operations and what legitimate sweepstakes are all about.

We also work—and I'm going to make an offer today to increase that work, including with you—with consumers' organizations, such as the National Consumers League, on a regular basis; the National Fraud Information Center, which is a very growingly important method of fighting fraud; and the Council of Better Business Bureaus.

We also have an Ethics Committee. In fact, we have two Ethics Committees; I think we're the only trade association in the world that has two Ethics Committees. They consider cases against companies or against promotions which people think are deceptive, are unethical, and/or illegal. We have an extensive process in which we confidentially hear cases against companies, and we make a very strong effort within that process to resolve those differences, to get the companies to stop their unethical promotions, that we would consider unethical. In most cases we are quite successful with this.

It used to be a confidential process. The board has now agreed, overcoming some problems with antitrust laws, that we are going to begin to publicize that process, and in every case that we have companies that do not agree to follow the ethical guidelines of the association, we will publicize their names and even bring action against them in appropriate cases, before our own board, to have them dismissed from the Direct Marketing Association.

Senator Levin and Chief Inspector Hunter were discussing the possibility of stronger laws against fraud, and we have generally—the history of the association is to support stronger fraud laws. We can discuss a little bit later the work that we did with the Postal Inspection Service and with Congress in tightening up the laws against government look-alike envelopes around 10 or 12 years ago, I think it was, which we thought was important, and the difficulty you might have in expanding that law. But we are in favor of stronger laws to get more tools to the Postal Service and other law enforcement agencies, such as the Federal Trade Commission, to fight scams and frauds.

But we also think that there are a lot of laws on the books now, and that we can have even more vigorous enforcement both by law enforcement agencies and also by consumer organizations and our own association to more vigorously fight fraud.

Now, let me make a few points here about what I am going to call “legitimate sweepstakes.” The legitimate sweepstakes—some of the companies which you’ve been discussing here today—always, there cannot or there certainly should not be any deviation from this, certainly as far as our code of ethical business practice, which I have here and which has been available to the Subcommittee—never require a purchase to win. If there is any sweepstakes that requires a purchase to win and does not say that they don’t require a purchase to win, it is not a legitimate sweepstakes. There is full disclosure in all sweepstakes that a person has not necessarily won. We can discuss and argue over sizes of type and placement, which is a fine thing to do, but it should be very clear to the American public and the people here that a person who receives a prize notice has not necessarily won that prize.

Also, and this can be proven by statistics, that the people who do not have equal chances as people who do order to win sweepstakes. In fact, as we’ve shown here today and can show anywhere, most people who win sweepstakes prizes do not order from the sweepstakes companies.

Now, that being said, I want to underline here that this association and the members of the association and the companies we have been discussing are very concerned about the comments that were brought up by the two Attorneys General and by the Members of the Subcommittee about, frankly—it’s true, we do consider most of the highly-publicized cases of people who have been hurt by their response to these sweepstakes, by what we would call inappropriate responses to the sweepstakes. Not all, but a lot of them are. And we’re dealing with a situation which, as a matter of fact, frankly, concerns us very much and baffles us a little bit, because it should be clear that in fact people don’t have to perform in the way they do—for example, get on airplanes and fly down to Tampa, or to make a payment which would be illegal to get a sweepstakes, or to buy huge amounts of material in order to enhance their chances to win. We think that some people are actually misled, perhaps, by some of the promotions that we do, and we need to look at those carefully to be sure that in fact they do not mislead people, without affecting the important advertising message of those sweepstakes promotions and the advertising message in general.

But we are very concerned about that. We believe, and we came to a conclusion some months ago, that the industry needs to make a redoubled effort to work not only with law enforcement officials, but also with the Congress and with our own members and with the companies in order to be able to assure, as much as we can possibly assure, that people are not misled and people do not inappropriately respond to legitimate sweepstakes.

But—and this is a big but—we think that the proposed legislation, and we're talking about Senator Campbell's S. 2141, which we've discussed with him at some length, is not the answer. I'm not rejecting all the other proposals that have been discussed here from the Postal Inspection Service and from Senator Levin. It's quite possible we can support those, or some of those, although I would have to go back to our people and see what we can do with that.

But the proposed legislation very simply says that in very large type you will have on the front of the envelope—and on the first page, I believe it is, of the material in the envelope—very large type, which is 16-point type inside, and I've forgotten what it is on the front of the envelope, saying something to the effect that “you haven't necessarily won.” That is absolutely true. We believe that that should be clear in any kind of promotion, that you have not necessarily won. But to do it the way that Senator Campbell's bill does it, we believe very strongly would reduce the sales response to the sweepstakes to such a radical point that it would conceivably put a lot of them out of business.

And it's a very simple thing. This is almost an advertising truism: If you have on the front of an envelope any negative kind of thing—we even look at it in view of certain colors, which are sort of perceived as negative—any kind of major negative language, they will not open the envelope. And opening the envelope is what we have to get people to do before they will even consider the product. It is the same concept as space advertising in the newspaper, getting people to come into the store. This is getting the people to come into our store, and if you have any kind of negative advertising—negative statements on the front; not even advertising, but negative statements on the front—the tendency will be that people will not open the envelope. Even the Federal Trade Commission recognizes that much can be resolved once you open the envelope; the issue is clear.

The second thing is that while we completely agree that disclaimers must be clear, and it should be clear that a person has not necessarily won, if you put that on the top of an envelope in 16-point type—and I think you can see in my testimony how large 16-point type is, and you saw some of it up there in terms of some of the signs that we had up there—that at the top of the envelope you will have the same negative thing. It would be like putting at the top of a political advertising piece or a political letter that you send out to get people to go vote, “These are the views of the candidate and they may or may not be true,” 16-point type across there, and then you're not going to get your envelope opened, either. And that envelope opening is going into yours and our store, going to the voting booth.

If this is a matter of advertising, to dictate the kind and size of type and the precise message—which is a negative message—on an

envelope and inside in this nature, we think it would very, very substantially reduce our spots.

Now, that being said, there are many other things, we believe, that Senator Campbell and this Subcommittee are moving in the right direction on, in expressing concern and trying to do something about many of the things that are happening. We are willing to work with you all on language for any kind of legislation. And more importantly, as I will describe, to close a strong industry approach to improve this situation.

What can we do? Well, I've already outlined very briefly our current ethics process. We are making a commitment here at this hearing, right now, as an industry to do several things right away, to move on as quickly as possible.

First, strengthening our sweepstakes guidelines, which are included in our ethical business practice, to provide and require even clearer explanations of sweepstakes programs and what they do and do not do.

Second, in developing company programs to identify quickly high activity respondents, such as we've been discussing here, so that we can go to them and inform them that they need not buy and that no purchase is necessary. In fact, some of our companies already do that, and to very good effect, I think, in many cases. And, if necessary—which it often would prove necessary—removing them from the mailing list. Someone here mentioned requirements that people be removed from the mailing list. We have a national program to do that, and it's also going to be a requirement of our members that they remove people from mailing lists when asked, beginning in 1999, or they will not be able to be members of DMA. So we think it would be appropriate to identify some of these high-level respondents who are responding inappropriately and remove them from our mailing lists, and discuss the issue with them.

We want to have a better program of training customer service representatives in companies to identify problem cases; to work with relatives, which we do sometimes; provide name suppression, cancellations, and refunds, where necessary. We are committing ourselves to developing a coordinated national consumer information program to educate consumers about the operation of sweepstakes and how consumers can detect fraudulent sweepstakes. And we are willing to serve as a clearinghouse for consumer complaints, which we already do to a certain extent through our mail-order action line about sweepstakes, and pass the complaints to law enforcement officials as we do already, and also to pass on the other complaints, if necessary, to our Ethics Committees or to resolve them on the spot, which is what we would prefer to do; and to establish a more effective relationship with the consumer organizations that we already have a relationship with to improve the information that they have about legitimate and fraudulent sweepstakes.

The conclusion here, really, is that we are as concerned as you are. You are in some ways, frankly, describing an industry of legitimate sweepstakes that I am not familiar with because of the characterization of this industry in rather unflattering terms as people who are out to grab a dollar and do nothing else. That's not the industry that I work for, and it is also not an industry which in

fact is going to succeed over a long period of time because people will lose trust and confidence, and we want to build and maintain that trust and confidence.

So we are very strongly interested in working with you, Senators Levin, Collins, and Cochran, and Senator Campbell, in working out solutions to these problems, in which we think a good bit can be done by increasing our activities as an industry in ethical guidelines and consumer education.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Mr. Barton, for your testimony.

Dr. Arnold, Professor of Gerontology, from Arizona State University. Welcome. You may proceed.

STATEMENT OF WILLIAM E. ARNOLD, Ph.D.,¹ DIRECTOR OF GERONTOLOGY, ARIZONA STATE UNIVERSITY

Mr. ARNOLD. Thank you, Chairman Cochran, Senator Collins, and Senator Levin. I guess Mr. Barton and I will be disagreeing a little bit here in a few minutes over some of the things that have been said, just to spice things up a little bit.

I'm not going to read my remarks. I am going to make three points. I have a couple of stories to begin with. I want to talk briefly about the research that I did, and then make some recommendations.

I got this on Friday: "Express Document, Rush Priority, Rush to Addressee, Extremely Important." It has the eagle on there; maybe we ought to put a tiger on it instead. That might slow things down. And then some more "Rush" on the other side. No mention of the name of the company that sent it; it turns out to be a mortgage company that wants me to subscribe.

I got that catalog from Michigan, Senator, and I wondered if I had won, so I'm glad to know that you're working on that.

I got a call about 3 weeks ago on a radio program from a person in Iowa whose mother lives in your State, and she was ready to hop on a plane and fly to New York to collect her prize, but he was fortunately able to talk her out of it.

Those are the stories. We've heard lots of stories far bigger and stronger than I can make, but I want to skip over to page 11 of the paper that I have for you and talk about two pieces of research, and I think you have a document in front of you that describes what this study was all about.

Essentially, in the first study I asked seniors in three different senior centers to respond to the statements, and the statements that you have are there. I gave them the statement, "Open at once. Prize payment guaranteed to winners inside."

Senator COCHRAN. This is the document that you're referring to, right here?

Mr. ARNOLD. Right. And it's in black and white in the copies that have been given to everybody else.

So they got that first statement, and I said, "OK, how likely are you to open that document if you just see that single statement, 'Open at once,' in red type?" And 39 percent said they would open it up, and another 61 percent said not likely.

¹The prepared statement of Mr. Arnold appears in the Appendix on page 89.

So I asked then another question with the second statement that says, "Notice: Postmaster, the security of this package is guaranteed," and you've got that statement. Fascinating results; 57 percent now said they would open it. The percentage increased when the statement was there from the Postmaster, and I think that Mr. Hunter stated very clearly why our seniors are responding the way they do. They have trust and confidence in the Post Office, so they read a statement like that and it suggests to them, "This is probably OK to go ahead and open up."

I got another piece—and we'll be studying this very shortly—this is something new I had not seen, tamper-proof, a piece of tape that says "If this seal is broken at time of arrival, please notify your local postal authorities." Again, it's the same kind of thing, appealing to the credibility of the Post Office. Quite frankly, I have not opened it, so I'm not even sure who it is from. But that was the kind of thing that increased the willingness to open the envelope if they saw it was from the Post Office.

The third was a warning similar to what Senator Campbell was proposing. I put that on there, and I said, "By itself, if you just saw that on the envelope and nothing else, how likely are you to open it?" And the response was that 86 percent would not open the envelope. So if we took Senator Campbell's proposal and put that on the envelope alone, then I think Mr. Barton is right, people would probably throw it away.

The next study. I combined all three on an envelope that looks like this, handed that to them, and then said, "OK, tell me what you notice first." And 78 percent said they noticed "Open at once, prize payment inside." Only 9 percent even noticed the statement about the contents.

So I said, "OK, then, given that data, how likely are you to go ahead and open the envelope?" What did they say? We had 78 percent that ignored the contest and would say, "I'm going to go ahead and open it; there's something in there for me."

Senator COCHRAN. You said, ignored the contest?

Mr. ARNOLD. They ignored the content of this message, that this was a contest, their chances—I only put 80 million to 1; I've heard 120 million to 1 would be more appropriate. "You do not have to play"—that was ignored by 78 percent.

So what's the third and final point? It seems to me that legislation may work, but I think we need to do more in figuring out where we place this if we allow this to be on there alone. Do we put it on the back side, like a piece of tape, and say, "This is a contest"? We're going to do that research because we think we need to do more. Maybe we need to put that in red and the other messages in the black and white.

So that's what we're going to be doing by way of research.

The second suggestion is that maybe we need to define what it means to have a sweepstakes. What does that mean to everybody who responds to it?

Third, we're going to be studying—now that we've seen the UnionGram, and there are others that we know are patently illegal and should be stopped—we want to study the content of those versus the ones used by the legitimate marketing firms to see where there are differences.

Fourth, I think we need to look at—as, again, Mr. Barton has pointed out—the specific type size and placement, and we’ve seen plenty of examples of things that we need to do there. But we need to test that along with cognitive abilities, attitudes towards the U.S. Government, because obviously if tampering is an issue, then we have a great deal of respect so we watch the messages that we get across.

And finally, I guess I would call for—and what I’ve heard a lot of folks calling for—a group getting together to decide what kind of information we should have, what kind of enforcement we should have, involve gerontologist around the country and communications people who can look at that so that they can help you come up with the most effective pieces of legislation.

Thank you very much.

Senator COCHRAN. Thank you, Dr. Arnold.

I showed some copies of correspondence that I had received and my staff had received to the earlier panel, and I was curious to know, Mr. Barton, whether your guidelines that you discussed for the Direct Marketing Association would be violated by any of these mailings that we received.

First of all, this government—appearing to be a government check, that came to me, whether there is anything in that, and one of my staff members had one almost exactly like it. Both of these turn out to be from loan companies. There’s no harm done, I guess, if we don’t take out the loan, but they both appear to be letters from the government containing a government check, payable to the addressee. Is there anything in your guidelines that would be violated?

Mr. BARTON. I don’t know, because that would have to be a matter of committee study and interpretation. The closer it gets to look like an actual government envelope, the closer it comes to violating our ethical guidelines. Of course, if you take an actual government envelope, it’s illegal. That’s one of the things that we worked on.

So what I’ve been saying is that it would at least be worth taking a look at. I can’t say here, right now, whether it would violate the guidelines. However, I would point out, without defending what that envelope looks like or what’s on the front of the envelope, the instant you opened it you knew what it was. In any direct marketing context—and I think even the Federal Trade Commission would say that a lot of hyperbole on the front of an envelope is resolved the minute you open it if it is in fact clear that it is not a government check, which it is not, and that what it is is an offer of credit.

But in terms of that specific envelope, I really would have to take it and run it through—which is a quasi-legal process, our guidelines. I’m not sure, frankly, whether or not the Committee has recently taken up any of those. I will find out for you and give you a written statement on it.

Senator COCHRAN. One other question I have about your guidelines relates to the enforcement. You mentioned that if someone did violate the guidelines, that they could be dismissed as members of the association. Do you have any other sanctions that are imposed for violating the guidelines, other than just no longer being able to be a member of the Direct Marketing Association?

Mr. BARTON. Well, from this point on we will publicize it, even if it doesn't come to the point of dismissal from the association. We will make public the names of the companies which we have determined have violated the ethical guidelines, and distribute that information to the consumer organizations that we deal with, and it will become public knowledge.

We think, certainly, for legitimate companies, that that's a substantial problem for them. But dismissal, frankly, is probably going to be used more and more as a sanction, and it turns out that that's a pretty good sanction because most of the people in this business do not want to be looked on as pariahs. But that's really the best I can say about that.

In terms of—this is not exactly in terms of the ethics and the law—also we are starting a national program to require companies to remove names from mailing lists when they are requested to, and that would include the kinds of things we're talking about here, with people's inappropriate behavior to sweepstakes, which we would determine that their names should be removed from mailing lists, and to use all the programs that we use for people who ask to get off of mailing lists. That would be a requirement for membership, and they would be dismissed, too, if they didn't do that.

Senator COCHRAN. Dr. Arnold, in your judgment are those who are vulnerable to deceptive and fraudulent practices—can they be educated with tips and other advice in a way that would permit them to be more likely to resist falling for some of these scams and being duped or ripped off by them?

Mr. ARNOLD. Let me make two points on that. First, I hope so, because I'm in the wrong business if I'm in education and we can't educate folks.

But second, let me give you a specific. One of the things we discovered in doing the second piece of research was that our seniors didn't fully comprehend what bulk mail meant. I said, "How was it mailed to you?" And they said, "Well, it says U.S. postage." I said, "Well, what does that mean?" "Well, it's bulky, and it came from someone," so they did not distinguish between what would be bulk rate, what would be first class, what might even be Priority Mail. So I think that's an issue we could look at, and I think that's part of the education.

The other point that I did not make, that perhaps we ought to take off notices that are on letters and envelopes like this where the Postmaster secures from tampering—maybe that's doing more harm than good by having that.

Senator COCHRAN. It legitimizes the mailing?

Mr. ARNOLD. And they see that the Postmaster approves of this because it's protected from tampering. Take that off, and the percentage that we got would be reduced to the "Open at once."

Senator COCHRAN. Senator Levin.

Senator LEVIN. How many members are there of your association?

Mr. BARTON. There are 4,100 companies.

Senator LEVIN. There's a bankruptcy petition here which was filed by some company called Direct American Marketers, Inc. Are you familiar with them?

Mr. BARTON. I know of them, yes. They are not members of ours.

Senator LEVIN. They operated under—it looks to me—about 700 different names, one company.

Mr. BARTON. I know that they operated under a lot of different names. I don't know which ones—

Senator LEVIN. I made a quick count. It looks like about 100 per page, and there are seven pages. I doubt that any one of them were members of your association.

Mr. BARTON. No.

Senator LEVIN. If so, what sanctions would you have taken against this kind of an operation?

Mr. BARTON. They were members of ours, Senator, and they're no longer members. We did have an ethics case against them. There were recommendations about dismissal, and they left membership in the association.

Senator LEVIN. Before you dismissed them?

Mr. BARTON. I believe so. That's a while ago. I believe so, yes.

Senator LEVIN. That will give you an idea, folks, of the way these companies operate. These names, using the word "award" to begin with—"Award Administrator for Disbursements Division," "Award Auditing Division," "Award Claims Center," "Award Claims Centre" spelled differently, "Award Disbursement Unit," "Award Notification Director," "Award Notification Services," "Award Payment Determination Center," "Award Payment"—I mean, it just goes on and on and on, page after page after page, one company using about 750 different names.

I would like to make that part of the record.¹

Senator COCHRAN. Without objection, so ordered.

Senator LEVIN. Mr. Barton, I'd like to show you a chart here, if you would. Could you put the chart up there for me?

I want to ask you whether or not, in your judgment, this chart complies with your ethics requirements. I know that you have a committee there that looks at these, but I'd like you just to give us your own personal opinion, not binding on your committee.¹

Mr. BARTON. I can't even read the type. [Laughter.]

Senator LEVIN. That's my point. I appreciate it. Next exhibit. [Laughter.]

Take a look at the words, "The judging is now final. Mr. Bruce"—whatever his last name is—"is one of our \$1,666,000 winners."³

Now, Mr. Bruce, with his last name, is going to see that pretty boldly. Here you are, one of our winners. I mean, my gosh, that will get someone's attention. But above that, it doesn't look like anything; there are some very small words. Can you point those words out? Above, on the official notification—just point to them.

Mr. BARTON. On the official notification, above—

Senator LEVIN. Yes, that little line above there. Keep going, higher, higher, higher—lower, lower. There. [Laughter.]

There. You got it. Now, I'm going to read that line to you that nobody can find; even my staff member, who is an expert on this subject, can't find the line.

¹ The list of other names used by the debtor submitted by Senator Levin appears in the Appendix on page 165.

² The Chart referred to by Senator Levin appears in the Appendix on page 171.

³ The exhibit referred to appears in the Appendix on page 172.

“If you have and return the grand prize winning number, we’ll declare”—that little unreadable line makes this legal under current law. That’s not my question—we’re going to try to make it illegal under new law, by the way. I’m saying that right now. But under current law, because that little unreadable line is there that says, “If you have and return the grand prize winning number, we’ll declare”—then they go on to say, in type this big, “the judging is now final. Mr. Bruce so-and-so is one of our \$1,666,000 winners.”

Now, if that isn’t deceptive, I don’t know what in the hell is.

Mr. BARTON. Well, I’m not going to say—I don’t know whether the Ethics Committee would find it deceptive or not deceptive. It’s on the edge. But it does say—so now we’re talking about size of type, because it does say, “If you have and return the grand prize winning number, we’ll declare,” and it does say at the bottom, “If you have and return the grand prize winning number, we will officially declare it as confirmed,” which is at the top of the piece on the second page, I believe.

Senator LEVIN. But you see, your own ethics requirements talk about size, and that’s why I want to get to your own ethics requirements, because Article 3 says, “Representations which by their size are unlikely to be noticed”——

Mr. BARTON. Yes, but we don’t determine what the size is. And this would, frankly, probably be one of the things that we would be working on in order to expand our ethical guidelines.

Senator LEVIN. Do you think that little thing there is likely to be noticed? We can’t even find it. My intrepid staff member, who is an expert, can’t even find it. She probably knows more about that form than anybody else in the room.

Mr. BARTON. Well, in one way or another, millions of people do notice it, or at least do know that they haven’t won.

Senator LEVIN. I’m worried about the millions that don’t notice it, by the way. I’m not worried about the few that are so used to these scams that they look for the ways in which these hooks are attempted to put into people’s hides.

I’m just asking you, as a rational and reasonable human being, in your judgment, given the location of that and the size of that, is that likely to be noticed under your own guidelines? Because if it is, your guidelines aren’t worth anything.

Mr. BARTON. I don’t know what we would determine in our Ethics Committee about the guidelines.

Senator LEVIN. Would you take that up with your Ethics Committee?

Mr. BARTON. Yes, I certainly would.

Senator LEVIN. How long would it take you to let us know?

Mr. BARTON. A month or two. They meet once a month, so give me a little bit longer than that.

Senator LEVIN. All right, if you could do that.

Now, that’s Article 3 of your ethics rules, “Representations which by their size and placement are unlikely to be noticed.” That’s one.

Mr. BARTON. Right.

Senator LEVIN. Now if you could put up the official rules.

This is on the envelope that that thing came in. Would you say that by the size of that, that they are unlikely to be understood or read?

Mr. BARTON. I think they would be unlikely to be read, frankly, and one of the reasons you put official rules like this—I mean, there are a lot of legal requirements, not in connection with this, that you put official statements on pieces of paper, and they're all in very small type, because you don't want to take up a lot of space from the message.

I don't know whether we would talk about putting that in bigger type. I think that the important thing is not to have all the official rules in large type. The important thing would be to make it clear that in fact you have not necessarily won.

Senator LEVIN. Yes.

Mr. BARTON. And I think that that kind of language, which you see on thousands of documents and legal documents of all kinds—not language, but size of type—I don't really think that's what we're talking about here. I think we're talking about, is it going to be clear to somebody that you have not necessarily won?

Senator LEVIN. Well, it says in your Article 25 that “the terms and conditions should be easy to read.” Those are the terms and conditions, one of which says “no purchase necessary.” By the way, that's only because I have strong glasses on and read it 23 times; that's the only way I can even find it. And there's another one hidden in there that talks about your odds on this thing, which I can't even read now with my glasses on, but it's—well, the prize bonus here, it says that the first prize is \$25,000. That's the first prize, \$25,000.

This is what came in that envelope, “Judging is now final, and Mr. Bruce so-and-so is one of our \$1,666,000 winners.”

Mr. BARTON. I would have to look at that very carefully because that doesn't make sense. I agree with you, it doesn't make sense.

Senator LEVIN. OK, it would be very helpful if your committee could get back to us with that, plus some other exhibits which we will give to you—if the Chairman is willing to do this—to give to Mr. Barton a number of these documents that we have used, and ask them to get back to the Subcommittee with whether or not—the decision of their committee on whether or not these exhibits that we are using here comply with their rules.

Finally—is that agreeable to the Chair?

Senator COCHRAN. It's certainly agreeable, and we hope you will be able to help us with that.

Mr. BARTON. We will treat you as an official complainant.

Senator COCHRAN. Good. Thank you. I think you got more than one.

Senator LEVIN. One final comment. Is there any reason why we should not make your ethical guidelines law?

Mr. BARTON. Well, you will have to admit that they are awfully vague to be put into law. [Laughter.]

And I'm saying that in a positive way. Laws have to be very precise.

Senator LEVIN. Well, criminal laws surely do, but I'm talking about civil fines and administrative fines. And when you say here that “Offers should be clear, honest and complete so that the consumer may know the exact nature of what is being offered,” “Representations which by their size or placement are unlikely to be no-

ticed," I think that may be clear enough for administrative and civil fines.

But in any event, would you give us—

Mr. BARTON. Let us look at it. You know, the changes in law that you were discussing with Ken Hunter were things that I think that we can look at and, probably, positively respond to, a lot of them, and let us look at that, too.

Senator LEVIN. Good. Thank you.

I just have one question for Dr. Arnold and then I'll be done.

Your testimony was also very fascinating, I must tell you, because what it really is warning us of is that we can think we're really accomplishing something by writing a law, but we may not accomplish it at all. For instance, that warning about the Postmaster here may have absolutely no effect if at the same time, or in the same envelope, people read more prominently a red bold-faced something which tells them something else. So we have to really think through what we do and take into consideration how clever some of these folks are in evasion. I mean, we thought we passed a law in 1990, I believe, relative to government look-alikes. That was our effort, yet the Chairman has brought out a whole bunch of government look-alikes here, and others have, too. Senator Collins has. They are government look-alikes. We didn't succeed in 1990.

So we do have to take into consideration your expertise and that of folks like you who have expertise in this area, and we would look forward to your working with us as we attempt to tighten these laws.

Senator COCHRAN. Thank you, Senator Levin. Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

Mr. Barton, I was really disturbed by part of your testimony. You said that a lot of the cases that we're concerned about that have been publicized were the result—and I wrote it down—of "inappropriate responses to sweepstakes." That statement really troubles me because it indicates to me a "blame the consumer" mentality.

I don't think it's unreasonable for someone who receives a sweepstake that says "Mr. So-and-so, it's down to a two-person race for \$11 million, you and one other person in Florida were issued the winning number," etc., "and whoever returns it first wins it all" to think that they've won. I don't think that's an inappropriate response. I think it's a very logical response to a very deceptive, misleading statement.

Mr. BARTON. We agree with you in general about that particular promotion piece. That was part of our ethics process and it was withdrawn, also with the Attorneys General and so forth, so I would agree with you about that.

But while we're talking about response, we definitely not only don't want to blame the consumer because in fact the consumer is a very important part of us, and we think they're wonderful people. But I really think you'd have to say that when you spend \$20,000 or \$30,000 of money you don't have on a promotion, whatever it is, whether it's buying magazines or whatever, there is a problem there, more than the fact that the person might have been deceived by what we would consider a legitimate sweepstakes. We want to reach people who are like that, to say that "You don't have to do

this, and there might be some other problems that we want to help you with.”

I don't want to sound condescending at all, but I think it's pretty clear from some of these examples that we have seen that they are not average, normal responses on the part of people who do sweepstakes.

Senator COLLINS. But the fact is, this was set up to deceive people because if you buy a magazine, your response goes to Tampa, where the number is going to be drawn. If you don't buy a magazine, the response goes to Georgia.

Mr. BARTON. Again I say, that promotion has been withdrawn.

Senator COLLINS. But this is so typical. The one I used in my opening statement from my constituent in Portland says, “You were declared one of our latest sweepstakes winners and you are about to be paid more than \$830,000 in cash.” It shouldn't be a detective game for people to figure out whether or not they really have won.

Mr. BARTON. No, it should not be a detective game, whether or not they really have won.

Senator COLLINS. What I'm really trying to ask is, what kind of response are we talking about? If somebody just thinks they have won and have done nothing, as bad as we think the promotion might be, there's no harm done there; they just throw it away, or say, “Gee, I might have won.” If they buy a magazine or two, then that is not an inappropriate response, as I was talking about, and in fact that's the kind of thing we don't want to happen because we think it ought to be made clear.

Mr. BARTON. You're right, it ought to be made clear—that in fact they have not necessarily won.

Senator COLLINS. The problem is that it isn't just a small number of unsophisticated consumers. I know Dr. Arnold's research shows that. There's one report in Iowa in response to just the Publishers Clearinghouse Sweepstakes that showed 126 Iowans, nearly three-quarters of them over age 70, spent \$2,500 or more on magazines in response to one solicitation.

Almost 2,000 Iowans paid the company more than \$1,000 in 1996 and 1997. I agree with you that you can't save everyone from making a mistake, but that assumes that they've received a clear and legitimate offer. That's not what's happening.

Mr. BARTON. It assumes that they believed that they had to buy something—you're assuming that they believed they had to buy something to win the sweepstakes.

Senator COLLINS. Do you think they didn't believe that?

Mr. BARTON. No. I'm not saying that I didn't think they didn't. I'm saying that to the extent that that happens, it shouldn't happen, and that's not what I was talking about. I was talking about people who have garages full of stuff, that we talked about, that are truly inappropriate responses. These people need to be helped by us and by other people not to respond to sweepstakes like that. In that kind of sweepstakes, there should be no reason whatsoever that anybody would go in and spend \$2,500—or even \$15—for a magazine that they didn't want to buy, if they believe that it's going to help them win the sweepstakes. And we're committed to working with you to be sure that that happens, and that to the

best of our extent, that the industry presents promotions that are not in fact deceptive in that way.

What I am saying in a sense here is that there is a gray area in all of advertising of what you and I would define as deceptive, and what is just strong hyperbole, and we need to find somewhere where that line is, I guess, because there is a lot of strong advertising that goes on in newspapers and magazines and so forth which some people might consider deceptive and other people might consider just strong selling tactics.

So what we want to do is provide an ability for the consumer to make a wise choice, and we think most of them do. More than 60 percent of the people who respond to sweepstakes don't buy, and those who win don't buy. So we're willing to do that.

Our problem with Senator Campbell's bill is that the requirement for the type and placement is so negative that we think that it would just substantially reduce response all across the board, not just from the elderly.

Senator COLLINS. Well, in some of these cases I would be happy if the consumer threw it away because of what you call "negative information" on the envelope, and what I would call "truthful information" on the envelope. I think we would perhaps be saving some consumers a lot of grief and financial loss.

I realize that you are committed to working with us on this, and I hope that you will concede that the industry has a long way to go to make sure that deceptive practices like these do not continue.

Mr. BARTON. Yes.

Senator COLLINS. I have just a couple quick questions for Dr. Arnold.

Dr. Arnold, I want to follow up with you on the issue of who is deceived. It's my understanding—I don't know whether you're familiar with it—that the AARP, the American Association of Retired People, has found that seniors are more likely to be victims, and that it's not necessary the isolated and ill-informed senior, but rather that a sophisticated and well-educated senior citizen can also be snared by this kind of deceptive sweepstakes or pseudo-government mailing. Are you familiar with that study? Is that accurate?

Mr. ARNOLD. Yes. I'm familiar with that, and the data that we have supports the same thing.

Senator COLLINS. My final question that I want to ask you follows up on the excellent point that you made, that seniors are perhaps more vulnerable because they trust government more; and when they see something referring to the "Postmaster" on the envelope, or "Buy U.S. Savings Bonds," or it's the color of a government envelope, or it has an eagle on it, they're more likely to think that the government somehow has approved this or that it's a legitimate offer.

Is there also a similar factor at work with the use of respected, well-known celebrity spokesmen to promote sweepstakes?

Mr. ARNOLD. The one thing that is standard in communication is the notion of credibility. That's something that we've known for 2,300 years. If you have someone who is highly credible as your spokesperson and that's someone that they believe, then they're going to be more persuaded by it. Just as an aside I asked, "Well,

who should we get to speak against telemarketing and mail fraud?" And everybody among the seniors responded, "Why, Hugh Downs." So they are turning to another senior who is respected by that community to speak out against what some other folks are doing on the other side.

Senator COLLINS. Thank you.

Thank you, Mr. Chairman, for an excellent hearing.

Senator COCHRAN. Thank you, Senator Collins.

Senator Levin, do you have any further questions?

Senator LEVIN. I just want to thank our witnesses.

Senator COCHRAN. Thank you especially to the Senators who worked hard to prepare for this hearing. We appreciate the support and assistance that they have provided, and the members of our staff who have helped arrange and prepare for the hearing as well. And to all of our witnesses, we thank you, the Attorneys General and the Postal Service Inspector, and the other witnesses. We are very grateful for your assistance in helping us better understand the extent of this problem and what the options are for dealing more effectively with it. We think it is time for reform, for tightening up these laws and rules, and we are serious about doing something about it. Senator Campbell has laid out a proposed change in the law, the Honesty in Sweepstakes Act, which we have considered at this hearing. There are other suggestions that the Postal Service has made and that others have made, that Senators on the Subcommittee have made. We are going to consider these options.¹

We appreciate the fact that there is an upgrading of the ethical guidelines for the association that has already been undertaken, maybe as a result of the initiatives that we've seen here in this Subcommittee.

But we look forward to working with all of you to help make reform a reality and not just a promise.

The hearing is adjourned.

[Whereupon, at 4:47 p.m., the Subcommittee was adjourned, to reconvene at the call of the Chair.]

¹GAO testimony, "Issues Related to Honesty in Sweepstakes Act of 1998, S. 2141," submitted for the record, appears in the Appendix on page 180.

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A P P E N D I X

Statement by
Senator Ben Nighthorse Campbell

before the

Governmental Affairs
Subcommittee on International Security,
Proliferation and Federal Services

on

The Use of Mass Mail to Defraud Consumers
and the
Honesty in Sweepstakes Act of 1998

Tuesday, September 1, 1998
2:00 p.m.
342 Dirksen Senate Office Building

Mr. Chairman, Ranking Member Levin, members of the subcommittee, it is my pleasure to come before you today to testify on S. 2141, the Honesty in Sweepstakes Act of 1998.

Thank you, Mr. Chairman, for holding this hearing on one of the preeminent consumer abuse issues we face today -- the use of misleading direct mail marketing practices -- especially some all too common methods used in sweepstakes promotions.

I believe that the Honesty in Sweepstakes Act would be a big step in protecting consumers from deceptive mass mailings marketing tactics. Far too many American consumers are being taken advantage of by increasingly deceptive marketing ploys. These ploys prey upon people's hopes and dreams. The situation is getting worse.

This bill will go a long way in helping protect our country's most vulnerable citizens -- those who are particularly susceptible to these deceptive promotions -- including seniors, the lesser educated, and the poor. It seems that all too often it is the very people who can least afford it who are the ones who get sucked in by convincing -- yet false -- promises of certain riches.

When a reporter with the New York Times interviewed me about the Honesty in Sweepstakes Act, he asked me if this bill was meant to appeal to our nation's seniors. Then and now I respond "Heck no, I am just looking out for my brothers and sisters. I am a senior now too." In fact, the New York Times thinks that sweepstakes abuses have become so problematic that the resulting article appeared on the front page -- and above the fold -- of the July 28, 1998 New York Times. Mr. Chairman, I ask consent to submit a copy of this article for the record.

Sweepstakes have been around for a long time. Those days when you could just look at them and know that they were sweepstakes are long gone. These days sweepstakes boldly use announcements like "Congratulations, Ben Nighthorse Campbell, you have already won 24 million dollars!" This amounts to modern day snake oil -- and it is being delivered through our nation's postal system.

Over the years sweepstakes have become increasingly sophisticated and deceptive. While these promotional tactics may be technically legal -- they appear to be skirting the limits of the law. These deceptive tactics run counter to America's values of honesty and forthrightness.

The Honesty in Sweepstakes Act would address this problem by requiring that a few key disclosures be clearly printed on the face of sweepstakes envelopes and enclosed promotional materials. For example, one disclosure would simply read "This is a sweepstakes. You have not automatically won." This would effectively neutralize common misleading claims such as "Congratulations Joe Public, you have just won \$600,000." Hopefully sweepstakes promoters who use these types of claims would see the light and make more forthright claims such as "Joe Public, you are eligible for a \$600,000 sweepstakes drawing."

A complementary section of this bill calls for similar honesty disclosures for cashier's check look-alikes -- which are often practically indistinguishable from real cashier's checks. These disclosures would be printed up-front, in clear language and in large print.

The participation of American consumers would help make the Honesty in Sweepstakes Act work. When consumers receive sweepstakes mailings that do not contain these honesty disclosures -- they could call the offices of the U.S. Postal Inspector -- who would then be authorized to take appropriate action. This approach is founded on the important precedent of how the U.S. Postal Service may respond to government look-alike mailings -- promotional materials designed to look just like official governmental mailings. In addition, the U.S. Postal Inspection Service may need additional enforcement mechanisms. I look forward to working with Chief Postal Inspector Kenneth Hunter as we continue our work on this bill.

While drafting the bill I consulted with the offices of Colorado Attorney General Gayle Norton and Florida Attorney General Robert Butterworth. One key result of these consultations was the inclusion of a clause stating that nothing in this bill will preempt state law. This clause preserves the right of each state to enact its own additional guidelines or take additional legal action as they see fit. I appreciate the input from these two Attorneys General and I am pleased to see that Robert Butterworth -- Florida's Attorney General -- will be testifying later today.

We can expect that some desperate critics may try to claim that the Honesty in Sweepstakes Act may violate the Constitution's guarantee of freedom of speech. My response is twofold. First, this bill would not restrict what sweepstakes promoters may say. No part of the bill prohibits any language. It simply says that they need to make key disclosures clearly and up front.

Second, these disclosure requirements are just like health warnings on packs of cigarettes, nutritional labeling on our nation's food, and other existing disclosure rules. Each of these uses standardized disclosures and font sizes. If they were unconstitutional the Supreme Court would have already thrown out existing labeling rules. When consumers have the important information they need, they will be better able to make better purchasing decisions and live better lives.

Unfortunately, no one truly knows the exact extent of the problem. Over the past two months the Government Accounting Office has been trying to get an exact feel for the full extent of the problem. The GAO's work has revealed that -- while our country has no centralized data base of reported sweepstakes abuses -- or centralized overseeing authority -- abundant media reports and anecdotal horror stories are clearly just the tip of the iceberg. We need to start turning the ship now -- before more consumers are victimized. Mr. Chairman, I want to thank the GAO for their good work.

The abundant evidence -- including the deceptive promotions each of us as Americans receive in our mailboxes on a regular basis -- makes it clear that current laws aimed at stopping deceptive promotions simply are not working.

Just last week the Consumer Federation of America gave the Honesty in Sweepstakes Act its strong endorsement. In a well worded and persuasive letter -- our retired colleague, Senator Metzenbaum -- states that he believes that the merits of this bill are such that it deserves to be passed and enacted this year -- even with so few legislative days remaining. I appreciate the Consumer federation's and Senator Metzenbaum's endorsement and ask that a copy of the letter be included in the record.

The National Consumers League has also sent me a letter in support of this bill. One quote from this letter reads "This legislation would be very effective in preventing misleading and deceptive sweepstakes solicitations." I ask that this letter also be included in the record.

These days, too many sweepstakes promotions resemble wolves in sheepskin. Something clearly needs to be done. This bill is about peeling the sheepskin off the back of the wolves. We may hear some howling, but American consumers will be better off in the end.

I look forward to working with you and the rest of the Senate to try to get this bill enacted this year.

Thank you, Mr. Chairman.



UNITED STATES POSTAL INSPECTION SERVICE

STATEMENT OF
KENNETH J. HUNTER
CHIEF POSTAL INSPECTOR
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL SECURITY,
PROLIFERATION, AND FEDERAL SERVICES
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

SEPTEMBER 1, 1998

Good afternoon Mr. Chairman, I am Ken Hunter, Chief Postal Inspector. I appreciate this opportunity to appear before you to discuss sweepstakes and government look-alike mailings. I want to thank you, Senator Levin, and Senator Collins for the interest you are showing in addressing this problem. Your efforts here provide one more means to educate the American public. We are very concerned about the adverse impact some of these mailings can have upon consumers.

The Postal Inspection Service is the criminal investigative arm of the U.S. Postal Service. We are responsible for protecting postal employees, the mails, and postal facilities from criminal attack, and for protecting consumers from being victimized by fraudulent schemes or other crimes involving the mails. We also work to rid the mails of drug trafficking and money laundering; mail bombs; and perhaps one of the most despicable crimes- child exploitation. In addition, we along with the Office of Inspector General conduct internal audits of postal operations. The Postal Inspection Service, which employs about 2,100 postal inspectors, 1,400 postal police officers and 900 professional, technical and support employees, has performed many of these duties for over 200 years and is one of the oldest federal law enforcement agencies.

A number of statutes enable us to take action against fraudulent practices involving the use of the mails. Our primary weapons are two statutes originally enacted over 125 years ago: the criminal mail fraud statute and the civil false representations and lottery statute. The public policy, which underlies these statutes, remains valid today: the postal system created by Congress to serve the American public should not be used to conduct schemes that seek to cheat the public.

The nation's mail service was designed to assure that there was always a reliable, efficient, affordable and secure means of communication for its citizens. A recent Harris Poll affirms that the American public feels significantly more confident about the security of mail, than they do in telephone or Internet communications. Even in a world of advanced technology and instant communications, the people and businesses of this land feel more secure in a hardcopy delivery system, that is backed by a U. S. Government guarantee- the Postal Inspection Service. Our mission is to prevent unscrupulous promoters from damaging that confidence.

INSPECTION SERVICE JURISDICTION

Perhaps our best known remedy is the criminal mail fraud statute, 18 U.S.C. § 1341. During the past fiscal year, 1377 investigations were initiated regarding possible mail fraud violations. We arrested 1545 individuals associated with fraudulent schemes and obtained 1533 convictions, resulting in prison sentences, fines in excess of \$12.1 million, and court-ordered and voluntary restitution of over \$316 million.

Where the proceeds of a crime are used to further the illegal activity or are concealed, we have authority under the money laundering statutes to forfeit those proceeds or

property acquired with them. Our first consideration in dispersing forfeited funds is to return them to the victims whenever possible. The authority to prosecute mail fraud violations is vested in the U.S. Department of Justice. The cases are tried in the U.S. District Courts.

The False Representation and Lottery Statute, 39 U.S.C. § 3005, allows the Postal Service to take administrative action to return to consumers all mail sent in response to a lottery or a scheme which seeks to obtain money or property by mail through false representations. The statute also authorizes the Postal Service to issue cease and desist orders prohibiting future operation of the lottery or false advertising scheme. Violation of these orders can result in penalties of up to \$10,000 per violation. The Postal Service Law Department initiates administrative proceedings under these statutes before the Postal Service Judicial Officer. The Judicial Officer considers whether we have proven by a preponderance of the evidence, that material facts about a particular product or service have been misrepresented. Last fiscal year, complaints filed with the Judicial Officer alleging violations of Section 3005 which were resolved, resulted in 53 consent agreements, 65 cease and desist orders and 91 False Representation Orders.

Because the administrative proceedings may be time-consuming and mail scams often are of short duration, two federal statutes (18 U.S.C. § 1345 and 39 U.S.C. § 3007) authorize the U.S. district courts to issue injunctions to prevent consumer losses while the administrative proceedings are pending. Section 1345 permits broad injunctive orders ranging from stopping the mailing of the fraudulent solicitation to the appointment of a receiver to manage a fraudulent company and provide restitution to victims. Section 3007 allows the U.S. District Courts to issue temporary restraining orders and preliminary injunctions permitting the Postal Service to withhold from delivery mail in response to schemes which are the subject of pending actions under the false representation and lottery statute. During Fiscal Year 97 we applied for and were granted eleven temporary restraining orders.

We also enforce 18 U.S.C. § 1302, which makes it a crime to mail lottery tickets and related matter. With limited exceptions for certain mailings conducted by State-operated lotteries, or nonprofit organizations, this statute applies to any mailing that involves the three legal elements of a "lottery": prize, chance and consideration. I will elaborate upon these requirements later. For now it may suffice to say that any scheme in which a prize is awarded based upon chance and in which consideration must be given in order to be eligible to win constitutes an unlawful lottery under Section 1302. However, if any one of these required elements is missing, the promotion does not violate the statute. Accordingly, while the statute could apply not only to classic lottery ticket promotions, but to sweepstakes promotions as well; it will only apply where the sweepstakes requires the remittance of a fee or the purchase of goods or services in order to be eligible to win a prize through a drawing. Often, sweepstakes promotions offer a free entry option and thus no legal "consideration" under the statute.

Under other statutes, the Postal Service can withhold from delivery mail sent to false or fictitious names or addresses. Title 39 U.S. Code, Sections 3003 and 3004, provide that if a promoter uses a false or fictitious name or address to conduct a scheme in violation of the mail fraud statute (18 U.S.C. § 1341) or to escape identification, the Postal Service can withhold mail sent in response to the scheme pending adequate identification and proof of entitlement to the mail. These statutes were used in 140 cases during the past fiscal year, preventing the promoters' receipt of their intended victims' money.

Our mail fraud investigations have encountered a wide range of imaginative scams, motivated by greed, and intent upon defrauding the consumer, businesses and government.

SWEEPSTAKES AND LOTTERY MAILINGS

My testimony today will focus on sweepstakes and prize award mailings that represent fraud against the consumer. Our focus here is not upon the many legitimate business solicitations that use the mails as an effective and reliable marketing option, but those that seek to be deceptive.

Sweepstakes mailings often are completely lawful, non-deceptive marketing programs. They seek to solicit a response by satisfying the enjoyment many people derive from entering sweepstakes. Unfortunately, there also are sweepstakes which constitute fraudulent or deceptive advertising practices or which constitute illegal lotteries. Sweepstakes promotions may lawfully be distributed by mail provided they are very clear about what is being offered, i.e. they are not fraudulent or deceptive and provided that they do not fall within the legal definition of a "lottery."

As I previously mentioned, a promotion is an unlawful lottery if, in order to win a prize based upon chance, the participant must pay some consideration. A "prize" can consist of anything of value. "Chance" is present if winning any prize, or one prize as opposed to another, depends predominately upon events beyond the participant's control--for example, random selection of a winning number. "Consideration" normally consists of requiring participants to make a purchase from, or otherwise pay money to, the sponsor of the promotion, in order to be eligible to obtain a prize. So-called "sweepstakes" promotions often avoid the postal lottery statutes by allowing optional participation with "no purchase required", thereby removing the required legal element of "consideration." To be legally effective, however, the "option" must be unambiguous - it must not leave the impression that the chance of winning is reduced if the no purchase option is exercised.

During Fiscal Year 1997, the Postal Service initiated four false representation cases against prize promotions and 89 against lotteries. The prize promotion cases resulted in two consent agreements under which the advertisers agreed to discontinue the

scheme and accept the entry of a cease and desist order and the issuance in two contested cases of cease and desist orders against the operators of the two schemes. The lottery cases resulted in 89 False Representation Orders being issued.

During the first ten months of Fiscal Year 1998 the Postal Service has initiated seven false representation cases involving prize promotions and 56 against lotteries. Thus far the prize promotion cases have resulted in three consent agreements, two cease and desist orders and one False Representation Order. The lottery cases have resulted 55 False Representation Orders.

To further combat illegal lotteries and prevent the victimization of American citizens, U.S. Customs Service officials work with the Inspection Service to stop such offerings from entering the country. U.S. Customs agents now contact postal inspectors when they find such mail during border searches. The mail is detained and samples are forwarded to the Postal Service Law Department to determine their legality. If mail is considered illegal, the mailer is notified that the material is subject to destruction and may appeal the notice. If the mailer fails to appeal or loses the appeal, the detained mail is destroyed. Over 1.8 million pieces of illegal foreign lottery mail were destroyed during Fiscal Year 1997. An additional 1.9 million pieces were destroyed during the first half of this fiscal year.

At this time we have 42 open sweepstakes investigations and 78 open lottery investigations.

The following cases illustrate recent prize award schemes and the actions we have taken to prevent consumer losses.

Creative Advertising Inc., Prize Transfer Payment Division, of Tempe, Arizona used a "Notice Letter" to solicit money through the mail. The letter, of which there were several versions, advised recipients that the company was holding a check or cash to be delivered to the addressee. Consumers were enticed to remit either a \$10.00 or \$19.00 "processing fee" for an "additional \$2,000 redeemable documentation package." In fact, people who sent in the fee actually received a booklet of almost worthless coupons as fulfillment.

On May 15, 1998, the subject of this investigation signed a consent agreement to permanently discontinue mailing the solicitation and also agreeing to pay refunds to all persons who complained. The Postal Service also issued a cease and desist order to bar the operators from future conduct of this nature and a False Representation Order to halt the delivery of any additional mail related to the promotion.

In another case, postal inspectors were notified in July 1997 by the Rhode Island Attorney General's Office of complaints regarding a promotion using the name Falco, Collingsford & Woodmyre (FCW) in Warwick, Rhode Island. This was a prize award mailing where consumers were led to believe that they would receive a large prize, e.g.

\$10,000 for the payment of a fee. In fact what the consumer received was a \$1.00 check and a coupon/voucher book which required the expenditure of a substantial amount of money to achieve the savings claimed.

The investigation determined that the promoters were the subjects of a prior action brought by the Postal Service in 1993. That matter was settled by means of a consent agreement which provided for the issuance of a cease and desist order. The Postal Service Law Department, supported by a declaration from the investigating Inspector, requested the Judicial Officer of the Postal Service to issue an order stopping all mail addressed to FCW, which he did.

This action resulted in the Postal Service denying the promoters thousands of remittances resulting in a substantial saving to the American public. This matter was ultimately settled with the Postal Service returning all the mail to the senders and the company agreeing to pay a \$5,000 penalty to the Postal Service.

A significant investigation involved James Blair Down, a Canadian citizen, who operated numerous companies that solicited money from consumers through direct mail and telemarketing ventures.

In August, 1997 Down was indicted in Seattle, WA based on his involvement in a telemarketing scheme involving foreign lotteries which had swindled hundreds of American consumers out of millions of dollars. Additionally, accounts associated with Down's operations containing approximately \$12.4 million were frozen pending forfeiture proceedings. Two weeks ago he pled guilty in Seattle and is awaiting sentencing. During the investigation a questionnaire was sent to 880 victims. From those who responded with complete information we learned the following:

- Average age – 74 years
- 192 reported losses of over \$10,000 each (average of about \$50,000 with a total loss of \$9.6 million)

While this case was pending, Down was also engaged in another series of schemes involving the mailing of millions of solicitations disguised as notices informing recipients they had won valuable prizes. In fact, the consumer was duped into remitting fees for various ancillary services and in most cases, no prizes were awarded.

The new investigation was based on a series of mailings that we believe targeted the elderly. There were approximately 125 different mailings, or variations of mailings, which used about 70 different addresses throughout the United States.

Information we received indicated Down used multiple mailing pieces to confuse the intended victim and the different addresses to insure that an action against one promotion or one address wouldn't shut him down.

Down created four separate companies: BAJ Marketing, Inc., Facton Services, Ltd., BLC Services, Inc. and Triple Eight International.

BAJ and Facton mailed out puzzle contest solicitations where consumers believed that by solving a simple word contest and sending in a small "judging" fee they would receive a large prize, usually \$5,000. In fact all they received were more and more mailings soliciting more and more fees to upgrade their prize or get a word list to solve future puzzles. Finally, those that stayed in the system received an incredibly difficult word puzzle which assigned values for letters in a crossword type puzzle arrangement.

BLC sent out postcard and multi-page prize award mailings. The elderly were also the target for these mailings and they were led to believe they would receive the prizes listed in the mailing if they paid the specified fee. Those who responded received six computer-generated numbers, which they were told to play in their state lottery.

Triple Eight was another prize award mailing. Like BLC many elderly consumers were misled into believing that if they paid the fee, they would receive the prizes listed in the solicitation. In fact, they were furnished a booklet which told them how to enter various promotional contests being run by various other companies.

Additionally, the names generated from these mailings were constantly solicited again and again.

A Civil Complaint was filed in New Jersey on February 27, 1998. It alleged Blair Down and his companies were engaged in a mail fraud that targeted vulnerable consumers, especially the elderly, with sweepstakes, prize mailings and puzzle contests. The judge issued an injunction that provided for the detention of all mail sent in response to the challenged mailings, anywhere in the United States. It also provided for the freezing of all of defendants' bank accounts and the expedited production of documents relating to defendants' schemes.

A settlement was reached in August 1998 whereby Down agreed to the use of \$400,000 of the funds frozen in the Seattle case to establish a Restitution Fund for victims in the New Jersey case. Additionally, Down has also agreed to forfeit \$11.7 million of the funds from the Seattle case, which will be used to make restitution to the victims of that case.

In the course of our work we have found that almost everyone receives sweepstakes solicitations. As an example, according to The Washington Post Magazine dated August 16, 1998, the House Budget Committee received an "Official Sweepstakes Notification" which advised in part, "You thought it could never happen to you! And even now, you probably STILL find it hard to believe that House Budget Committee of Washington, DC could actually be our \$888,337.00 cash prizewinner. But it's absolutely true: House Budget Committee is now positively guaranteed to be awarded

\$888,337.00 – one of the biggest single cash payments ever made to ANYONE in a sweepstakes....”

GOVERNMENT LOOK-ALIKE MAILINGS

During the late 1980s, so-called government look-alike mailings reached near epidemic proportions. The mailings commonly used a name that would include the word "federal", a return address in Washington, DC, and an eagle or other official looking symbol on the envelope. The 101st Congress responded by enacting the Deceptive Mailings Prevention Act of 1990, codified as 39 U.S.C. § 3001(h). Under this statute, solicitations using any symbol or name that could reasonably be construed as implying a connection with the federal government were declared nonmailable unless the mailing or its envelope bears a disclaimer of government affiliation. In 1991, Congress enacted Public Law 102-91, which supplemented the Deceptive Mailings Prevention Act by declaring that a violation of its mailability provisions constituted prima facie evidence of a violation of the False Representations and Lottery Statute.

These laws resulted in a substantial reduction in government look-alike mailings. However, we continue to receive complaints from the public - 427 during the first ten months of this fiscal year - and to refer any that appear to be a possible violation of the statute to the Law Department for review and possible initiation of administrative proceedings under the False Representations Statute. In most cases, the Law Department obtains voluntary agreement of the mailer to discontinue practices, which appear to violate the statute. However, many of the mailings that individuals complain about do not violate the statute.

I would like to describe one recent case in which the promoter attempted to create a impression of a connection with the U.S. Government in order to mislead the public. In 1997, the Inspection Service investigated a series of postcard mailings which solicited \$9.97 for immediate delivery of "up to \$775.00 cash" being held by the U.S. Government. The subject of this investigation, Borden Biddle Barrows, and his company, The Kaplan Group, using the same basic postcard with the promotion name of Cash Claim Service, was soliciting money to multiple addresses, all promising to deliver various amounts of money being held by the U.S. Government.

A complaint under 39 U.S.C. § 3005 was filed on September 3, 1997 identifying four of the postcards. This action was subsequently amended to include a fifth card on October 3, 1997.

On November 3, 1997, Barrows signed a settlement agreement in which he agreed to discontinue these schemes. He also agreed to the return of certain mail sent in response to the postcards; the issuance of a cease and desist order and to provide consumer refunds.

Earlier this year, Postal Inspectors became aware of another series of postcard mailings soliciting money for a "Home Entertainment System." These mailings have been traced to Barrows and action has been initiated to stop mail at three different addresses in New York and Massachusetts. Many consumers, who responded to these "notice cards," have complained they have received nothing in response to their payment.

PREVENTION THROUGH CONSUMER AWARENESS

While we are pleased with our success in our law enforcement efforts, I am convinced that reducing fraud losses resulting from improper uses of the mails requires more than historic law enforcement responses. Too often, the results of law enforcement - arrests and civil orders - occur after the victims' have lost money which can not be recovered. Increased arrests do not demonstrate success, but rather they reveal a continuing problem requiring a more lasting solution. In recent years we have had significant success working in close partnership with the credit card industry and with the coupon fulfillment industry to reduce fraud losses they have experienced. We have also experienced similar success most recently by partnering with the mail order industry. For many years, we have worked with the Better Business Bureaus, State consumer protection groups and others to share our knowledge of prevailing mail order scams and to arm the public with the information that can help them avoid becoming victims.

Other prevention strategies include public awareness projects like public service announcements, brochures and posters warning consumers about the signs of fraud. Fraud is one crime that can be dealt with most effectively through education because every potential fraud victim must first make a choice. We use different means to deliver our message to the public. For example, in cooperation with the Direct Marketing Association, we provide a free brochure to educate consumers concerning dishonest sweepstakes promotions.

In one public awareness campaign we mailed approximately 200,000 postcards designed to look like a typical "guaranteed" prize promotion. The mailing resulted in over 55,000 responses to the 800 number advertised on the cards. The callers received a prerecorded message from an Inspector warning about such mailings and encouraging them not to succumb to similar advertisements in the future. In addition, Inspectors also mailed over 2,000 letters explaining the campaign to those who called or wrote for more information.

We also produced a video news release to aid the families of elderly persons in preventing their loved ones from being victimized by common mail scams.

In conjunction with the AARP, and the U.S. Attorney for the District of New Jersey, the Inspection Service hosted a mail and telemarketing fraud symposium in Newark, New Jersey. "Senior Fraud Awareness Day," as it was called, included personal testimonies

from victims, as well as law enforcement efforts to eliminate the problem. The event was attended by hundreds of senior citizens, and through subsequent media coverage, was viewed by hundreds of thousands in the New York metropolitan area. Through this effort, we were able to teach seniors and their loved ones how to identify pitches for fraudulent schemes received through the mail. Moreover, the Inspection Service has participated in similar public awareness events with AARP, the FBI, State Attorneys General and other government and private organizations in California, Florida, Arizona and the District of Columbia.

We also participated in "Project Mail Box" with the Federal Trade Commission, the National Association of Attorneys General, 25 state Attorneys General, local law enforcement agencies and AARP. This effort resulted in 190 law enforcement actions against fraudulent direct mail schemes.

Using a traditional but effective approach, Postal Inspectors routinely give presentations on consumer fraud prevention to civic groups in their communities.

I am pleased to announce today that we have joined with the National Council of Better Business Bureaus to make possible a vision we share. We are meeting with other consumer and government agencies to solicit them to help us in launching perhaps the most ambitious fraud prevention initiative ever. By early spring we plan to mail to every home in America - over 120 million - a card containing valuable fraud prevention tips and providing an 800-phone number to call for additional information. The card is being designed for display by the telephone as a reference.

HONESTY IN SWEEPSTAKES ACT OF 1998

Senator Campbell introduced S. 2141 to deal with what often is a "gray area" in regard to the law dealing with lotteries and sweepstakes - a mailing that contains statements that may mislead many people even though detailed information provided in the promotion, if read and understood, would prevent the reader from being misled. This relates to the common practice of creating the impression that the recipient of the mailing is a "guaranteed winner" or has already won a major prize when subsequent information states that the odds against winning are substantial or that the recipient is merely a "finalist."

We support the concept underlying this legislation. However, we suggest that it could be improved by making violations of the statute the bill would create a violation of 39 U.S.C. § 3005. As the bill stands a violation would simply make the mailing "non-mailable." Because administrative proceedings are required to make a "non-mailability" determination under the statute, the result of these proceedings often amounts to little more than a determination that matter that was mailed months previously is, in fact, "non-mailable." Linking the violation to Section 3005 would expand the remedies to

include mail stop orders, cease and desist orders, civil penalties, and court injunctions to prevent mailings pending the completion of administrative proceedings.

LEGISLATIVE RECOMMENDATIONS

We have worked with members of each Congress beginning with the 101st Congress to develop proposals that, if enacted, will strengthen federal statutes relating to fraudulent and deceptive mailings and allow us to more effectively protect the public from these types of solicitations. The Deceptive Mailings Prevention Act resulted from these efforts. I would like briefly to suggest several possible additional improvements in Chapter 30 of Title 39, which would further enhance our ability to protect the public from fraudulent and deceptive mailings.

Because promoters often use multiple fictitious names and addresses for their solicitations, victims of false representation schemes are sometimes victimized again and again by the same promoter. We recommend for your consideration an amendment to the False Representations and Lottery Statute. The modification would require the clear and conspicuous disclosure of the solicitor's name and principal place of business on any solicitation for funds or for the sale of goods or services, which is mailed or seeks responses by mail. This disclosure would help alert potential victims to names and addresses that were previously used to victimize them. It would also assist the Inspection Service and other investigative agencies and help develop a history of violations that can support the "intent to defraud" showing that is required for criminal mail fraud convictions.

A promoter charged with a violation of the False Representations Statute can prolong the proceedings through dilatory litigation tactics and judicial review, thereby forestalling the issuance of an order that prevents further consumer injury. To neutralize these tactics, it is helpful to be allowed to detain mail for temporary periods. Title 39, United States Code, Section 3007 allows the U.S. district court where the defendant receives mail to issue appropriate orders to detain the mail. However, because some promoters receive mail in more than one judicial district, in order to detain all incoming mail in response to a false representation scheme, the Postal Service and the Department of Justice must apply to the district court in each district where the defendant receives mail. Ongoing schemes and continuing losses could be stopped by amending Section 3007 to allow the court in any district where the promoter receives mail to order the Postal Service to detain mail received at any address in response to the scheme.

Our experience teaches that after a Postal Service cease and desist order as issued in a false representations case, the promoter often continues the same scam using telephone promotions and private carriers instead of the mails. This might be addressed by amending 39 U.S.C. § 3012, the civil penalties statute, to prohibit the use of any electronic communication, telephone, or other communication medium, in addition to the mails, to evade the effect of a false representation order. This statute

also could be improved by expanding the district courts' venue from the district where the defendant receives mail, as the statute currently provides, to any district where the defendant conducts business or from which it sends mail.

We also recommend for your consideration the enactment of a new civil penalty statute that would authorize the Postal Service to assess civil penalties against persons who mail matter declared nonmailable by 39 U.S.C. § 3001. Prior to the assessment of any penalty, the Postal Service would have to provide notice and an opportunity for a hearing. The penalty determination would be based on specific factors provided in the statute, and the mailer could appeal the decision to the U.S. district court. The Postal Service would have to obtain an order of a U.S. district court to enforce the assessment. Fraudulent matter and lottery matter would be covered by the proposed amendment, as would mailings of dangerous matter, which could injure persons or vehicles and aircraft carrying the mail.

Our investigative ability would be enhanced by having the authority to issue administrative subpoenas in investigations conducted under the False Representations and Lottery Statute, which is within Chapter 30. Based on existing administrative subpoena authority of other federal agencies, only records, documents, and other non-testimonial material relevant to the investigation could be compelled by the administrative subpoena. In cases in which the promoter fails to comply with the subpoena, the Postal Service may seek enforcement of the subpoena by the Attorney General.

We would be pleased to work with your staff on these legislative proposals.

Over the many years we have enforced the postal fraud, lottery and false representation statutes we have observed that the tactics of con artists are similar, and if profitable, will be repeated. I want to assure you that the Postal Inspection Service will continue to combine aggressive investigations and widespread public awareness campaigns to rid the mails of fraudulent schemes. The American public's confidence in the mail is not only important to the Postal Service, but also to the many thousands of businesses that rely on the mail as an important marketing tool.

I would like to commend you for holding this hearing and generating publicity, that will result in increased public awareness of the scams and consequent reduction of consumer vulnerability.

REMARKS
ATTORNEY GENERAL BOB BUTTERWORTH
U.S. SENATE SUBCOMMITTEE ON INTERNATIONAL
SECURITY, PROLIFERATION AND FEDERAL SERVICES
SEPTEMBER 1, 1998, WASHINGTON, D.C.

Good afternoon Mr. Chairman and members of the committee.

Thank you for this opportunity to appear before you today.

I want to commend you for addressing a serious problem facing millions of consumers throughout the United States.

By bringing the power and prestige of this institution to bear on that problem, I believe a comprehensive solution can be found...

...one which allows legitimate businesses to compete fairly in the marketplace while at the same time protecting American consumers.

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Florida welcomes millions of visitors each year, and we are delighted to have them.

They are absolutely essential to the continued prosperity of our state.

However, there is one type of visitor we would rather not have.

Namely, those who are lured to Florida not by its climate and tourist attractions, but by empty promises of instant wealth.

These are the unfortunate souls who fall victim to the kind of cynical deception that has become all too common in the world of sweepstakes marketing.

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By now, most Americans are probably familiar with the people I am talking about.

Their sad stories have appeared on national TV news broadcasts and in newspapers throughout the country.

Their destination is Tampa, where entries for one of this nation's largest sweepstakes operators -- American Family Publishers -- are processed.

They come to claim the millions of dollars they are certain they have won -- or are about to win -- because a celebrity spokesman assured them as much in a letter.

In many instances, they come at a cost they cannot afford.

Like the young, single mother of two, who borrowed \$1,500 from her sister so she could fly to Florida and claim her ticket out of poverty and a rough neighborhood in Baltimore.

Convinced she was one of only two people in the running for a \$10 million prize, she appeared at the processing center with her two little daughters in tow.

Instead of confirmation of her good fortune, she received ridicule from a young office manager, who in essence spat on her dreams and sent her away.

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While the national spotlight has fallen on people such as this unfortunate young woman, they merely embody the most extreme symptom of an underlying problem that affects millions.

Direct mail marketers have learned that tying the purchase of a product to a sweepstakes will enhance the chances of a sale.

They have also learned that the more they can blur the distinction between entering a sweepstakes and purchasing a product, the more successful they will be.

I may question the integrity of many sweepstakes marketers, but I do not question their intelligence.

They are masters at devising complex and convoluted solicitations intended to confuse the average consumer and generate a sale.

While American Family Publishers is by no means the only company to employ deceptive tactics, our experience with that firm illustrates what we are up against in combating sweepstakes swindlers.

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Last February, Florida filed a civil complaint against American Family and its celebrity spokesmen, Ed McMahon and Dick Clark.

We did so after months of discussions with the company failed to resolve

our concerns about deceptive marketing practices.

It was during those discussions, which included Florida and numerous other states, that American Family launched a particularly deceptive solicitation.

Because of that action and its harmful impact on consumers, we did not feel we could continue participating in the multi-state talks.

Among tactics used in the solicitation were the false suggestions that recipients were one of only two winning ticket holders competing for an \$11 million prize.

The company also placed a tight deadline on claiming the prize, then required those who did not buy magazines to follow a more cumbersome and time-consuming process to enter the contest than those who did buy magazines.

The objective of such tactics is to convince the consumer that he or she must act quickly to claim the prize...and that the best way to do that is to purchase magazines.

Our files are filled with consumer complaints which prove that these and other deceptive tactic works...

...not only for American Family Publishers and the sale of magazines, but for other sweepstakes operators selling a wide variety of products.

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The most disturbing of these cases involve especially vulnerable individuals such as the elderly, the infirm and those of limited means.

For instance, there is the 84-year-old woman from Alhambra, California, who has spent about \$1,000 a year on magazines and other items just to enter sweepstakes.

To settle her accounts, this woman's husband was forced to prematurely sell off retirement investments.

There is the elderly gentleman from Clearwater, Florida, who suffers from dementia and spent \$30,000 with Publishers Clearinghouse in only 18 months.

His apartment is so full of magazines and other items he bought to enter sweepstakes that he can't even move about his own home.

There is the 80-year-old woman from Seattle, Washington, who usually

avoided sweepstake offers but finally ordered magazines on the word of Ed McMahon and Dick Clark that she was a winner.

She then postponed her scheduled surgery so she could be home when the pair arrived with her \$10 million check.

And there is the 78-year-old woman from Winter Springs, Florida, who lives on food stamps and Social Security but could not resist the sweepstakes offers that inundated her.

She is now being hounded by collection agencies because the purchases she made to enter those sweepstakes were made with worthless checks.

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It would be simple to write off such cases with the axiom, "A fool and his money are soon parted."

But these are not fools.

These are people who could be our neighbors, our parents, our grandparents...

...good people who fell victim to companies that have sacrificed decency and ethics on the altar of the bottom line.

What is more, no one is beyond the reach of such companies.

A couple months after we filed our complaint against American Family Publishers, a letter from the company signed by Ed McMahon and Dick Clark was delivered to my Tallahassee office.

I figured they wanted to settle our case, but when I opened the letter, I got a big surprise.

"Attorney General," the letter said, "you will definitely win the cash or merchandise prize that appears on your prize claim number label."

I later learned that I was in good company.

A similar letter was sent to a church in Bushnell, Florida, informing God that He was a finalist for a multi-million dollar prize from American Family Publishers.

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While the merchandise being sold may differ, the deceptive methods used by shady sweepstakes operators to sell them are often quite similar.

One hallmark of the deceptive solicitation is a degree of complexity for submitting a free entry that would turn an IRS tax code writer green with envy.

All but lost in that deliberate complexity is the message that no purchase is necessary to enter the sweepstakes.

Not only is that message obscured or given little or no prominence, it is often contradicted by the content of the solicitation piece.

In addition, terms such as "special handling" and "rush orders" are often used to create the illusion of urgency, even though all orders are handled in the same fashion.

Deceptive styles are also common, such as envelopes that mimic a government agency, a law firm or some other authority to falsely boost consumer confidence in the offer.

False deadlines designed to elicit immediate responses are often used, even though a sweepstakes might not close for a year or more after the solicitation.

And consumers who purchase items to enter a contest may be contacted again and told they have reached the next level of a sweepstakes.

This creates the false impression that their chances of winning are now better and encourages them to buy more merchandise.

In the case of magazine sweepstakes, the problem of multiple-billing is especially serious.

Our investigation of American Family revealed that people who purchased magazines through a sweepstakes often received two separate invoices just days apart.

Such tactics are intended to mislead consumers -- especially the most vulnerable among our elderly -- into paying twice for the same purchase.

Rather than notify such consumers they have overpaid and are due a refund, the operator uses the money to extend the term of the original subscription...without the consumer's knowledge.

Multiple billing can be so bad that some children of sweepstakes entrants have discovered that their elderly parents are paid up for subscriptions well into the next century.

-0-

Any effective reform of the sweepstakes marketing industry must strike directly at these and other deceptive practices.

There are a number of reforms I and others concerned about this problem would like to see.

First, there should be a clear separation between the process for entering a sweepstakes and the process for buying a product.

In that same vein, any inferences that purchasing a product will enhance a consumers chances of winning should be eliminated.

Claims that a consumer is already a winner also should not be allowed unless that consumer is in fact an unconditional winner.

The same holds in those instances when a sweepstake operator declares every solicited consumer a guaranteed winner then sends those who respond a worthless trinket.

In addition, phony claims that the consumer has become part of an elite group still vying for the grand prize, when in fact they are not, should be prohibited.

The number of solicitations sent to a single consumer for any particular sweepstakes should be limited to prevent exploitation of especially vulnerable individuals.

Along those same lines, there need to be restrictions on the sale of lists containing the names of sweepstakes players.

Such so-called "mooch lists" are pure gold to disreputable marketers who zero in on those most vulnerable to deceptive sweepstakes pitches.

The odds of winning a sweepstakes -- which in some instances can be as high as one in hundreds of millions -- should be clearly and prominently disclosed.

Envelopes and letters designed to look like official documents should not be allowed.

Safeguards to prevent multiple billing -- and prevent overpayments from being used to extend subscriptions without a customer's permission -- should be put in place.

Sweepstakes promoters should include in their solicitations a toll-free telephone number for consumers to call for more information about a particular contest.

And finally, promoters should also provide a toll-free number consumers can call to have their names taken off the company's mailing list...and those requests should be honored.

-0-

This past spring, the Florida Legislature considered measures to deal with the problem of deceptive sweepstakes marketing.

Unfortunately, lawmakers could not agree on the proper remedies.

While we still hope to address this issue on the state level, the task of reforming the sweepstakes marketing industry cries out for a comprehensive, nationwide approach.

You have acknowledged the wisdom of that approach by virtue of your hearing here today.

The National Association of Attorneys General has acknowledged it also with creation of a committee to look specifically into the sweepstakes problem.

That panel is chaired by Indiana Attorney General Jeff Modisett.

General Modisett, myself and other attorneys general around the country stand ready to work with you to solve the problem of deceptive and fraudulent sweepstakes.

Together, we can make a positive difference in the lives of consumers through this country.

Thank you again for the opportunity to appear before you today.

At this time, I would be happy to answer any questions.

EXHIBITS

If you have the winning number, please be advised ...

**CHARLIE NEALY, IT'S DOWN TO A 2 PERSON
RACE FOR \$11,000,000 -- YOU AND ONE OTHER PERSON
IN FLORIDA WERE ISSUED THE WINNING NUMBER
MT698567731 -- WHOEVER RETURNS IT FIRST WINS IT ALL!**

#BYCKMKC** ECRL0T ** R007
9-16

Affix this label to
your official reply
envelope and respond
immediately to beat
your alternate.

#575 111 9420#
Mr. Charlie Nealy Jr.

DIRECT MARKETING ENTERPRISES, LTD. OFFICIAL SWEEPSTAKES RULES / FINAL CASH PRIZE GUARANTEED TO BE AWARDED

1. Follow all instructions in this sweepstakes announcement. 2. If you are making a purchase when entering the sweepstakes, complete and return the prize claim form in the enclosed, pre-addressed reply envelope to find out and claim whichever prize we are awarding you. Failure to check appropriate boxes and/or sign the prize claim form may result in disqualification. No cost or purchase obligation to enter or claim a prize. Entry constitutes permission to use winner's name and likeness for promotional purposes without compensation. 3. Employees (and their families) of Direct Marketing Enterprises Ltd., Raffleco, Ltd. and their affiliated companies or organizations, other entities permitted by contract to participate in this sweepstakes, suppliers and regulatory agencies are not eligible. Odds of winning the \$1,000,000.00 final prize and first round prizes in 5(a) depend on number of entries received, which may be in the millions, but all have the same chance to win. The DME \$1,000,000.00 sweepstakes will be presented in a variety of creative presentations which will vary in style and format some of which may present prizes in Rule 5 independently of each other. These varying styles and formats will in most cases be accompanied by advertising materials offering the sale of various products marketed by the sponsoring company. Since all creative presentations of this sweepstakes are part of the DME \$1,000,000.00 Sweepstakes, there will be only one \$1,000,000.00 final prize. Although there is only one \$1,000,000.00 final prize, if you enter the sweepstakes more than once, your odds of winning that \$1,000,000.00 final prize will be increased. Should the creative presentation promote the final prize as an amount less than \$1,000,000.00 the winner of the final prize will be awarded the full \$1,000,000.00. Final prizewinner and winners of prizes in 5(a) will be randomly selected by an independent judge on or about February 25, 1999 from all combined entries received in this and all other creative presentations of the DME \$1,000,000.00 Sweepstakes. 4. Subject to all applicable laws, void where prohibited, taxes are the responsibility of prize winners. The sponsor may contract to permit other entities to promote its sweepstakes. 5. The following first round cash prizes will be awarded: (a) Two (2) checks for \$1,000.00 each; five (5) checks for \$500.00 each; ten (10) checks for \$100.00 each; one hundred (100) checks for \$10.00 each; five hundred (500) checks for \$5.00 each; and one thousand (1,000) checks for \$1.00 each. (b) An additional \$100,000.00 will be split equally amongst all individuals who respond in compliance with all instructions but in no event will you receive less than 24 cents. (c) The winner of the final \$1,000,000.00 prize will receive at the sponsor's option either an annuity or zero coupon bonds with a face amount of \$1,000,000.00 paid out in annual installments over not more than 40 years (\$25,000.00 per year). Winner may be offered the option of a lump sum payment equal to the cost of purchasing the annuity or at sponsor's option zero coupon bonds at the time the sweepstakes winner is determined. For all prizes awarded in this sweepstakes, the Sponsor may promote and offer the option of merchandise of equivalent value so long as the winner always has the choice of selecting the cash prize. Regardless of the amount of any first round cash prize already won, all first round winners who comply with the official rules are eligible to win the \$1,000,000.00 final prize. Unclaimed or uncashed prizes valued less than \$25.00 remain the property of the sponsor. Other DME sweepstakes may be presented together with the DME \$1,000,000.00 Sweepstakes in addition to promoting them independently. 6. To claim your prize without making a purchase, do the following: (a) Across the back of any standard postcard not less than 3.5" x 5" print the words "DME SWEEPSTAKES". Please print carefully. (b) Carefully cut out your computer printed address including any barcodes (your prizewinner computer code number should be above your name) from wherever it appears in this Sweepstakes announcement (if it appears more than once, you need only cut it out once). (c) Affix this computer printed number, name and address and barcodes with either glue or cellophane tape (no staples or paper clips) to the postcard beneath "DME SWEEPSTAKES". (d) Then cut out the paragraph in which you are asked to check your preference for how the One Million Dollar prize is to be awarded and affix it to the postcard beneath your computer-printed number, name and address. (e) (NOTE: Do NOT use the enclosed official sweepstakes reply envelope and do NOT mail the postcard in an envelope and do NOT mail to the address on the official sweepstakes reply envelope or you may be disqualified from receiving your prize.) Mail postcard at postcard rate to: Non-Purchasers Forwarding, Box 1797, Hicksville, NY 11855. Print this address correctly. Failure to comply completely and fully with all instructions may result in disqualification and cause you to forfeit your prize. 7. If the \$1,000,000.00 winner chooses gold or government bonds on the prize preference form, winner will be required to enter into agreements to facilitate the transfer of the cash into gold or government bonds. 8. All entries and claims for prizes for this sweepstakes should be mailed before the deadline dates specified in this announcement. 9. The completion date for the sweepstakes will be December 31, 1999 and all prizes will be delivered within ninety (90) days from the date of completion. We are not responsible for typographical errors. Selections of prize winners are conducted by independent judges whose decisions are final in all matters pertaining to this offer. 9. All entries must be returned within the time period stated in the sweepstakes notification or participant will be subject to ineligibility at sponsor's option. 10. Winners will be notified by mail. For names of major prize winners, send stamped, self-addressed envelope after completion date to: Sweepwinners, Box 1000, Jericho, New York 11753.

NO PURCHASE REQUIRED TO CLAIM YOUR PRIZE(S)

©1998 Direct Marketing Enterprises Ltd., D/B/A CVP

DME RULES-CARD/1797/1.98/RUL-US-PC

DISCOVER NIVUS VISA UNITED STATES MasterCard PURCHASING EXCHANGE

The advertisement features a woman in a white dress standing in front of a window with decorative panes. Several product advertisements are overlaid on the scene:

- MYSTIC BRASS INCENSE BURNERS** (PG. 11): Located in the top left, showing a decorative brass incense burner.
- GINKGO BILOBA TABLETS** (PG. 15): Located in the top center, showing a bottle of dietary supplement.
- ALL PURPOSE STAINLESS STEEL GRILL** (PG. 3): Located in the middle left, showing a stainless steel grill with food cooking on it.
- THE AMAZING TURBO WASH** (PG. 7): Located in the bottom left, showing a car being washed.
- STRIPED TERRY LOUNGER** (PG. 23): Located at the bottom right, near the woman's feet.

A large number **3** is positioned at the bottom right of the advertisement.



From the desks of
ED McMAHON & DICK CLARK

**Attorney General
107 W. Gaines St.
Tallahassee, FL 32399-6549**

Exciting news, Attorney General --

69

American Family Publishers is looking to determine its next winner, and the name **A-T-T-O-R-N-E-Y G-E-N-E-R-A-L** came up as a potential winner of a sweepstakes prize.

This means that you are guaranteed to receive one of the prizes now pending if you have the winning number and mail in your entry before the deadline.

You see, Attorney General, every prize that American Family promotes must be awarded. That's the law, plain and simple. If the winning numbers aren't returned, we're obligated to award these unclaimed prizes to alternates in random drawings.

We don't know if you'll walk away with a wide-screen TV . . . a brand-new car . . . a million dollars . . . or nothing at all.

DESIGNATED CASH SWEEPSTAKES • OFFICIAL RULES • Purchase Not Required

1. Previously, two Instant Match Entries (one winner of \$500.00 and one winner of \$1,500.00) were secretly pre-selected and already awarded to winners by an independent judging organization whose decisions are final. This sweepstakes expires February 15, 1998. For a list of winners, send a self-addressed, stamped #10 envelope to: DESIGNATED CASH SWEEPSTAKES, P.O. Box 480, Sayreville, NJ 08871-0480.

ALL STAR PRIZE SWEEPSTAKES • OFFICIAL RULES • Purchase Not Required

To enter, return your Official Entry (in this presentation the Instant Match Entry Ticket with three matching numbers) and Entry/Order Form including your order for merchandise in the pre-addressed return envelope provided or as a substitute for purchase, return your Official Entry, your Entry/Order Form and a 3" X 5" index card with the words "ALL STAR PRIZE SWEEPSTAKES" hand printed in plain block letters in the pre-addressed return envelope provided. One winner of \$1,500.00, one winner of \$500.00, and three winners of \$100.00 will be selected in a random drawing by an independent judging organization whose decisions are final. A total of five cash prizes will be awarded. Entries must be received by the expiration date of April 15, 1999. For a complete winners' list send a self-addressed, stamped #10 envelope to: ALL STAR PRIZE SWEEPSTAKES, P.O. Box 833, Sayreville, NJ, 08871-0833.

SUPER AWARD DISTRIBUTION SWEEPSTAKES • OFFICIAL RULES • Purchase Not Required

If you reveal three matching numbers, to enter, return your Official Entry (in this presentation the Instant Match Entry Ticket with three matching numbers) and Entry/Order Form including your order for merchandise in the pre-addressed return envelope provided or as a substitute for purchase, return your Official Entry, your Entry/Order Form and a 3" X 5" index card with the words "SUPER AWARD DISTRIBUTION SWEEPSTAKES" hand printed in plain block letters in the pre-addressed return envelope provided. Official Ticket Entries have been issued nationwide and 7 will be secretly pre-selected as winners by an independent judging organization, whose decisions are final. There will be one cash prize of \$1,500.00, two cash prizes of \$500.00 and four cash prizes of \$100.00. In the event that not all winners respond, a random drawing from among all eligible entrants will be held by an independent judging organization, whose decisions are final, to award any unclaimed prizes. Entries must be received by the expiration date of September 1, 1998. For a complete list of prize winners, send a self-addressed, stamped #10 envelope to: SUPER AWARD DISTRIBUTION SWEEPSTAKES, P.O. Box 481, Sayreville, NJ 08871-0481.

LUXURY CAR/CASH SWEEPSTAKES • OFFICIAL RULES • Purchase Not Required

1. To enter, return your Official Entry (in this presentation the Instant Match Entry Ticket with three matching numbers) and Entry/Order Form including your order for merchandise in the pre-addressed return envelope provided or as a substitute for purchase, return your Official Entry, your Entry/Order Form and a 3" X 5" index card with the words "LUXURY CAR/CASH SWEEPSTAKES" hand printed in plain block letters in the pre-addressed return envelope provided. Official entries have been distributed nationwide and one of them will be secretly pre-selected as a winner by an independent judging organization whose decisions are final. Winner will have a choice of the Chevrolet Cavalier, Ford Taurus or Pontiac Sunfire plus cash equal to \$36,500.00 in total. In the event that the winner does not respond a random drawing from among all eligible entrants, will be held by an independent judging organization whose decisions are final, to award any unclaimed prizes. Entries must be received by the expiration date of August 31, 1998. For a complete list of prize winners send a self-addressed, stamped #10 envelope to: LUXURY CAR/CASH SWEEPSTAKES, P.O. Box 880, Sayreville, NJ, 08871-0880.

LUXURY AUTOMOBILE GIVEAWAY SWEEPSTAKES III • OFFICIAL RULES • Purchase Not Required

1. To enter, return your Official Entry (in this presentation the Instant Match Entry Ticket with three matching numbers) and Entry/Order Form including your order for merchandise in the pre-addressed return envelope provided or as a substitute for purchase, return your Official Entry, your Entry/Order Form and a 3" X 5" index card with the words "LUXURY AUTOMOBILE GIVEAWAY SWEEPSTAKES III" hand printed in plain block letters in the pre-addressed return envelope provided. One winner will be selected in a random drawing from among all eligible entries received by an independent judging organization whose decisions are final. Winner will have a choice of the Chevrolet Cavalier or Ford Taurus or Pontiac Sunfire plus cash equal to \$36,500.00 in total. Entries must be received by the expiration date of December 31, 1998. For a complete winner's list send a self-addressed, stamped #10 envelope to: LUXURY AUTOMOBILE GIVEAWAY SWEEPSTAKES III, P.O. Box 849, Sayreville, NJ, 08871-0849.

General Conditions

1. We are not responsible for printing and other errors. If through a printing or production error more winners are printed and distributed than have been registered with the independent judging organization, the correct number of prizes to registered winners as selected and registered by the independent judging organization will be issued. In different presentations of these sweepstakes, different graphics, styles and prizes of comparable value may be used on these programs under the same prize structures. All winners will be notified within 60 days after expiration date and may be required to sign and return an eligibility affidavit. Failure to return the affidavit will result in selection of a new winner. If a variety of prizes of comparable value are offered in these sweepstakes, winners will have their choice of prizes from either this presentation or other presentations of these sweepstakes. The odds of winning are dependent on the number of eligible entries received. Responding constitutes permission to use name and likeness, if a winner, for advertising and promotional purposes without additional compensation except where prohibited. Sweepstakes sponsored by United States Purchasing Exchange. This offer open to residents of the United States except employees and their families of United States Purchasing Exchange and its affiliated companies, its advertising, production, sweepstakes associates and individuals under 18 years of age.

2. How we select and notify winners:

We want you to get involved with our programs, get excited and let yourself dream about the possibility of winning but understand that only the independent judges know if you are a winner. All selections of winners are done secretly by an independent judging organization to insure that selections are random and fair. At this point there's no way to tell if you are a winner - even we don't know. In order to find out if you are a winner, you must respond. It is only after the sweepstakes' expiration date, stated in the official rules, that those who have been selected as winners are notified that they have won.

URGENT

OPEN IMMEDIATELY

BULK RATE
U.S. POSTAGE
PAID
PUBLISHERS
CLEARING HOUSE

**NOTICE OF
IMMINENT PRIZE DELIVERY**

▼ LIFT HERE TO OPEN ▼



Prepared For
F. Robinson

Your Sweepstakes history has been reviewed, and our records indicate that you, F. A. Robinson Sr, will win the Publishers Clearing House \$3,500,000.00 SuperPrize on April 15th subject to conditions outlined inside. Therefore, it is now imperative that you complete and return the enclosed IMMINENT DELIVERY AGREEMENT to arrive by April 9th. That way, any and all prize monies due you will be promptly disbursed.



40 0325 1301

***** ECRLOT ** CO15
175 12

F. A. ROBINSON SR

12

M. 001192

PRIVACY CORRESPONDENCE

PLEASE CONTACT SuperImmediacy for your privacy information. SuperImmediacy is not responsible for the accuracy of the information provided in this document. Please contact SuperImmediacy for more information.

6

COMPLETION PAPERS

DOCUMENT INSURANCE REGISTRAR
ACTUAL REGISTRATION ADDRESS
900036 / RMA19

ISSUED

4/24/98

Filed & Sealed
92288H / 9018212762

CERTIFICATION

NUMBER 01-21

DO NOT ALTER OR CHANGE THE NUMBER
OR DATE OF THIS CERTIFICATION
AND ON RETURN RECORD 1987

FILE RECORDS OFFICE



CERTIFICATION OF IDENTITY

AS AN INDEPENDENT FIRM R.M.B. REAL MONEY AND PRIZES IS ACQUIRED AND PAID FOR THROUGH PARTICIPANTS WHO DESIRE TO ACQUIRE SWEETENED AND CRISPER ENTRY AND PARTICIPATION INSTRUCTIONS. AS SPECIALISTS IN ACQUIRING SUCH INFORMATION WE FURTHER STATE THAT ALL MONEY, AWARDS AND PRIZES AS REPORTED ARE PAID FOR BY THE NAMED INDIVIDUAL SPONSORS.

IT IS HEREBY STATED:

The CERTIFIED IDENTITY of Joe Burns is here ~~COMPLETED~~ and FILED as is DULY APPOINTED RECEIVER determined by our acquisition committee of whom established Joe's File on 4/26/98. (Stated by Fact of Registrar.)

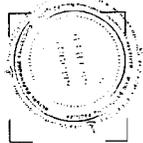
The Identity and File of Joe Burns has the Distinction of Record No. 9018212762 Official Office Procedures of delivery to Joe shall take effect as follows:

Joe Burns has checked here stating that my identity is certified here as correct and I am the person who has received the money and prizes as reported. I have provided for the money and prizes as reported - \$421,780.00 Dollars in Sweepstakes Monies and Prizes as reported by R.M.B. P. which provides the participating entrant full instructions.

I have here enclosed the assessed report fee of \$17.79 by my
check _____ money order payable to R.M.B. P. Office.

PUBLICITY AND MEDIA ANNOUNCEMENT

SPECIAL REQUEST TO YOU JOE. We would so much appreciate you permitting us to publicize your name and photo for national media and public relations reasons. If notifying our publicity offices regarding amount won and prize. Please initial here Joe.



HEREUPON IS THE SIGNATURE OF THE APPOINTED RECEIVER AND THE MONEY AND PRIZES SHALL BE OF FULL ACCESS TO THE NAMED RECEIVER OF THIS DOCUMENT.

PLACE YOUR SIGNATURE HERE

Appearing here, The Actual Signature of Joe Burns the IDENTIFIED RECEIVER

COMPLETION now FILED and ON RECORD.

COMPLETE & RETURN

**WE'VE RESERVED \$11,000,000.00
FOR YOU, NELLIE WINCHESTER --
BUT YOU'LL FORFEIT IT ALL IF YOU
FAIL TO RESPOND WITHIN THE NEXT 5 DAYS!**

\$11,000,000 LEVEL 4 PRIZE RELEASE

BULK RATE
U.S. POSTAGE PAID
PERMIT NO. 100
ANN ARBOR MI 48106

If you have and return the winning entry by the Early Deadline, we'll say ...

JOHN MC RAE, YOU'VE BROKEN THE TIE AMONG OUR TOP WINNERS -- YOU'VE HIT NEW HEIGHTS WITH A LEVEL 4 WIN OF \$11,000,000.00!



John Mc Rae, Sr.
John Mc Rae, Jr.

IE RA
ED ED
EAL WI

ECRLOTR003
0-519

John Mc Rae, Sr

Enclosed Last Stage Documents
containing registered prize claim
number are NON-TRANSFERABLE.
Prize claim number will be
invalidated unless returned by
entrant named at right.

P.O. BOX 62000
TAMPA, FL 33662-2000

AMERICAN FAMILY PUBLISHERS

INVOICE

TOTAL ORDER	TOTAL PAYMENTS	AMOUNT NOW DUE	PLEASE RETURN BY	AMOUNT ENCLOSED
\$15.94	\$0.00	\$15.94	JUNE 22	

MID 0031266 004877-AFM177

If your address is changing, check this box and print your new address on back.

STEVEN

GLEN BURNIE MD 21060-8423



RECEIVED
OFFICE OF THE ATTORNEY GENERAL

JUL 10 1997

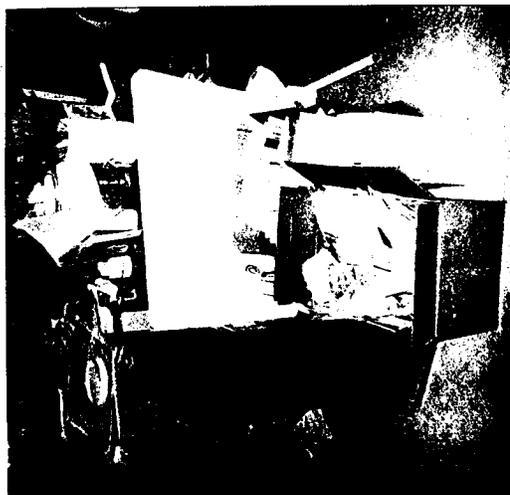
521060BNC1M917S92 071896T10 159 015941 015941
ECONOMIC CRIME DIVISION
TAMPA, FLORIDA

IMPORTANT: Please return this invoice with check made payable to AMERICAN FAMILY PUBLISHERS by date shown above. If you have already paid, please disregard this notice. Thank you.

▲ DETACH AND RETURN WITH YOUR PAYMENT ▲



1/29/98



1/29/98

WRITTEN TESTIMONY OF STANLEY F. PRUSS,
ASSISTANT ATTORNEY GENERAL IN CHARGE,
CONSUMER PROTECTION DIVISION,
MICHIGAN DEPARTMENT OF ATTORNEY GENERAL,
BEFORE THE UNITED STATES SENATE
SUBCOMMITTEE ON INTERNATIONAL SECURITY, PROLIFERATION,
AND FEDERAL SERVICES

Mr. Chairman and Members of the Committee:

My name is Stanley Pruss and I am the Chief of the Consumer Protection Division of the Michigan Department of Attorney General. I am presenting this testimony on behalf of Michigan Attorney General Frank Kelley, who regrets that his schedule does not allow him to appear before you today.

This hearing provides a much-needed opportunity for greatly enhanced public scrutiny of marketing practices that are becoming increasingly unfair, deceptive, and unconscionable. It is our sincere hope and expectation that this hearing will not only heighten public awareness of these practices, but lead to meaningful state and federal legislative action directed at combating these shameful, predatory practices.

Primary among these marketing practices are the so-called sweepstakes promotions that are being increasingly used by both unscrupulous and legitimate members of the business community. We are all aware of these promotions, as we are all, to varying degrees, victims. These mailings are almost always unsolicited and unwanted; they are annoying and frustrating. Yet they have been specifically designed by marketing experts to be tantalizing and alluring. The envelopes are designed to compel the recipient to open and examine the contents. This is the hook. The most direct and effective allurement is personalized deception such as:

"Carl Levin, you have won \$10 million" in bold
16-point print.

Many people, fortunately, recognize this calculated deception to sell goods or services and, most notoriously, magazines. Many of us simply don't have the time to unfold the numerous papers inside, to choose between the Jaguar or Mercedes Benz from the colored, adhesive-backed,

perforated stamps to affix to the return card. Yet many of our citizens do have the time, and these are, disproportionately, our senior and disabled citizens. The deceptive language of the promotions are so cleverly qualified that it's reasonable for some to think that they have won a prize that will bring sudden wealth. The sweepstakes promotions are, of course, designed to suggest that the recipient's eligibility for the prize is directly related to the extent of the purchase of the goods and services. Buy more and you will likely win more. Respond quickly and you will win more. And never affix the "no" sticker to the return envelope.

The effectiveness of sweepstakes promotion as a marketing technique in direct proportion to the magnitude of the deception and the cleverness with which it is purveyed. The marketing experts behind these unconscionable schemes know that there is a segment of our population that will, most literally, buy into the deception. And for that segment of our population sweep promotions can be devastating. The most vulnerable of our citizens will write check after check in response to these mailings in the elusive quest to win the grand prize.

Worse, those who fall victim to the marketing predators once are deliberately and knowingly set up to become victims again and again, when their names and addresses are sold to others who simply steal their money. I have with me today letters and testimonials from relatives of persons, typically senior citizens, who have come to discover that their loved ones have been exploited and who have lost tens of thousands of dollars in response to prize promotions. Some of our complainants inform us that their relatives have garages and basements full of magazines and other items from prize promoters and telemarketers.

The complaints include: An elderly woman from Livonia, Michigan who sent more than \$20,000 to prize promoters; A grandmother from Spruce, Michigan who spent more than \$20,000 on sweepstakes in 1996 alone; And a woman in Michigan who has spent more than \$200,000 on sweepstakes promotions and whose home and garage are filled with sweepstake promotional materials. These complaints beg the question of how one could ever expend such sums without becoming the focused, chosen target of predatory sweepstake marketeers. The answer may lie in this verbatim complaint we recently received from eighty-nine year old resident of

Owosso, Michigan:

In the past I have ordered various items from Publishers Clearing House, have paid for some and returned others; and have received several notices stating I am a winner. One time a person called and stated that I was one of the last five people to win and ask (sic) if I would be home on a certain date and to have my family present. The last notice took the cake, they now have my comments, my family and my neighbors (sic) comments to my winning. I will soon be ninety, and do not feel that I need this sort of harassment. It is a fraud and unfair to me and others that they be allowed to continue such false advertising. I, like any other person, would like to be a winner, but obviously, this will not happen. Please, help to stop this fraud, or help make me a true winner.

You, members of this Committee, can help make every senior citizen a winner by putting a stop to these deceptive sweepstakes promotions.

In Michigan we have a horticultural company, Michigan Bulb, that has used sweepstakes promotions that we believed were unfair and deceptive and thus violated the Michigan Consumer Protection Act. We threatened legal action against Michigan Bulb and it agreed to modify its sweepstakes mailings to address our concerns. The problem, however, is that the sweepstakes promoters find ever more ingenious ways to deceive and mislead the public. The compliance and enforcement efforts of states have not been able to stem the tide of deceptive solicitations nor anticipate the new marketing techniques that are increasingly being employed by an ever widening array of businesses.

Of course there are legitimate prize promotions that are effectively used by the best of our business community. But those business that depend on sweepstakes campaigns have not been able to conform their promotions to meet reasonable ethical or legal standards.

The Direct Marketing Association, a trade group that includes in its membership companies who use sweepstakes campaigns as their primary marketing practice, represent that these promotions are not inherently deceptive and even state that those who spend large sums of money on such promotions are "unstable." The Direct Marketing Association's position

is astonishingly callous and outrageous. To suggest that these carefully designed and specially crafted sales promotions are not inherently deceptive is as outrageous and bizarre as having the CEOs of the tobacco companies come before this Congress and state that they're unaware of any evidence that tobacco is addictive or that it causes cancer. To state that those who respond to these deceptive solicitations are "unstable," is shameful, offensive, and wrong.

There are measures that can be taken that are simple and may be effective. Some of these measures are already under consideration by this Congress. Let me suggest a few:

1. Every mailing that contains a sweepstakes or prize promotion should have clear and distinct disclosures on the front of the envelope that inform the recipient that "THIS IS A SWEEPSTAKES PROMOTION - YOU HAVE NOT AUTOMATICALLY WON and YOU NEED NOT PURCHASE ANYTHING TO WIN OR TO ENHANCE YOUR CHANCES OF WINNING.
2. There should be clear and distinct disclosures specifying the odds of winning every prize. The Official Rules need to be clearly stated on the first page of the promotion materials in print that is large and legible.
3. The enforcement authority should be able to seek civil penalties for every solicitation that fails to comply with these requirements.
4. Additional, enhanced civil penalties should be imposed in cases where the evidence indicates that senior or disabled citizens were targeted with the solicitation.
5. The selling, exchanging, transferring or trading of confidential personal information should be prohibited subject to certain categorical exceptions. "confidential information" should include an individual's name, address, social security number, telephone number, account number at a financial institution, or investment record.

In Michigan Attorney General Kelley and his staff have worked hard to educate citizens concerning sweepstakes promotions. We have implemented programs to educate and alert senior and disabled citizens to

these predatory practices. Grass roots citizen organizations are focusing principally on sweepstakes promotions. The Michigan Association for Family and Community Education, for instance, have started their own campaign to gather and analyze sweepstakes promotions to assist government in taking action. The American Association of Retired Persons is continually fighting this battle.

Lastly, this Committee must not underestimate the creative faculties of the predatory marketeers who design and craft these promotions. They will do their utmost to disguise or shadow any disclosure requirements that the law may impose. We will all have to maintain or vigilance and respond accordingly.

Thank you for inviting Attorney General Kelley to appear before this Committee. Our Department appreciates the opportunity to speak out on these issues and to provide written testimony for the permanent record.



Testimony
of
Richard A. Barton
Senior Vice President for Congressional Relations
The Direct Marketing Association
before the
Senate Subcommittee on National Security, Proliferation, and Federal Services
September 1, 1998

Chairman Cochran and Members of the Subcommittee:

The Direct Marketing Association appreciates this opportunity to discuss problems arising from false and misleading sweepstakes, government "look-alike" envelopes, and facsimiles of checks from the perspective of mailers of legitimate mail advertising.

Summary

In this testimony, I will concentrate on sweepstakes marketing from the viewpoint of the hundreds of legitimate marketers and advertisers that use sweepstakes as an integral part of their communications with consumers. Direct marketers share with this subcommittee a mutual concern about the criminal and illegal scam operators that run bogus prize promotions attempting to deceive trusting consumers. We are also concerned, as are you, about consumers who may respond inappropriately to legitimate sweepstakes promotions.

We believe that steps can be taken to strengthen actions against scam operators and to provide broader education about the operation of legitimate sweepstakes. However, we believe that legislative proposals now under consideration will do little to stop the criminal scam artists or assist confused consumers. While we commend the sponsors of this legislation, particularly Senator Campbell, for the real concern we share for consumer protection, the actual effect of the legislation as currently written could have an unintended and detrimental effect on the many legitimate marketers and advertisers featuring sweepstakes in promotions and offerings that consumers welcome. We believe there is another way, which will be discussed further in this testimony.

Direct Marketing

The Direct Marketing Association is an international trade association consisting of more than 4,100 companies using all forms of direct marketing to promote products and causes and companies supplying services for direct marketers. Catalogers, book and record clubs, direct mail advertisers, magazines and other publications, nonprofit organizations,

telemarketers, printers, list brokers and compilers, mail preparation businesses, and many others are all part of the direct marketing family.

The association has been a leader for more than three decades in the formulation of self regulatory programs and guidelines for ethical business practices for all segments of direct marketing, including sweepstakes programs.

Direct marketing is an important segment of the American economy. Studies conducted by the highly respected economic forecasting firm, the WEFA Group, show that direct marketing is responsible for more than \$1.2 trillion in sales in 1997. Of that, direct mail sales revenues totaled \$390 billion.

Clearly, the American public likes and responds to direct marketing solicitations to buy all manner of products and services and to donate to innumerable charitable and political organizations. Legitimate sweepstakes are an important part of this direct marketing mix. While sweepstakes are used to support the sale of many valuable and useful products, they are particularly important to the magazine industry. According to the New York Times, and other sources, sweepstakes play a significant role in the magazine industry and are involved in least 1/3 of all new magazine subscriptions. Legislation that could lead to a substantial reduction in response to legitimate sweepstakes could be devastating to the magazine industry, as well as to many other direct marketers.

Sweepstakes-A Time-Honored Sales Method

Sweepstakes have been a mainstay of the American marketing scene for many years. As shown by the huge participation in thousands of sweepstakes promotions, they are a popular American pastime and contribute to literally billions of dollars in sales and charitable contributions. From the U.S. Postal Service perspective alone, sweepstakes are major customers. Two major sweepstakes alone account for more than 400 million pieces of mail a year. Sweepstakes taken as a whole probably account for more than a billion pieces of mail a year.

Sweepstakes are used by established, well known businesses to promote and sell a vast array of valued products and offerings. Readers Digest, for example, founded in the 1920's, is one of the most venerable and highly respected names in the magazine publishing field. Publishers Clearing House was founded in 1953 and began to operate its famous sweepstakes program in the mid 1960's. Just a few companies and charitable organizations using sweepstakes include the American Lung Association, National Diabetes Fund, the National Easter Seal Society, Catholic Digest, American Express, Public Broadcasting, North Shore Animal League, Consumer Reports, Coca Cola, Pepsi, McDonalds, and Chase Manhattan Bank. This list could go on for the balance of the afternoon, if I were to go on!

Sweepstakes promotions conceptually operate in much the same way as department store advertising in enticing customers to come into the store. Just as no store can function

without customers inside its doors, no direct mail advertiser can function unless a prospective customer opens the envelope and looks inside. Sweepstakes are a powerful enticement for customers to open the envelope and come into our "store."

And come they do! Most Americans have been exposed at one time or another to legitimate sweepstakes offers. Twenty nine percent of the American public entered sweepstakes in 1996. Eleven percent of all Americans bought products in 1996 in response to sweepstakes promotions. Many thousands have won literally billions of dollars in prizes since the inception of sweepstakes, and a large majority of major winners did not include a purchase order with their winning entry.

Fraudulent Sweepstakes

Success and consumer popularity breed imitation in every endeavor, and in too many cases it is the fraudulent operators that move in most aggressively. This is certainly true of sweepstakes. Capitalizing on the popularity and ubiquity of legitimate sweepstakes, fraudulent operators create scams that, on the surface, may share some superficial characteristics of legitimate sweepstakes, but actually are redesigned subtly to rip off consumers

In some cases, the frauds actually misappropriate the names and logos of legitimate sweepstakes companies. Telephone calls have been made in the name of these companies asking that money be sent by overnight delivery services to assure receipt of a "prize." Of course, the prize never arrives. Similar notification may be sent through the regular mail, by Priority Mail, or even by private package delivery companies asking for prepayment of taxes, a refundable deposit, shipping and handling costs, or other pretexts for getting payments up front. Any requests for payment immediately brand these "sweepstakes" as a fraud, since legitimate sweepstakes never require a payment to enter or receive a prize.

In many of these scams, the intended targets may be senior citizens. Recently, the scams have increasingly come from Canada, resulting in increased efforts by law enforcement authorities in both countries against "cross border" fraud.

All scams, regardless of where they originate, give a black eye to legitimate sweepstakes marketers.

Industry Activities

The Direct Marketing Association and many of its member companies work closely with government agencies such as the Postal Inspection Service, the Federal Trade Commission, and state attorneys general to combat sweepstakes and other types of fraud. Our industry also works closely with consumer advocacy organizations such as the National Consumers League, the National Fraud Information Center and its Alliance

Against Fraud in Telemarketing, and The Council of Better Business Bureaus, to combat fraud and develop consumer education and awareness.

This past March, we held our 26th "DMA Dialogue" Our dialogue program brings together representatives from all areas of direct marketing, including sweepstakes, to meet with regional representatives of the consumer and law enforcement communities to discuss areas of mutual concern. In September, we will hold our 27th Dialogue in Florida, and we would certainly welcome any member or staff of this subcommittee to participate.

In addition to the sweepstakes section of our Guidelines for Ethical Business Practice, enforced by an extensive peer review process, The DMA also has published a free consumer brochure, *Sweepstakes Advertising: A Consumer's Guide*, in conjunction with the Postal Inspection Service and representatives of our industry. The guide is designed to combat fraud and provide consumers with the information necessary to recognize a fraudulent offering.

The Direct Marketing Association has long maintained an extensive program creating and monitoring guidelines for ethical practices in all aspects of direct marketing, including sweepstakes promotions. Our Committee on Ethical Business Practice, comprised of fifteen executives from DMA member companies, investigates and examines mailings and offerings made throughout the direct marketing field, based on complaints and inquiries received. The committee, which usually meets ten times a year, works with both member and nonmember companies to gain voluntary cooperation in adhering to the association's guidelines.

The committee issues a report on its activities three times a year. While previous reports have discussed each case and its resolution generically, in the future we will publicize the names of the companies that are found to be in persistent noncompliance with our guidelines.

Complaints referred to the committee are reviewed against our guidelines. All proceedings of the committee are completely confidential. If a company is considered to be in violation, a member of the committee personally contacts that company. Usually, companies work with the committee to correct practices found to be in violation of the guidelines. If a member company continues in what the committee determines to be in violation of the guidelines, the committee may then recommend to The DMA's Board of Directors that action be taken and the case results be made public. Board action may include censure, suspension or expulsion from the association, and public notice. When the committee determines that there is a serious question of unlawful activities on the part of either member or nonmember companies, referral is made to the appropriate federal and state law enforcement authorities.

Legitimate Sweepstakes

The same fundamental principles are followed by all legitimate sweepstakes.

Most importantly, unlike a state lottery, no purchase is ever necessary to enter a sweepstakes or win prize. This is always fully disclosed by all legitimate marketers. No payment or fee of any kind is necessary to receive or claim a prize. Those who order and those who do not order have identical chances to win. No preference whatsoever is given to entrants who order products. The selection process is fully disclosed.

If a sweepstakes does not do all of these, it is not a legitimate sweepstakes.

Legitimate sweepstakes marketers offer complete money back satisfaction on any purchase and feature consumer friendly cancellation and returns policies. Legitimate sweepstakes marketers use The Direct Marketing Association's Mail Preference Service, a national service to facilitate consumers who want to have their names removed from mailing lists.

Sweepstakes frauds by criminal scam artists, particularly against the elderly, are a growing problem. It is important the underscore that these have little to do with legitimate sweepstakes, however. A different problem is the inappropriate and troubling behavior of a small number of respondents to legitimate sweepstakes. Frankly, at least some of these responses may have been from a minuscule number of consumers who may be unable or unwilling to make reasonable purchasing decisions.

Our experience shows that the vast majority of sweepstakes respondents understand the conditions under which sweepstakes operate, know that they are not necessarily a winner, and are aware that no purchase or any other consideration are necessary to win. This is indicated by the fact that the majority of respondents to most legitimate sweepstakes do not place an order.

Nevertheless, I want to make it absolutely clear that all legitimate direct marketers are concerned about the few who are confused or unclear enough about the actual terms of a sweepstakes promotion to behave in a manner harmful to them. I have described some programs we have already developed to assist consumers in making rational decisions about sweepstakes promotions and prevent them from making inappropriate and harmful decisions. We are also developing even stronger programs that I will discuss in a subsequent section of this testimony

Legislative Proposals

There is already a substantial body of law against such fraudulent activities and a number of federal and state agencies have enforcement authority. We are certainly willing to consider and support more extensive laws and increased penalties to target, deter, and

stop criminal scam operators who attempt to deceive. However, stepped up enforcement of current laws and even more effective consumer information is the best way to protect the consumer, which I will discuss in a subsequent section of this testimony.

We believe, however, that legislative proposals, which do not address specifically criminal activities, now being considered by this subcommittee and in the House of Representatives are not the answer to preventing inappropriate behavior in connection with legitimate sweepstakes. The legislation pending before this subcommittee would require a specific disclaimer on the front of an envelope and dictate the placement and size of type of a similar disclaimer on the front page of the promotion piece inside the envelope.

As mentioned above, direct marketers are not only in favor of full and fair disclosure of all terms of their promotions, but go to some lengths to do so. However, a legal mandate that a specific, negative announcement be placed prominently on the outer envelope and on the first page of a legitimate promotion would almost guarantee that responses would drop so precipitously as to endanger the operations of many legitimate companies and organizations. Direct marketers live and die by response rates, and quite small shifts in response rates can mean the success or failure of a promotion.

Imagine a toothpaste mail promotion showing a couple walking on a beach preceded by a large banner stating, "THE FOLLOWING IS AN AD FOR TOOTHPASTE, WHICH IS DESIGNED TO FIGHT BAD BREATH, GUM DISEASE AND CAVITIES." Or, visualize one of your own political mailing pieces with the message "THIS IS A PAID POLITICAL AD: THE STATEMENTS HEREIN ARE MERELY THE OPINIONS OF THE CANDIDATE, WHICH MAY OR MAY NOT BE ACCURATE" in sixteen point type (which is the size of type used here.) What would the response rate be to these mail pieces?

Thus, we would have a law that would do great harm to legitimate marketers while doing little to solve the problems that precipitated its introduction. Fraudulent operators would ignore the law. Those who respond inappropriately to legitimate sweepstakes would likely continue to ignore the disclaimers they have already ignored, even if they are more prominently displayed.

What Can We Do?

The best approach, we believe, is an enhanced program of self-regulation and consumer education to provide even firmer guidance to those who may need assistance in responding appropriately to legitimate sweepstakes. We are committed to working with companies and organizations using sweepstakes programs, with appropriate consumer

and government agencies, and the members of this subcommittee to enact these programs. Specifically, we are preparing to:

1. Strengthen our sweepstakes guidelines to provide even clearer explanations of the rules of sweepstakes.
2. Develop company programs to identify quickly high activity respondents and inform them that no purchase is necessary, repeatedly if necessary. In extreme cases, removal of high activity names from mailing lists might be appropriate. Some companies already do this. We would encourage all to do so.
3. Train customer service representatives to identify problem cases, work with relatives and provide name suppression, cancellations, and refunds where justified.
4. Develop a coordinated national customer information program to educate the public about how legitimate sweepstakes operate and how consumers can detect and spot fraudulent prize promotions.
5. Serve as a clearinghouse for consumer complaints and concerns about sweepstakes - an expansion of our Mail Order Action Line, which is already operating.
6. Establish a more effective relationship with consumer organizations to help them provide information about sweepstakes and educate their constituents and members on how to avoid financially risky behavior in connection with sweepstakes.

Conclusion

Consumer confidence, trust, and satisfaction is of utmost importance to direct marketers. Legitimate companies develop their customers with great time, expense and effort. They never want to jeopardize the customer relationships they so heavily rely upon. We have a particular interest in providing for the safest and most trouble free atmosphere possible for consumers. Therefore, the members of The Direct Marketing Association are committed to strong laws to eliminate fraud and strong self-regulation to encourage our companies to be a completely consumer friendly. We are looking forward to working with members of the subcommittee to find the most effective way to achieve these mutual goals.

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Use of Mail to Defraud Consumers
Subcommittee on International Security, Proliferation, and Federal Services
September 1, 1998
Remarks by
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Good afternoon, Mr. Chairman and members of the subcommittee, thank you for inviting me to speak on this important issue Direct Mail Marketing and the elderly. As Director of the Gerontology Program on the main campus of Arizona State University, it is a pleasure to report on the first of series of studies on this important topic. On Friday morning I received a piece of mail that on one side said, "RUSH PRIORITY EXPRESS DOCUMENT. RUSH TO ADDRESSED, EXTREMELY IMPORTANT." It had broad red lines across the document and displayed the proud head of the American Eagle. Turning it over it said, "RUSH PRIORITY, TO BE OPENED BY ADDRESSEE ONLY. URGENT REPLY REQUESTED" and had a bar code. This is the kind of mail that our seniors are receiving in an ever-increasing volume and having more difficulty interpreting the good from the bad and the ugly.

I am not here today to attack the direct marketing enterprise for I recognize, as many others have, that we are talking about a four hundred to six hundred billion dollar industry. Most of the users of direct marketing are legitimate businesses, but I am concerned about the direct marketers who use strategies which, although not illegal, may certainly be suspect when sent to an elderly population. Law enforcement and the Attorneys General of the United States are looking into what is already illegal by either state or national statute as well as what should be illegal. We must look at the gray area of mail marketing that impacts the seniors.

I am also not here today to discuss the data on the high cost of mail fraud on the elderly or the number scams currently being employed. Others have reported on the number of seniors targeted and the plight of the victims. I am here to talk about the communication strategies used to convince all of us including the elderly to participate in sweepstakes. What is reported here is based on existing research and on new research reported at the end of my presentation.

In looking at this issue of direct marketing, we looked for research that would tell us what strategies the more popular companies were using particularly with the senior market. Such research has not been easily come by, as most of it is proprietary for those who hire marketing firms to help them design messages for seniors and for the entire general population as well. There is a body of literature in communication, persuasion, marketing, and social psychology that can give us some insight.

There are three major points that I would like to discuss with you today. First, I would like to briefly discuss some of the persuasive strategies that attract all of us to direct mail. Second, I would like to discuss those persuasive strategies that impact seniors more than the rest of us. Finally, I would like to report on two pieces of research that I have conducted to give a clear picture as to what is going on with the senior marketing. I must indicate that this research is preliminary and is part of an ongoing series that I will be conducting.

General Strategies

My first point is there are at least six persuasive strategies where seniors and other adults respond to direct marketing. Many of us respond to direct marketing campaigns, vis-à-vis sweepstakes, as simply a matter of greed. We want to get rich quick. We all would like to gain financially from a contest, sweepstakes, lottery, or any other game of chance. This is not unique to the senior and certainly relates to what many adults might do. "You cannot win if you don't play." A study was published by Narayana and Raju that suggested we would rather play a sweepstakes with the chance to win big time than accept a

small token prize that everybody would receive. Mail sweepstakes are only a part of the gambling society that we have created.

Second, many individuals respond to sweepstakes and other contests simply for the fascination and curiosity that the contest holds. It is exciting; it could be just as exciting as a lottery contest or sitting in front of a slot machine or any other game of chance. Seniors tell us that it is fun to do what it takes to enter.

Third, there is no question that some individuals participate in sweepstakes contests because it gives them something to do. It fills time. It takes away from the hours where one might sit in front of a television set or sit and do nothing. Contests create activity to fill time.

Fourth, the mailing looks important. The example that I cited in the beginning is clearly trying to convince the respondent that the document is important and should command immediate attention. "Open without delay," "Immediate response required," "UNITED STATES MAIL IMPORTANT" are messages used to hook us into a response. Illegal, not yet but it is something that we must study to see if it is misleading seniors.

Fifth we have to look at adults who participate in sweepstakes and other mail marketing strategies as an excessive compulsive behavior equal to gambling or any other addiction. There are cases that have been reported where individuals have spent eight to ten hours a day, responding to mail solicitations. These individuals should be treated as addicts.

Finally, there are individuals who respond to sweepstakes and other mail pieces because what is being offered is something they want. This is a very legitimate response if, in fact, what is purchased is indeed something that the individual wants. Of course, if they already have a three-year subscription, that might be another issue.

All of these reasons then reflect how seniors and adults respond to mail solicitation. None of these are currently considered fraudulent. The marketers use principles of persuasion, marketing, communication and social psychology to get us to participate.

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Senior Related Strategies

What are the strategies that seem to impact the senior populations in our country? First, seniors over value the official nature/appearance of the document. Our current seniors grew up in an era when the government via the postmaster and other federal officials were considered to be highly credible sources. Document that say, "Postmaster, do not deliver to someone other than the addressee," or "Postmaster, this document should be free from tampering," or "Third party interruption prohibited," are the kinds of messages that seniors find particularly credible. I have data that I will present under my third point to confirm this finding. As I described in the beginning, we all get such mailings but most of us recognize it for what it is.

Second, seniors are particularly vulnerable to credible sources. We all have people who we consider to be credible sources whether a politician or an entertainer. When I conducted my dissertation research some 35 years ago, my conclusion was that a high, credible source could persuade people to change their attitudes and to engage in behaviors recommended by that source better than a low credible source. Aristotle first developed credibility as a persuasive force some 2300 years ago. We are persuaded by those sources that we view as having high credibility. Our commercials use entertainers and other celebrities to convince us to make purchases. As an aside, I asked some seniors who would they recommend as someone to speak against mail fraud and their response was unanimous, "Well, of course, Hugh Downs would be a credible spokesman for that cause." Who do the companies use to convince seniors to participate in sweepstakes?

Inadvertently, the Post Office is a credible source that is being used to get seniors to respond to the mailing. If you combine the above two points, you can see how a senior might interpret a mailing that has messages from the Postmaster as a credible source and indirectly endorsing the product.

You can also look at how credibility is used on the outside of the mailings. We have signatures from a prize counsel director, a postal compliance manager, and a sweepstakes director to encourage replies. On one envelope we found names and signatures of nine individuals. We even have the signatures of celebrities with their pictures endorsing the contests.

Third, the use of the statement, "You are a prize winner" throughout documents may make seniors more vulnerable to messages contained in mail solicitation. Such statements are usually made in big, bold, bright print and disclaimers are reproduced in small, off-color print. The senior is going to have difficulty in separating the caveat from the conclusion. Research on seniors indicates that they suffer not only vision loss but also macular degeneration, both of which may impact how the senior reads the messages contained in the document. This visual problem is compounded when we realize all of the caveats about the percentages, the odds, and other such statement are made in a much smaller type size embedded somewhere in the document.

Fourth, there are issues surrounding the nature of the material enclosed in the envelope. This ranges from the length of the message to the type size, color and content of the material. The type ranges from 24 point to 8 point, which can decrease a senior's awareness of what is being said in the message. The message complexity is also a significant part of how a senior might read what it stated.

Using the color red seems to be a much more compelling strategy than having everything done in black type on white paper. It was interesting to note that reply envelopes for those who were going to respond to the offer were in red and the envelope for the nonrespondent was in black. The box numbers were different which might suggest to a senior that failure to purchase might preclude them from the drawing. The length of message adds to problems for seniors. If the message is 8-10 pages long, it does not take long before a senior may forget what was stated in the beginning and then not restated anywhere else in the document. This can be problematic if "You are a Winner" is constantly restated

and the fact that you have to submit and your number has to be selected before you become that winner is not repeated or appears in small nonbold print.

Another strategy that is being used is the personalization of messages generated by computer. "Dear William" we have a prize just for you. The "Arnold family" could certainly take advantage of this prize. A post-it note with my name on it is stuck to a page of the material next to some important point. I am also supposed to be impressed to find my name printed boldly on the fancy certificate announcing my prize. Use of our name is a strategy to help us identify with the product.

Another message impact comes from persuasion research that reports a *recency* and *primacy* effect of messages. We generally remember those things which are stated first and those things which are stated last—primacy and recency. So if a message says in the beginning, "You are a winner." That gets repeated periodically throughout the message and then finally at the end, "To qualify, simply send in your name and check these boxes." The senior may forget the other nine pages that talked about qualifications, chances of winning, and everything else that the document says. Then it ends with the statement, send no money we will bill you later.

Finally, there is another issue that comes from the literature on persuasion and that is the amount of effort that one participates in order to achieve the desired outcome. The research on cognitive dissonance suggests that if I have to work for something then I am more likely to stick with it until completion and also be more satisfied with my effort. Look at the number of mailings that have you fill out pages upon pages of questions. Then you have to move stickers and place keys in slots. These activities are designed to on one hand to heighten my fascination and interest, but on the other hand make me more committed to follow through on the activity.

All of these strategies impact our seniors. We do not have all of the research that we need to determine exactly how strong an impact these various strategies have among our seniors. In an effort to begin finding out whether these issues make a difference, and how our seniors respond to the mail they receive,

we conducted two pilot studies as part of a series that we will be conducting at the university. This brings me to my third and final point and that is, what does the research that we have conducted say to the issues that I've discussed already.

Research Projects

By way of background, I should tell you that these are pilot studies, that they were not conducted on random samples but on volunteer samples of seniors who were willing to participate. Their identities were kept anonymous and we asked them for their opinions on what would appear on the outside of an envelope. This is only the beginning of a careful look at how direct marketing impacts seniors.

We collected data on 145 seniors at three different senior centers throughout the Phoenix Metropolitan area. These volunteers had a mean age of 72 and approximately two-thirds were male and one third were female, and 50% shared living with someone else.

We asked our respondents some general questions about sweepstakes in general. Ninety-eight percent of our respondents had received mail about sweepstakes in the past six months. Thirty percent said that they responded all the time. Twenty-one percent frequently responded and seventeen percent responded some times. The reasons given for responding ranged from I wanted the product (36%), to twenty-nine percent said "it said I had won money or a prize." Twenty percent said it did not cost me anything. Six percent liked the tasks and ten percent said it relieved boredom. Notice how these relate to the issues identified under my second point. Forty percent said that none of the sweepstakes were legitimate. Of that forty percent that said that none were legitimate, thirty-eight percent still said they responded to such sweepstakes all the time. Another fifteen percent of these folks responded frequently or sometimes. Forty-five percent said that a few were legitimate. When we asked if they felt that they had ever been cheated but a sweepstakes contest, thirty-two percent said yes. Seniors are telling us the sweepstakes are not legitimate and

they have been cheated but they still take part. To me, these conflicting responses to the questions suggest that we have a problem needing a solution.

We had two major questions for our study. Would specific messages on the envelope deter or encourage a senior to open that envelope for the material inside? The second question was, If we put a series of messages on an envelope, would that deter or encourage you to open the material?

Our method for our first research question consisted of a questionnaire where we placed specific messages used on existing mail document envelopes and asked seniors whether or not they would open the document based upon reading the statement. In the first study we asked our seniors to look at three specific statements that are included in my testimony here today. In the second study, we placed all three of those statements on a mock envelope and then asked them to respond as if that envelope had been delivered to them.

The first question was asked, "If you saw a statement that said, 'Open it once, prize to guaranteed winners inside,' and this appeared in red on the outside of the envelope, how likely would you be to open it?" (See figure one) Sixteen percent of our sample said "Very likely," Twenty-three percent said "likely." Twenty-six percent said, "Not likely," and thirty-five percent of our subjects responded that they would not open it at all. Thus sixty-one percent said that they would not open the envelope.

The second question asked, "If the statement appeared on the envelope and it stated, "Notice: Postmaster, the security of this package is guaranteed from Tampering, inspection or delay under Section G011.5.1 of the U.S. Postal Service Domestic Mail Manual" how likely would you be to open it?" (See Figure Two) Twenty-four percent said "Very likely." Thirty-three percent said, "Likely." Twenty-three percent said, "Not likely," and twenty percent said, "Not at all." Now fifty-seven percent said that they would open the envelope.

Finally we asked the question, what if a warning were placed on the envelope much like what Senator Campbell is proposing where the postmaster would warn that this included a game of chance, how likely would they be to open it? The statement read as follows: "WARNING: The Postmaster has

determined that the contents of this envelope include a game of chance. Your odds of winning are 80,000,000 to one. Play at your own risk. You do not have to buy to play!" With that statement only four percent of the respondents said they were very likely to open the envelope, and ten percent said, "Likely." Thirty-one percent said, "Not likely," and fifty-five percent said, "Not at all." (See Figure three)

What does this mean in terms of these three statements when taken in isolation? It would appear to mean that our seniors are responding more favorably to statements by the postmaster in protection of tampering. Fifty-seven percent of our seniors said they would open such a document if they saw a statement that said the Postmaster protects from tampering. Surprisingly, only thirty-six percent said that they would read the statement, "Open at once, prize inside," that this was important. For the bill on honesty in sweepstakes, the fact that eighty-six percent said that they would not likely – or not at all – open the envelope if the Postmaster provided a warning. It is clear that at least for this group of seniors, the official nature of the document vis-à-vis Postmaster was a significant factor in whether or not they were likely to open the envelope. That maybe the good news for the bill being discussed here today. Seniors appear to heed what the Postmaster says.

This then led us to a second study, much smaller in nature but one that I think is very important as we look at the potential of legislation. Warnings and caveats cannot be viewed in isolation. They need to be viewed in the context that the senior would see them in the mail.

We provided the sample dummy envelope (See figure four) that was handed to each of our respondents. We asked the question and that was, "What did you notice about the envelope first?" and the results were as follows: Seventy-three percent of our respondents – noticed immediately the statement, "Open at once, there is a prize inside." Only 9.7 percent of our respondents noticed the warning about this being a game of chance. (See Figure five) Given all of the messages on the envelope, the warning appears to get lost.

The significant question that one has to ask was the next question, and that was, "Would you open the envelope?" Forty-two percent of our respondents said, "Very likely." Thirty-six percent said, "Likely," for a total of 78% that would open the envelope. Only 22% said "Not likely" or "Not at all." (See Figure six) So 78% of our respondents looked at the envelope with mixed messages said that they would go ahead and open the envelope. Combining the results of the two separate studies, there is good news and bad news when the warning is placed on the envelope. If that warning is there by itself, we have a deterrent to the opening of the envelope. If that warning appears along with other messages, the chances are that it would not deter our seniors from opening the envelope.

One other issue I think is very important that came out of the second study that we have not looked at in previous research. We asked our respondents to indicate how the mail had been mailed to them. Specifically, what did it mean to have something received by bulk mail? The overwhelming response was bulk mail means that it was bulky! Our respondents did not know that bulk mail meant that it was cheaper way to mail; went to a larger number of people; and was not necessarily important mail. They viewed it as "paid for by the addressee" and did not see any other real differences between the mail going first class or by bulk.

Clearly, our research is only the beginning, but we think there are some significant issues that need to be addressed as we look toward legislation, adjudication, and perhaps more importantly, education. We are concerned that our seniors may not be deliberately lied to but are, by using strategies that are more effective with them, being misled as they receive this mail. I would encourage us all to work together in order to solve this problem, and we'll continue at our place to do research in order to find out exactly what impact these messages have on our seniors. Each senior will probably respond to a piece of direct mail differently than every other senior. Thus, legislating broadly may not cover all of the categories, but we do have to work together to try to solve the problem.

Figures and Sample Envelope

Figure One

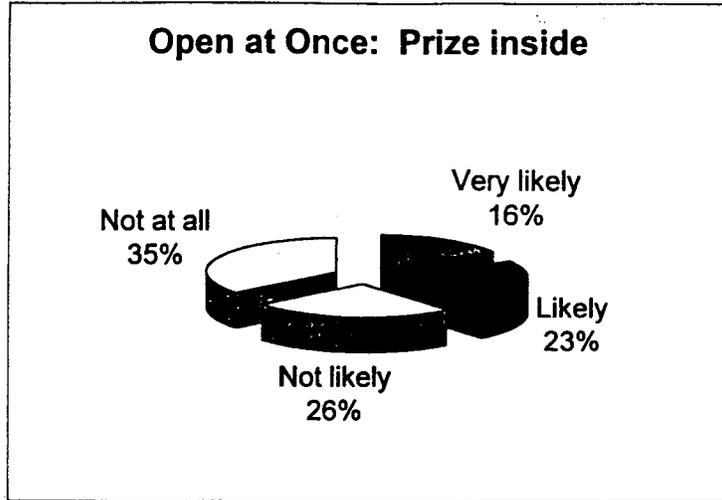


Figure Two

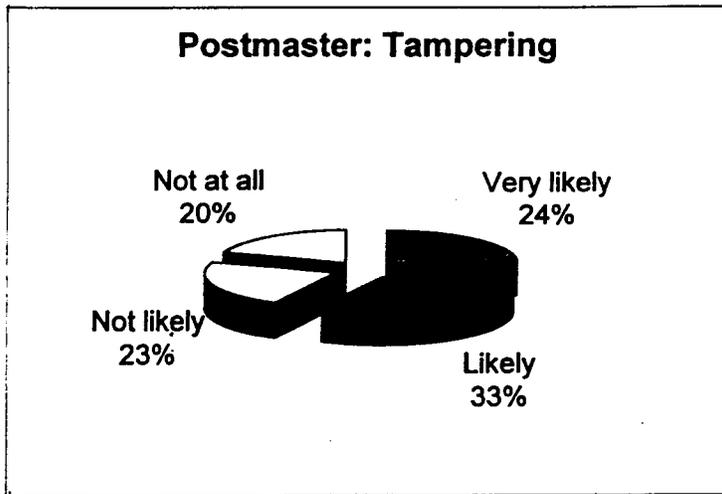


Figure Three

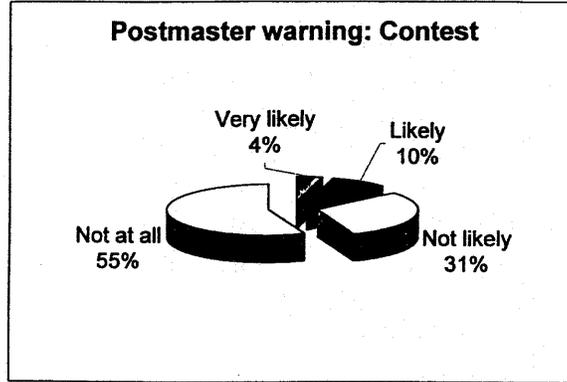


Figure Four

SWEEPSTAKES PRIZE DIVISION
READERS MAGAZINE
PITTSBURGH, PA 15205

BULK RATE
U.S. POSTAGE
PAID

OPEN AT ONCE Prize payments guaranteed to winners inside.

WARNING: The Postmaster has determined that the contents of this envelope include a game of chance. Your odds of winning are 80,000,000 to one. Play at your own risk. You do not have to buy to play!

Notice: Postmaster, the security of this package is guaranteed from Tampering, Impostion or delay under Section 0011.5.1 of the U.S. Postal Service Domestic Mail Manual.

Figure Five

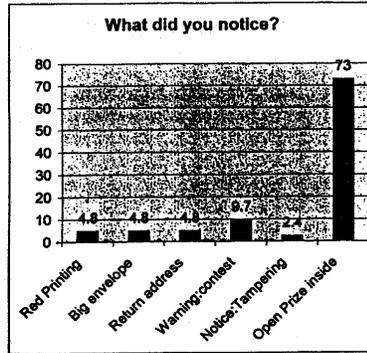
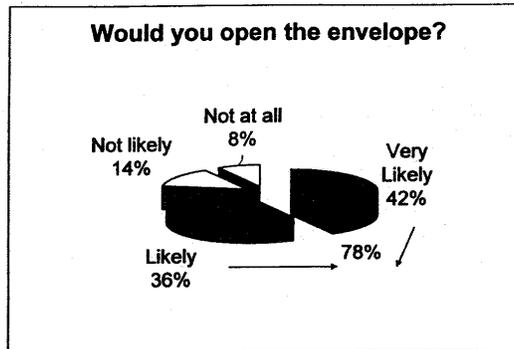


Figure Six





Document 4 of 8.

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July 28, 1998, Tuesday, Late Edition - Final

SECTION: Section A; Page 1; Column 1; National Desk

LENGTH: 3349 words

HEADLINE: Sweepstakes Pit Gullibility and Fine Print

SERIES: IT COULD BE YOU (BUT PROBABLY ISN'T): First of two articles.

BYLINE: By DOUGLAS FRANTZ

DATELINE: VERO BEACH, Fla.

BODY:

Optimistically, Dorothy Edouart recites her mantra. "I haven't won yet, but I've got the letters saying I won and I'll be getting my winnings very soon," she says outside the airy dining room of the retirement center where she lives. "All I have to do is send in my entries and my checks."

Mrs. Edouart, an 88-year-old widow, has played magazine sweepstakes and similar promotions passionately for years. In a 54-day period in 1995, she wrote 148 checks to 56 contests, according to her check register. Her family estimates that in five years she has spent \$60,000 on magazines she never read and worthless prizes, without winning a dime.

To continue playing, Mrs. Edouart moved here from Rhode Island to escape her children's objections. Now she is suing her son for the right to sell the family's estate, saying she needs more money for sweepstakes. The family is seeking to have her declared incompetent.

Across the country, people are fooled every day into believing they have won sweepstakes and other contests, misled by attention-grabbing graphics and official-sounding language.

Most people understand that these pitches are come-ons to buy magazines and other products. "We just throw them away," Lucille Corwin said of the sweepstakes entry forms that fill her mailbox at Sun City Center, a Florida retirement community.

But from big cities to the nation's Sun Cities, the mailboxes that fill fastest are those that belong to the

elderly. And all too often the people who believe the sophisticated pitches and spend large sums they cannot afford on hundreds of magazine subscriptions or on other goods they do not want are elderly, too.

An examination of the **sweepstakes** business by The New York Times provides a look at the inner workings of an industry that has grown dramatically, offering bigger and bigger prizes to millions of households to persuade people to buy magazines, videos and flower bulbs.

As the stakes and competition have risen, so has the sophistication and, in some cases, critics argue, deception. Marketing experts and copywriters at the brand-name **sweepstakes** operations, like Reader's Digest and American Family Publishers, use increasingly sensational language and graphics to make their **sweepstakes** stand out.

And increasingly, the authorities say, fraudulent copycats and telemarketers are using the techniques of legitimate **sweepstakes**, and lists of their contestants, to prey on people they know are vulnerable.

"It's virtually impossible to distinguish the legitimate **sweepstakes** from the frauds," said Michael T. Kogut, an assistant attorney general in Massachusetts.

But recently even the well-known legitimate **sweepstakes** have come under scrutiny because of concern that they promise too much.

Among the elderly who prove vulnerable, some are lonely and seeking excitement. Others do not understand the rules printed in small type. And many take literally what they read when they open envelopes marked "Registered Documents Enclosed" and "Personal and Confidential" and inside find Sports Illustrated announcing that they have won \$833,337, or Publishers Clearing House congratulating them on "your selection to be a Guaranteed Cash Prize Winner with a timely response."

"Folks who are in their 70's, 80's and 90's grew up in an era where, if something was official or appeared to have something to do with the Government, it must be O.K.," said William E. Arnold, director of the gerontology program at Arizona State University, who is studying the effects of **sweepstakes** on the elderly.

Enormous Stakes **Sweepstakes** Mean More Subscriptions

The legitimate **sweepstakes** industry has mushroomed from a single contest at Reader's Digest magazine in 1962 to hundreds of contests a year. More than 400 million of the most sophisticated packages in the direct-mail business are sent to American households each year by the two largest **sweepstakes** companies, American Family Publishers and Publishers Clearing House.

For the magazine industry, the stakes are enormous. Nearly one-third of new subscriptions are generated through **sweepstakes**, industry experts say. The business is profitable for the **sweepstakes** operators because they keep about half of the subscription money they collect and sell other merchandise through their contests.

The power of **sweepstakes** is evident in carefully guarded industry statistics. A **sweepstakes** mailing for magazine subscriptions is four to five times more likely to generate an order than a mailing without a prize or contest, said Larry Stone, a former senior official at Publishers Clearing House and Reader's Digest and a rare insider willing to describe how the industry works.

From the size and color of the type to the texture of the paper and the number of pages, every element of a **sweepstakes** package is designed to persuade readers to play the **sweepstakes** -- and to order magazines or other products. Representatives of the **sweepstakes** companies say their mailings are designed only to provide people with the fantasy of winning and comply with laws that require them to make clear that no purchase is necessary and that entries that include orders have no more chance of

winning than those that do not.

"We've had a very long history of making disclosures in our copy beyond what has been required by law," said Michael Brizel, an executive at Reader's Digest, a unit of The Reader's Digest Association. "We think that the people we mail to clearly understand the difference between buying these high-quality products and entering the **sweepstakes**."

But an increasing number of state officials, who share regulation of the **sweepstakes** industry with the Federal Government, say some **sweepstakes** mailings have crossed the line from persuasion to deception in trying to make people believe they are winners. After years of isolated action, state authorities have opened an offensive with the potential to change the way the **sweepstakes** industry operates.

In March, 32 states and the District of Columbia reached an agreement with American Family Publishers, which is owned jointly by a unit of Time Inc. and an investment group associated with the Pritzker family of Chicago. The company paid \$2.25 million to the states and agreed to stop telling people they were winners, unless they had actually won, and to emphasize in mailings that no purchase was necessary.

But Connecticut, Florida, Indiana, South Carolina and West Virginia went further and sued American Family Publishers, accusing it of deceptive practices and seeking restitution for customers. Also named as defendants were Dick Clark and Ed McMahon, who promote the **sweepstakes**.

Those five states are also cooperating as they expand scrutiny of other companies. Gary L. Betz, special counsel to the Florida Attorney General, said his office was investigating Publishers Clearing House, the other big **sweepstakes** company, and scrutinizing mailings by Reader's Digest and Time.

Publishers Clearing House, based in Port Washington, N.Y., is a limited partnership with a majority held by trusts and charities connected to its founder, the Mertz family.

American Family Publishers also faces 26 class-action civil suits and 11 suits brought by individuals seeking millions of dollars in restitution.

In January, a former circulation executive at Time, Susan Caughman, became chief executive of American Family Enterprises, the parent company of American Family Publishers. Her first goal, Ms. Caughman said, was to negotiate the settlement with the states.

"I'm committed to making it as clear as possible that we are honest and we are proud of what we do as a contest," Ms. Caughman said. "It should help distance us from the fraudulent operators who are abusing our good name."

The company's redesigned mailings are toned down, but continue to relegate to small print the odds of winning the \$10 million prize -- 150 million to 1. Still, those odds are better than the chance of winning the \$1 million prize in Reader's Digest's 1998 President's Prize: 600 million to 1.

Some people in the industry expressed concern that the problems of American Family Publishers have harmed other companies.

"They squeezed the golden goose, and everybody is going to get hurt," said Mr. Stone, the former publishing company executive. "Nobody can tell these companies apart."

Legislation introduced in June in the Senate would expand the Federal Government's role in regulating **sweepstakes** mailings. The bill would require main disclaimers to be printed in large type, restrain other language and allow the Postal Service to destroy mail that does not comply.

"Like a lot of Americans, I get these things in the mail, and they are so realistic that consumers are misled into believing they have won a big prize," Senator **Ben Nighthorse** Campbell, the Colorado Republican who wrote the bill, said in an interview.

Seductive Bait
Entry Mailings Become a Science

In some ways, **sweepstakes** are the victims of their own success. The Reader's Digest **sweepstakes** helped the digest become the largest-circulation magazine in the world. Other magazines followed suit. Next came the stamp sheets assembled by Publishers Clearing House and American Family Publishers, offering discount subscriptions to 300 or more magazines.

Designing a **sweepstakes** package is a science. Marketing and promotions experts develop the central pitch. Copywriters and graphic artists come up with words and images to convey the message.

Often, Mr. Stone and other insiders said, lawyers haggle over the details to keep the package within the law. But the goal is always the same: to sell products.

That is accomplished by entertaining and involving people through the stamps, seals and stickers known in the trade as action devices. Over the years, the industry has discovered that the more gimmicks in a mailing, the better the response.

The envelope may have an official-looking message. The most recent mailing from American Family Publishers, for example, has a bright orange card on the envelope back that says, "ATTENTION. UNAWARDED PRIZE DEPOSIT PRE-AUTHORIZATION FORM."

Inside, almost all mailings include several pages with numerous action devices. The newest American Family Publishers mailing requires people to detach the pre-authorization form, detach an entry form that resembles a check and affix a gold seal to the completed form before mailing the entry.

Mr. Stone and other experts said the motive was simple. The more that people have to do in a mailing, the better chance they think they have of winning.

Mailings often begin by trumpeting the news, "You are a winner." Then comes a description of the contest and an urgent request at the end to send in the response form.

David Sayer, executive director of advertising at Publishers Clearinghouse, compared the gimmicks and language to a department store's "sale" sign.

"We do find that the **sweepstakes** get them in the store, and once we get them in, we like to involve them," Mr. Sayer said. "But we take care to write them clearly and believe that there should be no confusion whatsoever for anyone who reads them carefully."

A successful **sweepstakes** generates subscription orders from 10 percent of the recipients, industry experts say. The entries with orders are called "the pull." When a mailing is sent to 50 million households, a 10 percent pull translates into \$50 million or more in revenue. A much larger group, about 30 percent, returns the entry form without ordering.

Sweepstakes officials would not disclose their results, but Ms. Caughman of American Family Publishers said a 10 percent pull would be bad from a mailing to proven customers, and good from a mailing to people who had not bought before.

Regulations require that all entries have an equal chance of winning. But subtle distinctions sometimes reinforce the misconception that you have a better chance if you order something.

In an American Family Publishers mailing this year, for example, entries with magazine orders went into an envelope addressed to contest headquarters in Tampa, Fla. People not ordering anything were instructed to mail entries to a post office box in Waycross, Ga.

"All the entries wound up in Tampa, but the illusion was that you had a better chance by mailing it directly to the **sweepstakes** headquarters," said James Lyons, an investigator with the Florida Attorney General's office.

The basic accusation by the states against American Family Publishers is that its entry forms have evolved into sophisticated shams that violate state laws against deceptive sales practices.

For example, an American Family Publishers mailing in January declared to millions of recipients: "IT'S DOWN TO A 2-PERSON RACE FOR \$11,000,000. YOU AND ONE OTHER PERSON. WERE ISSUED THE WINNING NUMBER. WHOEVER RETURNS IT FIRST WINS IT ALL!"

Ms. Caughman, the American Family Publishers chief executive, said the company voluntarily withdrew that mailing in February and stopped routing entries without orders to Georgia. She said other practices are under review.

But practices criticized by the attorneys general were featured in recent **sweepstakes** mailings by Sports Illustrated and Time, both published by Time Inc., one of the partners in American Family Publishers.

A promotion in March for Sports Illustrated, for example, was mailed in an official-looking brown envelope with the words "Registered Documents Enclosed" on the front. Inside was a manila folder, stamped in red "Keep This Document In A Safe Place."

The accompanying letter announced the good news. "OUR **SWEEPSTAKES** RESULTS ARE FINAL: the recipient's name HAS WON A CASH PRIZE OF \$833,377.00!" It went on, "A BANK CHECK FOR \$833,377.00 IS ON ITS WAY TO the recipient's address!" Finally, it said, "A BANK CHECK FOR \$833,377.00 IN CASH WILL BE SENT TO YOU VIA CERTIFIED MAIL IF YOU RESPOND NOW!"

The caveats came in small type. The first, just above the headline about winning, said, "If you have and return the Grand Prize winning entry in time, we will officially announce that." The back of the manila folder, in small print under the heading "Official Rules," disclosed that the actual deadline was a year away, March 31, 1999. And the odds of winning the grand prize turned out to be 1 in 120 million.

Peter Costiglio, a spokesman for Time Inc., said the solicitation was not misleading: "We have no interest in deceiving either existing or potential customers. We run our **sweepstakes** honestly and ethically."

True Believers
From Pastime To Obsession

Kelli Carson's grandfather committed suicide. Mrs. Carson, who lives near Seattle, described the events leading to his death on the condition that his name not be used, because some relatives objected to the publicity. Law-enforcement authorities confirmed the details.

"After his wife went into the nursing home with Alzheimer's, my grandfather started playing for something to do when he was alone," Mrs. Carson said of his introduction to **sweepstakes**. "It just went from something he did to occupy his time to an obsession. He truly believed that each time he sent in his form he would be the \$10 million winner, as long as he bought something."

At one point, the family of the retired contractor discovered that his garage was filled with merchandise and magazines. They sold the goods at a garage sale. Less than a year later, the garage was full again.

Relatives met many times to discuss the problem. The only answer seemed to be to go to court to have the grandfather declared incompetent. They could not bring themselves to do it.

"He was the hardest-working person all of his life," Mrs. Carson said. "He saved and saved. He was

never frivolous. And he was in complete control, except he was just brainwashed by these sweepstakes."

Last Dec. 8, Mrs. Carson said, her grandfather was found dead in his truck from carbon monoxide poisoning. The family determined he had spent more than \$100,000 on sweepstakes and similar contests. His bank account had been closed, and his utilities were about to be shut off.

Some elderly people have become so convinced that they are winners that they have flown to American Family Publishers headquarters in Tampa to collect their prizes. Jeanne Meyer, a spokeswoman for the company, said that only a fraction of recipients misunderstood the mailings and that fewer went to Tampa.

A different story was told by former employees of Time Customer Service, the subsidiary of Time Warner that handles calls from customers of American Family Publishers in Tampa.

In a lawsuit filed in Tampa in mid-July, Anne E. Curran, the customer service manager for the sweepstakes account until she resigned in April, said she had to deal with so many disgruntled people who thought they had won that she feared for her safety.

"The individuals Curran met with who had traveled to Tampa to claim prizes they believed they had won in the A.F.P. sweepstakes were often very angry or very depressed upon learning that they had not won and had traveled to Tampa for nothing," the suit said. "As a consequence, Curran began to experience emotional distress and fear for her personal safety."

Without specifying the number, the suit said more people started traveling to Tampa to collect their prizes in recent months. So many went that they were given the code name "visitors" and Ms. Curran was instructed to keep cash in a fund "specifically set up to silence them," the suit said.

Time Customer Service filed its own suit against Ms. Curran, contending that she had misappropriated company electronic mail and demanded money not to disclose it. The Time suit did not address Ms. Curran's accusations.

Another former employee of Time Customer Service, Kim Venezia, said that during the sweeps season, October to March, she handled 200 to 300 calls a day, "and over half of them were people who thought they had won."

"This was not just illiterate people," Ms. Venezia said. "And it's not just the elderly. I talked to all sorts of people who thought they had won."

The worst times, she said, were when a cab would pull up to the building's employee entrance while she and other workers were taking a cigarette break.

"We knew it," Ms. Venezia said. "Here comes gramps with a briefcase or a box with all his sweepstakes entries."

Dorothy Edouart fervently believes that sweepstakes riches are just around the corner for her.

A trim, well-spoken woman, Mrs. Edouart had been living comfortably with her family in Jamestown, R.I., in a house that she had bought and put in a trust. The trust required the family to care for her until her death, when the house would go to her heirs. But several months ago she moved to a retirement center in Vero Beach on Florida's Atlantic Coast to escape the objections of her son and other relatives to her sweepstakes playing.

"I just do it to make a little money," Mrs. Edouart said in an interview recently. "That's the only reason. I just need to get enough money to take care of myself. It doesn't hurt anybody."

But Mrs. Edouart's son discovered that she was spending \$2,000 a month on magazines she never read

and merchandise she did not need in response to **sweepstakes** mailings, said her daughter-in-law, Susan Zwick.

"She spent 12 hours a day at her desk writing checks and filling out entry forms -- and this is a woman with arthritis," Mrs. Zwick said.

Her family's objections escalated in heated disputes.

"She would say, 'It's my money and I can do with it what I want.' " Mrs. Zwick said. "We'd say that we were afraid she was being taken advantage of. And she'd say, 'Now you think I'm stupid and old and being taken advantage of.' "

After moving to Florida, Mrs. Edouart filed suit to remove the Jamestown house from the trust. Mrs. Edouart said she needed more money for the **sweepstakes**.

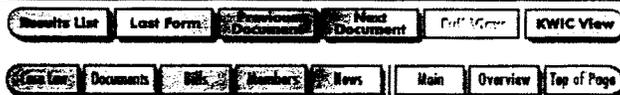
"Some of my winnings I won't be able to collect," she said. "because I don't have enough money to send them the \$25 fee."

NEXT: Con men copy the **sweepstakes'** promises of instant riches to defraud the elderly.

GRAPHIC: Photos: Millions of offers of **sweepstakes** are sent through the mail each year, with the envelopes usually designed to create the impression that the recipient is, if not already a winner, then a finalist. (pg. A1); Dorothy Edouart has taken her son, Howard Zwick, to court to try to gain control of her former home in Jamestown, R.I., so she can sell the house, where Mr. Zwick lives, to raise money to play **sweepstakes**. (Bill Powers for The New York Times)(pg. A13)

LANGUAGE: ENGLISH

LOAD-DATE: July 28, 1998



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Consumer Federation of America

Howard M. Metzenbaum
U.S. Senator (Ret.)
Chairman

August 24, 1998

The Honorable Ben Nighthorse Campbell
United States Senate
380 Senate Russell Office Building
Washington, D.C. 20515

Re: The Honesty in Sweepstakes Act of 1998, S. 2141

Dear Ben:

CFA supports this bill, and I personally thank you for your leadership in protecting vulnerable consumers against these outrageous marketeers. It should be passed this session, even though the time until adjournment is rapidly approaching.

I am increasingly concerned about mail sweepstakes, having received these come-on letters myself. They are magnificently drafted to mislead, particularly senior citizens. As the recent New York Times articles pointed out, too many people have spent thousands in a futile attempt to collect as a "Guaranteed Cash Prize Winner." These stories are truly heartbreaking. In addition to the loss of retirement savings, these practices too often lead to intra-family conflict. There is a certain kind of devilry and evil in the minds of those who draft and send these letters.

Unfortunately these sweepstakes work for the companies which sponsor them. But there should be a distinction between deceptive practices and those where a consumer knowingly makes a purchase and understands the long odds of winning. One has to look closely and read clearly to learn that the big prize isn't really yours. I believe that clear disclosure in a large font, as you have proposed, is necessary. Surely, legitimate sweepstakes operators, if there are any, cannot object to such a requirement.

Given that state Attorneys General are investigating these practices, and the variety of state consumer protection laws that may be applicable, CFA supports your decision not to preempt state laws that may give consumers additional protections against such deceptive practices.

We look forward to working with you to get this bill enacted, hopefully this year.

Sincerely,

Howard M. Metzenbaum
Chairman

1424 16th Street, N.W., Suite 504 • Washington, D.C. 20036
(202) 797-8551 FAX (202) 797-9093



1701 K Street, NW • Suite 1200 • Washington, DC 20006 • (202) 835-3323 • FAX (202) 835-0747 • <http://www.natconsumersleague.org>

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Clair E. Villano

July 17, 1998

The Honorable Ben Nighthorse Campbell
380 Russell Senate Office Building
Washington, DC 20510

Dear Senator Campbell:

On behalf of the National Consumers League, America's pioneer consumer organization, I commend you for introducing S.2141, the "Honest in Sweepstakes Act of 1998." This legislation would be very effective in preventing misleading and deceptive sweepstakes solicitations.

At NCL, we know about sweepstakes scams first-hand because we hear directly from consumers in that regard. Our National Fraud Information Center, a toll-free hotline at (800) 876-7060, was created in 1992 to help fight telemarketing fraud by providing consumers with preventive advice and relaying their reports of suspected fraud to law enforcement agencies. Consumers can also contact us now through our web site, www.fraud.org, to get helpful tips on a report possible fraud.

Bogus prize and sweepstakes offers have consistently ranked among the top five telemarketing frauds reported to the NFIC since its inception. They were the top subject of telemarketing reports in 1997. And of the 3,081 prize and sweepstakes complaints that we received that year, 2,237 began with a mail solicitation to the consumer.

As you know, some of these mail pieces can be very deceptive. They make it appear as though the consumer has automatically won something of great value. They do not make clear that they are games of chance, or the odds of winning, or that no purchase is necessary. In fact, when consumers call to claim their "awards," they are told that they need to pay something first. It might be described as taxes, a processing fee, or bonding, or the consumer might be told that it is necessary to buy a product from the company in order to qualify for this promotional offer. However, the object is simply to extract money from the consumer without necessarily giving anything of value in return.

There are legitimate companies that use sweepstakes as a marketing incentive, but even some of them have on occasion strayed across the line and found themselves at odds with consumer protection authorities.

Representing Consumers for 99 Years

It is often difficult for consumers to tell the difference between a legitimate and a fraudulent sweepstakes offer. Many of the same marketing strategies -- creating excitement, conveying a sense of urgency, making the recipient feel special -- are used by legitimate companies. The key information that consumers need to know is that under federal law, it is illegal to require payment to participate in games of chance. Unfortunately, many people who contact the NFIC find this out too late, after they have already sent hundreds, even thousands of dollars to con artists.

Members of the legitimate sweepstakes industry should welcome your proposal because it would help ensure that consumers understand the solicitation. It would also help to distinguish them from the "bad guys." As a consumer education tool, it would be very useful if we could tell people exactly what information must appear on sweepstakes solicitations. And it would be easy for them to see, because the disclosures would be clear and conspicuous.

We would be happy to work with you and your staff on this important initiative. Please do not hesitate to contact me at (202) 835-3323.

Sincerely yours,



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

cc: Linda F. Golodner, President
National Consumers League

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United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

September 4, 1998

Mr. Richard A. Barton
Direct Marketing Association
1111 19th Street N.W., Suite 1100
Washington, D.C. 20036-3603

Dear Mr. Barton,

Thank you for testifying as a witness at the International Security, Proliferation and Federal Services Subcommittee's hearing on "Uses of Mass Mail to Defraud Consumers." In response to one of my questions, you agreed that you or your organization would apply the Direct Marketing Association's guidelines for ethical business practices to several apparently deceptive sweepstakes promotions we reviewed to determine if the solicitations complied with your ethical guidelines.

Enclosed please find solicitations from the following four companies for your review: Michigan Bulb, Publishers Clearing House, American Family Publishers, and Guaranteed and Bonded. I would appreciate receiving DMA's evaluation of these solicitations as soon as possible. I have provided the complete solicitation with highlights of statements which appear to be the most deceptive. Your reaction to these specific statements would be appreciated as well.

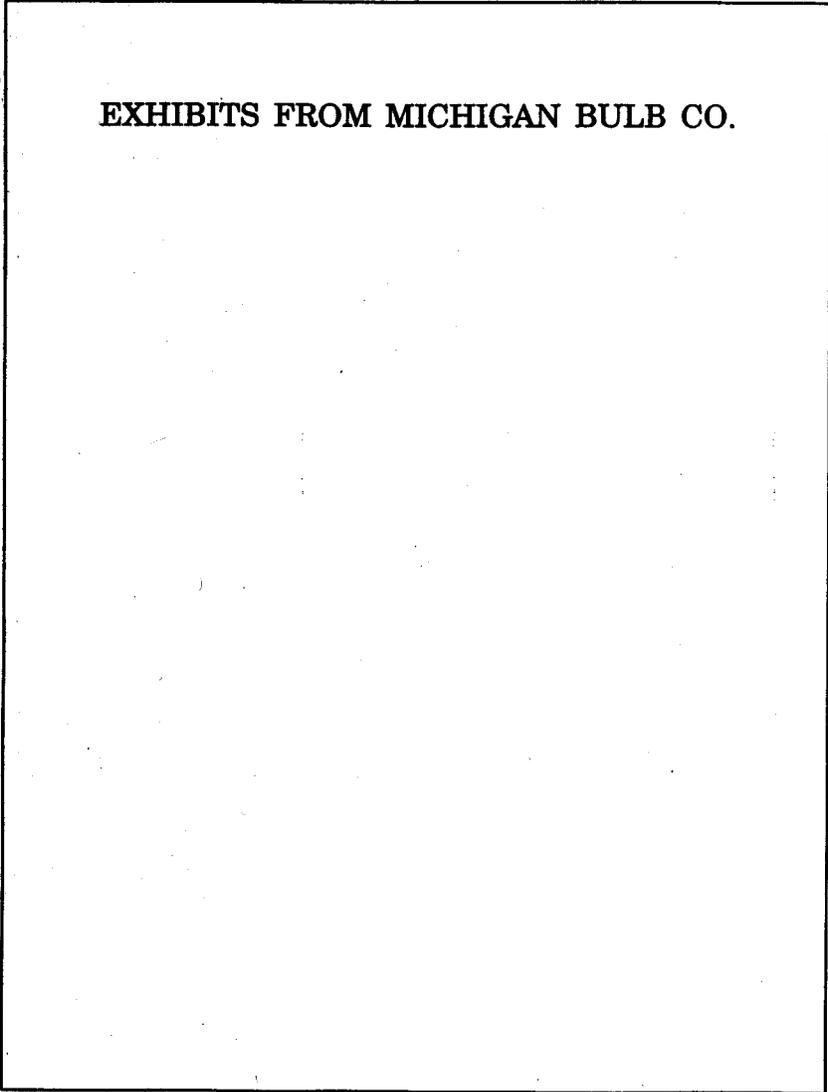
Please contact Myla Edwards (224-4551) of the subcommittee staff with any questions you may have. Thank you for your assistance. We would appreciate the return of the original documents we have enclosed after you complete the review.

Sincerely,



Carl Levin
Ranking Member
Subcommittee on International Security,
Proliferation and Federal Services

CL:me
Enclosures
cc: The Honorable Thad Cochran
Chairman



DELIVER PROMPTLY. VOID AFTER 3/6/98

PLEASE USE THIS ENVELOPE ONLY IF YOU ARE NOT PLACING AN ORDER

NO order enclosed – sweepstakes entry only.

When placing an order, be sure to use the Bright Yellow Response Envelope to return your Claim Form and order.

Date mailed:

\$5,000.00 Super Cash Jackpot award certificate enclosed.

**IF NOT PLACING AN ORDER, SEE RULES FOR
ADDITIONAL INFORMATION.**

*Wait! Don't Say No!
Use your credit card to order
now and pay nothing until
your order is shipped this spring.*

PRINTED IN U.S.

**PLEASE USE THIS OFFICIAL BRIGHT PINK RESPONSE
ENVELOPE ONLY IF YOU ARE PLACING AN ORDER.**

YES. My order official claim
and prize activation forms are enclosed.

**IF NOT PLACING AN ORDER, PLEASE SEE RULES FOR
ADDITIONAL INFORMATION**



DELIVER PROMPTLY. VOID AFTER 3/6/98

PLEASE USE THIS OFFICIAL BRIGHT YELLOW RESPONSE ENVELOPE ONLY IF YOU ARE PLACING AN ORDER.

YES

my order and sweepstakes entry are enclosed.

My merchandise order is: \$15.00 or more. Less than \$15.00.

\$5,000.00 Super Cash Jackpot award certificate enclosed.

Date mailed:

PRINTED IN U.S.A.



Fifth Prize

SHARP
VHS CAM
CAMCORDER
WITH COLOR
LCD MONITOR
or \$750.00
CASH

Sixth Prize

CANON FLPH 490Z
POWER ZOOM AUTO CAMERA or
\$500.00 CASH

Seventh Prize

CAPRESSO COFFEE TEAM
COFFEE MAKER with
GRINDER or \$200.00 CASH

Eighth Prize



Ninth Prize



Tenth Prize

\$50.00 GIFT CERTIFICATE



Add \$10,000.00
To Your Winnings!

Take entry to the nearest retailer in this package and you will win a \$10,000.00 prize. You are The Grand Prize Winner! Don't delay, enter today. You could be \$110,000.00 richer!

Another of Our
Winners!



Perry Salvestrin
He thought he was dreaming, but his dreams came true! Perry Salvestrin entered and won our BIG GRAND PRIZE! Now Perry and his family are \$110,000.00 richer! You could be this rich, too - don't wait - enter today!

OFFICIAL \$250,000.00 SWEEPSTAKES RULES

NO PURCHASE NECESSARY. These rules apply to the 1998 \$250,000.00 Sweepstakes sponsored by Michigan Bulb Co. ("Sponsor"). By entering, you agree to these rules and to the decisions of Prize Howard, Cooper, DeWit and Litton (the "Judges") which are final on all matters related to this Sweepstakes. **TO ENTER:** Follow instructions in this mailing. Entries must be received by the date stated or 12/31/98, whichever is sooner. Each entry has an equal chance of winning. Prize winners chosen in random drawings with final selection on 1/15/99. Winners to be notified within 30 days of selection. **WINNERS AND PRIZES:** 1,501 major prizes ("Sweepstakes Prizes") as shown in this mailing. All prizes will be awarded. Total value of major Sweepstakes Prizes is \$250,000.00. All prize values stated in U.S. currency. Sponsor may substitute prize of equal or greater value if prize shown is unavailable. Estimated odds of winning are: Grand Prize and Bonus - 1:30,000,000; 2nd Prize - 1:30,000,000; 3rd Prize - 1:15,000,000; 4th Prize - 1:6,000,000; 5th Prize - 1:3,000,000; 6th Prize - 1:1,500,000; 7th Prize - 1:1,000,000; 8th Prize - 1:750,000; 9th Prize - 1:250,000; 10th Prize - 1:23,603. Odds of winning any major prize are approximately 1:20,000. Prizes are not transferable. All entrants to promotions offering them will receive a Special Prize which may be called First Round, Round One, Instant Winner, Special, Mystery, Bonus, 1st Level or Level One Prize or Award. Odds of winning depend on the number of entries received. Odds of winning a Special Prize (where offered) are 1:1. **ELIGIBILITY:** Sweepstakes open to legal U.S. and Canadian residents except employees of the Sponsor and the Judges and their respective agents and suppliers and their immediate families and household members. Additional rules in Canada. U.S. residents write: Rockwood Gardens Sweepstakes, Rockwood, Ontario N0B 2K9 for information. Any entry received which is illegible, incomplete, mechanically reproduced, illegitimately obtained or tampered with is void. Sponsor is not responsible for printing errors, detached labels or late, lost, postage due, or misdirected mail. **MISCELLANEOUS:** Sweepstakes subject to all federal, state, provincial and local laws and regulations. Void where prohibited. Sweepstakes presented in conjunction with various promotions and solicitations using various creative presentations by Michigan Bulb Company and its parent, subsidiaries and affiliates including Foster & Gallagher Inc., Rockwood Gardens Inc., Flower of the Month, Personal Comforts, Walter Drake and Home and Garden Value Mart. All entrants release Sponsor and Judges and their parents, affiliates, subsidiaries, officers, directors, agents, employees, suppliers and all others associated with the development and execution of this sweepstakes from any and all liability with respect to or in any way arising from this sweepstakes or the acceptance, possession or use of any prizes, including liability for any personal injury. Winners will be asked for permission to use their photograph, name, city and state of residence for advertising. Prizes won by minors must be awarded in the name of the parent or guardian who must execute affidavit and release on minor's behalf. Sponsor may condition final prize awards on execution of publicity and liability releases and affidavits of eligibility. Sponsor may select an alternate winner if initial winner fails to sign and return such releases and affidavits within 21 days of attempted delivery. Taxes are the winners' responsibility and winners must supply Sponsor with Social Security number to receive prizes valued over \$600. **WINNERS' LISTS AND FUTURE MAILINGS:** For a list of major Sweepstakes Prize winners available from 2/15/99 through 1/15/00, or to receive future Sweepstakes opportunities without obligation, write: 1998 MBC Sweepstakes Information, PO Box 14061, Grand Rapids, MI 49514-0617 or call (616) 735-2100 M-F 9am-5pm EST.

This Could Be You!

Send In Your Entry Today And You Could Make Your Dreams Come True!

Norman Field

Our latest Grand Prize Winner, Norman Field, had an unlisted phone number. So we sent the county sheriff to tell him he was listed with us — as our Grand Prize Winner of \$110,000.00 CASH!

You could be a big winner too — enter today!

Dorothy Sippel

Dorothy knows it pays to order and enter often. She's won prizes before but never anything like her BIG GRAND PRIZE. Now she has an extra \$110,000.00 in the bank! You, too, could be this lucky! Enter today!

\$150,000.00 SWEEPSTAKES
Dorothy Sippel
\$110,000.00 CASH

You Could Be A Winner Too!

\$100,000.00
Grand Prize

SWEEPSTAKES

You Could Win These Prizes...



Second Prize



Third Prize

AND MANY MORE PRIZES!

<p>4th Prize WIN! \$1,000.00 CASH! Start A College Fund 5 WINNERS!</p>	<p>5th Prize WIN! \$750.00 CASH OR A SHARP® VIEWCAM® CAMCORDER WITH COLOR LCD MONITOR 10 WINNERS!</p>
<p>6th Prize WIN! \$500.00 CASH OR A CANON® ELPH 490Z POWER ZOOM AUTO CAMERA 20 WINNERS!</p>	<p>8th Prize WIN! \$150.00 CASH OR A SONY® 900 MHZ 40-CHANNEL CORDLESS PHONE 40 WINNERS!</p>
<p>9th Prize WIN! \$75.00 CASH OR A TABLETOPS UNLIMITED® 40-PC STONEWARE SET 120 WINNERS!</p>	<p>10th Prize WIN! \$50.00 GIFT CERTIFICATE 1,271 WINNERS!</p>
<p>7th Prize WIN! \$200.00 CASH OR A CAPRESSO® COFFEETEAM™ COFFEEMAKER WITH GRINDER 30 WINNERS!</p>	
<p>ADD \$10,000.00 TO YOUR WINNINGS! Return your sweepstakes entry before the deadline date stated in this package, and you will win a \$10,000.00 bonus if you are the Grand Prize Winner! Don't delay, enter today. You could be \$110,000.00 richer!</p>	

OFFICIAL \$250,000.00 SWEEPSTAKES RULES

NO PURCHASE NECESSARY. These rules apply to the 1998 \$250,000.00 Sweepstakes sponsored by Michigan Bulb Co. ("Sponsor"). By entering, you agree to these rules and to the decisions of Price Heneveld, Cooper, DeWitt and Litton (the "Judges") which are final on all matters related to this Sweepstakes. TO ENTER: Follow instructions in this mailing. Entries must be received by the date stated or 12/31/98, whichever is sooner. Each entry has an equal chance of winning. Prize winners chosen in random drawings with final selection on 1/15/99. Winners to be notified within 30 days of selection. WINNERS AND PRIZES: 1,501 major prizes ("Sweepstakes Prizes") as shown in this mailing. All prizes will be awarded. Total value of major Sweepstakes Prizes is \$250,000.00. All prize values stated in U.S. currency. Sponsor may substitute prize of equal or greater value if prize shown is unavailable. Estimated odds of winning are: Grand Prize and Bonus - 1:30,000,000; 2nd Prize - 1:30,000,000; 3rd Prize - 1:15,000,000; 4th Prize - 1:6,000,000; 5th Prize - 1:3,000,000; 6th Prize - 1:1,500,000; 7th Prize - 1:1,000,000; 8th Prize - 1:750,000; 9th Prize - 1:250,000; 10th Prize - 1:23,603. Odds of winning any major prize are approximately 1:20,000. Prizes are not transferable. All entrants to promotions offering them will receive a Special Prize which may be called First Round, Round One, Instant Winner, Special, Mystery, Bonus, 1st Level or Level One Prize or Award. Odds of winning depend on the number of entries received. Odds of winning a Special Prize (where offered) are 1:1. ELIGIBILITY: Sweepstakes open to legal U.S. and Canadian residents except employees of the Sponsor and the Judges and their respective agents and suppliers and their immediate families and household members. Additional rules in Canada. U.S. residents write: Rockwood Gardens Sweepstakes, Rockwood, Ontario N0B 2K9 for information. Any entry received which is illegible, incomplete, mechanically reproduced, illegitimately obtained or tampered with is void. Sponsor is not responsible for printing errors, detached labels or late, lost, postage due, or misdirected mail. MISCELLANEOUS: Sweepstakes subject to all federal, state, provincial and local laws and regulations. Void where prohibited. Sweepstakes presented in conjunction with various promotions and solicitations using various creative presentations by Michigan Bulb Company and its parent, subsidiaries and affiliates including Foster & Gallagher Inc., Rockwood Gardens Inc., Flower of the Month, Personal Comforts, Walter Drake and Home and Garden Value Mart. All entrants release Sponsor and Judges and their parents, affiliates, subsidiaries, officers, directors, agents, employees, suppliers and all others associated with the development and execution of this sweepstakes from any and all liability with respect to or in any way arising from this sweepstakes or the acceptance, possession or use of any prizes, including liability for any personal injury. Winners will be asked for permission to use their photograph, name, city and state of residence for advertising. Prizes won by minors must be awarded in the name of the parent or guardian who must execute affidavit and release on minor's behalf. Sponsor may condition final prize awards on execution of publicity and liability releases and affidavits of eligibility. Sponsor may select an alternate winner if initial winner fails to sign and return such releases and affidavits within 21 days of attempted delivery. Taxes are the winners' responsibility and winners must supply Sponsor with Social Security number to receive prizes valued over \$600. WINNERS' LISTS AND FUTURE MAILINGS: For a list of major Sweepstakes Prize winners available from 2/15/99 through 1/15/00, or to receive future Sweepstakes opportunities without obligation, write: 1998 MBC Sweepstakes Information, PO Box 140617, Grand Rapids, MI 49514-0617 or call (616) 735-2100 M-F 8am-5pm EST.

Printed in U.S.A.

1,501 PRIZES!

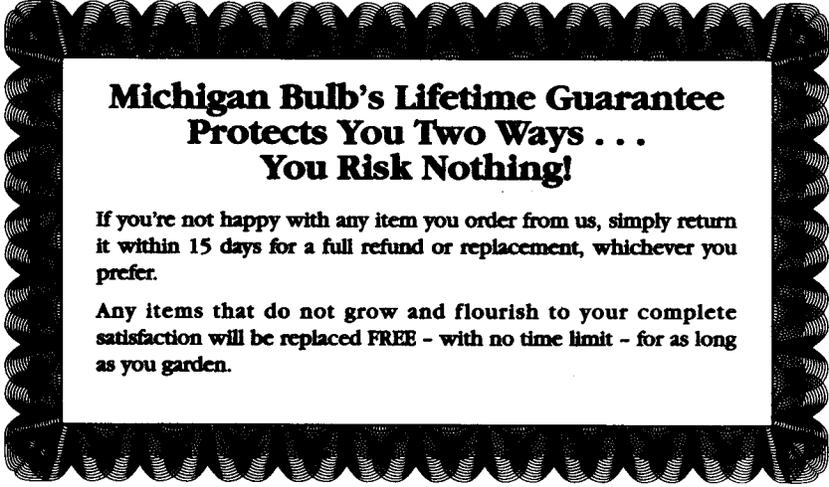
\$250,000.00 SWEEPSTAKES

2nd Prize WIN!
\$25,000.00 CASH!
Buy A New Minivan!

3rd Prize WIN!
\$5,000.00 CASH!
Take a Trip!
2 Winners!

GRAND PRIZE WINNER
DOROTHY SIPPEL
Dorothy Sippel knows it pays to enter often.

GRAND PRIZE WINNER
NORMAN FIELD
Our latest Grand Prize Winner. Norman Field had an unlisted car.



**Michigan Bulb's Lifetime Guarantee
Protects You Two Ways . . .
You Risk Nothing!**

If you're not happy with any item you order from us, simply return it within 15 days for a full refund or replacement, whichever you prefer.

Any items that do not grow and flourish to your complete satisfaction will be replaced FREE - with no time limit - for as long as you garden.

We want to send your Special Premium... and the \$2 bonus bulbs to you... A.S.A.P.!

Sincerely,

Pauline Evans

Pauline Evans, Prize Delivery Coordinator

P.S. DO NOT FORGET to affix your colored coded address label to the Official Response Envelope. We GUARANTEE an instant \$250.00 award to all those recipients who have received and return a large WINNING colored coded address label within 10 business days. (And remember -- use the BRIGHT PINK response envelope if you're placing an order!)

THE BEST GUARANTEE IN THE BUSINESS!

NO-RISK LIFETIME GUARANTEE
Protects You Two Ways!

1 Inspect your order when it arrives. If you are unhappy with any item — for any reason — return it within 15 days for a full refund or replacement, whichever you prefer.

2 Plant with confidence. If any item doesn't grow and flourish to your complete satisfaction, we will replace it FREE — at any time — for as long as you garden. NO TIME LIMIT!

\$10,000.00 GRAND PRIZE BONUS

In addition to prizes at left, when you return all Grand Prize claiming documents prior to the stated deadline (March 14, 1988) and you are selected as the Grand Prize Winner, you will AUTOMATICALLY RECEIVE A BONUS CHECK FOR \$10,000.00 IN CASH.

WIN CASH!

\$100,000.00 IN CASH! \$25,000.00 IN CASH!
 \$5,000.00 IN CASH! \$3,000.00 IN CASH!
 \$10,000.00 CASH BONUS!

WIN MERCHANDISE OR CASH!

Sharp View-Cam™ Camcorder, w/Color Monitor or \$750.00 Cash
 Canon® Elph 490Z Power Zoom Auto Camera or \$500.00 Cash
 Capresso® CoffeeTEAM™ Coffeemaker with Grinder or \$200.00 Cash
 Sony™ 300 MHz 40-channel Cordless Phone or \$150.00 Cash
 Tabletsgen Unlimited® 40-Pc. Stoppers 5g or \$75.00 Cash
 \$50.00 Gift Certificate

1,501 PRIZES!
MORE WINNERS THAN EVER BEFORE!

PRINTED IN U.S.A.

win a check for \$1,000,000! The final date you must beat to have ANY chance at all is February 20, 1998. After that date, there will be no more \$1,000,000-A-Week giveaway awards.

"YOU'LL ALSO RECEIVE FREE BONUSES WHEN YOU PLACE AN ORDER AT THE SAME TIME YOU CLAIM YOUR SPECIAL PREMIUM... UP TO 52 BONUS BULBS!"

On the other side of this page, you will find your Prize Activation Form. When you return the Prize Activation Form with your order and the YES box checked (and the Delivery Label firmly in place), you will receive up to 52 bonus bulbs -- compliments of Michigan Bulb and the Sweepstakes Notification Committee.

The special FREE COLLECTION of bonus spring planting bulbs -- offered to all Special Premium recipients -- includes:

- 6 FREE Mixed Glads
- 6 FREE Peacock Orchids
- 6 FREE Patchwork Petals
- 8 FREE Ranunculus
- 10 FREE Ozalis
- 10 FREE Hardy Glads

Plus 6 FREE Assortments with every order received by March 14, 1998!

Please note that a purchase from the enclosed Spring Catalog is not a condition for winning a prize. However, this catalog does offer some of Michigan Bulb's best collections of roses, perennials, bulbs, trees, shrubs and ground covers to date -- at outstanding prices. And, any purchase will ensure future sweepstakes opportunities for you.

Plus... you can pay no money now and still take advantage of these incredible gardening values. That's right! Use your credit card to order now, and **PAY NOTHING** until we ship your order this spring. That means no risk to you.

Best of all, every purchase of a quality Michigan Bulb product comes with a special satisfaction assurance policy. As you can see from the information below, this UNCONDITIONAL LIFETIME GUARANTEE protects your purchase from the date of delivery... until you stop gardening! (And, all Free Bonuses are yours to keep, even if you return your order.) Simply stated, you can't lose!

"DON'T FORFEIT YOUR CHANCE TO RECEIVE A HUGE CHECK OR A BIG PRIZE! RETURN YOUR CLAIM FORM AND PRIZE ACTIVATION FORM TODAY!"

To repeat, you have been selected to receive a Special Premium. The listing at the top of this page highlights others who followed all instructions and ultimately claimed BIG CASH AWARDS!

If you fail to respond, your name cannot possibly join this list, because you will AUTOMATICALLY FORFEIT your current eligibility for ALL of the prizes mentioned in this notification.

Therefore -- without delay -- please complete, detach and return the Official Claim Form AND the \$250,000.00 Prize Activation Form in the Official Response Envelope.

We want to send your Special Premium... and the 52 bonus bulbs to you... A.S.A.P.!

Sincerely,



Pauline Evans, Prize Delivery Coordinator

P.S. **DO NOT FORGET** to affix your colored coded address label to the Official Response Envelope. We GUARANTEE an instant \$250.00 award to all those recipients who have received and return a large WINNING colored coded address label within 10 business days. (And remember -- use the BRIGHT PINK response envelope if you're placing an order!)





See the back of your Prize Activation Form for a complete listing!

Think about it. The possibilities are endless with such a HUGE CASH WINDFALL! As the Grand Prize Winner, you could write checks to pay for college or to pay off all of your bills. You could use the money to take the trip of a lifetime or as a down payment on an incredible dream home. You could even buy a fleet of cars or a stable full of horses. **The choice is yours, because as the Grand Prize Winner, the money would be yours!**

It is a tough decision, but one many people would love to have the chance to make. But here's a hint: most of our \$100,000.00 winners put their money in the bank as soon as they get it. Then they take a few days to ponder their choices. You might want to consider doing the same.

We'll be glad to wire the money directly to your bank, if that is what you would prefer. But, before we can send a cent to you, we need to receive your claiming documents in time for final selection as mentioned previously. (See rules.)

By the way, \$100,000.00 is just one of many prize awards to be given away in our most exciting sweepstakes ever. There is a \$10,000.00 Grand Prize Bonus for Promptness available, along with many valuable merchandise awards, too. Best of all, every prize is FREE to verified winners and definitely worth claiming. (For a listing of prizes still to be awarded see the other side of your Prize Activation Form.)

And guess what... you could win again and again!

FIRST: "WE'LL ADD ANOTHER \$250.00 IN CASH... GUARANTEED" ... if you have received a large WINNING colored coded address label in this package and you return it as instructed.

SECOND: "WE'LL EVEN ADD ANOTHER \$1,000.00... GUARANTEED" ... if your official response is selected in our newest \$1,000.00-A-Week random drawing!

Keep reading for all the exciting details!

\$250,000.00 PRIZE ACTIVATION FORM

All items are covered by our LIFETIME GUARANTEE. And the FREE bonus items are yours to keep, even if you return your order!

WHEN ORDERING COLLECTIONS OR GARDENS ► Please specify how many you want, not the number of items included.

Attach PRIZE DELIVERY LABEL Here

YES! I WANT TO BE A BIG WINNER IN YOUR \$250,000.00 SWEEPSTAKES!

I'm returning this form with my Prize Activation Form in the Official Bright Pink Response Envelope. Send me my order list now! at left AND MY

No further attempt will be made to contact you with a duplicate notification. Please follow these Claiming Steps or risk forfeiture of any Special

HOW MANY	ITEM #	ITEM DESCRIPTION	TOTAL COST
1	05023	HARDY PERENNIAL LILIES	\$. 22
1	02074	SHADE GARDEN	\$. 22

ITEM DESCRIPTION	TOTAL COST
EXAMPLE	\$. 22

EXAMPLE

\$250,000.00 SWEEPSTAKES

Attach Prize Delivery Label to Prize Activation Form below.

PRIZE DELIVERY LABEL

00136412855 KE 1229 A 1

Alexandria VA 22308-1053

JUST LOOK AT WHAT YOU COULD WIN!

ViewCam Camcorder...
Zoom Camera Kit... CoffeeTEAM
CoffeeMaker... Cordless Phone...
Stoneware Set...

\$1,000.00...
\$5,000.00...
\$25,000.00...
EVEN THE BIG
\$100,000.00 GRAND PRIZE!



LHM-0326

OFFICIAL FORM

NO PURCHASE NECESSARY TO CLAIM PRIZE

FOR OFFICE USE ONLY:
DATE RETURNED: _____

ACTION REQUESTED:
 DELIVER PRIZE IMMEDIATELY
 NOTIFY WINNER OF SHIPMENT DATE
 COLOR OF REPLY ENVELOPE USED: BRIGHT PINK PLAIN YELLOW
 LABEL ATTACHMENT: YES NO

YES, I INTEND TO CLAIM MY SPECIAL PRIZE.
 Send it to me A.S.A.P. at the address below. I am enclosing and returning this form in the Official Response Envelope, along with the Prize Activation Form below - prior to the deadline of August 14, 1998.

My merchandise order total is less than \$15.00.
 My merchandise order total is \$15.00 or more.

FIRST PRIZE MONEY

Alexandria VA 22308-1053

MH5E3L24814

THE RESULTS ARE IN. THE DECISION IS FINAL!

_____ HAS BEEN SELECTED FOR A SPECIAL PREMIUM!

Dear _____

You read it right! According to our computers -- and verified by our Sweepstakes Notification Committee -- YOUR NAME was selected from hundreds of thousands of Michigan Bulb customers to receive a SPECIAL PREMIUM.

It is our great pleasure to notify you that you may now CLAIM YOUR SPECIAL PREMIUM by simply following the guidelines below. In addition . . .

We are duly bound to notify you that upon receipt and selection of your claiming documents, YOU WILL RECEIVE as much as \$100,000.00 IN CASH from our \$250,000.00 Sweepstakes . . . GUARANTEED.

"WHAT WILL YOU DO WITH THE \$100,000.00 IN CASH."

Think about it. The possibilities are endless with such a HUGE CASH WINDFALL! As the Grand Prize Winner, you could write checks to pay for college or to pay off all of your bills. You could use the money to take the trip of a lifetime or as a down payment on an incredible dream home. You could even buy a fleet of cars or a stable full of horses. **The choice is yours, because as the Grand Prize Winner, the money would be yours!**

It is a tough decision, but one many people would love to have the chance to make. But here's a hint: most of our \$100,000.00 winners put their money in the bank as soon as they get it. Then they take a few days to ponder their choices. You might want to consider doing the same.

CLAIM FORM IA

**\$100,000.00 GRAND PRIZE
PAYMENT METHOD PREFERRED:**

- CASHIER'S CHECK
- CORPORATE CHECK
- MONEY ORDER
- NO PREFERENCE

DEADLINE DATE:
3/6/98

PRIZES GUARANTEED TO BE AWARDED:

\$100,000.00 IN ONE LUMP SUM	1 WINNER
\$25,000.00 IN ONE PAYMENT	1 WINNER
\$5,000.00 ALL AT ONCE	2 WINNERS
\$1,000.00 CASH	5 WINNERS
SHARP® VIEWCAM™ CAMCORDER or	
STEELER CASH	10 WINNERS
CANON® POWER ZOOM AUTO CAMERA or	
STEELER CASH	20 WINNERS
CAPRESSO® COPPERTeam™ COFFEEMAKER or	
STEELER CASH	30 WINNERS
SONY™ 40-CHANNEL CORDLESS PHONE or	
STEELER CASH	40 WINNERS
TABLETOPS UNLIMITED® 40-PIECE STONWARE SET or	
STEELER CASH	120 WINNERS
\$50.00 GIFT CERTIFICATES	1,271 WINNERS
TOTAL NUMBER OF WINNERS	1,480

FOR OFFICE USE ONLY:

DATE CLAIMED: _____

AMOUNT AWARDED: _____

CLAIM FORM IA

FINAL NOTIFICATION

THERE IS NO PURCHASE REQUIRED TO CLAIM ANY PREMIUM OR WIN ANY PRIZE. HOWEVER, MANY PAST WINNERS HAVE BEEN OUR BEST CUSTOMERS.

AS OFFICIAL SWEEPSTAKES DIRECTOR, I ENCOURAGE YOU TO SERIOUSLY CONSIDER PURCHASING ONE OR MORE OF JIM MEADOWS' RECOMMENDATIONS ENCLOSED. IF YOU ORDER, BE SURE TO USE THE OFFICIAL BRIGHT YELLOW RESPONSE ENVELOPE. ALL OTHERS MUST USE THE PLAIN WHITE "NO" RESPONSE ENVELOPE.

ONCE AGAIN, JIM HAS DONE THE NEARLY IMPOSSIBLE. HE HAS PUT A STUNNING SELECTION OF IMPORTED BEGONIAS TOGETHER, GUARANTEED TO TURN YOUR YARD INTO A GARDEN EXTRAVAGANZA! DON'T MISS OUT. YOU WON'T FIND PRICES THIS LOW ANYWHERE ELSE. EVERYTHING IS COVERED BY OUR NO-RISK LIFETIME GUARANTEE:

IF YOU ARE NOT HAPPY WITH ANY ITEM YOU ORDER FROM US, SIMPLY RETURN IT WITHIN 15 DAYS FOR A FULL REFUND OR REPLACEMENT, WHICHEVER YOU PREFER.

ANY ITEMS THAT DO NOT GROW AND FLOURISH TO YOUR COMPLETE SATISFACTION WILL BE REPLACED FREE - WITH NO TIME LIMIT - FOR AS LONG AS YOU GARDEN.

BEST OF ALL, YOU CAN **PAY NO MONEY NOW** AND STILL TAKE ADVANTAGE OF THESE INCREDIBLE GARDENING VALUES. THAT'S RIGHT! ORDER WITH YOUR CREDIT CARD NOW AND YOU PAY NOTHING UNTIL WE SHIP YOUR ORDER TO YOU THIS SPRING. THAT MEANS **NO RISK TO YOU!** YOU HAVE NOTHING TO LOSE!

SO ORDER WITH CONFIDENCE WHEN YOU CLAIM YOUR SPECIAL PREMIUM AND TELL US HOW YOU'D LIKE TO RECEIVE A PAYMENT OF \$100,000.00.

REMEMBER, WE MUST HEAR FROM YOU BY 3/6/98 OR THE SPECIAL PREMIUM YOU HAVE BEEN SELECTED TO RECEIVE WILL BE CONSIDERED OPEN TO FORFEITURE. PLEASE DO NOT GIVE UP WHAT YOU'RE ENTITLED TO. RESPOND IMMEDIATELY.

URGENTLY,



PAULINE EVANS
OFFICE OF PRIZE AWARDS

P.S. \$10,000.00 BONUS OFFERED TO GRAND PRIZE WINNER IF RESPONSE IS RECEIVED BY THE DEADLINE DATE.

FINAL NOTIFICATION

FINAL NOTIFICATION

**EXHIBITS FROM PUBLISHERS CLEARING
HOUSE**



February 27, 1998

██████████
 ██████████
 Palm Springs CA 92264

Dear ██████████:

It's morning. You're at home getting ready to start the day. Deciding what to have for breakfast, perhaps, or what to wear to work.

Suddenly, there's a commotion down the street. You hear an unusual sound.

Through the window, you see an armored car pull up to your door. Two guards get out. They move quickly to the rear of the vehicle, weapons at the ready. Out steps a distinguished silver-haired gentleman with a suitcase handcuffed to his wrist. Flanked on each side by the armed guards, he strides purposefully to your door.

The doorbell rings. When you open the door, Dave Sayer of the Publishers Clearing House Prize Patrol greets you with, "██████████, you're our newest multimillionaire. And I've brought all your millions to you."

With that he unlocks the suitcase
 and reveals \$3,500,000.00 in cash
 right there before your eyes!

Dollar after dollar, greenback after greenback, it's all there. Three and One Half Million Dollars -- in cash! I'll bet you never thought you'd live to see that much money -- all at once -- all in cash!

Yes, here it is and it's ALL FOR YOU. To spend as you like. Pay off bills, invest, take a trip, treat your family and friends -- and yourself -- to anything you'd like.

Sound like a dream, ██████████? On the contrary, I have it on good authority that April 15 is when it could all happen for you. That's the day that we will take a

special early look at the winning number for Giveaway No. 525 ... and the day you will definitely win 3.5 Million Dollars should you have and return the matching winning number from this Bulletin. Which means that your prompt response now could turn this scenario into real life.

But you see our concern for confidentiality. It's not every day an armored car unloads \$3,500,000.00 into someone's living room. And as a precaution, we don't want the word to get out that 243 Tunis St could be the next delivery site.

But we're committed to giving the prize money away. And we need two things from you before we can proceed further with our prize winner selection process.

First, sign and return the Acceptance Notice letting us know that you're willing to accept the cash should 56 7252 3639 13 match the winning number.

Second, enclose your signed Confidentiality Acknowledgment attached to the packet this letter came in so we know this method of delivery will be just between us.

Then don't delay. We must know of your willingness to accept the cash by the April 3 deadline at the latest. We can't hold the prize for you from this Bulletin after that date.

Sincerely,



Dorothy Addeo
Contest Manager

P.S. If you'd rather not have so much cash delivered to you, just check the box on the Acceptance Notice. Dave will bring you a Certified Check for 3.5 Million Dollars instead should you win.



February 27, 1998

TO: [REDACTED]
FROM: Dorothy Addeo
SUBJECT: Confidentiality Acknowledgment

My name is Dorothy Addeo and I'm Contest Manager of Publishers Clearing House.

What I have to tell you is so potentially lucrative for you that I had to rush this information out as soon as I could.

The fact is [REDACTED] has been identified as a possible location for an extraordinary future event. I'm writing to you now to ask for your participation should your address be the one chosen as the actual location.

However, given the unique nature of this event, I'm concerned that this information might leak out and become too widespread. So while I need your involvement now, I also want to be sure the event and its potential outcome will not be revealed too soon.

Therefore, I'd appreciate it if we could keep this information confidential for the time being. So please sign the Acknowledgment below and return it along with the document enclosed within the attached brown wrapper.

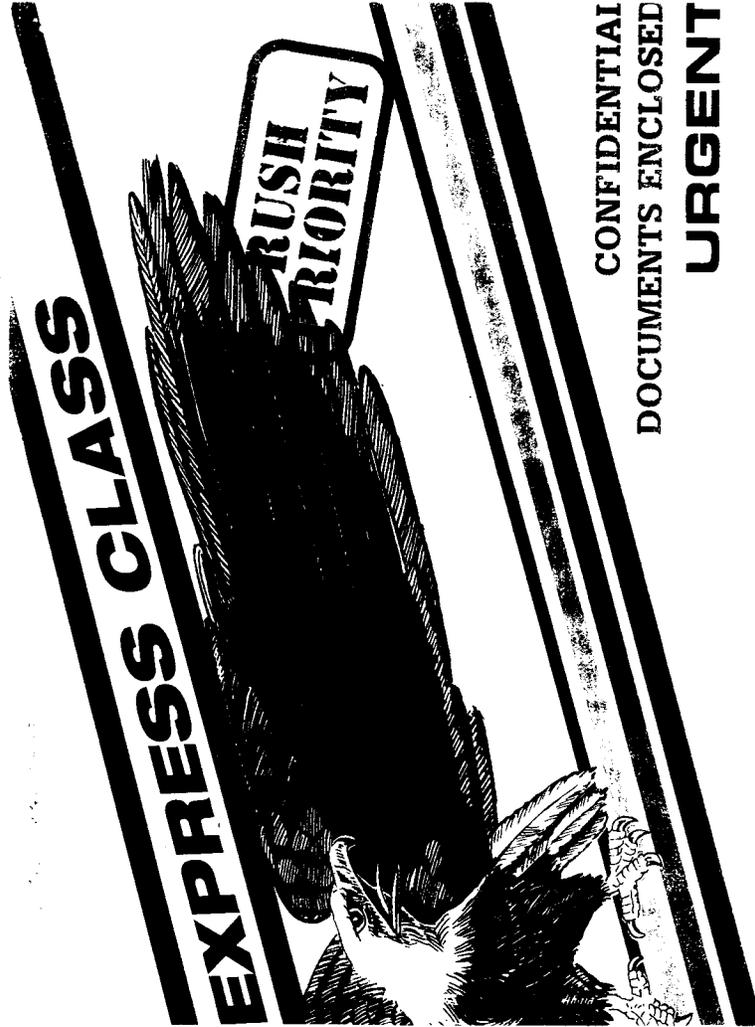
Signing below simply confirms that you will keep our plans confidential a little while longer. Once you read inside, you'll understand just why it is desirable to maintain a certain silence. So please sign below and then open the brown wrapper.

I look forward to hearing from you very soon.

CONFIDENTIALITY ACKNOWLEDGMENT

I, [REDACTED], Palm Springs, CA 92264, acknowledge notification of the unique nature of this exciting event and will not reveal it to anyone beyond my close friends and family until after the prize is awarded.

Signed _____ Date _____



CONFIDENTIAL
DOCUMENTS ENCLOSED
URGENT

Ford **GUARANTEE OF DELIVERY**

DELIVERY CHECKLIST



**TRANSPORT:
FORD EXPEDITION**

Tower Ford
Dealership
Mark A. Haddad
Sales Manager

Expedition
Model
February 27, 1998
Date of issue

Congratulations!
We've been instructed by Dorothy, Sales of Publishers Clearing House to deliver a new Ford Expedition to you on April 24, provided your entry from this Bulletin is selected as the winning one.

As you can see from the checklist below, your new Ford has been checked and rechecked to assure you years of driving excellence. To authorize delivery of your new Expedition, all we need now is for you to complete and return this Guarantee Of Delivery to Publishers Clearing House with your order by April 3.

Sincerely, Mark A. Haddad
Sales Manager

PREDELIVERY CHECK

DELIVERY CHECK

- Technician's Predelivery Inspection Performed
- Vehicle Road Tested and Acceptable for Delivery
- Delivery Authorization Forms Completed

- Owner Forms and Paperwork Prepared for Processing
- Maintenance Schedule/Warranty Booklet/Owner's Guide
- Operation of Features and Accessories Verified

I have reviewed the above Guarantee Of Delivery and acknowledge that it is to my satisfaction. I am transferring my Delivery Approval Stamp from my big sheet of Order Stamps to the box at right.

(your signature)

PLACE
DELIVERY APPROVAL
STAMP HERE
AND RETURN WITH
YOUR ORDER

(IF NOT ORDERING, SEE OFFICIAL RULES FOR ENTRY DETAILS)

PLACE
FIRST CLASS
POSTAGE
STAMP
HERE



Name _____
Address _____
City _____
State _____ Zip _____

FIRST CLASS MAIL


**PUBLISHERS
CLEARING HOUSE**
101 WINNERS CIRCLE
PORT WASHINGTON, NEW YORK 11054-0189

CONFIDENTIAL MATERIAL ENCLOSED.
Forward directly to D. Addeo





101 WINNERS CIRCLE
PORT WASHINGTON, NEW YORK 11050

DAVID C. SAYER
Executive Director, Prize Patrol

Dear Winner Candidate:

May I ask a favor of you? It's rather important and I hope you'll respond positively to my request.

You see, I'm all set to surprise the winner of the Publishers Clearing House \$3,500,000.00 SuperPrize. And Contest Manager Dorothy Addeo has informed me that your entry from this Bulletin could be the winner!

If indeed you are our \$3.5 Million winner, we will be at your door on April 15, along with the news crew from your local TV station, to record the winning moment for the entire country to see. The TV folks will ask you, "What are you going to do with all that money?" And they'll ask me questions like, "How can you afford to give away all that money?" and "Do most people order when they enter?"

While we have had winners who admitted on TV that they hadn't ordered anything when they entered, I'd love to say you don't just enter for the prizes. I'd like to answer, "This winner is a smart customer who takes advantage of our unbeatable deals as well as our Sweepstakes and placed an order with the winning entry!"

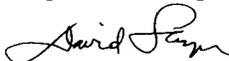
As a friend and potential multimillionaire, you understand that the only way we can afford to give away so much money is to sell magazines. Since I'm about to head out for my next big prize delivery, I'd like to ask my favor now:

Won't you please take advantage of your "On The House" or Free Inspection privilege and order something at this time?

It doesn't have to be a big or expensive item, and with over 120 great deals to choose from, you're sure to find something you like. So make your pick using the enclosed sheet of Order Stamps. Then be sure you get your documents back to us by April 3.

And if you're named our big winner, I'll bring your first issue or item along with your \$3.5 Million prize. How's that for fast and courteous service!

Many thanks for your help!


David Sayer



PUBLISHERS CLEARING HOUSE - 101 WINNERS CIRCLE - FORT WASHINGTON, NEW YORK 11050

**\$3.5 Million Acceptance Notice
from**

[REDACTED]

FOLD HERE

FOLD HERE

I, [REDACTED], do hereby affirm and attest that I am willing to accept 3.5 Million Dollars in cash from Publishers Clearing House on April 15 provided SuperPrize Number 56 7252 3639 13 matches the winning number and this acceptance reaches PCH by April 3, 1998. Should that be the case, I will expect Dave Sayer to arrive in an armored car with guards to deliver the cash to me at [REDACTED], Palm Springs, CA.

I would really prefer a Certified Check should I be the winner.

Thank you.

Signed: _____
[REDACTED]
Palm Springs CA 92264

FOLD HERE

FOLD HERE

I'd also like you to be able to tell the media that I, [REDACTED], don't just enter for the prizes but know an unbeatable deal when I see one. Therefore, please activate my ON THE HOUSE Privilege and see that I receive Express Order Processing on any item(s) I may order below. Thank you.

PLACE 1ST ORDER STAMP HERE	PLACE 2ND ORDER STAMP HERE	PLACE 3RD ORDER STAMP HERE	PLACE 4TH ORDER STAMP HERE
----------------------------------	----------------------------------	----------------------------------	----------------------------------

Your credit is A-OK, so as a President's Gold Club Member won't you try one or more of our unbeatable deals? If not ordering, paste "NO" stamp from the sheet of stamps over the first two order boxes.

04

64 5653 4323

A0109

**EXHIBITS FROM AMERICAN FAMILY
PUBLISHERS**

BULK RATE
U.S. POSTAGE
PAID
PERMIT NO. 984
Reading, PA

OFFICIAL COMMUNICATION

Open Here →

Origin:
Tampa, FL 33660-0001

Contents:
Extremely Urgent

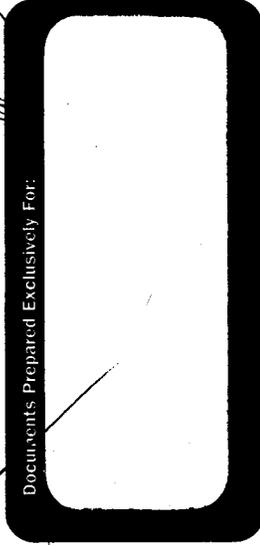
Instructions to Addressee:
Respond Within the Next 5 Days

Regarding:
Official Sweepstakes Notification

Tracking No.:
2-001-00A

Open Here →

*Other
side
need approval notes*



**FAILURE TO RESPOND TO THIS NOTICE
WILL RESULT IN AUTOMATIC FORFEITURE
OF ANY AND ALL PRIZES TO WHICH YOU
MAY ALREADY BE ENTITLED.**

We can't imagine any reason why you would NOT want all this money or other fabulous prizes in this sweepstakes. In addition to the ELEVEN MILLION DOLLARS and the ONE MILLION DOLLARS "Instant Cash", there are over 45,000 more prizes that absolutely have to be given away. And you may be the winner of any one of them. You may be the winner of an elegant Chrysler Concept, a sporty Ford Mustang Convertible or a rugged 4WD Jeep Cherokee, or \$25,000.00 CASH!

Or you and a loved one could take off on a romantic 10-day European Vacation. Or you could win a stunning Sapphire and Diamond Tennis Bracelet ... a Mitsubishi 50" TV ... a Shark Subchaser Sailboat ... an RCA Digital Camcorder ... or a LifeFitness 3500 Treadmill!

**SHOP AMERICAN FAMILY PUBLISHERS
FOR SPECTACULAR SAVINGS.
SELECT YOUR FAVORITES AT UNBEATABLE DISCOUNTS!**

Dick & Dick

Take a look at the MERCHANDISE STAMPSHEET and tear out the big savings. You'll love the wonderful selection of jewelry, videos, music and so much more. There's no obligation to buy, but why miss out? Order now, and ... to show you how much your business is appreciated, American Family Publishers will give your reply top priority. That's just one of the terrific benefits you'll enjoy.

Everything is geared for your maximum savings and convenience. You get our easy 4-step monthly pay plan. (There's no interest charge for this budget-stretching extra.) Plus, you can try any item free for 14 days, and if you're not satisfied, simply return it for a full refund. And why not? After all, your family -- American Family. There are lots of good reasons to act now!

Cordially,

Ed McMahon and Dick Clark

Ed McMahon and Dick Clark
for American Family Publishers

▼ DETACH & AFFIX TO ENTRY-ORDER CARD — MAIL AT ONCE! ▼

P.S. Remember, you are now holding exclusive Final Phase Numbers that put you one step away from winning ELEVEN MILLION DOLLARS. But these numbers must be ENTERED by the special deadline or they will be FORFEITED. Why forfeit the chance to win our biggest cash prize in history?

SWEEPSTAKES #40, there will be an additional prize from sweepstakes #70 of \$1 MILLION. If you do not receive it, the full amount, remainder may be redeemed by agreeing to appear in additional television commercials. There will also be three annual special sweepstakes ending (a) 1/31/88, (b) 1/31/89, (c) 1/31/90. Winners will be selected in annual drawings from all entries timely received. A single entry may qualify for more than one drawing. For complete rules and regulations, see the back of this envelope. Sweepstakes #40 is a registered trademark of American Family Publishers, 3000 University Center Drive, Thonon, Florida 32786. © 1987 American Family Publishers. All rights reserved. No purchase necessary. Ends 1/31/88. Winner's name and address must be correct. Prizes are subject to change without notice. Void where prohibited. See back of envelope for details.

Letter from Ed McMahon and Dick Clark (continued from front)

IMPORTANT: YOUR FINAL PHASE NUMBERS MUST EITHER BE ENTERED OR FORFEITED!

Please DON'T FORFEIT your Last Phase Numbers. If you do, you don't have a chance to get a penny. Not the ONE MILLION DOLLARS "INSTANT CASH" NOR THE ELEVEN MILLION DOLLARS "CONSTANT CASH" that could have followed, making you the richest winner in our history.

There are other people now holding Final Phase Numbers who would dearly love to get their hands on that ONE MILLION DOLLARS "INSTANT CASH" and to put the entire TWELVE MILLION DOLLARS into their bank accounts. But if you're holding the winning entry, all of the money belongs in your bank account. If you have ever dreamed of striking it rich, we urge you to stop dreaming and start acting. Right now is the time to think big and act swiftly. Return your Gold Token and beat the special deadline.

We can't imagine any reason why you would NOT want all this money or other fabulous prizes in this sweepstakes. In addition to the ELEVEN MILLION DOLLARS and the ONE MILLION DOLLARS "Instant Cash", there are over 45,000 more prizes that absolutely have to be given away. And you may be the winner of any one of them. You may be the winner of an elegant Chrysler Concorde, a sporty Ford Mustang Convertible or a rugged 4WD Jeep Cherokee, or \$25,000.00 CASH!

Or you and a loved one could take off on a romantic 10-day European Vacation. Or you could win a stunning Sapphire and Diamond Tennis Bracelet ... a Mitsubishi 50" TV ... a Snark Surchaser Sailboat ... an RCA Digital Camcorder ... or a Lifefitness 3500 Treadmill!

SHOP AMERICAN FAMILY PUBLISHERS FOR SPECTACULAR SAVINGS. SELECT YOUR FAVORITES AT UNBEATABLE DISCOUNTS!

1. [REDACTED]	\$12,000,000.00
2. DANIEL RODGERS	\$10,000,000.00
3. ANDREW BIRGS*	\$10,000,000.00
4. MARJORIE GODZIK*	\$10,000,000.00
5. JANICE HAMELIN*	\$10,000,000.00
6. DAVID BRUMBALOW**	\$10,000,000.00
7. ROBERT MASON	\$2,000,000.00
8. REBECCA WRIGHT*	\$2,000,000.00
9. STEVEN KNUTSON*	\$2,000,000.00
10. TIMOTHY BLAKESLEE	\$1,000,000.00
11. SHARON BELLO*	\$1,000,000.00
12. AMY BELL*	\$1,000,000.00
13. GUSTAV KIRLEIS*	\$1,000,000.00
14. CHERYL PETERSON**	\$1,000,000.00
15. BARBARA NOLL	\$100,000.00
16. JOYCE WILSON	\$75,000.00
17. VIOLET BLIZMAN*	\$75,000.00
18. DENISE DAVIS	\$50,000.00
19. ELSIE BRAYER*	\$50,000.00
20. PATRICIA MOAVOY**	\$50,000.00
21. JOHN O'HELDIS	\$40,000.00

* (An asterisk indicates that the winner is tied with the person directly above.)

[REDACTED] you have passed through Phases One and Two in which the computer identified your name as a contestant and a set of exclusive numbers was assigned to the [REDACTED] name. Then because you made our big mailing list of people all across America, your numbers automatically entered the Last Phase. These Last Phase numbers, which you just received, place you just one step away from receiving all this money. So if you have any second thoughts about entering, we strongly urge you to put these thoughts aside. There is simply too much money at stake.

If you need any more convincing, [REDACTED] just glance at the list at the left. It shows many big winners and the enormous cash prizes they have won. The name [REDACTED] has been tentatively entered at the very top because, if one of your LAST PHASE NUMBERS is the winner, and you return it on time, we'll announce that...

THE [REDACTED] TWELVE MILLION DOLLAR EXPRESS HAS ROCKETED PAST 256,741 WINNERS MAKING [REDACTED] OUR BIGGEST WINNER IN HISTORY!

And, the upshot of it all would hurt [REDACTED] pell mell into a fabulous life of luxury to astound everyone in Seminole, and bring you places and show you things you've never imagined before!

DONT RISK FORFEITURE!

If you hold onto the [REDACTED] Last Phase Numbers even one minute after midnight February 11, 1986, you lose this chance to be our biggest winner in history. The [REDACTED] Last Phase Numbers MUST be entered or they'll be FORFEITED! Over, please...

✓ DETACH & APPEL TO ENTRY-ORDER CARD - MAIL AT ONCE! ✓

LAST PHASE ENTRY LABEL

[REDACTED]

Seminole, FL 33772-2741

AMCBLD 632 627 4577

IMPORTANT!
 HT76280248 K082828458
 3L824848661 FC888806792
 39885717883 VL74888670
 C8880483780

FOR AMERICAN FAMILY

IS COMING TO [REDACTED] WAY AND \$11,000,000.00 MORE WILL FOLLOW!

[REDACTED], Get Ready!

[REDACTED], YOU'VE DONE IT ... YOU'VE PASSED EVERY ONE OF OUR 258,741 WINNERS. YOU'RE ALL ALONE ON THE TOP OF OUR WINNERS' LIST, AND YOU'RE GOING TO COLLECT MORE THAN TEN MILLION DOLLARS* is what we'll say if you have and return the winning entry in time!

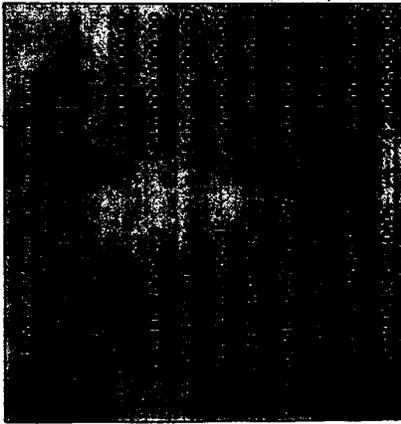
In that case, we'd ask you to GET READY for the uninformed messenger who's coming to [REDACTED] with a sealed envelope containing ONE MILLION DOLLARS INSTANT CASH -- ALL IN ONE BUNDLE -- ALL FOR [REDACTED].

And you'd have to GET READY to receive lots more money because the 'INSTANT ONE MILLION DOLLARS' would be the mere tip of the iceberg. Every year for the next 30 years you'd receive another envelope containing the staggering sum of \$386,666.00 until you'd collected a full TWELVE MILLION DOLLARS -- more money than any other winner in the history of our sweepstakes!

You'll notice a special pouch with the date FEBRUARY 11 printed on it on the Last Phase Notification Certificate at the top of this letter. This is the date you must beat in order to be eligible to win all this money. Inside your pouch you'll find a Gold Token which you must also affix to the enclosed Entry-Order Card along with the Last Phase Entry Label below that contains all the [REDACTED] LAST PHASE NUMBERS.

[REDACTED], you have passed through Phases One and Two in which the computer identified your name as a contestant and a set of exclusive numbers was assigned to the [REDACTED] name. Then because you made our big mailing list of people all across America, your numbers automatically entered the Last Phase. These Last Phase numbers, which you just received, place you just one step away from receiving all this money. So if you have any second thoughts about entering, we strongly urge you to put these thoughts aside. There is simply too much money at stake.

If you need any more convincing, [REDACTED] just glance at the list at the left. It shows many big winners and the enormous cash prizes they have won. The name [REDACTED] has been tentatively entered at the very top because, if one of your LAST PHASE NUMBERS is the winner and you return it on time, we'll announce that...



WINNERS LIST: [REDACTED]

LAST PHASE NUMBER CERTIFICATE OF NOTIFICATION

LAST PHASE DOCUMENTS
New Place
One Step Away From
Winning At Least
\$10,000,000.00!

If you have and return the winning entry in time, we'll say ...

**[REDACTED] HAS JUST
TAKEN FIRST PLACE OVER 256,741
OTHER WINNERS AND WILL BE PAID
MORE THAN TEN MILLION DOLLARS!**

This Is To Certify that MT756286248
and all the other [REDACTED] Numbers imprinted
on this document have reached the LAST
PHASE. [REDACTED] passed through
Phases One and Two when the computer
produced your name as a contestant and
assigned a set of exclusive numbers to the
[REDACTED] name.

00005 **AUTOCR**C052

[REDACTED]
Seminole, FL 33772-2741
[REDACTED]

MT756286248 K0632829458 IL834848661 FG966606792
39855717681 VL744828570 ZC820483780

These prize claim numbers are all last phase numbers
registered exclusively to the person named above.

AMERICAN FAMILY PUBLISHERS

MT721-RJCL8036-1-1-10-*

If you have and return the winning entry with the gold "Instant Cash" Token
we'll say ...

**[REDACTED], YOU'RE NO. 1 --
ONE MILLION DOLLARS "INSTANT CASH"
IS COMING TO [REDACTED]
AND \$11,000,000.00 MORE WILL FOLLOW!**



**Shop American Family
For Incredible Deals
On Quality Items!**

From cookbooks to collectibles, music to videos, gifts for kids and the hard-to-please, you'll find it all (and more!) right here! We've packed our giant stampsheet with dozens upon dozens of incredible offers you're sure to enjoy — all at super low prices that won't break your budget!

Shopping has never been easier or more affordable! So why not treat yourself or someone you love today? With deals this good, you won't want to miss out!

**SEND NO MONEY NOW —
FREE CREDIT APPROVED!**

TO PROCEED TO THE WINNER SELECTION PROCESS:
Detach Gold Token and affix to Entry-Order Card along with Last Phase Entry Label. Enclose it with your order in the reply envelope. Then and only then, remove security label from other side and use it to seal your reply envelope when you respond. **IF NOT ORDERING:** detach Gold Token and affix to Entry-Order Card along with Last Phase Entry Label and in lieu of an order, also enclose a 3" x 5" card with "NON-ORDER ENTRY" hand printed in block letters. Do not use Security Label to seal envelope. No purchase necessary to enter or win. See official rules.

PLACE THIS CARD IN ENCLOSED REPLY ENVELOPE

BE SURE
THIS ADDRESS



SHOWS THROUGH
ENVELOPE WINDOW

**AMERICAN FAMILY
PUBLISHERS**
P.O. BOX 9309
ISLANDIA, NY 11722-9309

**URGENT!
MAIL
YOUR REPLY
TODAY!**

OFFICIAL ENTRY-ORDER CARD

UP TO TWELVE MILLION DOLLARS GUARANTEED!
 If you return the Grand Prize Winning number along with the \$1,000,000.00 Instant Cash Gold Token before the stated deadline, you are guaranteed TWELVE MILLION DOLLARS!

HOW TO ORDER:
 1. Paste product label below.
 2. Paste Address Label to the right.
 3. Place card in envelope and mail today!

PASTE 1ST PRODUCT LABEL HERE

PASTE ADDRESS LABEL HERE

STAMP HERE

STAMP HERE

IMPORTANT! TO ENTER:
 You must return your Entry Label with your 7 Sweepstakes Numbers on the Entry-Order Card in order to qualify for the prize you may have won. **NO PURCHASE NECESSARY. TWELVE MILLION DOLLARS SWEEPSTAKES.** (The winning number has already been selected and sealed away — it may be in your hands right now!)

PASTE LAST PHASE ENTRY LABEL HERE AND MAIL CARD TODAY!

**Thanks for shopping
American Family Publishers!**

LAST PHASE

**YOU MAY BE THE FIRST IN OUR HISTORY TO WIN
TWELVE MILLION DOLLARS!**

PASTE INSTANT CASH GOLD TOKEN HERE!

IF YES, I have attached my stamp to this card to ensure it is stamped in the right place.

REGARDING AMOUNT:

UNDER 1 MILLION
 OVER 10 MILLION

RESPONSE REQUIRED:

YES NO

REFERENCE NO:
16PL 0217 2949 001

0028-PSL

The information enclosed is of crucial importance. Because your name appeared on the list of people identified to receive this mailing, you can now be told. **OPEN IMMEDIATELY...**

AFFIX ENCLOSED SECURITY LABEL HERE TO SEAL THIS SPECIAL ENVELOPE.

We have already alerted our Intake Department
to separate Security Label responses for immediate processing.

**DID YOU AFFIX YOUR GOLD TOKEN?
Don't risk letting TWELVE MILLION DOLLARS
slip through your hands!**

18AJR00
9309
©1997 AFP

AMERICAN FAMILY PUBLISHERS • P.O. BOX 62000 • TAMPA, FL 33662-2000

RECEIVED

MAR 10 1998

OFFICE OF THE ATTORNEY GENERAL
ECONOMIC CRIMES DIVISION

IMPORTANT: YOU MAY BE OUR BIGGEST WINNER IN HISTORY.



Ed McMahon and Dick Clark
for American Family Publishers

The LAST PHASE DOCUMENTS within officially put you only one step away from winning MUCH MORE THAN TEN MILLION DOLLARS!

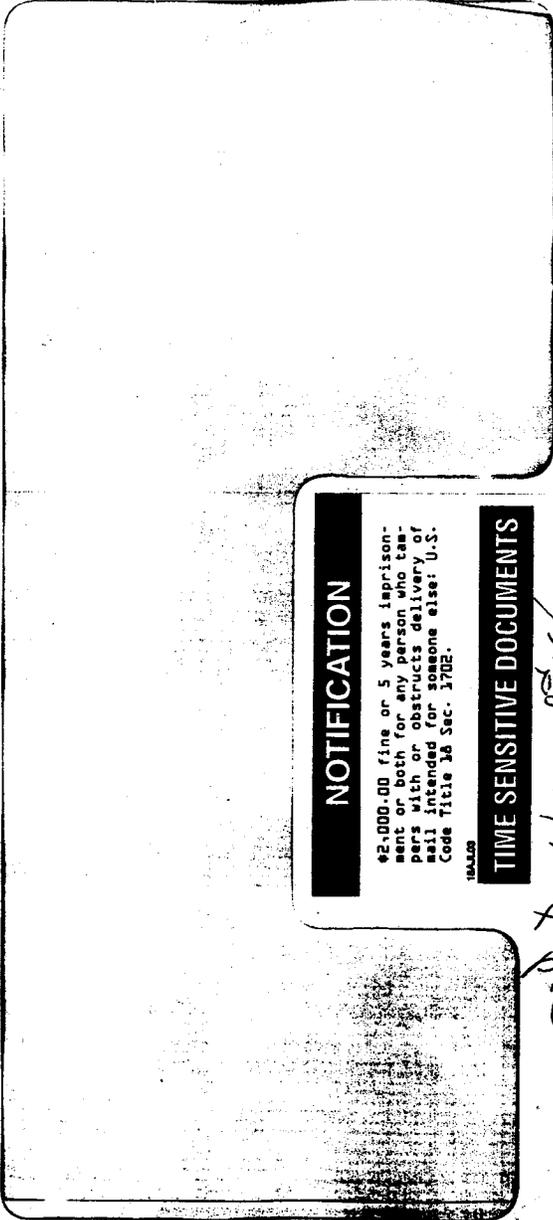
A special Pouch has been attached to the LAST PHASE NUMBER CERTIFICATE OF NOTIFICATION inside. Within this pouch there is a special "INSTANT CASH" gold token. If you have and return the winning number with this gold token before the special deadline imprinted on the enclosed \$1,000,000.00 "Instant Cash" Pouch, YOU WILL BE OFFICIALLY DECLARED OUR NUMBER ONE WINNER and you will receive more than \$10,000,000.00 (and much more than any of our 256,741 winners have ever received!)

DON'T RISK FORFEITING OUR BIGGEST PRIZE IN HISTORY!



**LAST PHASE
ALERT**

URGENT! Return the Enclosed Entry At Once!
The enclosed documents contain registered **LAST PHASE NUMBERS** and since
you only **ONE STEP AWAY** from collecting **TEN MILLION DOLLARS** or **MUCH MORE!**



NOTIFICATION

\$2,000.00 fine or 5 years imprisonment or both for any person who tampered with or obstructs delivery of mail intended for someone else: U.S. Code Title 18 Sec. 1702.

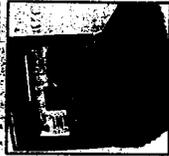
18AL20

TIME SENSITIVE DOCUMENTS

Did not find 5-17-70

EXHIBITS FROM MONEY MAGAZINE/TIME INC.

DON'T MISS OUT!
Respond within 5 days
to be eligible to win a
Compaq Armada 1500 Series PC.

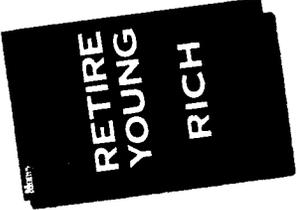


• Color Monitor • 16 MB RAM
• Hard Processor • Built-in
233 MHz Processor • CD-ROM Drive

VALUED AT \$6,000!

010002

Just for saying YES to
a Risk-Free Issue of MONEY!



MONEY'S HOW TO RETIRE YOUNG AND RICH

This invaluable 100-page guide from MONEY's editors provides all the information you need to make the most important decisions of your financial life. Knowing how and where to invest wisely can mean more money—much more money—in the future. **HOW TO RETIRE YOUNG AND RICH** will guide you step by step through the maze of investing choices. You'll find vital information on the most important aspects of retirement planning.

- Five Investing Mistakes to Avoid
- How Much Insurance Is Enough?
- What to Expect from Social Security
- Should You Still Fund an IRA?
- How to Keep from Outliving Your Money
- And much, much more!

Easy-to-follow charts and worksheets will make taking charge of your financial future EASY—even if you're a beginner. Best of all, **HOW TO RETIRE YOUNG AND RICH** is YOURS FREE ... just for saying YES to a Risk-Free Issue of MONEY magazine NOW!

010002

FOR SWEEPSTAKES JUDGING USE ONLY

Date Entry Received: _____
 Time Entry Received: _____
 Eligible for \$100,000.00 Bonus Award
 Ineligible for \$100,000.00 Bonus Award

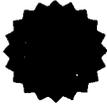
URGENT: RESPOND WITHIN 5 DAYS FOR A CHANCE TO WIN A
COMPAQ ARMADA 1500 SERIES PC (A \$6,000.00 VALUE)



PLACE
FIRST-CLASS
POSTAGE
STAMP HERE

INSTRUCTIONS

Validate the entry at right with the appropriate seal(s) below and return it in the enclosed envelope by the deadline. If you fail to respond, you risk forfeiting the \$1,666,675.00 prize.



BONUS AWARD DEADLINE 07/31/98

REGISTRATION: Your entry must be received by the deadline above. If you fail to register by the 11:59:59:999 deadline, you will not be eligible for the \$1,666,675.00 bonus award.



Presented By
Money
PO BOX 80741
TAMPA FL 33660-0741

FIRST-CLASS MAIL

ATTENTION SWEEPSTAKES DEPT. — REGISTERED ENTRY ENCLOSED — PLEASE PROCESS IMMEDIATELY

NAME _____
ADDRESS _____
CITY _____ STATE _____ ZIP _____

DETACH HERE AND MAIL IN THE ENCLOSED ENVELOPE

Official \$1,666,675.00 Entry Certificate

PRIZE CLAIM NUMBERS
UHRROUJUS EG9QJ5QJ7
RNUUJADJN ARE0F7X6D
IJD0B7EFLJ QJ506UL6B

Check here if you do NOT wish to receive a check. Free status of MONEY and your FREE GIFT, but still want to receive the prize. Do NOT seal your FREE GIFT seal.

000 575 12AN NOYVF6N UHRROUJUS
VIENNA VA 22162-1946

EXTRA PRIZE

Prize and the seal below are valid only if you have received the seal below by the deadline above. If you have not received the seal below by the deadline above, you will not be eligible for the extra prize. Please contact the sponsor for more information. 1998 Money Inc.

IMPORTANT: RETURN THIS DOCUMENT IN THE ENCLOSED ENVELOPE.

& MONEY FREE GIFT/RISK-FREE ORDER FORM

MONOPOLY

MONOPOLY/REG-01-CA

THERE IS SIMPLY NO WAY YOU CAN BE AWARDED THE NEXT \$1,666,675.00.

Simply put, if you hold the winning number, your \$1,666,675.00 prize must be claimed immediately. We cannot honor a late reply, not even one minute past midnight of the stipulated deadline. That's why I urge you to respond to this notice today. Remember -- we are under no obligation to deliver the \$1,666,675.00 to you if you throw the winning number away. So validate your entry and return it at once. It's your wisest move ... and one you should make immediately. Because one of your Prize Numbers could indeed be the winning number, and if that's the case we'll gladly announce:

MR. [REDACTED] FABULOUS FUTURE AS ONE OF OUR BIGGEST WINNERS IS ABOUT TO BEGIN!

And as you'll quickly discover, after being awarded your \$1,666,675.00 prize, life isn't quite the same when you're a millionaire. When you're rich, [REDACTED] you can stop worrying about money and start thinking about how \$1,666,675.00 will change your life. Now you'll have all the money you need to pay off your mortgage, cover college costs, pursue your favorite hobbies or travel around the world, start your own business or just take it easy. That's real financial freedom. And along with this opportunity comes more good news:

(Over, please.)



IT'S CONFIRMED -- JACK SEARS AND MR. [REDACTED] HAVE BOTH WON \$1,666,675.00 PRIZES!

Dear Mr. [REDACTED]:

Good news! The name Mr. [REDACTED] has something in common with a previous Grand Prize winner. Something that could be worth \$1,666,675.00.

Let me tell you why. Our first \$1,666,675.00 winner, Jack Sears of Deerfield, Illinois, received a confirming notification much like this one. He also received a unique set of Prize Numbers -- just as YOU have received. Numbers exclusively registered in your name. And in Jack Sears' case, he cashed in his winning ticket and laid claim to a Grand Prize worth \$1,666,675.00.

And now it's your turn. You've got the numbers that could win you the same \$1,666,675.00 prize. To ensure that you do, we've printed out a copy of your winning ticket. And that means you can claim your prize immediately. It's your chance to win the Grand Prize. So hurry! Call us today. We'll be glad to help you with any important reason.

ALREADY! THERE IS SIMPLY NO WAY YOU CAN BE AWARDED THE NEXT \$1,666,675.00.

Simply put, if you hold the winning number, your \$1,666,675.00 prize must be claimed immediately. We cannot honor a late reply, not even one minute past midnight of the stipulated deadline. That's why I urge you to respond to this notice today. Remember -- we are under no obligation to deliver the \$1,666,675.00 to you, if you throw the winning number away. So validate your entry and return it at once. It's your wisest move -- and one you should make immediately. Because one of your Prize Numbers could indeed be the winning number, and if that's the case we'll gladly announce:

MR. [REDACTED] FABULOUS FUTURE AS ONE OF OUR BIGGEST WINNERS IS ABOUT TO BEGIN!

Direct Marketing Association, Inc.
 1111 19th Street NW, Suite 1100
 Washington, DC 20036-3605
 Tel: 202.955.5030
 Fax: 202.955.0083
 dma@dma-inc.org



Richard A. Burton
 Senior Vice President
 Congressional Relations

December 23, 1998

The Honorable Carl Levin
 United States Senate
 Subcommittee on International Security, Proliferation
 and Federal Services
 Washington, D.C. 20510-6250

Dear Senator Levin:

This letter is to advise you of the status of the four sweepstakes promotions you referred to The DMA's Committee on Ethical Business Practice, specifically, promotions of Michigan Bulb, Publishers Clearing House, American Family Publishers and Guaranteed and Bonded (Money Magazine/Time Inc). The Committee on Ethical Business Practice began its review of the promotions in September; to date, three of the cases have been closed, and one is pending completion.

Michigan Bulb

The material submitted was actually a combination of two Michigan Bulb promotions. The Committee learned that one of the promotions had been discontinued and was not being replaced with another similar promotion; therefore, the Committee concentrated its efforts on the other promotion. The Committee contacted the company regarding potential violations of DMA's Guidelines for Ethical Business Practice, including confusion regarding the significance of the gold and silver "winning" tokens, the "official order form" verbiage and the potential perception that those who order have a better chance of winning a major prize than those who do not order.

Without providing a detailed response as to any specific potential guidelines violations, the company responded that the second promotion was also being discontinued and was not being replaced. The Committee closed the case based on the company's representations. (According to the Committee's case handling procedures, cases are closed if the promotion or practice in question is discontinued. In cases where a promotion is revised or replaced with another similar promotion, the revised promotion is also reviewed against the guidelines. If it is then determined that there is no guidelines violation, the case is closed.)

Publishers Clearing House

The Committee reviewed the submitted promotion and contacted the company regarding a potential guidelines violation regarding the chances of winning one of the grand prizes, namely the Ford Expedition. The Committee believed there may be confusion because of the separate sweepstakes entry devices for orderers and non-orderers, and questioned how the drawing for this prize was conducted. The company responded to the Committee's inquiry and the response is pending review by the Committee. Since the Committee does not review cases in December, the matter is pending until the Committee's January meeting. (The case could not be reviewed at the Committee's November meeting due to an unfortunate lack of the necessary quorum of members who could hear the case.)

American Family Publishers

The Committee reviewed the submitted promotion and contacted the company regarding a potential guidelines violation with respect to no-purchase option, specifically that the Entry-Order Card did not appear to include instructions on how to enter without ordering. Also, the lack of the Security Label for non-orderers may give the impression that consumers who do not use the security label are at a disadvantage. The company responded to the Committee's inquiry by stating that the promotion with the Entry-Order Card was discontinued and there were no plans to mail it again. In the event that the promotion is mailed again, the company stated that it will take the Committee's concerns into consideration. With regard to the use of the Security Label on the "Important" letter, the company indicated changes have been made in other promotions where both orderers and non-orderers are instructed to use the label. The Committee agreed that the indicated change for promotions that were still in use did not violate the guidelines, and the case was closed.

Money Magazine/Time Inc

The Committee reviewed the submitted promotion, discussing the issue of the statement "If you have and return the Grand Prize winning number..." and the overall impression of the offer. The Committee, by majority vote, agreed that the proper disclosures were prevalent and positioned properly throughout the promotion, and closed the case. (When the Committee agrees that the guidelines are not violated, the company in question is not contacted.)

We will advise of the outcome of the pending case as soon as the case is closed. Please feel free to contact me with any questions you may have. As you can see, where a promotion is challenged under the guidelines, the self-regulatory process is effective in getting marketers to change or discontinue the practice.

Sincerely,



Richard A. Barton

ALL OTHER NAMES used by the debtor in the last 6 years

\$5000 Blackjack
 A-Pictitious Business Names-101 Confidential Business Secret
 ACC
 ACC Clearinghouse Sweepstakes
 ACC Internal Monitoring Service
 ACC Payment Division
 ACC Winners List
 ACC Awards and Disbursements Administrators
 ACC Certified Sweepstakes Judges
 ACC Inc
 ACC Independent Judging Organization
 ACC Independent Sweepstakes & Contest Judging Organization
 ACC Registered Independent Judges
 ACC Sweepstakes Award Auditors
 ACC Sweepstakes Division
 ACC Sweepstakes Judging
 Alan G Robertson Jr
 Albert P Robertson
 Albert P Thompson Jr
 Albert Price
 Alex Peabody Jr
 Alexander Cavendero Jr
 Alfred J Robertson
 Alice Thurman
 All New \$6400 Question
 Amalgamated Holdings
 American Arts Sweepstakes
 American Family Support Group
 American Marketing and Research Council
 Americans For Affordable Prescriptions
 Andrew H Waithraite
 Andrew Hollins Waithraite
 Andrews Barton & Blaine
 Anniversary Search Awards Committee
 Anno Domini
 Anthony A Anderson
 Appreciation Awards
 Ariel
 Arthur G Robertson Jr
 ATM Bank Card Division
 Audit Control Bureau
 Automobile Award Distribution Center
 Award Administrators For Disbursements Division
 Award Auditing Division
 Award Claim Center
 Award Claim Centre
 Award Disbursement Unit
 Award Notification Director
 Award Notification Services
 Award Payment Determination Center
 Award Payment Division
 Award Payments & Settlements Division
 Award Prize Office
 Award Search Division
 Award Transfer Committee
 Awards Partners
 Awards Administration
 Awards Administration Notification Bureau
 Awards Cash Claim Center
 Awards Cashier
 Awards Claim Division
 Awards Disbursement Center
 Awards Disbursements Division
 Awards Distribution Center
 Awards Distribution Division
 Awards Payment Division
 Awards Payout Office
 Awards Search Center
 Awards Transfer Division
 B T Wellingham
 Bankers Vault Building
 Beauty of America Giveaway
 Benjamin Holmesdell
 Bert Robbins
 Bertrand S Redmond
 Beverly Hills Fashion Jewelry

ALL OTHER NAMES used by the debtor in the last 6 years

Big Jackpot Slots
 Birthday Awards Committee
 Birthday Search Awards Committee
 Board of Examiners
 Board of Inquiry
 Bob Wilson
 Bradley W Corman
 Brandon Wellingham
 Brian H Duffy
 Bureau of Sweepstakes Regulation
 C Hulce
 C Sherman
 Calling All Winners Sweepstakes
 Cadillac Winters Albertson
 Canadian Processing Centre
 Car Cash Claims Payment Center
 Carver T Highsmith
 Cash Award Prize Winners List
 Cash Claims Payment Center
 Cash Claims Payment Centre
 Cash Claims Payout Center
 Cash Disbursement Center
 Cash Disbursement Centre
 Cash Disbursement Committee
 Cash Payment of America
 Cash Payout Center
 Cash Prize Authority
 Cash Registration Office
 Cashiers Office
 Cecil D Tansted
 Certified Sweepstakes Administrators
 Charles Delano
 Charles Dorman
 Childrens Award Disbursement Center
 Childrens Educational Sweepstakes
 Cindy Bartholomew
 Circle of Vision
 Claims Processing Department
 Clarence H Rubicam
 Colin Cestrade-Memias
 Commissioned Sweepstakes Administrators
 Confidential Consumer Sweepstakes
 Conrad Crane
 Conrad Terwilliger
 Constance Melendez
 Consumer Award Division
 Consumer Disbursements Office
 Consumer Information Bureau
 Consumer Information Center
 Consumer Payment Office
 Consumer Secrets
 Corporate Transfer Systems
 Craig Marchusen
 Credit & Audit Bureau
 Crosswell Epstein Farkas & Vanderhoff
 Currency Transfer System
 CurrencyNet
 Dam Inc
 Dami
 Daniel Masden Jr
 David C Palmer
 David T Corsairs
 David Wadsworth
 Davis Carlos Perez
 Delano Hulce Palmer & Associates
 Department of Consumer Entitlements
 Depository Disbursements Office
 Destination America
 Diamond Publicity Awards
 Diamonds or Cash Appraisal Center
 Diana DeYoung
 Disbursement Auditing Center
 Disbursement Auditing Centre
 Disbursement Centre
 Disbursement Holding Association
 Disbursements Division

FORM 1 VOLUNTARY PETITION - Page 5

Name of Debtor(s): Direct American Marketers, Inc.

Case Number:

ALL OTHER NAMES used by the debtor in the last 6 years

Disbursements Holding Associates
 Disbursements Office
 DM Telecom
 Donald Danderson
 Douglas Handelman
 E A Witherspoon
 E Ann Witherspoon
 E Charles Kurbhamer III
 E Charles Kurbhamer IV
 Edna St Clair
 Emily A Witherspoon
 Emily Ann Witherspoon
 Equity Disbursement Group
 Equity Financial Group
 Equity Financial of California
 Equity Funding Group
 Equity Management Group
 Examiners Division
 Executive Prize Award Review Committee
 Family Awards Institute of America
 Family Fun Sweepstakes
 Family Guardian Society
 FD
 Financial Entitlement Search Group
 Forest McEandrick
 Forest W Sandler Jr
 Franklin T Morgan
 Funds Distribution Desk
 G Harlan Mcallister
 G Katz
 Garrett H Sledgesman
 Gerald R Gibson
 Global Currency Transfer System
 Godfrey Chandler
 Grand Giveaway
 Grand Venture
 Grant Bledsoe
 Great American Grab Bag
 Greg Sturdivant
 Guarantee Equity Funding
 H B Conway
 Hadfield Conway
 Hank Conway
 Healthwise
 Hector E Martin
 Henry Scottsworth Tinsdale
 Herma Cranston
 Horace W Kogler
 Horoscope Hotline
 I Support Americas Police
 Instant Win Awards Center
 Instant Winner
 Instant Winner Sweepstakes
 International Cash Consortium
 International Currency Consortium
 International Currency Coordinators
 International Currency Fund
 International Travel Coordinators
 International Travel Partners
 J Austin Gardner
 J W Otis
 Jack D Thompson
 Jackpotunities
 Jackpotunities Award Claim Center
 Jackpotunities Winners List
 James Albert Coatswaithes
 Jim Edgington
 Joel Herman
 John Bartins
 John Desmond
 John H Dempsey
 Jonathan Lauren
 Jordan E Herman
 Judy Ferguson
 Kelvin W Paxton
 Kermit Mathews

ALL OTHER NAMES used by the debtor in the last 6 years

Kevin Stowfield
 Laguna Hills Administration Center
 Laguna Hills Disbursement Facility
 Lawrence K Marsh
 Lawrence Lindley Klinessmith
 Leland D Hariman
 Lenore Stowkowsky
 Lester Covington
 Levas Stowfield
 Leyland H Stanley
 Lois Rage
 Magnificent Collection of Jewelry
 Magnificent Collection Sweepstakes
 Magnificent Jewelry
 Mario Antonio Jr
 Marjorie Webster
 Mark Patterson
 Mary Charles
 Matthew J West
 Maureen Montgomery
 Merchandise Distribution Center
 Merchandise Shipment Center
 Messenger From The Stars
 Michael Leonard
 Mike Dunnook
 Miles Mahston
 Minuteman Delivery Services
 Minuteman Express
 Morgan Lindquist
 Morgan N Lundquist
 Morris W Dawes
 Myron Feldman
 Myron W Kessler
 National American Awards Center
 National Awards
 National Awards Association
 National Birthday Giveaway
 National Bonanza
 National Cash Awards
 National Consumer Center
 National Consumer Coupon Club
 National Control Bureau
 National Family Award
 National Family Awards Association
 National Family Shopping Network
 National Housing Assistance Awards Center
 National Housing Assistance Bureau
 National Housing Awards
 National Opinion Bureau
 National Prize Headquarters
 National Processing Facility
 National Publicity
 National Sweepstakes Awards Search Center
 National Sweepstakes Center
 National Sweepstakes Escrow Center
 National Sweepstakes Headquarters
 National Sweepstakes Services
 National Travel Partners
 National Winners Payout
 NCA Administration
 NCC Clearinghouse Sweepstakes
 NCC Payment Services
 NCC Winners List
 NOB
 Norman Griswald
 Norman Mathers
 Notice of Disposition
 Notification Services
 Office of Awards Claims Division
 Office of Awards Distribution
 Office of Awards Distributor
 Office of Comptroller
 Office of Disbursements
 Office of Sweepstakes Administration
 Offices of Winston Ballard & Worth
 Olive H McKendrick

ALL OTHER NAMES used by the debtor in the last 6 years

P J Bonny
 Pacific American Group
 Pacific Coast Processing Center
 Pacific Funds Disbursement
 Palmer Delano & McFirsten
 Parrie M McFirsten
 Parrie McFirsten
 Patricia Peterson
 Paul G Robertson
 Paymaster of Award Benefits
 Payment Approval Center
 Payment Confirmation Bureau
 Payment Division
 Payment Transfer Reporting Systems
 Payment Transfer Systems
 Personal Enrichment Network
 Peter Andrews
 Phillip A Harrison
 Pot of Gold
 Potential Cash Winners
 Prize Claim Department
 Prize Disbursement Center
 Prize Disbursement Committee
 Prize Disbursement Division
 Prize Distribution Center
 Prize Distribution Centre
 Prize Presentation Bureau
 Prize Transfer
 Psychic Messengers
 Psychic Revelations
 Psychic Stargate
 R Claude
 R G Harris
 R Hayden Hayes
 R Hilliard
 R E Bentley
 Randall Kingsley Jr
 Raymond Knox Jr
 Raymond Moss Jr
 Red Letter Awards Cent...
 Research Award Distribution Center
 Reynaldo K Sigafos
 Richard E Young
 Richard Egnar
 Robert A Gleason
 Robert A Gleason
 Robert A Thompson
 Robert A Wilcox Jr
 Robert I Hayden
 Robert W Whitworth Jr
 Roland Howell II
 Roland Howell III
 Ronald A Newhouse
 Ronald G Lloyd
 Sabrina
 Samuel W Matherson
 Sandra Turner
 Sanford Pendergast
 Sarah Desmond Ryan
 Search and Award Division
 Search Center
 Shawna Hiott
 Shopping Spree Sweepstakes
 Shower of Checks Award Center
 Sid Hutton
 Silver Gold Cash Sweepstakes
 Silver Gold Sweepstakes
 Stan Jacobs
 Stanton B Masterson
 Stargate
 Sterling H Beresford Jr
 Steven K Granger
 Steven Van Aken
 Steven W Josephson
 Stewart W Rowland
 Stock Portfolio or Cash Financial Center

ALL OTHER NAMES used by the debtor in the last 6 years

Sweepstakes Administration
 Sweepstakes Administration & Prize Disbursement Division
 Sweepstakes Administrators
 Sweepstakes Award Division
 Sweepstakes Award Fund
 Sweepstakes Disbursement Center
 Sweepstakes Division
 Sweepstakes Payment Examiners Division
 Sweepstakes Search Center
 Sweepstakes Showcase
 T Edward Morgan
 Ted Sanders
 Telecard Communications Network
 Thomas A Dawson
 Thomas H Lowell
 Todd Smith
 Tom Metlinus
 Tracey Spencer
 Transactions & Transfers Department
 Transactions & Transfers Division
 Transnational Financial
 Transpacific Funding Co
 Triple Winner Sweepstakes
 Unclaimed Bank Check Section
 Unclaimed Prize and Merchandise Warehouse
 Unclaimed Prize Department
 USA Cash Express
 USA Diet Plan
 W Grant
 W H O'Brien
 West Coast Central Sweepstakes Administration
 Western Acceptance
 Western Equities
 Western Funding
 Western Security Finding
 William Bent
 William Edwards
 William H Allenbeck
 William James Administrators
 William Worthington
 Winners Audit Center
 Winners Circle
 Winners Distribution Center
 Winners Search Center
 Wish Fulfillment Fund
 Wishline
 Wishline Awards Fund
 Yes Youth Education Sweepstakes

Official **GUARANTEED BONDED** **Notification**

THE JUDGING IS NOW FINAL:
MR. BRUCE [REDACTED] IS ONE
OF OUR \$1,666,675.00 WINNERS!

1	JACK SEARS \$1,666,675.00 WINNER	<input checked="" type="checkbox"/> RECEIVED <input type="checkbox"/> ISSUED	<input checked="" type="checkbox"/> IN PROGRESS <input type="checkbox"/> FUNDS SECURED
2	MR. BRUCE [REDACTED] \$1,666,675.00 WINNER	<input type="checkbox"/> RECEIVED <input checked="" type="checkbox"/> ISSUED	<input type="checkbox"/> IN PROGRESS <input checked="" type="checkbox"/> FUNDS SECURED

WARNING: [REDACTED]

If the facts and offers the Grand Prize winning entries, we'll officially declare them!

IT'S CONFIRMED -- JACK SEARS AND
MR. BRUCE [REDACTED] HAVE BOTH
WON \$1,666,675.00 PRIZES!

Jack Sears

Jack Sears, The Sears & Roebuck Co., has announced a winner with a grand prize that would normally be paid to him \$1,666,675.00.

Mr. Bruce [REDACTED], Our \$1,666,675.00 winner, Jack Sears, is pleased to announce a winning entry with a grand prize that would normally be paid to him \$1,666,675.00.

Mr. Bruce [REDACTED] has received a grand prize of \$1,666,675.00. He has received a grand prize of \$1,666,675.00. He has received a grand prize of \$1,666,675.00. He has received a grand prize of \$1,666,675.00.

IF YOU FAIL TO RETURN AN ENTRY
THERE IS SIMPLY NO WAY YOU CAN
BE AWARDED THE NEXT \$1,666,675.00.

Simple rule: if you fail to return an entry, your \$1,666,675.00 prize will be forfeited. We cannot pay a prize until we have received your entry. We cannot pay a prize until we have received your entry. We cannot pay a prize until we have received your entry.

MR. B. [REDACTED] FABULOUS FUTURE
AS ONE OF OUR BIGGEST
WINNERS IS ABOUT TO BEGIN!

And as you've quickly discovered, after being awarded your \$1,666,675.00 prize, we will have the same when you're a winner. When you're Mr. Bruce [REDACTED], you can also win a grand prize and start making more from \$1,666,675.00 we change your life. Now you'll have all the money you need to buy a new house, drive a new car, start your own business or travel around the world. You'll get a new business, a new life, a new start. That's our financial freedom. You stay with the opportunity to make more grand prizes.



GUARANTEED WINNER NOTIFICATION

4 PULL BACK STRIP TO CLAIM YOUR CASH PRIZE



PRIZE NOTIFICATION DIVISION
Publishers Clearing House
101 Western Circle, Fort Lauderdale, FL 33309

ALL US
U.S. POSTAGE PAID
PUBLISHERS CLEARING HOUSE

**THIS IS YOUR OFFICIAL NOTIFICATION
THAT YOU ARE A GUARANTEED CASH WINNER
IN THE PUBLISHERS CLEARING HOUSE
SWEEPSTAKES**

**\$1,000,000.00 WINNER
ANNOUNCEMENT JUNE 26**



ORIGINAL

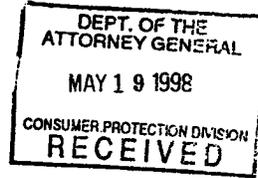
United States Bankruptcy Court Central District of California		VOLUNTARY PETITION
DEB. Name of Debtor - If individual, enter: Last, First, Middle Direct American Marketers, Inc.		NAME OF JOINT DEBTOR (Spouse/Partner, Firm, etc.)
ALL OTHER NAMES used by debtor in the last 6 years (inc. married, maiden, and trade names) 310000 Blackjack 310000 Sweepstakes Showcase (See Attached Sheet)		ALL OTHER NAMES used by joint debtor in the last 6 years (inc. married, maiden, and trade names)
SOC. SEC./FAX I.D. NO. (if more than one, see att) 33-0275543		SOC. SEC./FAX I.D. NO. (if more than one, see att)
STREET ADDRESS OF DEBTOR (St., and street, city, state and zip code) 16881 Hale Avenue Irvine, CA 92606		STREET ADDRESS OF JOINT DEBTOR (St., and street, city, state and zip code)
COUNTY OF RESIDENCE/BUSINESS: Orange		COUNTY OF RESIDENCE/BUSINESS:
MAILING ADDRESS OF DEBTOR (if different from street address) 4330-101 Barranca Parkway 8147 suite 8305 Irvine CA 92604		MAILING ADDRESS OF JOINT DEBTOR (if different from street address)
LOCATION OF PRINCIPAL ASSETS OF BUSINESS DEBTOR (if other than street address)		VENUE (Check one box) <input checked="" type="checkbox"/> Debtor has been established at the last 6 months, principal place of business, or principal assets in this District for 180 days immediately preceding the date of this petition for a major part of such 180 days also in any other District. <input type="checkbox"/> There is a bankruptcy case concerning debtor's estate, general partner, or partnership pending in this District.
INFORMATION REGARDING DEBTOR (Check applicable boxes)		
TYPE OF DEBTOR (Check one box) <input type="checkbox"/> Individual <input type="checkbox"/> Joint Debtor & Wife <input type="checkbox"/> Partnership <input type="checkbox"/> Other NATURE OF DEBT (Check one box) <input type="checkbox"/> Non-Bankrupt/Owner <input checked="" type="checkbox"/> Bankrupt - Complete AAR below A. TYPE OF BUSINESS (Check one box) <input type="checkbox"/> Farming <input type="checkbox"/> Professional <input type="checkbox"/> Retail/Wholesale <input type="checkbox"/> Retail <input type="checkbox"/> Transportation <input type="checkbox"/> Manufacturing <input type="checkbox"/> Mining <input type="checkbox"/> Amusement <input type="checkbox"/> Construction <input type="checkbox"/> Commodity Broker <input type="checkbox"/> Commerce <input type="checkbox"/> Real Estate <input checked="" type="checkbox"/> Other Business		CHAPTER OR SECTION OF BANKRUPTCY CODE FOR PETITION (Check one box) <input type="checkbox"/> Chapter 7 <input checked="" type="checkbox"/> Chapter 11 <input type="checkbox"/> Chapter 9 <input type="checkbox"/> Chapter 12 <input type="checkbox"/> Sec. 304 SMALL BUSINESS (Chapter 11 only) <input type="checkbox"/> Debtor is a small business as defined in 11 U.S.C. § 101. <input type="checkbox"/> Debtor is not eligible to be designated a small business under 11 U.S.C. § 10120. app'd FILING FEE (Check one box) <input checked="" type="checkbox"/> Filing fee waived <input type="checkbox"/> Filing fee to be paid in installments. (Applicable to individuals only.) Must attach signed application for the court's consideration verifying that the debtor is unable to pay full amount in installments. Rule 2005(b) - see Official Form No. 3
B. BRIEFLY DESCRIBE NATURE OF BUSINESS entertainment teleservices		NAME AND ADDRESS OF LAW FIRM OR ATTORNEY Label & Opera 19800 MacArthur Blvd Ste 1100 Irvine CA 92612 Telephone No: (714)476-7400 NAMES OF ATTORNEYS DESIGNATED TO REPRESENT THE DEBTOR Robert E. Opera 101182 Tavi C. Stanley 169156
STATISTICAL/ADMINISTRATIVE INFORMATION (U.S.C. § 604) (Debtor only) (Check applicable boxes)		<input type="checkbox"/> Debtor is not represented by an attorney. Telephone No. of Debtor not represented by an attorney:
<input checked="" type="checkbox"/> Debtor certifies that funds will be available for distribution to unsecured creditors. <input type="checkbox"/> Debtor certifies that, after any exempt property is excluded and administrative expenses paid, there will be no funds available for distribution to unsecured creditors.		THIS SPACE FOR COURT USE ONLY 08/22/97 15:43 SA97-23498JW DEBTOR: DIRECT AMERICAN MARKETERS INC JUDGE: HON. J. WILSON - 358 TRUSTEE: CHAPTER: 11 (INCOMPLETE) 341A: RDR:
ESTIMATED NUMBER OF CREDITORS 1-15 16-49 50-99 100-199 200-999 100-over () () () () () ()		
ESTIMATED ASSETS (in thousands of dollars) Under 50 50-99 100-499 500-999 1000-9999 10,000-99,000 100,000-over () () () () () () ()		
ESTIMATED LIABILITIES (in thousands of dollars) Under 50 50-99 100-499 500-999 1000-9999 10,000-99,000 100,000-over () () () () () () ()		
EST. NO. OF EMPLOYEES - CH. 11 & 12 ONLY 0 1-9 10-99 100-999 1000-over () () () () ()		
EST. NO. OF EQUITY SECURITY HOLDERS - CH. 11 & 12 ONLY 0 1-9 10-99 100-999 1000-over () () () () ()		

CLERK, U.S. BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIF. DEPUTY:2
RECEIPT NO: SA-824591 \$ 888.00

FILING OF PLAN		
For Chapter 9, 11, 12 and 13 cases only. Check appropriate box. <input type="checkbox"/> A copy of debtor's proposed plan filed _____ <input checked="" type="checkbox"/> Debtor intends to file a plan within the time allowed by statute, rule, or order of the court.		
PRIOR BANKRUPTCY CASE FILED WITHIN LAST 6 YEARS (if more than one, attach additional sheets)		
Location Where Filed NONE	Case Number	Date Filed
PENDING BANKRUPTCY CASE FILED BY ANY SPOUSE, PARTNER, OR AFFILIATE OF THE DEBTOR (if more than one, attach additional sheets)		
Name of Debtor NONE	Case Number	Date
Relationship	Debtor	Help
REQUEST FOR RELIEF		
Debtor is eligible for and requests relief in accordance with the chapter of title 11, United States Code, specified in this petition.		
SIGNATURES		
ATTORNEY		
<input checked="" type="checkbox"/> <u>Robert C. Ogden, Attorney</u> Date _____		
INDIVIDUAL/JOINT DEBTOR(S)		CORPORATE OR PARTNERSHIP DEBTOR
I declare under penalty of perjury that the information provided in this petition is true and correct. <input checked="" type="checkbox"/> Not Applicable Signature of Debtor _____ Date _____ <input checked="" type="checkbox"/> Not Applicable Signature of Joint Debtor _____ Date _____		I declare under penalty of perjury that the information provided in this petition is true and correct and that I hold no interest in this case other than as stated herein. <input checked="" type="checkbox"/> Not Applicable <u>Anthony C. Brown</u> Title: <u>President and Chief Executive Officer</u> Title if authorized representative by order of the court: _____ Date _____
TO BE COMPLETED BY INDIVIDUAL CHAPTER 7 DEBTOR WITH PRIMARILY CONSUMER DEBTS (See P.L. 96-353 § 322)		CERTIFICATION AND SIGNATURE OF NON-ATTORNEY BANKRUPTCY PETITION PREPARER (See 11 U.S.C. § 110)
I am aware that I may present under chapter 7, 11, 12, or 13 of title 11, United States Code, a petition for relief available under each such chapter, and choose to present under chapter 7 of such title. If I am represented by an attorney, Exhibit "B" has been completed. <input checked="" type="checkbox"/> Not Applicable Signature of Debtor _____ Date _____ <input checked="" type="checkbox"/> Not Applicable Signature of Joint Debtor _____ Date _____		I certify that I am a bankruptcy petition preparer as defined in 11 U.S.C. § 110, that I prepared this document for compensation, and that I have provided the debtor with a copy of this document. <input checked="" type="checkbox"/> Not Applicable Printed or Typed Name of Bankruptcy Petition Preparer _____ <input checked="" type="checkbox"/> Not Applicable Social Security Number _____ Address _____ Telephone _____ Name and Social Security number of all other individuals who prepared or assisted in preparing this document: <input checked="" type="checkbox"/> Not Applicable If more than one person prepared this document, attach additional signed sheets containing the appropriate Official Form for each person. <input checked="" type="checkbox"/> Not Applicable Signature of Bankruptcy Petition Preparer _____ A bankruptcy petition preparer's failure to comply with the provisions of title 11 and the Federal Rules of Bankruptcy Procedure may result in fines or imprisonment or both. 11 U.S.C. § 110; 28 U.S.C. § 156.
EXHIBIT "B"		
(To be completed by attorney for individual chapter 7 debtors) with primarily consumer debts.)		
I, the attorney for the debtor(s) named in the foregoing petition, declare that I have informed the debtor(s) that he, she, or they may present under chapter 7, 11, 12, or 13 of title 11, United States Code, and have explained the relief available under each chapter. <input checked="" type="checkbox"/> Not Applicable Signature of Attorney _____ Date _____		

May 13, 1998

Michigan Bulb Co.
Attn: Company Owner
1950 Waldorf, N.W.
Grand Rapids, MI 49550



To whom it may concern:

I own a new home in Lansing and have already done quite a bit of landscaping and have much more to do. I have bought bulbs from your company and have been very happy with the quality, delivery and overall service your company has provided. I'm telling you this so that when you see that I am discontinuing further business with you, you won't think it's because of your product.

I will not do business with your company any longer because of the tactics you use to get business. I've looked over the last couple of mailings I've received from you that skillfully imply that I am a winner in your "Sweepstakes".

I am a college educated professional with plenty of business savvy. I had to read every single line, some several times, to see that, technically, you didn't actually say I had won. If I had to work that hard to decipher the truth, we all know how the average prospect will read it. Of course, that's your whole purpose. Lead them to believe they will win something if they buy more and more of your product.

I realize this is legal, but it's wrong. Not only will I not be a part of it, I will use every opportunity I get to tell others of the way you are running this scam. I am sending a copy of this letter along with copies of the literature sent by your company to the Consumers Protection Division of the Attorney General's office.

Unless you can show me that these practices have stopped, please remove me from your customer/ mailing list. I will return future mailings to you at your expense.

Sincerely,

Barbara Laidlaw

Copy: Pauline Evans
Consumers Protection Div.

if you return a winning colored coded address label as instructed below.

Attention: Prize/Even Events
 Pope John College, PC 950
 MICHIGAN BULB COMPANY
 1950 Weldorf N.W.
 Grand Rapids, MI 49550-0500

Mr. [Redacted] [Redacted] [Redacted] [Redacted] [Redacted]

Peel off the label above and attach it to the front of the enclosed reply envelope directly over the pre-printed address. If you have received and return a winning colored coded address label on line with all required documents YOU WIN \$250.00 CASH - INSTANTLY! See enclosed insert and letter for more details!

PA-90-001-A 01-04-1990

MICHIGAN *State Cash Guarantee*

PAY TO BEARER EXACTLY TWO HUNDRED AND FIFTY DOLLARS 80/100 CTS \$ 250.00

Signature

This sum GUARANTEED to win \$250.00 cash under guarantee if you have received a winning colored coded address label and you return it with this certificate, your Official Claim and Notification forms to the enclosed reply envelope. The colored coded address label may have been issued to be firmly attached over the pre-printed address on the face of this envelope. For processing purposes, you are requested to attach a copy of this certificate to the back of the envelope.

11-83000 509 #: 8888889 : 11 250.00 : 1 R 8398 2895 4829 : 1

NATIONAL ASSOCIATION OF ATTORNEYS GENERAL

Adopted

**Summer Meeting
July 13-16, 1998
Durango, Colorado**

RESOLUTION

ESTABLISHMENT OF SWEEPSTAKES SUBCOMMITTEE

WHEREAS, the sweepstakes industry is a billion dollar industry in the United States; and

WHEREAS, a 1992 Harris Survey showed that 92% of all American adults have at one time or another received a postcard or letter in the mail informing them that they have won a prize and nearly one-third or 53.6 million people have responded; and

WHEREAS, a 1995 American Association of Retired Persons (AARP) survey of telemarketing fraud victims confirmed that prize and sweepstakes schemes appear to be the criminals' weapon of choice; and

WHEREAS, a sampling of cases from federal and state agencies suggests that hundreds of thousands of consumers, often elderly, are bilked out of at least tens of millions of dollars a year; and

WHEREAS, since 1990, the number of states enacting specific prize promotion and sweepstakes statutes has increased from 12 to more than 25; and

WHEREAS, in 1996 and again in 1997 state and federal law enforcement authorities and State Attorneys general joined forces in projects to crack down on sweepstakes and prize promotion operators, resulting in more than 250 actions; and

WHEREAS, Attorneys General are committed to enhancing consumer protection and are the primary enforcers of the states' consumer protection laws;

NOW, THEREFORE, BE IT RESOLVED THAT THE NATIONAL ASSOCIATION OF ATTORNEYS GENERAL:

1. Establishes a subcommittee of the Consumer Protection Committee on sweepstakes and prize promotions that shall be charged with establishing appropriate and

adequate safeguards to protect consumers from abusive and deceptive practices in these areas, including by:

- Actively enforcing existing laws against unfair and deceptive practices by operators of sweepstakes and prize promotions;
- Considering the effectiveness of joint guidelines or statements of policy as enforcement tools;
- Studying whether further specific legislative initiatives would be effective means of deterring and punishing deceptive and abusive practices by operators of sweepstakes and prize promotions; and
- If deemed appropriate, drafting model state legislation.

2. Authorizes its Executive Director and General Counsel to transmit this resolution to interested parties, including the National Conference of Commissioners of Uniform State Laws, should a determination be made that model legislation is warranted.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on International Security,
Proliferation and Federal Services
Senate Committee on Governmental Affairs

Not to be Released
Before
2:00 p.m., EDT
Tuesday
September 1, 1998

**PROPOSED
LEGISLATION**

**Issues Related to Honesty in
Sweepstakes Act of 1998 (S. 2141)**

**Statement for the Record by
Bernard L. Ungar, Director
Government Business Operations Issues
General Government Division**



SUMMARY
PROPOSED LEGISLATION: ISSUES RELATED TO
HONESTY IN SWEEPSTAKES ACT OF 1998

The intent of the proposed "Honesty in Sweepstakes Act of 1998" (S. 2141), introduced by Senator Ben Nighthorse Campbell on June 5, 1998, is to ensure that organizations that use sweepstakes or other games of chance and cashier's check "look-alikes" as promotional or marketing tools are as honest and accurate as possible in their dealings with consumers. In response to Senator Campbell's July 1, 1998, request, GAO obtained information on two issues related to the proposed legislation: (1) the extent and nature of consumers' problems with mailed sweepstakes material and cashier's check look-alikes and (2) recent initiatives to address such problems. GAO obtained information from officials and representatives in a total of 17 federal, state, and local government agencies and nongovernmental organizations.

GAO found that comprehensive data that could indicate the full extent of the problems that consumers experienced with mailed sweepstakes material and cashier's check look-alikes were not available. The main reasons officials and representatives gave for the lack of comprehensive data were that (1) consumers oftentimes did not report their problems and (2) no centralized database existed from which comprehensive data could be obtained.

Although comprehensive data were unavailable, FTC and the Postal Inspection Service were two organizations that GAO identified as having some data on consumers' complaints about deceptive mail marketing practices, which could indicate the nature of these types of problems. Much of the consumer complaint information, which GAO obtained in a sample from FTC's Consumer Information System, showed that in many instances, consumers were required to remit money or purchase products or services before being allowed to participate in the sweepstakes. Information about Postal Inspection Service cases that had been investigated largely involved sweepstakes and cash prize promotions for which up-front taxes or insurance, judging, or handling fees were required before consumers could participate in sweepstakes promotions. GAO was unable to identify examples of consumers' problems with cashier's check look-alikes similar to those involving mailed sweepstakes material because such information was not readily available.

Two recent initiatives are intended to address consumers' problems with deceptive direct mail marketing practices. The initiatives are (1) Project Mailbox for which various participating organizations, including FTC, the Postal Inspection Service, and 25 state attorneys general, collectively took steps to target organizations that used such practices; and (2) the establishment of a multi-state sweepstakes committee that, among other things, is designed to facilitate cooperation among various states in dealing effectively with companies that attempt to defraud consumers through the use of mailed sweepstakes material.

STATEMENT

Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to discuss issues related to the proposed legislation entitled "Honesty in Sweepstakes Act of 1998," (S. 2141), which was introduced on June 5, 1998, by Senator Ben Nighthorse Campbell.¹ In my statement, I will provide information on the results of our efforts to determine the extent and nature of problems that consumers may have experienced with various sweepstakes mailings that organizations have used to entice consumers to purchase goods and services. Also, I will provide information on our efforts to obtain similar information related to the mailing of documents that resembled cashier's checks, also known as cashier's check "look-alikes," which are not the negotiable instruments that they appear to be. In addition, I will provide information on initiatives in which various agencies and organizations have participated to address consumers' problems with direct mail marketing practices. We performed our work in response to Senator Campbell's July 1, 1998, request.

¹On July 28, 1998, Congressman Frank LoBiondo introduced proposed legislation entitled "Honesty in Sweepstakes Act of 1998" (H.R. 4340), which was identical to Senator Campbell's proposed legislation.

BACKGROUND

As Senator Campbell indicated in his remarks that appeared in the June 5, 1998, Congressional Record, the proposed legislation is primarily intended to protect consumers, particularly senior citizens, from deceptive direct mail marketing practices. The provisions of the proposed legislation are generally designed to help ensure that organizations, which may use questionable or deceptive direct mail sales promotions involving sweepstakes or other games of chance and cashier's check look-alikes, be required to be as accurate and honest as possible in such promotions. Specifically, the provisions would require these organizations to ensure that statements are printed in large typeface on the outside of the envelope to clearly indicate that the printed material inside involves a sweepstakes or game of chance and that the consumer has not automatically won. Also, the provisions would require that these organizations include statements at the top on the first page of the printed material inside the envelope that would

- repeat the statements that were printed on the outside of the envelope;
- indicate consumers' chances of winning the sweepstakes; and
- state that no purchase is necessary for consumers to win a prize nor would such purchases enhance their chances of winning.

In addition, for mailed cashier's check look-alike documents, the provisions would generally require that in accordance with prescribed Postal Service regulations, a statement be included in large or contrasting typeface on the document to indicate that it is not a check and has no cash value.

As Senator Campbell has indicated, consumers would be key stakeholders in helping to ensure that organizations complied with the provisions in the proposed legislation. The role of consumers would be to report their complaints to the Postal Service about any mailed material that appeared not to meet the proposed legislative provisions. Such complaints would provide the Postal Service with information that could be used to appropriately investigate and determine an organization's compliance with the proposed "Honesty in Sweepstakes Act" provisions. If such information indicates that the mailed material is not in compliance, the Postal Service may take action to dispose of the material or return it to the sender.

APPROACH

As agreed with Senator Campbell, our primary purpose was to obtain available information that could help indicate the extent and nature of problems that consumers may have experienced with mailed sweepstakes material and cashier's check look-alikes. To accomplish this purpose, we performed general research to identify any federal, state, and local government agencies as well as nongovernmental organizations that may have

been involved in dealing with consumers' complaints about questionable or deceptive direct mail marketing tactics involving mailed sweepstakes material and cashier's check look-alikes. The key federal agencies we identified were the Federal Trade Commission (FTC) and the U.S. Postal Service, specifically, the Postal Inspection Service. We also identified other state and local government agencies and nongovernmental organizations that dealt with such complaints, including

- state Attorneys General offices for such states as Florida and West Virginia;
- local government offices that handled consumer protection issues; and
- various nongovernmental organizations including (1) American Association of Retired Persons (AARP); (2) National Consumers League (NCL),² which established the National Fraud Information Center (NFIC);³ and (3) Direct Marketing Association (DMA).⁴

²NCL is a private, nonprofit consumer advocacy organization that was established in 1899 with a mission to identify, protect, represent, and advance the economic and social interests of consumers and workers. Among other things, NCL provides government agencies, businesses, and other organizations with information concerning the consumer's perspective on various issues such as child labor, health care, and food and drug safety.

³In 1992, NCL established NFIC as a nationwide toll-free hotline through which consumers could report suspected instances of fraudulent activity and receive information about avoiding the dangers of fraud. NFIC focuses on problems associated with telemarketing and Internet fraud.

⁴The Direct Marketing Association (DMA) was established in 1917 as an international, nonprofit trade association whose primary objective was to serve its members in bringing about more effective direct marketing techniques. As of June 1998, DMA had about 6,700 members representing about 3,700 organizations in the United States and in 54 other countries. Examples of DMA members included catalogers, publishers, book and record clubs, financial service companies, manufacturers, and advertising agencies.

We contacted officials at FTC and the Postal Inspection Service and discussed with them the extent to which they may have collected and maintained data that could indicate the extent or scope of consumers' problems with questionable or deceptive mail marketing practices that involved mailed sweepstakes material and cashier's check look-alikes.

Also, we discussed with these officials whether we could obtain examples of consumers' complaints about such practices that could indicate the nature or the types of problems that consumers had experienced.

In selecting states to contact, we relied in large part on information obtained from FTC officials. These officials generally cited various states that

- had laws, which included requirements for organizations to follow in using mailed sweepstakes material as marketing techniques;
- were involved in legal actions concerning mailed sweepstakes material against specific organizations; and
- had been active in dealing with consumers' complaints about mailed sweepstakes material and working with other agencies and organizations to help educate consumers about questionable or deceptive mail marketing practices.

During the course of our work, we also obtained information about initiatives in which various federal and state government agencies and nongovernmental organizations have

participated in addressing consumers' problems with questionable or deceptive direct mail marketing practices.

At the time we completed our work in mid-August 1998, we had obtained information from officials and representatives in 17 federal, state, and local government agencies and nongovernmental organizations. Because we had a limited amount of time in which to obtain information related to mailed sweepstakes material and cashier's check look-alikes, we did not independently verify the information provided by the 17 agencies and organizations. A list of these agencies and organizations is included in the appendix to this statement. We did our work from July through mid-August 1998, in accordance with generally accepted government auditing standards.

EXTENT AND NATURE OF CONSUMERS'

PROBLEMS WITH MAILED SWEEPSTAKES

MATERIAL AND CASHIER'S CHECK "LOOK-ALIKES"

Of the 17 agencies and organizations from which we obtained information, we found that comprehensive data on the extent of consumers' problems with mailed sweepstakes material and cashier's check look-alikes were generally not available. We found that in 2 of the 17 agencies and organizations—namely FTC and the Postal Inspection Service—some data were available that could help indicate the nature or types of problems that consumers had experienced with mailed sweepstakes material. However, we were unable

to obtain similar data concerning cashier's check look-alikes. According to FTC and Postal Inspection Service officials, consumer complaint data on cashier's check look-alikes were not as readily available as data on mailed sweepstakes material.

Various officials and representatives in the remaining 15 agencies and organizations told us that generally they could not provide us with information similar to FTC and the Postal Inspection Service that could indicate the extent or nature of consumers' problems. The reasons they cited were mainly because (1) their agencies and organizations did not believe it was their primary function to collect or maintain such information or (2) their data collection was limited to information that could assist the agencies and organizations in taking action against a specific company that may have misused sweepstakes as a marketing tool. For example, an official in Florida's Office of the Attorney General told us that consumer complaint information was collected and maintained only on American Family Publishers (AFP)⁵ because the state of Florida had filed a lawsuit against AFP for allegedly deceiving consumers with mailed sweepstakes material.

⁵American Family Publishers (AFP) is a company partly owned by Time Customer Service, Inc. AFP's main purpose is to provide consumers with opportunities to purchase magazine subscriptions. AFP has used a sweepstakes to try to induce consumers to purchase subscriptions.

Comprehensive Data Unavailable
That Could Indicate the Extent of
Consumers' Problems

In attempting to identify the extent of consumers' problems with mailed sweepstakes material and cashier's check look-alikes, we found that comprehensive data that could clearly indicate the extent of the problems, including such information as how frequently such problems might occur, were not available. Various officials and representatives from the 17 federal, state, and local government agencies and nongovernmental organizations from which we obtained information told us that generally, such data were not available for two main reasons—first, consumers oftentimes do not complain or report their problems and second, no centralized database existed that could indicate the full extent of such problems involving those who did not register complaints.

Regarding the first main reason for the lack of comprehensive data, officials and representatives told us that consumers often did not report problems because they were too embarrassed or did not realize that they had been victimized. Also, some consumers reportedly feared that if they complained, their chances of future sweepstakes winnings would be diminished. In addition, an AARP representative mentioned that in many instances, elderly consumers may fear losing their financial independence if they reported negative experiences with mailed sweepstakes material. Specifically, elderly consumers may fear that if their family members learned that they had been victimized, the family

members might then take steps to prevent future victimization, such as stricter control over bank account activities.

In addition, consumers may not file complaints because such complaints can be filed with various organizations, such as FTC, the Postal Inspection Service, NFIC, a local better business bureau, or a consumer protection agency. In many instances, consumers may be uncertain about which organization is the most appropriate one to receive their complaints. Also, in some cases, if consumers try to file complaints, they may be referred to or told to contact other organizations, which may cause consumers to become frustrated and abandon their attempts to file complaints.

Concerning the second reason for the lack of comprehensive data, various officials and representatives mentioned that no centralized database existed that could indicate the extent of consumers' reported problems with deceptive mail marketing practices involving mailed sweepstakes material and cashier's check look-alikes. Some of the agencies and organizations from which we obtained information, such as FTC, NFIC, and state attorney general's offices, have collected and maintained some, but not complete, consumer complaint data related to such practices.

Consumers can complain to a variety of organizations, but none of these organizations necessarily receives information on complaints filed with other organizations. For example, in large part, FTC receives complaints directly from consumers and from

various outside organizations, including NFIC, AARP, and Project Phonebusters.⁶ However, FTC does not generally receive consumer complaints from all organizations that may accept such complaints, such as state attorneys general offices and local consumer affairs offices. An FTC official mentioned that currently FTC is working with other organizations, such as the National Association of Attorneys General (NAAG),⁷ to encourage these organizations to share consumer complaint information with FTC, so that more comprehensive data on consumer complaints can be centrally collected and maintained.

Also, although the Postal Inspection Service receives numerous complaints related to consumers' problems with alleged fraudulent activities, including mailed sweepstakes material, it does not necessarily receive these complaints from all organizations that accept them. In addition, according to Postal Service Inspection officials, the extent to which complaints within the Postal Inspection Service's database involve mailed sweepstakes material or cashier's check look-alikes is not easily determined.

⁶Project Phonebusters is a Canadian national task force that provides consumers with a toll-free hotline through which they can register their complaints about fraudulent or deceptive marketing or promotional practices.

⁷The National Association of Attorneys General (NAAG) is a professional association that was established in 1907. Its members include the Attorneys General of 50 states and chief legal officers for other jurisdictions, such as the District of Columbia and the Virgin Islands. The U.S. Attorney General is an honorary member of NAAG. NAAG's overall goals include (1) promoting cooperation and coordination on interstate legal matters and (2) increasing citizen understanding of the law and law enforcement's role to ensure both protection of individual rights and compliance with the law.

Furthermore, some of the agencies and organizations from which we obtained information did not have comprehensive data because they generally believed that collecting and maintaining such data were not their primary functions. Also, an AARP representative told us that the general lack of comprehensive data was partially due to an overall scarcity of resources, including staff and funds, which she believed would be needed to collect and maintain a comprehensive, centralized database.

FTC's Consumer Information System
Included Data That Could Indicate the
Nature of Problems

In our discussions with various officials and representatives of the agencies and organizations from which we obtained information, they suggested that in order to obtain examples of such problems, in all likelihood, FTC would be the most appropriate agency to provide us with data on consumers' complaints about sweepstakes mailings and cashier's check look-alikes. FTC officials explained that the Consumer Information System (CIS) is FTC's database that includes consumer complaint information. The officials told us that the purpose of CIS, which became fully operational in September 1997, was to collect and maintain various data related to consumers' complaints.⁸ FTC

⁸An FTC official told us that he believed CIS could serve as the central database for receiving information on consumer complaints from various federal, state, and local government agencies and non-governmental organizations that deal with such complaints.

officials expected that CIS data would be used primarily by law enforcement organizations and officials to assist them in fulfilling their law enforcement duties.

The CIS database contained a total of about 200 categories within which consumers' complaints were included. The categories in CIS covered a wide range of topics such as (1) creditor debt collection, (2) home repair, (3) investments, (4) health care, and (5) leases for various products and services such as automobiles and furniture. We identified one of those categories—prizes/sweepstakes/gifts—as the key category that could provide us information on consumers' complaints about mailed sweepstakes material. However, we were unable to identify a specific category that could help us obtain similar information on cashier's check look-alike documents. FTC officials told us that consumer complaints about such documents could be included in many of the CIS categories because these types of documents may be related to a wide range of products and services, including home mortgage loans, automobiles, and real estate sales. Thus, we would have needed to review nearly all the CIS categories to try to obtain insight into the nature of consumers' problems with these documents. Because our time to review this information was limited, we determined that we should focus our efforts on reviewing those complaints that were included in the prizes/sweepstakes/gifts CIS category.

As of August 13, 1998, which was the date that we received the data from FTC, the prizes/sweepstakes/gifts category included 15,735 consumer complaint records in which the initial contact from the company to the consumer was made through the mail. FTC

officials further told us that to expedite delivery of these data, they provided us with data that included only those complaints received from two sources—FTC and NFIC. The officials explained that 95 percent of the complaints included in the prizes/sweepstakes/gifts category in which the consumers were contacted by mail had been filed with either FTC or NFIC. Also, they mentioned that many of the 15,735 records in the prizes/sweepstakes/gifts category included consumer complaints that both FTC and NFIC had maintained in their databases for several years before CIS was established.

In reviewing the consumer complaint data we received from FTC, we focused on those complaints that were included in CIS during the most recent 12-month period (i.e., July 1, 1997, through June 30, 1998). For this period, we identified 1,394 consumer complaints within the prizes/sweepstakes/gifts CIS category in which the initial contact with the consumer was made by mail. Of the 1,394 complaints, we found that in 1,215, or about 87 percent, of these complaints, companies had requested individual consumers to remit money. The total amount of money requested by the companies was reported to be about \$102,000.

Also, our review of the 1,394 consumer complaints showed that 734, or about 53 percent, of consumers reported that they had remitted money to the companies. The total amount of money these consumers said they had paid was about \$46,000. The amounts of money individual consumers said that they had paid ranged from less than \$5 to \$8,850. Of the

734 complaints, 551 individual consumers, or about 75 percent, reported that they had paid amounts less than \$5, whereas, in one case, a consumer reported paying \$8,850. We did not independently verify the accuracy of this information.

In reviewing the 1,394 complaints, we identified 1,371 that included information in the "comment" data field, which indicated the nature of consumers' complaints. From the 1,371 complaints, we randomly selected 200 for analysis to try to more clearly determine the nature of consumers' complaints that were included in the prizes/sweepstakes/gifts CIS category. We sorted the 200 complaints into the following five groups:

- Sweepstakes that required consumers to send in money or pay fees.
- Sweepstakes that required consumers to purchase products or services.
- Sweepstakes that required consumers to call a telephone number for which they were charged a fee.
- Sweepstakes that required consumers to provide personal information, such as social security numbers or bank account numbers.
- A miscellaneous group for those complaints that could not readily be included in the previous four groups.

Table 1 shows the general breakdown of the 200 consumer complaints into the five groups.

Table 1: Groups In Which 200 FTC CIS Consumer Complaints on Mailed Sweepstakes Material Were Included

Group description	Total number of consumer complaints	Percent
Send in money or fees.	140	70.0%
Purchase products or services.	20	10.0
Call a telephone number.	7	3.5
Provide personal information.	7	3.5
Miscellaneous.	26	13.0
Total	200	100.0%

Source: GAO analysis of data from FTC Consumer Information System.

As indicated in table 1, 160, or 80 percent, of the consumer complaints we sampled involved sending in money or fees or purchasing products or services. Some examples of the types of complaints included in the two categories were as follows:

- A consumer was told by a company that she had won \$12,000, but that she was required to send in a processing fee to claim her winnings. She remitted the fee to the company but received no winnings. Later, she received an identical notice from the same company but she did not remit the requested processing fee.
- A consumer received repeated notices that she had won a cash prize in a company's sweepstakes. However, she never received such a prize, even after she ordered and received several plants from the company.

- A consumer reported that a company had offered to enter his name in its sweepstakes when he purchased magazines. After the consumer purchased the magazines, the company advised him that he was a sweepstakes winner. The company told the consumer to remain at home on a specific date so that he could receive his prize, which was a suitcase full of money. Although the consumer remained at home on the specified date, no suitcase arrived.

As shown in table 1, 7 consumer complaints involved organizations asking consumers to call a telephone number for which the consumer was charged a fee. Generally, the consumer complaints in this group were similar in that consumers were asked to call such a number to claim their winnings or verify their winning numbers. Examples of such complaints included the following:

- A consumer complained that he had received an award notification in the mail. He was required to call a 900 telephone number to verify his winning number. The company told the consumer that he had won one dollar. Later, the consumer was charged \$56 for the telephone call.
- A consumer was told by a company that she had won either a car or cash and required her to either call a 900 telephone number or send in a card to receive her prize. Although she sent in the card, she did not receive her promised prize.

As indicated in table 1, 7 consumer complaints from our sample involved organizations requesting personal information, such as the consumer's social security number or bank account number. Some examples of these types of complaints included the following:

- A consumer reported that a company informed him that he could win as much as \$100,000 if he would send in a release form that included bank account information. The consumer did not send in the form.
- A consumer complained that a company instructed him to call immediately concerning his sweepstakes winnings. When he called, a company representative tried to solicit his telephone number as well as credit card information. The consumer refused to provide the information.

As shown in table 1, 26 complaints contained a variety of miscellaneous consumer complaints that did not easily fit into one of the previous four groups. Examples of these miscellaneous complaints included the following:

- A consumer received three letters informing him that he was the winner of a large sum of money. After writing many letters to the company, the consumer never received any explanation as to why he had not received his money.
- A consumer reported that he had received a notice that he was the winner in a company sweepstakes. The notice stated that the company was preparing to award him a prize. The consumer sent the company a letter requesting the prize,

but subsequently, the company notified the consumer that he in fact was not the winner.

Postal Inspection Service Has

Investigated Various Cases

Involving Mailed Sweepstakes Material

Postal Inspection Service officials told us that the Fraud Complaint System (FCS) is used by the Postal Inspection Service to collect and maintain consumer complaint information about various types of alleged fraudulent activities, including those involving deceptive mail marketing practices. The officials estimated that the Postal Inspection Service generally receives between 60,000 and 100,000 consumer complaints each year that pertain to alleged fraudulent activities. However, officials were unable to estimate how many of these complaints were related to mailed sweepstakes material and cashier's check look-alikes. The officials told us that generally, it would be difficult to identify such complaints because FCS has limited search capabilities. In large part, complaints regarding mailed sweepstakes material and cashier's check look-alikes in FCS can only be identified by searching on the company name or product sold.

According to Postal Inspection Service officials, we could best obtain information on the nature of consumers' complaints by reviewing specific cases for which postal inspectors had performed investigations. One of the officials told us that during the period October

1, 1997, through August 21, 1998, 16 cases involving mailed sweepstakes material were closed and specific law enforcement actions, such as the issuance of cease and desist orders,⁹ had been taken. The 16 cases most often involved sweepstakes and cash prize promotions for which up-front taxes or insurance, judging, or handling fees were required before consumers could participate in the sweepstakes.

The disposition of the 16 Postal Inspection Service cases involved various actions. For example, seven cases were closed because (1) no clear violations were identified, (2) criminal prosecution was declined due to insufficient evidence or a civil agreement was reached with FTC, or (3) the sweepstakes operators or promoters abandoned or voluntarily stopped their activities. In five cases, cease and desist orders and withholding mail orders were issued.¹⁰ In two cases, sweepstakes operators were arrested, with one of the cases resulting in a dismissal and the other case resulting in a conviction. The remaining two cases were combined into one case because they involved activities sponsored by the same organization. This organization offered to provide consumers with money allegedly held in the consumers' names with the federal government for which the

⁹A cease and desist order is an order of an administrative agency or court prohibiting a person or business from continuing a particular course of action.

¹⁰An order to withhold mail is an order that is requested by the Postal Inspection Service if specific laws regarding delivery of mail have been violated. Such an order is issued by a judicial officer and sent to the violator and to the postal inspector-in-charge within the area where the violator was operating. The order usually requires that mail from the violator is held for a time by the Postal Service, then returned to the violator.

consumers would have to pay a fee. The two combined cases resulted in the issuance of a cease and desist order, a withholding mail order, and a false representation order.¹¹

INITIATIVES BY ORGANIZATIONS

TO ADDRESS DECEPTIVE MAIL

MARKETING PRACTICES

We identified various initiatives by specific agencies and organizations that were intended to provide opportunities for these entities to address, among other things, the problems affecting consumers that involved questionable or deceptive mail marketing practices.

These initiatives also provided the agencies and organizations with information that they could use to assist law enforcement organizations in initiating appropriate actions, such as investigations and lawsuits. In addition, the initiatives provided agencies and organizations with opportunities to work together on efforts that could help educate and inform consumers about direct mail marketing practices that could cause problems.

Examples of two of the more recent initiatives included (1) Project Mailbox and (2) the establishment of a multi-state sweepstakes committee, which resulted from a legal complaint involving AFP.

¹¹Under 39 U.S.C. 3005, if the Postal Service finds sufficient evidence, an order can be issued against any person engaged in conducting (1) a scheme or device for obtaining money or property through the mail by means of false representations or (2) a lottery, gift enterprise, or scheme for the distribution of money or of real or personal property, by lottery, chance, or drawing of any kind. Such an order may involve returning mail to the sender and forbidding payment of any postal money order that was made payable to the sender.

Project Mailbox

In October 1997, FTC announced the establishment of the Project Mailbox initiative. According to FTC and AARP, its main purpose was to establish specific efforts that could help educate consumers and appropriately deal with organizations that attempted to defraud consumers through the use of mass mailings. Various agencies and organizations participated in Project Mailbox, including FTC, the Postal Inspection Service, about 25 state Attorneys General, and AARP. Project Mailbox resulted in four efforts being established that would target any questionable activities of organizations that use the mail to defraud consumers. The four efforts included

- the initiation of 190 law enforcement actions, which targeted companies that were suspected of mail and telemarketing fraud, including such actions as (1) issuing cease and desist letters and notices of intent to sue and (2) filing complaints in court;
- the establishment of a strike force involving FTC, the Postal Inspection Service, various state Attorneys General, NAAG, and AARP that would collect and review direct mail for future law enforcement actions;
- the initiation of AARP's "Project Senior Sting," a project established in Massachusetts and Arizona in which unsolicited mail would be turned over to law enforcement agencies to search for possible examples of fraud; and

- the launching of a consumer education campaign involving the Postal Inspection Service, AARP, and the Yellow Pages Publishers Association that is intended to help consumers and small businesses spot mail fraud.

NAAG Multi-State

Sweepstakes Committee

Within NAAG, various committees work on a wide range of issues including civil rights, environment, energy, health care, bankruptcy, and taxes. These committees are responsible for studying such issues and recommending policy positions to NAAG members for action. In July 1998, NAAG approved a resolution to establish within its Consumer Protection Committee a subcommittee that plans to address matters related to sweepstakes and prize promotions. According to the resolution, some of the subcommittee's objectives include (1) ensuring active enforcement of current laws that prohibit unfair and deceptive practices by operators of sweepstakes and prize promotions, (2) determining whether specific legislative initiatives would be effective in deterring and punishing deceptive and abusive practices by operators of sweepstakes and prize promotions, and (3) when appropriate, drafting documents that could be developed into state legislation.

According to NAAG, the establishment of the subcommittee stemmed partly from a recent legal complaint filed against AFP by about 30 states and the District of Columbia, which

sued AFP for engaging in direct mail marketing practices that deceived many consumers. Generally, the complaint alleged that in its mailed sweepstakes material, AFP

- falsely suggested that a consumer must purchase one or more magazine subscriptions to win a prize;
- falsely suggested that a consumer was part of a select group vying for a prize or was one of only two recipients with the winning number;
- falsely suggested that a consumer needed only to respond within a certain number of days, and before an alternative winner responded, in order to claim the prize; and
- required consumers who wanted to enter the sweepstakes without purchasing magazines to follow a more circuitous and cumbersome procedure than those who purchased magazines.

According to various states, as part of the settlement, which was reached in March 1998, AFP agreed to pay a total of approximately \$1.25 million to about 30 states and the District of Columbia. AFP also agreed to revise future mailed sweepstakes material so that it would

- only tell consumers that they were winners if they had in fact won,
- only tell consumers that they were among a select group that has a chance of winning a prize if the odds of winning are disclosed,
- tell consumers that no purchase is necessary to participate in the sweepstakes,

- clearly explain how to enter the sweepstakes without a purchase,
- make it clear to consumers who order magazines on an installment payment plan how much money is due each month, and
- not imply that consumers have a better chance of winning if they purchased magazines.

According to a NAAG official, the sweepstakes subcommittee chair—the Indiana Attorney General—has been identified. However, it was not clear whether other subcommittee members had been selected or whether the subcommittee's work had begun. Generally, the subcommittee members are expected to include representatives from various state Attorneys General offices.

**LIST OF FEDERAL, STATE, AND LOCAL GOVERNMENT AGENCIES AND
NON-GOVERNMENTAL ORGANIZATIONS AND THEIR LOCATIONS**

Name of agency/organization	Location
Federal government agencies:	
-Federal Trade Commission (FTC)	Washington, D.C.
-U.S. Postal Inspection Service	Washington, D.C.
State government agencies (Offices of Attorneys General):	
-Connecticut	Hartford, Connecticut
-Florida	Tallahassee, Florida
-Texas	Austin, Texas
-West Virginia	Charleston, West Virginia
-Wisconsin	Madison, Wisconsin
Local government agencies:	
-Citizen Assistance (Consumer Affairs) for City of Alexandria	Alexandria, Virginia
-Consumer Affairs Division for Montgomery County	Rockville, Maryland
Nongovernmental organizations:	
-Advertising Mail Marketing Association	Washington, D.C.
-American Association of Retired Persons (AARP)	Washington, D.C.
-Arizona State University (Gerontology Program)	Tempe, Arizona
-Council of Better Business Bureaus	Arlington, Virginia
-Direct Marketing Association (DMA)	Washington, D.C.
-National Association of Attorneys General (NAAG)	Washington, D.C.
-National Consumers League (NCL)/National Fraud Information Center (NFIC)	Washington, D.C.
-U.S. Public Interest Research Group	Washington, D.C.

Source: GAO.

(240317)

SYNOPSIS OF SWEEPSTAKES COMPLAINT LETTERS

**Provided to The Subcommittee
On International Security, Proliferation And Federal Services
By the Florida Attorney General**

[REDACTED]

In June 1998 her mother received Time's "Guaranteed & Bonded III" solicitation; she believed had won, purchased magazines, and has now become despondent and cries frequently after daughter pointed out the "if" which qualifies the claim. Ms. [REDACTED] called Time Customer Service in Tampa to complain and the CS rep laughed at her.

[REDACTED]

Her 78 y/o mother, restricted to a wheelchair, is a closet sweepstakes junkie and also indigent, living on Social Security and food stamps. She primarily plays PCH and AFP, although the others have recently piled on. Mother wrote numerous bad checks to pay for the magazines and knick-knacks and is now receiving, daily, dun letters from various collection agencies. Mother has become afraid, paranoid, and is becoming mentally unstable. She has wired shut her mailbox, hung blankets to cover the windows, and refuses to answer the door; afraid of the threats made in the dun letters. PCH is dunning her over a \$3.45 overdue bill. Mother will require institutionalization shortly as a result

[REDACTED]

Receiving dun letters from PCH for a magazine, Playboy, which she never ordered, but is being delivered. Has teenage son and is offended to have it in the house. PCH refuses to acknowledge their error.

[REDACTED]

His daughter, 34 y/o Shiela [REDACTED], was a sweeps junkie for several years, principally PCH. Mr. [REDACTED] returned 20 boxes of merchandise she had ordered in order to participate in sweepstakes she was certain she had won. However, PCH denies receiving them. He is embroiled in a major collection effort by PCH.

[REDACTED]

81 y/o woman has been buying magazines since 1982 in order to collect her "winnings". Was telemarketed by PCH in Jan. 1998 and was asked what time of day she would prefer Dave Sayer to and the Prize Patrol to come by. Accordingly, she had her neighbors come over for the planned party, which never occurred, and was heartbroken and embarrassed by it. "They made me look like a foolish old lady."

[REDACTED]

His 80 y/o father, a retired physician, is a sweeps junkie and spends \$1,000/month buying merchandise from the Las Vegas and Canadian boilerrooms who now call and promise him that "he's won." [REDACTED] is unable to convince his father to halt. His review of the check register indicates it began with PCH.

[REDACTED]

His 83 y/o mother suffers dementia and is a sweeps junkie. He found and returned 22 boxes of merchandise to PCH alone. Her total losses are approx. \$12,000, with about \$1,000 still owing. He tried the DMA "No Solicit" list, to no avail. Check register indicates significant double invoicing, which she double paid. Several of the marketers.

specifically U.S. Purchasing Exchange, do not have telephone numbers and are thus impossible to halt.



Elderly father suffers dementia and is a sweeps junkie. He spends approx. \$300 daily, and the apartment is so full of stuff he cannot move about. Mr. ██████████ called PCH to clear it up and they replied that their records only go back 18 months, which accounted for \$30,000 alone. He believes his father was targeted due to his age; very susceptible to official-looking mail. He has complete set of solicitations indicating PCH focused in on that style of solicitation over several months.



This 78 y/o woman ordered \$300 worth of magazines from AFP this year in order to collect the \$11 million she believed she had won. Over the period of several months she has received multiple solicitations and cannot afford to pay the invoices. She lives alone on Social Security. She called AFP to try and cancel and claims they still send her invoices demanding the entire amount. She is now getting solicitations from U.S. Purchasing Exchange and Michigan Bulb Co.



This 83 y/o woman spent approx. \$3,000 on magazines, primarily from PCH. They now regularly send her boxes of books and merchandise on spec, which she must take to the post office to return. "It's wearing me down and they won't stop it." In Jan. 1998, she received a call from a PCH telemarketer which said she had been chosen as the \$10 million winner and wanted to know how many places to set for the Winners Banquet that Dave Sayer and the Prize Patrol would be bringing on Superbowl Sunday. She then invited all of her neighbors to the "party" and was devastated when the Prize Patrol failed to show. "They made me look foolish."

[REDACTED]

Ms. [REDACTED] is a Legal Aid attorney representing an indigent couple who lost their savings, possessions, and home to sweepstakes. They were evicted following foreclosure and are 48 hours away from living under a bridge. Both are Dutch immigrants who believe the touted "winner" claims. Upon finally seeking counsel, their first act was to try and borrow \$10 from her to play another sweepstakes and collect "the \$140,000 we've won."

[REDACTED]

This 64 y/o, articulate, retired government worker lives on a fixed income and in 1992 believed the PCH solicitations, thus commencing his regular purchases in order to participate. Currently, he spends \$1,000/year, mostly on videocassettes. He never saw any qualifying language and says, "You know they just throw it out if you don't order."

[REDACTED]

A Hillsborough County Sheriff's Deputy called from the trailer of this 91 y/o woman and described it as full of magazines, primarily "Time" and "Life". Mrs. [REDACTED] received a June 1998 solicitation from Time's "Guaranteed & Bonded III" sweepstakes and called the S.O., frantic to locate Time Sweepstakes headquarters and claim her \$10 million. The deputy pointed out the mouseprint, however was unable to convince Mrs. [REDACTED] otherwise.

[REDACTED]

At 84 Mr. [REDACTED] is sharp and articulate, however his wife of 57 years became a sweeps junkie 12 years ago and he has been unable to convince her that she hasn't won, nor that she need not make a purchase. [REDACTED] has spent approx. \$1,000/year buying magazines and junk, while he has been forced to prematurely sell off certain retirement investments to finance her. He reports they routinely double-invoice [REDACTED] and he tries to intercept the second bill and throw it away, but she often beats him to the mail and pays again. "We come from a time when paying on time and protecting your credit were important." Their planned estate will be little, if anything. Recently AFP turned an overdue bill for \$18.94 over to a collection agency, a bill that Mr. [REDACTED] not only paid, but provided the canceled check to AFP.

[REDACTED]

Both parents are in their 70's, suffer some degree of Alzheimers, and are sweeps junkies. Their home is crowded with piles of magazines yet they are unable to read any longer. Ms. [REDACTED] spends hours weekly trying to cancel all of the orders they spend all week placing, driving all involved nuts. She found they have 5 subscriptions to Time and her mother is getting Sports Illustrated. Now they're being solicited by U.S. Purchasing Exchange, and others. She's written letters demanding cancellation and a halt to the sweepstakes solicitations, to no avail.

[REDACTED]

Her elderly mother, in St. Petersburg, has been hooked on sweeps since 1991. Mrs. [REDACTED] must fly up several times annually to cancel subscriptions and attempt to get refunds. Her mother gets an emotional high from the solicitaiton which makes her believe she's won millions, then become deeply depressed when the check never appears. The emotional roller coaster is ruining what's left of her life and making her miserable. Mrs. [REDACTED] is an articulate businesswoman and willing to travel anywhere, anytime to testify.

[REDACTED]

Her mother-in-law, [REDACTED] became hooked on sweepstakes and was spending \$2,000/month buying magazines and junk. The family's attempts to convince her that she did not win, nor must make any purchase, only caused her estrangement from the family. Finally she moved to Florida and became a recluse, staying home inside a dark apartment all day filling out entry forms and checks, withdrawn, isolated, paranoid and losing touch with reality. She claims that David Sayer calls her regularly and is her only true friend. At the family's request her bank has somehow restricted her account, however [REDACTED] goes to the post office and purchases \$700/weekly in money orders. She is now ordering her attorney to sell the family estate in Jamestown to further finance her sweepstakes, despite the fact that her son and his family live there. Her name has been sold to boilerrooms and scam artists of every stripe. She now writes checks to psychics and Lindenwald.

[REDACTED]

His 91 y/o father spends thousands of dollars annually and cannot be convinced he hasn't won anything. It began with AFP, now he's being solicited by all manner of scams.

[REDACTED]

This 80 y/o woman had received sweepstakes solicitations for years but never paid any attention to them. But the AFP winter 1997 campaign, "Ed McMahon and Dick Clark convinced me, I looked but didn't see any if's or but's." She ordered magazines as directed, rushed to the post office as directed, and couldn't sleep for five nights, as she was excited about her winning. She postponed scheduled surgery because she believed McMahon and Clark were coming to her home in January with her \$10 million.

[REDACTED]

An Assistant Attorney general in Tennessee, her 70 y/o father-in-law, [REDACTED] received the AFP "You and One Other Person" piece and believed he had won. So intent was he on beating the "one other person" with his response back to Tampa, he flew to Atlanta and mailed his entry there to get it to Tampa faster. He intended to fly to Tampa, but called AFP and they convinced him not to. He bought several magazines saying, "you need to in order to have a fair chance."

[REDACTED]

She's been buying from AFP since 1991, and purchases a magazine with every entry she sends. "You have to buy to stay on their mailing list, and you can't win if they don't mail you an entry."

[REDACTED]

Been ordering magazines for years because "you have to in order to win the prize...if you use the 'NO' envelope they'll just throw it out". She admits to spending several thousands of dollars over the years. Upon receiving the "You and One Other Person" AFP piece in late 1997 she was "so thrilled at winning" that she tried to drive to Tampa to collect her prize. Her husband apparently refused.

[REDACTED]

Has a disabled son in need of an operation she cannot afford. She became ecstatic upon receiving "You and One Other Person" AFP piece in Dec. 1997. By Feb. 1998, she realized she hadn't won, "I was just sick when I found out it was all just a game."

[REDACTED]

She has been purchasing magazines since 1986 in order to participate in sweepstakes. "You have to otherwise it goes to Georgia, and they just throw it in the trash there." She is 71 y/o.

[REDACTED]

A single mother of two living in a rough neighborhood, she was overjoyed when she received "You and One Other Person Have Won." She could finally move her girls into a safer neighborhood. Upon reading the piece she believed that indeed, it was a race between her and one other person and the first one to get their entry to Tampa would win the \$10 million. Determined to win, on Jan. 7, 1998, she borrowed \$1,500 from a sister and, with both girls in tow, headed for the airport and jumped the next plane to Tampa. She cites the "urgency" of the solicitation, and told me that, since the entry was clearly worth \$10 million, she didn't trust it to the U.S. mails. When she presented herself to Time Customer Service in Tampa she was told to wait outside for a young manager who then tried to take her entry form from her, then ridiculed her and told her to leave. [REDACTED]

[REDACTED]

He is a WW II veteran and knows that Ed McMahon is too. Accordingly "he has a lot of credibility with me, vets don't lie to each other." On that basis, he began purchasing magazines when the solicitation bore McMahon's likeness. Now he continues because "if you don't buy, they'll drop you from the mailing list and you can't win."

[REDACTED]

Her 89 y/o father, [REDACTED], lives on Social Security in LA and is a sweeps junkie, paying about 32 different marketers to play sweepstakes over the years. She obtained Power of Attorney and sent all 32 a letter depending they C & D soliciting her father. PCH continued to do so. She called PCH legal Dept. and made some threats, and now says they backdated certain solicitations to make it appear they obeyed her first C & D letter. Reviewing his check register reveals all of them double invoiced her father, who double paid each. Yet the invoices fail to note that the subscriptions are prepaid for many years in advance.

[REDACTED]

Says that her grandfather, [REDACTED] was a competent, astute octogenarian and retired Boeing engineer. In approx. 1985 he responded to an AFP solicitation and purchased magazines, then was marketed by PCH, Michigan Bulb, and others. In 18 months time he spent approx. \$100,000 and was besieged by sweepstakes solicitations and invoices. a collection agency garnisheed his Social Security check. The home was full of magazines and knick-knacks. PCH allegedly called and said he was such a good customer they were sending a limo to pick him up. In Dec. 1997 he realized that he was truly broke and had squandered all of his assets, put a gun to his head and pulled the trigger. [REDACTED]

SWEESTAKES PRIZE DIVISION
READERS MAGAZINE
PITTSBURGH, PA 15203

BULK RATE
U.S. POSTAGE
PAID

OPEN AT ONCE | Prize payments
guaranteed to winners inside.

WARNING: The Postmaster has determined that the contents of this envelope include a game of chance. Your odds of winning are 80,000,000 to one. Play at your own risk. You do not have to buy to play!

Notice: Postmaster, the security of this package is guaranteed from Tampering, Inspection or delay under Section G011.5.1 of the U.S. Postal Service Domestic Mail Manual.

Mr. John J. Smith
11134 N. Forsythe Street
Phoenix, Arizona 85003



Statement of Magazine Publishers of America, Inc.
to the
Subcommittee on National Security, Proliferation, and Federal Services

United States Senate

September 1, 1998

Chairman Cochran and Members of the Subcommittee:

The Magazine Publishers of America, Inc. appreciates this opportunity to submit this statement to your Subcommittee on the use of false and misleading sweepstakes promotions, government "look-alike" envelopes, and facsimiles of checks. This statement is presented from the viewpoint of our members – mailers of legitimate advertising and promotional material.

The Magazine Publishers of America ("MPA") is the industry association for consumer magazines. Our membership includes approximately 200 publishing companies in the United States, publishing over 1200 consumer-interest magazines, as well as over fifty international magazine companies and others participating in the consumer magazine publishing industry. Membership magazines range from well known nationally distributed publications, such as *Time*, *Newsweek*, *Consumers Report*, *Vogue*, and *Cosmopolitan*, to smaller circulation and local publications, such as *Harvard Business Review*, *Foreign Affairs*, *Sesame Street* and *Milwaukee Magazine*.

Some of MPA's larger members are also members of the Direct Marketing Association ("DMA"). The MPA works closely with the DMA in the area of direct marketing issues affecting magazines, including, very significantly, sweepstakes. MPA supports the testimony of Richard A. Barton, Senior Vice President for Congressional Relations of the DMA, which is being submitted today. As stated by DMA, MPA believes that enforcement of current federal and state sweepstakes laws and regulations in combination with meaningful self-regulation by the industry is the optimal approach and that new federal legislation is not needed.

MAGAZINE PUBLISHERS OF AMERICA

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The Importance of Sweepstakes Promotions to Magazine Publishers

The importance of sweepstakes promotions to the magazine industry is enormous. Millions of subscriptions are sold each year, and as reported in the July 28, 1998 issue of *The New York Times*, approximately one-third of those subscriptions result from a direct mail solicitation that in some way involves a sweepstakes promotion. The industry has been using sweepstakes as a promotional aid in the sale of subscriptions for more than thirty-five years and such magazine marketing legends as *Readers Digest* and *Time, Inc.* have successfully but properly used that marketing technique during that entire period. It was also reported in *The New York Times* article that more than 400 million sweepstakes mailings are made each year by just Publishers Clearing House and American Family Publishers. It is a big business and it is a critically important part of the magazine circulation business. Sweepstakes, over many years have been proven to be an effective promotional aid, so they are used by magazine publishers that are large, well respected, ethical, responsible and extremely well versed concerning the laws and regulations that govern them. The business at stake is far too large and essential for such companies to flout those requirements or the ethical standards that their readers expect. All but a very few of the largest publishers utilize one of a few marketing consultant firms that specialize in sweepstakes to supervise and monitor their sweepstakes promotions so as to insure that they are administered independently, ethically, fairly, and in compliance with the laws and regulations of the Federal Trade Commission and the various states.

Most of the larger magazine publishers that handle their own direct mail marketing, as well as the prominent sweepstakes promotion consulting firms that publishers use, have worked together with other members of the DMA to develop DMA's Ethical Business Practice rules, which cover sweepstakes. Those rules are designed to insure that the DMA members' sweepstakes promotions meet not only all legal standards, but also reasonable standards of fairness, clarity and consumer sensitivity. The DMA rules relating to sweepstakes prescribe that sweepstakes promotions clearly state that no purchase is required to win a prize, that the procedure for entering without ordering is no more onerous than the procedure to order a product, that recipients shall not be told that they have won a prize, or that they have a greater likelihood of winning a prize than others when that is not the fact, and that the prizes shall be clearly and explicitly described.

The Role Of The FTC And The States As Enforcement Agencies

The Federal Trade Commission promulgated rules regulating sweepstakes many years ago and has been active for decades in enforcing those rules and prosecuting sweepstakes promotion violators under its general unfair trade practice jurisdiction. Several states have enacted sweepstakes legislation and, increasingly,

state attorneys general have become active in prosecuting fraudulent operators and offenders. The major magazine publishers that administer their own sweepstakes promotions, and the consulting firms that administer promotions for most of the other publishers, have been diligent in complying with the FTC's rules as well as the DMA Ethical Business Practice rules. In recent years the FTC has been active in enforcing its rules against numerous small, unethical, and elusive sweepstakes operators. Many of those operators prey on the respected names of the major magazine publishers or the two major magazine promoters using sweepstakes. Currently, in response to the FTC's vigorous enforcement, many of the offending sweepstakes operators have moved their operations to Canada or off-shore where legal enforcement is more difficult. The industry itself is attempting to police violators and has been working with the FTC, the state attorneys general, and other private consumer protection groups, as explained in Mr. Barton's testimony.

New Federal Legislation Will Not Be Helpful

While vigorous enforcement efforts against less scrupulous and usually elusive sweepstakes promoters by the FTC and the state attorneys general is necessary, as is increased emphasis on industry self-regulation and consumer education, additional federal legislation would not be helpful, and indeed would be counterproductive. Many states already have enacted laws requiring sweepstakes promotion registration and containing consumer fraud provisions specifically addressing sweepstakes. Indeed, just this year California enacted legislation containing requirements for descriptive promotional language that parallels in several respects what is included in the DMA's Ethical Business Practice rules. There are sufficient laws on the books to protect the consumer. We know and appreciate that Senator Campbell and the other sponsors have the best of intentions, but the legislation which is being considered by this Subcommittee will not contribute to the elimination of fraudulent sweepstakes operators. It will serve only to impede legitimate promoters from functioning effectively and efficiently.

New legislation would not be self-enforcing. What is needed is continued vigorous prosecution of unscrupulous promoters under existing consumer protection laws together with meaningful self-regulation within the industry. The testimony of Richard Barton sets forth some suggestions for improved industry self-enforcement. Working with the DMA, the major magazine publishers and the magazine subscription promotional firms that principally utilize sweepstakes have been organizing and structuring efforts for improved self-regulation, educating consumers about sweepstakes, and identifying those limited number of individuals that buy excessive products through sweepstakes promotions. MPA and its principal members will continue to work with DMA to develop an industry action plan to confront sweepstakes abuses. MPA is taking similar steps to organize industry self-regulatory measures to control consumer abuses by telemarketers of magazines. MPA is doing so with the cooperation of the FTC. Both the industry and the FTC have concluded that enhanced

efforts toward self-regulation will be far more effective than additional legislation — which would require government enforcement in any event. The same can be said of sweepstakes enforcement.

It will be the self-regulatory initiatives, together with FTC and the state attorneys general enforcement proceedings against unscrupulous promoters, that will effectively reduce the sweepstakes deceptive practices that exist today. The MPA and its members endorse these efforts. Further sweepstakes legislation that arbitrarily restricts the manner in which legitimate sweepstakes promotions can be drafted will be counterproductive. The existing FTC regulations and state legislation are more than adequate to give the enforcement agencies the tools they need to prosecute offenders.

Thank you for considering our views.

Respectfully submitted,

**MAGAZINE PUBLISHERS OF
AMERICA**
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George Gross
Executive Vice President

Rita Cohen
Vice President

