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NEWS RELEASE

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THE NEW GENERATION OF "INFORMATION SUPERHIGHWAY" SCAMS

"Paging all suckers!" That's the hidden message from the fast-growing ranks of the investment scam artists hawking the latest generation of "information superhighway" swindles. In 1995 and early 1996, scams involving pager licenses and pay-per-call "900" numbers emerged as easily the most prevalent among the get-rich-quick investment opportunities peddled by high-pressure phone con artists. Over a quarter of the investment dollar losses reported to a Federal Trade Commission (FTC) database in the period of March to October 1995 involved high-ticket "information superhighway" scams, with pager and "900" numbers being the most common among the illicit schemes.

Individual investment losses reported to the FTC database range from \$2,900 to as much as \$400,000. The new high-tech schemes are hyped by promoters who urge unwary investors to "just sit back and ride the coattails of the information superhighway." In reality, both paging licenses, which are awarded by the Federal Communication Commission (FCC) and pay-per-call "900" services are extremely speculative investment opportunities. While some paging licenses and "900" numbers make substantial money, most do not. Nonetheless, the investment con artists preying on the public's love affair with the information superhighway claim that paging licenses and "900" numbers are low-risk deals ideally suited to inexperienced or unsuitable investors.

ENTER "PROJECT ROADBLOCK"

In late 1995, the FTC and 22 state securities agencies who are members of the North American Securities Administrators Association (NASAA) responded to the alarming surge in pager and "900" number calls by establishing "Project Roadblock." On January 30, 1996, the FTC and state securities regulators from around the United States announced the results of their coordinated crackdown on the latest generation high-tech, information superhighway scams. This effort yielded a total of 79 actions.

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

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

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

A California-based company was estimated by investigators to be roping in 10 customers a week for a monthly take of \$200,000. Investors were conned into believing that they needed to purchase multiple pager licenses at \$1,580 to \$2,900 a pop. Telemarketers assured customers that their investments would have a "safe" three-to-one return in just two years. Investors also were told that they had to "decide and move quick," because the company would "no longer be receiving applications" in a matter of days. Telemarketers also promised that the company would use its connections with paging operators to help unload investors' licenses at a big profit.

One Nevada company, whose president had an undisclosed history of defrauding investors, sold paging licenses to people with the promise that they would get back "\$900 to \$2,500 a month" from their ability to lease their licenses to a major paging operator. Investors were warned that "tomorrow is the last day."

A New York City firm selling paging licenses took in more than \$1 million in sales last year. One of its telemarketers referred to paging licenses as a way to ride "the coattails of the information superhighway." While "the risk is minimal," the salesman warned that this opportunity is "very competitive," and that "if you don't move on this, it will be like throwing money out the window."

THE GROWTH OF THE NEW "INFORMATION SUPERHIGHWAY" SCAMS

Historically, the FCC lottery/auction system has been exploited by con artists seeking to promote high-tech scams. While cellular telephone licenses were the most prevalent type of high-tech scam in the mid- and late-1980s, con artists moved on in the 1990s to wireless cable television and even more exotic technologies, including specialized mobile video (SMR). In 1995, they moved to paging licenses and "900" numbers. With so many more people using pagers and increasingly widespread promotion of "900" numbers, quick-buck operators have stepped in to get their piece of these red-hot consumer markets.

Paging licensing scams begin when a salesman offers to secure a license for an investor that covers a paging frequency in a portion of the U.S., such as a major city. While the FCC bars paging license applicants from obtaining licenses for speculative purposes, scam artists neglect to mention this detail when dealing with investors. The high-pressure application mills ask for between \$1,000 and \$12,000 per license, promising investors that they will be able to easily re-sell or lease licenses to large paging operators for an enormous profit. Many of the illicit firms even suggest that they will be able to assist in marketing the licenses.

Pie-in-the-sky profit projections made to unwary investors range from \$1,000 a month to several hundred thousand dollars over the long term. The idea that an enormous profit can be made on the re-sale or lease of the license is without foundation. While a fast-buck telemarketer may say otherwise, market experts will tell you that no company has ever used a paging license owned by someone else in order to build its customer base. Since major operators don't need your license, its value plummets.

Pay-per-call "900" number investment scams are just as insidious. Here, high-pressure telemarketers encourage you to purchase an interest in an "information provider" partnership. Instead of owning a "900" service outright, investors are pooled in limited partnerships, much like the investment arrangements made regarding oil & gas wells, equipment leases, and real estate. Typically, investors are not told that information providers are responsible for leasing the special telephone lines, paying for national promotion, and forking over fees to any endorsers used in "infomercials" or other advertisements. In an increasingly overcrowded marketplace, the vast majority of information providers end up losing money ... far from the 250 percent annual return some con artists claim is a cinch.

SPOTTING THE TELL-TALE SIGNS OF "900" NUMBER/PAGER SCAMS

How can you tell a legitimate high-tech investment opportunity from one that is a scam? The "Project Roadblock" investigations by the FTC and state securities agencies identified the following common themes:

- Unsubstantiated claims about sky-high earnings potential.
- Failure to indicate that most of your investment goes to commissions and fees for the salesperson and the principals of the firm.
- Reliance on vague hype about the "information superhighway" as a can't-lose ticket to quick riches.
- Downplaying (or no mention whatsoever) of the major risks involved in the investment.
- False claims about the likelihood of quick profits by "flipping" your investment, such as a major paging operator who supposedly will pay top dollar for your license.

STEPS YOU CAN TAKE TO PROTECT YOURSELF

The best way to avoid falling victim to the new generation of "information superhighway" scams is to research any potential investment thoroughly. Anyone considering an investment in paging licenses or "900" numbers would be well advised to following these steps:

- Check out all earnings claims. Usually, the rule is: the greater the return, the higher the risk.
- Make sure that the company is complying with applicable state and federal laws and regulations. If you are being sold a paging license or "900" number interest as an investment, it (and the company selling it) should be registered with your state's securities agency. Don't take a telemarketer's word for it--check it out for yourself!
- Don't take it for granted that a company has already set up "900" numbers or re-sold paging licenses. You should always take the time to separate the sales pitch from the facts.
- Don't fall for high-pressure tactics. High-tech con artists love to play upon the notion that new technology creates an expanding market for a brief time, and that you must get in right away. If someone is trying to sell you something, but claims you can't take the time to check it out ... hang on to your money and walk away.

Even though state and federal agencies are available to help you, it is important to recognize that, once your money is gone to a paging license or "900" limited partnership scheme, it is probably gone for good! That's why it is so important to check things out first and proceed with the utmost caution.

FOR HELP AND MORE INFORMATION . . .

If you want to check out a potential high-tech information superhighway scam, contact your state securities division. The name of the agency and its phone number is at the bottom of this page. Or, you can call the North American Securities Administrators Association at 202/737-0900. In the U.S., NASAA is the national voice of the 50 state securities agencies responsible for investor protection and efficient capital formation.

You may also want to file a complaint with the Federal Trade Commission. To do so, write to: Division of Marketing Practices, FTC, Washington, DC 20580. Or call 202/326-2222.

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