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FEDERAL TRADE COMMISSION

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FEDERAL TRADE COMMISSION

IN RE: )  
PROTECTING CONSUMERS )  
IN THE NEXT TECH-ADE ) Matter No.  
 ) P064101  
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MONDAY, NOVEMBER 6, 2006

GEORGE WASHINGTON UNIVERSITY  
LISNER AUDITORIUM  
730 21st Street, N.W.  
Washington, D.C.

The above-entitled workshop commenced,  
pursuant to notice, at 9:00 a.m., reported by Debra L.  
Maheux.

## P R O C E E D I N G S

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1  
2  
3 MS. HARRINGTON: Good morning, and welcome to  
4 Protecting Consumers in The Next Tech-Ade. It's my  
5 privilege to introduce our Chairman, Deborah Platt  
6 Majoras, who is leading the Federal Trade Commission  
7 into the next Tech-ade. She has been incredibly  
8 supportive of all of the efforts to make these hearings  
9 happen, and I'm just very proud that she's our boss, and  
10 I'm very happy to introduce her to kick things off.  
11 Thank you.

12 CHAIRMAN MAJORAS: Thank you very much, and good  
13 morning, everyone. It is a great pleasure to welcome  
14 those of you who are gathered here at George Washington  
15 University in Washington, D.C., this morning, and to  
16 extend a special welcome to those who are watching us  
17 from places around the globe. We welcome you to  
18 Protecting Consumers in the Next Tech-ade.

19 Our distinguished panelists have come from  
20 across the nation and around the world to share their  
21 extraordinary expertise on a wide range of technology  
22 and consumer protection issues, and we are deeply  
23 appreciative. Your time and efforts will assist the  
24 Federal Trade Commission and other policymakers in  
25 serving consumers.

1           That technology is changing rapidly is no  
2 secret. It is simply transforming the way we live, and  
3 in such a dynamic environment, developing sound public  
4 policy can be a daunting challenge. These hearings are  
5 a key part of the FTC's response to this challenge. No  
6 doubt many of you have been to conferences at which the  
7 focus has been on how technology itself may change, and  
8 I anticipate that we will learn about a dazzling array  
9 of amazing and startling technologies, many of which you  
10 can perhaps see for yourself at the Tech Pavilion, but  
11 our primary focus will be different.

12           Over the next decade or tech-ade, as we have  
13 dubbed it, these technologies and others undoubtedly  
14 will have a tremendous impact on how we live our lives.  
15 This week we will focus not only on how technology might  
16 change, but on how it will impact consumers every day  
17 and how consumer protection policy must therefore adapt  
18 in response.

19           Our ultimate goal is to identify the future  
20 challenges and opportunities in fulfilling our core  
21 mission of protecting consumers. At the Federal Trade  
22 Commission we recognize that being prepared for the  
23 future is critical if we are to foster confidence in  
24 consumers, that they will benefit from new technologies  
25 while being protected from undue risks that they may

1 create.

2 Our hearing's built on a solid foundation  
3 erected through past Federal Trade Commission's efforts.  
4 In the mid 1990s, then Federal Trade Commission chairman  
5 Robert Pitofsky recognized that we were entering an era  
6 in which technology was changing at an increasingly  
7 rapid pace and that this could have a profound impact on  
8 consumers.

9 He also recognized the importance in such an  
10 environment of reviving the FTC's historical role as an  
11 agency that analyzes and reports on novel and difficult  
12 consumer issues; thereby assisting policymakers in their  
13 legislative, regulatory and law enforcement decisions.

14 So in 1995, the FTC held hearing entitled  
15 Protecting Consumers in the Global High Tech  
16 Marketplace, more commonly known as the Global Hearings,  
17 and for the Commission and the public, the Global  
18 Hearings served two important functions. First, they  
19 ushered in a new era in which the agency has engaged in  
20 significant policy study, analysis and reporting, a role  
21 that we have continued and expanded over this past  
22 decade.

23 Second, the Global Hearings provided much of the  
24 framework for our consumer protection agenda for this  
25 past decade, a result that we hope to replicate for the

1 next decade through these hearings.

2           Following the Global Hearings, Commission Staff  
3 issued a report in 1996 concerning technological  
4 advances and the future of consumer protection policy,  
5 and some of the key conclusions were that new  
6 technologies were developing at a rapid pace and that  
7 these were going to result in significant marketplace  
8 changes for consumers, that new technologies were being  
9 used to perpetuate old-fashioned scams. New  
10 technologies were elevating some policy issues, privacy,  
11 security, and protecting children to the forefront of  
12 public debate, that the challenge for consumer  
13 protection agencies which respond at a time when  
14 resources were stretched thin.

15           As the new marketplace took shape, that both  
16 private and public sector interests would be served by  
17 making sure that sound consumer protection principles  
18 were already in place, and finally, that consumer  
19 protection was most effective when government, business  
20 and consumer groups could all play a role together.

21           Now, a decade later these predictions may seem  
22 obvious, but that's because their insights turned out to  
23 be correct. Our agenda, for instance, is now heavily  
24 focused on privacy and security concerns and the  
25 protection of children. Privacy and security issues

1 have become such a key part of fulfilling our consumer  
2 protection mission that we recently created a new and  
3 separate division within the Bureau of Consumer  
4 Protection, the division of privacy and identity  
5 protection, and it focuses exclusively on these issues.

6 Of course the 1996 Global Hearings Report did  
7 not predict all consumer protection problems that the  
8 technology would create. For example, it did not  
9 foresee consumer protection problems like spam and  
10 spyware and viruses. Still, the fact that many  
11 predictions broadly have been proven to be true creates  
12 confidence that these hearings similarly will be  
13 valuable in helping us develop good policy going  
14 forward.

15 Given the passage of more than a decade since  
16 the Global Hearings, the time has come to undertake  
17 another comprehensive and systematic assessment of  
18 potential technological developments and their  
19 implications for consumer protection policy. As we scan  
20 the horizons to perceive consumer protection challenges,  
21 we look to the wisdom of the past to inform us for the  
22 further.

23 Across the street from my office stands the  
24 National Archives with its inscription "the past is  
25 prologue," and as it teaches, understanding our past

1 experience with technological advances and consumer  
2 protection, both our successes and our failures, can  
3 provide valuable insight into where we go from here. As  
4 philosopher George Santayana once warned: "Those who do  
5 not learn from history are doomed to repeat it."

6           There are at least four lessons from the past  
7 that we should bring to bear as we consider the  
8 implications of technological innovation for consumer  
9 protection policy: First, that technological change is  
10 difficult to predict; second, vigorous competition in  
11 the marketplace is necessary to ensure that consumers  
12 obtain the maximum benefit from new technologies; third,  
13 the consumer protection concerns that technological  
14 advances create often can be addressed with existing  
15 legal tools and without the need for new laws and  
16 regulations; and fourth, there is a powerful  
17 relationship between technology and consumer  
18 expectations.

19           Baseball manager and sometime philosopher Yogi  
20 Berra once explained: "Things are hard to predict,  
21 especially the future."

22           Trying to predict the course of technological  
23 advancements and their impact on consumers in particular  
24 can be quite humbling, even for the experts. Here are a  
25 few examples from our past. In 1876, a Western Union

1 internal company memorandum opined that "this telephone  
2 has too many shortcomings to be seriously considered as  
3 a means of communication."

4 In the 1920s, an investment banking firm advised  
5 its client not to invest in radio because "the wireless  
6 music box has no imaginable commercial valuable. Who  
7 would pay for a message sent to no one in particular?"

8 In 1927, H.M. Warner, the founder of Warner  
9 Brothers Movie Studios responded to the prospect of  
10 movies with sound by quipping, "who the hell wants  
11 actors to talk?"

12 In 1932 Albert Einstein held forth that "there  
13 is not the slightest indication that nuclear energy will  
14 ever be obtainable. It would mean that the atom would  
15 have to be shattered at will."

16 In the 1930s, Lee de Forest, a famous inventor,  
17 said: "That while theoretically and technically  
18 television may be feasible, commercially and financially  
19 it is an impossibility."

20 In 1943 Thomas Watson, then chairman of IBM,  
21 offers his insight that "there is a world market for  
22 maybe five computers."

23 And finally in 1977, Ken Olsen, the president,  
24 chairman and founder of Digital Equipment Corporation  
25 opined that "there is no reason that anyone would want a

1 computer in their home."

2 So my point here is that no matter how  
3 brilliantly, well informed one may be, in fact one may  
4 be -- there was one, it was Albert Einstein, "it is  
5 extremely difficult to predict the development of  
6 technology including which technology will succeed in  
7 the marketplace."

8 Given the extraordinary challenge of foreseeing  
9 the future, some might seek to avoid it all together,  
10 focusing only on addressing today's consumer protection  
11 problems which are right in front of us, but given the  
12 stakes, that is not acceptable. The inherent  
13 difficulties of predicting the future impact of  
14 technology counts not as abdication, but the exercise of  
15 old-fashioned values, of humility, prudence and strong  
16 effort.

17 Now, another lesson we've learned from the past  
18 is that vigorous competition in the marketplace is  
19 absolutely critical to enhancing consumer welfare.  
20 Protecting competition helps ensure efficiencies, lower  
21 prices and services, innovation and choice. Competition  
22 has this beneficial effect on consumer welfare in  
23 markets for all types of products, including the high  
24 tech products that will be central to many our  
25 discussions.

1           It is the ultimate consumer protection, and  
2 consumers can have a particularly potent impact on  
3 competitors and competition in high tech markets. On  
4 the Internet, consumers appear to reign supreme. They  
5 can be very powerful and tough customers as I am certain  
6 many of the people from businesses who will be speaking  
7 to us will let us know.

8           A recent example involving Facebook.com, a  
9 social networking web site, demonstrates the effect that  
10 empowered consumers can have. Members of Facebook post  
11 information about themselves on their web pages, and  
12 then the friends they identify can read the information  
13 that they post if they go to these pages.

14           On Tuesday, September 5 of this year, Facebook  
15 announced a new feature that monitored the activity on  
16 web pages of members, for example, noting a change in  
17 whether the member was in a certain romantic  
18 relationship or a listing of a new favorite song, and  
19 then this information would go immediately and  
20 automatically to all the friends of the member.

21           Well, consumer reaction to this new feature was  
22 swift and angry. That very day Facebook began to  
23 receive a barrage of consumer complaints, and the  
24 company's president and his programmers immediately  
25 began working on a fix. By Thursday, only two days

1 after the feature was announced, over 600,000 members  
2 had joined a protest group on the site. 80,000 had  
3 electronically endorsed a petition objecting to the new  
4 feature, and a massive member boycott had been  
5 scheduled.

6 So at 2:48 a.m. on Friday morning, Facebook's  
7 president published a contrite, open letter on his blog  
8 which began with the candid acknowledgment "we really  
9 messed this one up," and to its credit, Facebook  
10 implemented its fix for the new feature at 5:00 a.m. on  
11 Friday after working all night to get it done.

12 This experience illustrates vividly the power  
13 that consumers have to change business behavior and  
14 affect markets on the Internet. Consumers believe quite  
15 strongly that it is their Internet, and they will have a  
16 strong voice in how it is developed and used.

17 Consumers though often don't receive enough  
18 credit, but as all policymakers consider new proposals  
19 and actions, we must be mindful of the power of the  
20 collective voice of these online consumers. Even as we  
21 work to protect consumers from harm by, for example,  
22 challenging deceptive online claims and harmful spyware  
23 downloads, the power of the collective consumer voice to  
24 cause changes in business behavior and move markets must  
25 be considered in assessing what policies to adopt.

1           While interested parties will always lobby for  
2 policies that benefit them, we do consumers the best  
3 service when we ensure that markets are competitive and  
4 do not impose unnecessary barriers or restrictions on  
5 free competition through our own policies.

6           Past experience also teaches that at the advent  
7 of new technology, there will be an ever present  
8 temptation to pass new laws or issue new regulations  
9 that specifically target that very problem. Through law  
10 enforcement experience though we know that the  
11 Commission's existing legal authority often is  
12 sufficiently elastic to allow the agency to address  
13 consumer protection concerns that new technologies may  
14 raise without the need for new statutes and regulations.

15           Carefully adapting existing legal standards  
16 ensures that we can keep up with new consumer protection  
17 problems and decreases the risk that new laws for new  
18 technologies will create unintended negative  
19 consequences for consumers.

20           In 1938, the FTC was given authority under  
21 Section 5 of the FTC Act to prevent unfair or deceptive  
22 acts and practices, and since that time we've seen the  
23 development and deployment of many new technologies that  
24 have a profound effect on consumers, television, mobile  
25 phones, the Internet and on and on, and notwithstanding

1 these tremendous changes in the products, in the  
2 technology, the elasticity of the concepts of unfairness  
3 and deception, while not unlimited, have allowed us to  
4 readily apply them to new technologies, and spyware  
5 provides a good example.

6 As I mentioned earlier, in 1996, we weren't even  
7 talking about spyware as a potential problem at those  
8 hearings, but when it emerged, we determined that we  
9 needed no new statute or regulation to begin combating  
10 the scourge. Rather we were able to mount an aggressive  
11 law enforcement program against spyware under our  
12 existing authority.

13 Our law enforcement efforts against spyware have  
14 reaffirmed three key consumer protection principles:  
15 First a consumer's computer belongs to him or her and  
16 not to the software distributor; second, varied  
17 disclosures do not work, just as they have never worked  
18 in traditional areas of commerce; and third, if a  
19 distributor puts a program on a consumer's program that  
20 the consumer does not want, the consumer must be able to  
21 uninstall or disable it.

22 Now, to be sure, spyware presents all kinds of  
23 serious challenges in terms of detection, apprehension  
24 and enforcement, but our current legal authority has  
25 been sufficiently elastic for us to take traditional

1 consumer protection concepts and apply them to this new  
2 problem.

3 Now, although we often do not need new laws to  
4 challenge harmful problems that are arising from new  
5 technologies, nonetheless, when Congress provides new  
6 tools for us, we vigorously use them, and spam is a good  
7 example of that. As I mentioned earlier, spam is not  
8 one of the consumer protection problems that the FTC  
9 staff saw in 1996.

10 The extremely low cost of sending Email has made  
11 an appealing market channel for even legitimate  
12 companies, but unfortunately this low cost, combined  
13 with anonymity of Email has made spam an ideal vehicle  
14 for con artists, and in the late 1990s, consumers began  
15 to be deluged with spam, threatening to undermine their  
16 confidence in the online world.

17 Recognizing this risk, FTC rapidly commenced a  
18 concerted effort to combat spam. The Commission brought  
19 63 spam related cases under Section 5 of the FTC Act,  
20 and to enhance our ability to fight spam though,  
21 Congress in 2003 enacted the CAN-SPAM Act, which  
22 prohibits specific practices related to the  
23 dissemination of spam and which mandates that the FTC  
24 issue and enforce rules.

25 Since the CAN-SPAM Act took effect in 2004, the

1 Commission has brought 25 law enforcement actions  
2 alleging that spam distributors violated CAN-SPAM and  
3 the FTC's rules, so in total that brings us to nearly 90  
4 spam cases against some 240 individuals and companies.  
5 Spam, of course, remains a serious problem for  
6 consumers, but nonetheless our aggressive law  
7 enforcement has been instrumental in attacking spam, and  
8 we will continue to vigorously enforce all the laws at  
9 our disposal.

10 Now, the final lesson from our past experience  
11 that I will discuss today is the effect that  
12 technological advances have in increasing consumer  
13 expectations. Myself, growing up in Meadville, a town  
14 of about 13,000 in north western Pennsylvania, we valued  
15 convenience and choice. I still remember going to the  
16 bank during its limited workday hours and withdrawing  
17 the money we needed to make our purchases, and we  
18 shopped at local stores, selecting products from the  
19 choice that the local merchants were able to offer us  
20 with one exception, and that was when the big beautiful  
21 thick Christmas catalogs from Sears and JCPenney's  
22 arrived in the mail at the beginning of every December  
23 showcasing more toys than we ever thought were  
24 imaginable. So this is what convenience and choice  
25 meant to us at that time. I won't tell you how long ago

1 it was though.

2 Consumers in Meadville still value convenience  
3 and choice, as do consumers throughout our nation, but  
4 technologies has had a profound effect on what these  
5 terms mean. Without even leaving home, they now use the  
6 Internet to find competing products from sellers located  
7 around the world, dramatically changing expectations as  
8 to the convenience and choice that sellers should offer,  
9 and likewise they now can use a variety of options to  
10 pay for the items that they purchased.

11 The era of merchants telling customers "in God  
12 we trust, everyone else pays cash" is long gone.  
13 Technological change thus has altered consumer behavior,  
14 and with these alterations have come changes; that is  
15 increases in consumer expectations. Consumer protection  
16 policy must be prepared to respond to such evolutions in  
17 consumer expectations. In short, consumers want their  
18 risks minimized, but they want it done without a  
19 reduction in convenience and choice, and there is no  
20 turning back.

21 So now let us begin in earnest our inquiry into  
22 changes in technology and its implications for consumers  
23 and the future of consumer protection policy. I invite  
24 you to indulge your curiosity and listen with an open  
25 mind, and I'm confident that the rich conversation we

1 will have during these hearings will be productive and  
2 will provide us with a firm foundation for developing  
3 the next decade of consumer protection policy.

4 I'll ask you one favor. If you enjoy these  
5 hearings, if you think they are valuable, then seek out  
6 a few FTC people I can't resist mentioning here, Katie  
7 Harrington-McBride, Dave Robbins, Alicia Azara  
8 (phonetic), Julian McFarland, of course Eileen  
9 Harrington and their entire team. They have put such a  
10 tremendous amount of work in, and while it has I know  
11 been a labor of love, labor is still nonetheless labor,  
12 and so we're so appreciative.

13 Now, I often tell our staff that if we're going  
14 to be truly effective in protecting consumers, then we  
15 have to hear what they have to say, so to start us off  
16 this morning, let's hear from some consumers. We  
17 recently conducted some person on the street interviews  
18 asking folks for their thoughts about technology and  
19 some of the issues that it raises, and here is what they  
20 had to say.

21 (Whereupon, a video was played for the  
22 audience but not transcribed.)

23

24

25

1 PANEL 1: KEY CHANGES PREDICTED IN THE NEXT TECH-ADE.

2 MODERATOR: LYDIA B. PARNES, Bureau of Consumer  
3 Protection, FTC

4 PRESENTERS:

5 FREDERICK W. HOLLMANN, Demographer, Population  
6 Projections Branch, Population Division, U.S. Census  
7 Bureau

8 JOSEPH BATES, Director of Research, Consumer Electronics  
9 Association

10 ALAN SCHULMAN, Chief Creative Officer, Brand New World

11 FRED H. CATES, Distinguished Professor and Director,  
12 Center for Applied Cybersecurity Research, Indiana  
13 University School of Law

14

15 MS. PARNES: Great. Good morning, everyone.

16 I'm Lydia Parnes from the FTC, and I have the pleasure  
17 of introducing our first panelists.

18 We have with us Dr. Fred Hollmann. He is a  
19 demographer with the U.S. Census Bureau, and his work  
20 focuses on projecting population projections for the  
21 United States by race, age, sex and Spanish origin, and  
22 Fred will be talking to us about who we are, who we will  
23 be in the next tech-ade; then Joseph Bates, who's the  
24 director of research with the Consumer Electronics  
25 Association will be talking about what we'll be buying

1 in the next tech-ade; Alan Schulman, the chief creative  
2 officer of Brand New World, a creative agency  
3 specializing in emerging media, and Alan will be  
4 discussing how we'll be advertising the things that  
5 we're buying in the next tech-ade.

6 Finally, we'll end up with Professor Fred Cate,  
7 a distinguished professor and director of the Center For  
8 Applied Cybeseurity Research at Indiana University  
9 School of Law who will be discussing the security and  
10 privacy challenges in the coming tech-ade, and with  
11 that, we're going to jump right into our panel. So  
12 Fred?

13 DR. HOLLMANN: Here we are. Thank you very  
14 much, Lydia, and thank you for the invitation to speak  
15 to you today.

16 I am a demographer. I work for the U.S. Census  
17 Bureau, and we project population. That's my principal  
18 role. In that vein, I would like to start out working  
19 from the large to the small with some very big numbers.

20 The U.S. population reached 300 million  
21 inhabitants on October 17, 2006. We claim it happened  
22 at quarter of eight in the morning. Of course we don't  
23 really know. By July 1, 2016, we will have reached 325  
24 million roughly, so we're still growing. It's not  
25 rapidly growing, but it is certainly galloping along

1 compared to many of our other friends in the  
2 industrialized world.

3           There we go. Some trends, among others. Years  
4 of education have increased. The educational status of  
5 the U.S. population measured by years of completed  
6 schooling is increasing to the point that by 2004, 28  
7 percent of the population 25 and over had seen four or  
8 more years of college. Labor force participation of  
9 women 60 and over has reached a level 59 percent  
10 compared to 73 percent for men, after decades of  
11 gradually narrowing the gap.

12           There have been steady increases in  
13 unconventional and multigenerational households. With  
14 the increasingly elderly population and the increased  
15 presence of divorce and the factor of marital  
16 dissolution, households involving unconventional family  
17 relationships, especially grandparents and  
18 grandchildren, have increased. The increase in the  
19 elderly population has also resulted in more single  
20 family households.

21           Related to this, there is a steady and ongoing  
22 rise in the demand for healthcare services as the  
23 population ages, and finally the foreign born population  
24 increases steadily as immigration of slightly over a  
25 million per year brings in more people of other language

1 and cultures.

2           Within the big numbers, I want to talk about two  
3 macro demographic phenomena. First of all, our  
4 population is aging. Second of all, we are becoming  
5 more racially and ethnically diverse. I refer to these  
6 phenomena as macro demographic, because they are trends  
7 which are very large trends, and they're very visible.  
8 With regard to visibility, I wager that while many of us  
9 may not spend hours pouring over census volumes or even  
10 searching our wonderful web site, better yet, you are  
11 nevertheless familiar on some level with both of these  
12 issues.

13           Let's start by looking inside the aging  
14 phenomena with a few charts. First of all, total  
15 population under 50 and 50 and over. In this chart I  
16 show the trend in population groups over time, but so as  
17 not to allow large groups, like the total population to  
18 dominate the chart, I am indexing the trend, setting the  
19 level in July 1, 2006, to a hundred, and calculating the  
20 trends relative to the 2006 level. That is the reason  
21 that all of the lines come together in the middle of the  
22 diagram. I think it got ahead of me. Here we go.

23           The heavy blue line in the middle shows that the  
24 population of the United States had reached 93 percent  
25 of the 2006 level by July 1, 2000, and the growth is

1 predicted to continue to about 113 percent of its 2006  
2 by July 1, 2016.

3 The green and red line show us that the  
4 population 50 years and older is growing quite a bit  
5 more rapidly than the population under 50. The older  
6 segment passed mid 2000 at only 87 percent of 2006,  
7 level reaching 125 percent by 2016. This means that  
8 this population is growing by a quarter in the next ten  
9 years.

10 The under 50 had already reached 98 percent of  
11 its 2006 level by 2000 and will only be at 102 percent  
12 of that level by 2016. While certainly not a decline,  
13 this implies a much slower rate of growth.

14 I need to get back. There we go. Why do older  
15 population groups outgrow younger ones? There are three  
16 reasons. First of all, declining mortality at advanced  
17 ages causes people to live longer, boosting the growth  
18 of older categories. Births were once on the rise, and  
19 the increase ended or slowed. In some cases,  
20 immigration can play a major role as well.

21 Only the first two are really relevant to the  
22 current aging of the population. With regard to the  
23 first point, we need only note that life expectancy at  
24 birth for both men and women has been on the rise  
25 throughout most of the 20th century and into the 21st.

1 Women have always had the edge over men in this regard,  
2 although there is some recent evidence that mortality  
3 improvement for women has slowed.

4 The second point ushers in a very familiar  
5 concept, the post war Baby Boom. These folks were born  
6 from the autumn of 1946 to about 1964, so the advanced  
7 cohorts reached age 50 in 1996, and the last of them  
8 will pass age 50 about 2014.

9 Finally immigration, while not a factor in the  
10 current aging trend, can certainly become one. If  
11 immigration is high, then ceases to increase or  
12 declines, the effect would be somewhat like a rise and  
13 decline in births, but the effect on the older  
14 population happens sooner, since immigrants need less  
15 time to get there. They have about a 25 year head  
16 start.

17 The effect of the Baby Boom on aging is quite  
18 apparent if we separate the growth trend of the  
19 population age 50 and older to its two components above  
20 and below age 65. The dark green line shows the rapid,  
21 even relentless rise in the population 50 to 64 from  
22 2000 to 2006 continuing to 2011.

23 The increase slows as the birth cohorts of 1962  
24 and later cross age 50. These were the years when the  
25 Baby Boom was in retreat. By contrast, the population

1 65 and over increases more gradually until 2011, when  
2 the boom cohort of 1946 reaches age 65 and continues to  
3 rise rapidly through 2016 and beyond. The 65 plus  
4 population will be at 129 percent of its 2000 level by  
5 2016 according to this projection.

6 The age group of small children, tweens, age 8  
7 to 12, and teens were or will be born during a period  
8 without major trends in childbearing levels as we  
9 project its continued stability, however much the  
10 population of childbearing women fluctuates.

11 The brown line corresponding to age 13 to 19,  
12 it's actually kind of reddish brown there anyway, while  
13 it has been rising somewhat more slowly than the  
14 population overall, it is nevertheless projected to  
15 decline from 2014. How can we foretell a shift in  
16 trend? The answer lies in what we know about the birth  
17 of their mothers. A 15 year old at the end of 2006, for  
18 example, was born in 1991. At this time, the  
19 involvement of the post war Baby Boom and the population  
20 of childbearing women was near its peak. A 30 year old  
21 mother in 1991 was indeed born about 1961.

22 By contrast the tweens, the 8 to 12 years old,  
23 the green line, declines from 2001 to 2008 should  
24 increase almost at pace with the total population for  
25 the years following. Children under 7 grow steadily

1 because we're assuming that childbearing among women  
2 doesn't change too much.

3 The 20s follow. The total population, ages 30  
4 to 49, decline. People 30 to 49 will be increasingly  
5 dominated by the post boomers born after the late 1960s.  
6 Young adults 20 to 29, would fall behind, but are  
7 bolstered by the effects of immigration.

8 MS. HARRINGTON: Fred, I have an announcement in  
9 the current tech-ade. If you just point your clicker to  
10 the right, that's all you have to do, and we have a  
11 screen for you to watch right there and for all of our  
12 panelists. We didn't give you current tech information  
13 for.

14 MS. PARNES: Thank you very much.

15 DR. HOLLMANN: Thank you very much. The 25 year  
16 old around 2006 was born in 1981. There was little  
17 growth in the number of births in the early 1980s.  
18 However, the effects of immigration hit this group  
19 causing some growth. The 30 to 49 year groups staggered  
20 primarily because of the backside of the Baby Boom in  
21 spite of some boost from immigration.

22 Well, are we becoming a nation of old people?  
23 Yeah. In a word, no. There we go. Population aging,  
24 while a near universal attribute of industrialized  
25 society in these decades, does not happen overnight, nor

1 is anything we are observing in the U.S. without  
2 precedent.

3 In this chart, I am comparing the under 20, 20  
4 to 64 and 65 and over populations in the U.S. in 2006  
5 and projected to 2016 with population estimates for the  
6 United Kingdom and Japan in 2006. Both have higher  
7 proportions 65 and over in 2006 than what is projected  
8 for the United States in 2016. The UK is slightly ahead  
9 of us. Japan, a population of 127 million, is far less  
10 in this regard.

11 Notably, the proportion 20 to 64, while it  
12 declined somewhat over our ten-year period is not far  
13 from current levels in the UK and Japan at around 60  
14 percent. A larger number of elderly in the UK, Japan  
15 and Europe for that matter comes at the expense of  
16 children and teens, largely because of the birth trend  
17 that these countries have experienced in recent decades.

18 The second big macro is demographic phenomena.  
19 We are becoming racially and ethnically more diverse.  
20 The Hispanic population is increasing rapidly in both  
21 numeric and percentage terms. The Asian population,  
22 while smaller than the Hispanic population, is growing  
23 rapidly in percentage terms.

24 We see that the non Hispanic white population  
25 remains the largest category through 2016 by a long

1 shot. We foresee it dropping below 50 percent in fact  
2 around mid century, around 2050. The growth of the  
3 Hispanic population as projected is apparent, but the  
4 comparative trends are clearer if we look at the numeric  
5 change from year to year.

6 The big growth story is the Hispanic origin  
7 population which persists at a growth rate well over 2  
8 percent per year, nearly 1.2 million change, even though  
9 it is a rather large group at the beginning. The black  
10 population, close to the same size at the start, grows  
11 at about 1.4 percent per annum, almost half a million  
12 per year. This is well above the growth rate for the  
13 entire population. Asians are increasing at the highest  
14 percentage per year, although they are a smaller group  
15 than either blacks or Hispanics. With future revisions  
16 of projections to reflect current immigration levels,  
17 the growth of the Hispanic population may become even  
18 more impressive.

19 Finally, some cautions and reassurances.  
20 Population projections are grounded on assumptions about  
21 fertility, mortality and international migration that  
22 can be proven wrong, and believe me they have.  
23 Nevertheless, we're pretty comfortable of projections in  
24 the older population primarily because we know most of  
25 them from our last census.

1           Projections of young adult and also those of  
2 immigrant background, Asians and Hispanics are more  
3 tenuous because of the difficulty of foreseeing changes  
4 in international migration. Major changes in fertility  
5 have belied projections in the past, especially of  
6 children. The Baby Boomers were rather notorious in  
7 this regard.

8           Concluding thoughts: The age, race and ethnic  
9 composition of our population is changing, but we should  
10 beware of the tendency to impose a demographic  
11 determinant and assumption of trends. As demographers,  
12 we talk about cohort imperial phenomena. While some  
13 phenomena are age related, such as healthcare, others  
14 relate to when we were born and grew, such as computer  
15 literacy and demand for cutting edge technological  
16 resources. The latter fact I think is quite well  
17 attested to the regular correspondence I have with my 90  
18 year old father via Email.

19           For this I thank you for your attention.

20           (Applause.)

21           MS. PARNES: Thank you so much, Fred. For our  
22 audience, there are question cards in your folders, so  
23 if you have questions for Dr. Hollmann, if you could  
24 please write them on your question card, hold them up,  
25 and members of our staff will come around to pick them

1 up.

2           While we're giving you some time to do that, I  
3 actually have a quick question. One of the things that  
4 I was wondering about in listening to your presentation,  
5 and particularly with what you mentioned about your dad,  
6 I'm wondering that in the next decade, will this be a  
7 different older population, a population that's kind of  
8 grown up or at least grown up in its older years knowing  
9 and using technology?

10           DR. HOLLMANN: Certainly it will, and this is  
11 very much apropos of my point, that what we call cohort  
12 phenomena, the fact that what we know when we're 70 or  
13 80 is very much a function of what we learned when we  
14 were 50 or 60. We may be demanding more healthcare just  
15 because we're that old, but at the same time what we  
16 know and what we consume in terms of technology is  
17 likely to be governed by what we saw at a younger age.

18           MS. PARNES: Thanks. Do we have questions? We  
19 may have a few minutes for questions from everyone at  
20 the end, so, Joe, that would be great if you could give  
21 us your presentation.

22           MR. BATES: There's no room for my water here.  
23 I am recovering from a cold over the weekend, so I  
24 apologize if I'm a little bit raspy, but thank you very  
25 much for all of you for coming, and thank you for having

1 us here. CEA is delighted to share some of the thoughts  
2 and the data that we have on the products that we're  
3 currently buying as well as the products that you all  
4 will buy over the next coming ten years. So this must  
5 be an IR remote instead of an RF so I'm going to have to  
6 do this.

7 So today I'll briefly talk about the industry  
8 overview of the consumer electronics industry and how we  
9 got to where we are today in terms of the products that  
10 we have in our homes and that we're buying, and the past  
11 is the future, and I'll talk about that when we get  
12 there, and then the crystal ball, what's going to happen  
13 over the coming decade, and then my conclusions and some  
14 parting thoughts.

15 So CEA, if you aren't aware of the Consumer  
16 Electronics Association, is comprised of more than 2,100  
17 corporate members. These companies are small and large.  
18 We are a top 20 trade association in terms of our  
19 revenue. We represent a broad range of the electronics  
20 industry and consumer technologies.

21 Our members comprise more than \$140 billion in  
22 revenue annually, so it's a very significant portion of  
23 the economy, and CEA market research, we have a very  
24 large research department. We have conducted over 250  
25 consumer research studies, individual studies over the

1 last ten years or so, and we complete about 30 a year  
2 right now. We have a factory to dealer sales program,  
3 so it tells us how many DVD players are shipping every  
4 week from manufacturers to dealers and retailers and  
5 other products as well. We also have a research library  
6 that our members can contact if we have questions, and  
7 it's free to our members.

8           So again here's just a very small smattering of  
9 some of our members. It's pretty impressive when you  
10 try to fit all their logos on one slide, and of course  
11 these are just a few, and we thank all of them for their  
12 participation in our industry.

13           So a little bit about the industry. The  
14 consumer electronics industry is a very healthy  
15 industry. Our growth rates have been well above that of  
16 the national GNP over the last several years, and in  
17 2006 we expect to see at least a 9 percent growth rate  
18 over 2005, and data that we've been receiving  
19 lately indicates that it may in fact be higher than  
20 that, so a very bright spot in the industry.

21           The consumer electronics industry employs about  
22 1.9 million Americans, and that's a 19 percent increase  
23 since 1991, so again nice bright spot in the economy.  
24 Consumers love consumer electronics products. They own  
25 an average of 26 per household, and that's up from 14

1 only ten years ago. They spend an average of \$1,500 a  
2 year, which is up from \$800 a year ten years ago. CE  
3 products, an ultimate value category for consumers,  
4 every year our products get cheaper and they get better.

5 So how do we get to where we are today? From  
6 the start consumer electronics products have changed the  
7 way that Americans live and communicate. We saw this  
8 with the CE industry when it first began. It began 90  
9 years ago with the dawn of commercial radio and soon  
10 followed with commercial television in the late 1920s.  
11 News and information can now be spread around the  
12 country in a matter of minutes to millions of  
13 individuals.

14 The pace of technology, the pace of development  
15 has grown exponentially in the last four decades. After  
16 the advent of the radio and the television, we have seen  
17 other electronics products such as the VCR, the personal  
18 computer in the 1970s, portable music players, cell  
19 phones, CD players. All of these were actually  
20 introduced to the consumer over 20 years ago.

21 After this initial burst of flurry in the late  
22 '70s and early '80s, we then again saw another explosion  
23 of technologies in the 1990s. So here we see digital  
24 audio technology in 1990, satellite TV in '94, DVD  
25 player in '96, we're actually ten years out from a DVD

1 player now if you can believe that, high definition  
2 television in 1998 and so on, and you can see just from  
3 part of this list with satellite radio in 2000 or before  
4 that the numbers have been dramatically increased, and  
5 these are just the major products.

6 The Consumers Electronics Show, which is  
7 produced by the Consumer Electronics Association, is  
8 where most of these technologies have been introduced,  
9 and these technologies are becoming more and more  
10 familiar to all of us in our every day lives.

11 Now, it's important to remember though that  
12 technology takes time to diffuse into the marketplace,  
13 so we see that things like the DVD player while they  
14 were introduced, while it was introduced years ago, and  
15 it was in fact the most successful product in the  
16 history of consumer electronics, it has taken ten years  
17 for it to reach the vast majority of consumers.

18 Other technologies such as the cell phone, which  
19 was introduced back in the '80s, took more like 15 years  
20 to really catch on, so technologies that are being  
21 introduced today may in fact not really catch on until  
22 ten years from now.

23 So that gets me to my first point which is the  
24 past is in fact the future, and really it's the more  
25 recent past, so let's look at the fastest growing

1 technology products from 2005, and these are based on  
2 shipment revenues. So we see the portable MP3 player is  
3 the number 1 category in terms of growth, so year over  
4 year growth, 224 percent increase.

5 Other technologies such as stand-alone monitors  
6 in cars, satellite radio tuners, DVD recorders, high  
7 definition television, and on this screen you'll see  
8 that it resides under LCD TV, which is number 6, and  
9 plasma TV, which is number 9, and down at the bottom  
10 digital TV, digital video recorders. So one thing  
11 you'll notice is that all these products are digital,  
12 and in fact that is what is spurring the current  
13 technology development. It's digital technology, going  
14 from the analog era to the digital era.

15 So let's just take a quick look at a few growth  
16 slides for some of these products. Portable MP3, you'll  
17 see really 2005 was a banner year, grew well over 200  
18 percent, almost 300 percent increase, and these are  
19 actual unit shipments. The previous slide was revenues,  
20 so MP3 players, yes, they're going to be big, and the  
21 percentage that you see in the graph there is the  
22 percentage of MP3 players that are being shipped with  
23 video playback, so not only will audio be a very  
24 important part of what we are taking around with us, but  
25 video capability will also be there as well in the

1 coming years.

2 Digital cameras, again you can see this  
3 wonderful growth rate and a leveling off and that  
4 leveling off is really where you begin to see the uptake  
5 is slow, so we're rounding the bend on that curve, the  
6 product introduction curve and life circle, but  
7 nonetheless, there's a lot of product that's being  
8 shipped and a lot of people that are buying these  
9 products.

10 Digital recording is also something that has  
11 been big in the last year and will continue to be big as  
12 we go forward, not only with DVD recorders but also with  
13 digital video recorders, and these digital video  
14 recorders that you see up here on the screen do not  
15 include cable and satellite video recorders that are  
16 integrated in set top boxes. These are just stand  
17 alone. When you add the numbers that the satellite and  
18 the cable companies are putting out in the marketplace,  
19 that growth rate is going to be very huge.

20 Lastly, an example of digital television, 2006  
21 was a banner year in that we have surpassed -- digital  
22 division shipments have surpassed analog television and  
23 with the change over, the transition in February 17 of  
24 2009, we will no longer have analog over the broadcast,  
25 and those consumers, albeit a small number who have

1 television and receive it over the air, they will then  
2 need to have a digital television or a converter, so we  
3 see all these digital technologies, and that's where the  
4 past is the future. We're going from analog to digital.

5 So the crystal ball. First of all, we're going  
6 to have very, very healthy replacement markets. People  
7 who have purchased wireless phones are going to continue  
8 to buy them. They will upgrade them as new features are  
9 included and enabled. Cordless telephones at home,  
10 believe it or and not, one of the biggest categories  
11 that we have and we track, 50 million a year, so these  
12 are millions per year of unit; televisions, almost 30  
13 million per year; game consoles, PCs, DVD players, all  
14 20 million or more units per year, and keep in mind that  
15 we haven't got 111 million households in the U.S. right  
16 now, so a very large percentage of households will be  
17 buying these product as replacements.

18 DVD players, even home audio, maybe it's a  
19 smaller category than some of these others, but it's  
20 becoming bigger and bigger. As people are buying HD  
21 sets and putting them in their living rooms and creating  
22 this wonderful video experience, we're finding that  
23 consumers also are realizing that when they plug in  
24 additional audio components they get a much better  
25 experience.

1           In addition to the replacement markets, what  
2 else are we going to see? Well, I think the defining  
3 slogan for in the home will be "what I want when I want  
4 it." Consumers are going to be moving into time  
5 shifting and play shifting, and at the home it really  
6 comes down to time shifting so that's the new pyridine  
7 with respect to technology.

8           Now, in the past it's been governed by ease of  
9 understanding, so how easy is it to understand a  
10 product, and will it make my life easier or simpler or  
11 does it make something more convenient. This is what's  
12 really governed consumer technology in the past. As we  
13 go forward, consumers want to take control of what they  
14 are watching and what they are doing and when they are  
15 doing it.

16           So home entertainment, home theater will  
17 continue to increase. We'll see the digital transition  
18 finish, and then high definition will begin to take  
19 hold, and the expanding number of products connected to  
20 the Internet will increase. In terms of entertainment,  
21 we'll see media center PCs. We'll see home theaters,  
22 digital video recorders as I mentioned, high definition  
23 displays and video games, and while they are fun, there  
24 are many that are also educational.

25           In terms of connectivity, we'll see home

1 networks that are enabled by wireless technologies such  
2 as Wi-Fi and also Internet enabled services such as  
3 Internet TV as well as Internet television.

4 In terms of making life easier, we'll see an  
5 increase in on demand content, downloadable content as  
6 well as streaming real time content. We'll see a move  
7 towards digital content, storage and acquisition on  
8 those media center PCs. We'll also see robotics, maybe  
9 not the George Jetson stuff yet, but those of you who  
10 are familiar with the Roombot, which goes around and  
11 sweeps up things on the floor, that is a robot, and  
12 these robots will be increasingly seen in the homes.

13 We also see convergence of consumer technologies  
14 with home appliances, what we typically call white  
15 goods, so brown goods which are consumer electronics  
16 products, will merge together with white goods, and  
17 we'll see Internet enabled devices of all sorts, not  
18 just televisions, but refrigerators and ovens.

19 At the international CES in 2005, there was a  
20 refrigerator oven that was on display for the low, low  
21 price of \$4,000, and you could call it up on your cell  
22 phone and tell it to start cooking whatever was  
23 refrigerated from that morning, so you're going to see a  
24 lot of these products entering the home.

25 And don't forgot the consumers as creators. As

1 they take control of the content that they are acquiring  
2 and using, they'll begin creating more and more and  
3 having what they create put up for others to see, and  
4 this is their right.

5 As I mentioned you will see an increasing number  
6 of products connected to the Internet. In one of our  
7 recent surveys, we asked consumers, what do you  
8 currently have connected to the Internet in your home  
9 and what you would like to see connected in the future,  
10 so you will see that while very few consumers currently  
11 have televisions or digital video recorders, media  
12 servers, security systems or appliances connected, they  
13 would like to do so in the future, and in the future we  
14 phrase that just as the future. We don't know the exact  
15 time frame, but we do know that consumers tend to think  
16 in five to ten-year periods, if less than that, so these  
17 are all technologies and products that consumers are  
18 going to want to connect to the Internet as they are  
19 using more Internet enabled services.

20 So on the go. We're also going to see  
21 technology really firmly taking hold more so than it has  
22 today, and the slogan that's going to be -- the  
23 predominant slogan is "what I want, when I want it,  
24 where I want it," and some of the areas within the  
25 communications on the go, hand-held communications

1 devices, cell phones, BlackBerrys, and there will be  
2 other devices like them to come.

3 Hand-held entertainment, including audio and  
4 video, we have the iPod, which will continue to evolve,  
5 and other competitors such as Microsoft's Zoom Player  
6 and other players that have been out in the, market like  
7 the Creative ZEN player and so these, the communication  
8 aspect and the entertainment aspect are going to  
9 converge together so that you will very likely see cell  
10 phones that are able to download MP3s, which they  
11 currently are, and video which they currently are, and  
12 you'll see MP3 players that do the opposite, so huge  
13 convergence in this area on the go.

14 Also don't forget automotive as the second home.  
15 You will see Internet access in the car. You will see  
16 entertainment becoming widespread in the vehicle with HD  
17 or satellite radio, mobile entertainment and navigation  
18 systems. You will see telematics which really is a  
19 smart car. Telematics are things such as the GPS  
20 enabled devices or services, so you know or somebody  
21 knows where your car is. You've allowed them to track  
22 you, and they will tell you at the next exit what is  
23 available for eating. It will tell you where the next  
24 rest room is, things like that. They will be enabled  
25 with security features such as the current OnStar, but

1 more advanced.

2 In addition to these location based services,  
3 we'll see wireless broadband so connection anywhere, any  
4 time, and products will be moving up and down the age  
5 spectrum. As consumers get older who are familiar with  
6 technology they will have these products, and younger  
7 consumers are really baiting in it.

8 So to conclude, the fact that technology is  
9 changing consumer behavior means the business models are  
10 also going to be changing for content providers.  
11 Watching live TV may in fact be a thing of the past in  
12 the next few years, and this means that advertisers will  
13 have to change their business models, and content  
14 creators and distributors will need to change theirs as  
15 well.

16 We'll see uses of technology continuing to  
17 expand. Consumers will use their cell phones as credit  
18 cards. They will have RF ID tags that will allow them  
19 to checkout without waiting in line at the grocery  
20 store. Functionality for any given device will grow, as  
21 I mentioned convergence within the handheld  
22 communication is in the change arena.

23 And finally, we believe, CEA believes that the  
24 role of the government is to protect the fair use rights  
25 of the consumer in this digital age. If consumers are

1 not allowed to use their lawfully acquired devices with  
2 lawfully acquired content in the ways that they want to,  
3 innovation will be stifled, the industry will suffer,  
4 and consumers will be denied the advances that consumers  
5 electronics products have made throughout the past  
6 century.

7 Thank you.

8 (Applause.)

9 MS. PARNES: If I cooked, I would be incredibly  
10 excited about the oven that you could call.

11 MR. BATES: My wife is a personal chef, and she  
12 really liked the idea until I told her how much it  
13 costs.

14 MS. PARNES: Right. Do you have a sneak preview  
15 for us about what the great new product will be in  
16 January at the CEA convention?

17 MR. BATES: You know, we probably don't even  
18 know what it's going to be yet. There are literally  
19 tens of thousands of new products introduced at the  
20 Consumer Electronics Show every year, and inevitably  
21 several bubble to the surface.

22 MS. PARNES: We'll all be looking forward to  
23 that. Alan, it's kind of like we've got a perfect segue  
24 here now because we heard that we'll be watching  
25 television kind of when we want it, so now we'll hear

1 about what advertisers are going to do about that.

2 MR. SCHULMAN: Good, digital stuff. Here we go.  
3 Good morning everyone, and thank you for having me down  
4 from New York. I want to talk a little bit about the  
5 period of chaos that the advertising community is in at  
6 the moment, and it's not necessarily a bad thing. It's  
7 just a lot of these digital devices are challenging us  
8 to think about, amidst these emerging technologies,  
9 emerging ways of sending messages across those  
10 technologies.

11 I work for a company that specializes in that  
12 from the creative standpoint so I'm going to talk about  
13 some of the trends that are happening in creative  
14 messaging beyond the 30 second commercial today and what  
15 effects those are having. And it's interesting, back in  
16 the late '60s, a director by the name of Stanley Kubert  
17 made a film called 2001 Space Odyssey, and in that movie  
18 he sort of projected that in the year 2001, advertisers  
19 would be delivering their message across a video phone,  
20 if you remember that scene in the movie.

21 Fast forward to 2001, and there was a film  
22 released called Minority Report starring Tom Cruise that  
23 actually featured Tom walking through a mall where  
24 billboards were actually speaking to him, and I'm  
25 certain that while we haven't gotten to that point yet,

1 maybe Tom has in its own mind, but we haven't gotten to  
2 the point yet where billboards are actually talking to  
3 you, and I think that the point is, there are a lot of  
4 predictions about what the future of messaging in  
5 advertising is going to be to the consumer, I certainly  
6 hope we don't get to the point where we're retinally  
7 scanning people's eyeballs and delivering advertising  
8 messages to them on a one to one basis.

9           So with that, I'll get very quickly into what I  
10 want to talk about here this morning. There is a  
11 dizzying array of technologies, as the gentleman who  
12 preceded me, Joe, talked about here with regard to  
13 things that are happening in the marketplace, and if  
14 you're Madison Avenue, what happens is your client wakes  
15 up and reads The Wall Street Journal in the morning and  
16 then says Bluetooth, what's Bluetooth, calls the agency,  
17 so we get a phone call that says, Is this something we  
18 need to know about, is this something that's going to  
19 affect how we message, and the answer is many of these  
20 things in fact do and will eventually affect how we  
21 message because as was just stated before me these  
22 digital platforms are mobile. They're untethered.  
23 They're always on, and that's going to require that we  
24 change the means in which we create our messages.

25           I want to talk about what that's done to the

1 media landscape from a series of shifts that are really  
2 seismic and from the standpoint of what it's done to our  
3 messaging, so I want to talk about some of these trends  
4 and what effect it's having on the creative community.

5           The first one is that we've gone from a mass  
6 marketing world to a micro marketing world, and  
7 basically that means that we used to place one phone  
8 call to a network and be able to place \$5 million to \$15  
9 worth of advertising in one phone call, and essentially  
10 now what's happened is we are now marketing to micro  
11 audiences as opposed to mass audiences. We still  
12 obviously in TV can reach a lot of people, but what we  
13 have to do now is reaggregate audiences according to  
14 their affinities, so what that means is we look for  
15 places to reach influencers within smaller groups.

16           And for those of you who have read Malcolm  
17 Gladwell's book "To Pinpoint or Blink," you know that he  
18 talks about this notion of the influencer or it may have  
19 been the person within the smaller group influences  
20 those around him, or what we call word of mouth or  
21 viral, whatever you want to call it. Those are all buzz  
22 words within Madison Avenue, so basically it suggests  
23 that we're trying to hit that person who will reach  
24 other people within the group.

25           And essentially what happens is then that will

1 push the marketplace outward, so as Joe showed you in  
2 terms of technology adoption, what happens is that that  
3 early adopter gets that digital device and then exposes  
4 lots of others of you to that digital device, and then  
5 hopefully the market spreads outward, not just for the  
6 device, but from our standpoint the market for reaching  
7 those people spreads outward as well.

8           So in the old days, as I said we used to craft  
9 one message, and we distribute it to a mass audience.  
10 Now the name of the game for us is to create a  
11 compelling story for our brand advertisers and then push  
12 it out to the sums and hoping through word of mouth and  
13 some of the new user generated platforms online, the  
14 name of the game is to try to see how far and wide that  
15 message can be distributed, so our model is changing,  
16 and the way we communicate that model is changing as  
17 well.

18           There are examples of this, the subservient  
19 chicken for those of you who are familiar with this  
20 online was an example of a chicken who could behave  
21 however you directed it to behave online, and this was  
22 pushed around the Internet millions of times. We also  
23 have new technologies that are enabling us to target  
24 audiences at what we call the sub DMA level. That means  
25 your cable operator, we're not really at the point where

1 we are reaching you on a one to one basis through your  
2 cable box, nor do I think we will be at a point when  
3 we're even interested in the efficiency of creating a  
4 singular message for a singular household. It's just  
5 not going to be efficient.

6 That said, we do have technologies available  
7 like Visible World that will enable us as we work to  
8 protect or reach again a micro segment of a Zip Code,  
9 and that doesn't have anything to do with your name or  
10 your address or your phone number or any personal  
11 information about you. It's just that what the cable  
12 operator can do is deliver a commercial to a set area,  
13 and it used to be the network television had to buy a  
14 whole city. Now we can shave that down into smaller  
15 areas.

16 Lastly, there's emerging things like podcasting  
17 and things that some of you may be familiar with, which  
18 gives us opportunities to really get more finite about  
19 targeting people that are interested in certain  
20 subjects, so naturally there are podcasts about  
21 virtually every subject out there, and that gives the  
22 advertiser an opportunity to say, We know that if you're  
23 a Harley Davidson fan, you know, and we're sort of  
24 pushing certain types of content that's consistent with  
25 the life-style of the owner of the Harley Davidson bike,

1 that these types of podcasts and things give us an  
2 opportunity to really focus in on niche audiences in new  
3 and different ways.

4 The implication for the advertiser is that  
5 clearly what we want to do is evolve messages from an  
6 era of mass reach to networks of personal relevance, and  
7 whether that's recommendation engines through things  
8 like Amazon based on things that you buy, the name of  
9 the game for us right now is to aggregate those  
10 audiences of personal relevance, and many of the  
11 researchers on Madison Avenue are engaged in this  
12 practice right now, which is: How do we reaggregate  
13 audience in ways for advertisers that enables us to hit  
14 groups of sums as opposed to groups of things?

15 The second shift is that sort of the networks  
16 with a capital N are replaced by networks with a small  
17 N, and what I mean by that is it used to be that you  
18 used to tune into one network, and that network would  
19 push its message out, whether it was ABC, NBC, CBS, and  
20 basically what we have now is you as the consumer are in  
21 the middle, and you basically have a network of devices,  
22 some of which talk to each other, and as Joe said  
23 before, the name of the game is you probably have a PC  
24 or a laptop. You have a cable box at home. You have a  
25 cell phone. You might have an MP3 player or an iPod,

1 and you might have a PDA.

2 Well, now you have your own personal network of  
3 devices which many of the enabling technology companies  
4 are trying to link, so the name of the game is: How do  
5 we link those things up, whether you're a network or  
6 whether, as you'll here Albert Cheng from the Disney  
7 Company talk about in a few minutes, how do we aggregate  
8 these digital platforms together and deliver content to  
9 you in a singular manner so that you can get the brand  
10 where it is, whenever it is and whatever it is that  
11 you're looking for?

12 So as we look at experiences like that, it's  
13 about the advertiser taking what used to be their  
14 traditional on air sponsorship, and in addition to the  
15 on air sponsorship posting ads online, synchronous to  
16 the on air brand, placing contests that let you vote  
17 like American Idol where you can actually live use your  
18 tedious text messaging or use interactive services on  
19 your television to be able to get you to opt in and  
20 vote.

21 So those kind of 360 degree network experiences  
22 are the things that advertisers are looking to do more  
23 of, and the future is going to belong to those brands  
24 who are able to essentially migrate to wherever the  
25 customer is moving, and that's what brands are looking

1 to do is to be able to aggregate those platforms.

2 So another shift is that with these digital  
3 devices, you know how frustrated you are when you can't  
4 get cell service, consumers now looking at instant  
5 gratification as kind of a behavioral dynamic. Through  
6 the course of the day, from digital device to  
7 divestiture, there's an expectation from the consumer  
8 that all this stuff has to work right now all the time,  
9 and for advertisers, what we're looking at is how from  
10 a.m. through p.m. can we be adjacent to some of these  
11 experiences in a way that's not intrusive to the  
12 consumer and do it in a way that is sort of out of the  
13 way and adjacent to the experience but still relevant.

14 Some of those is actually we've raised the  
15 generation of younger people to press a button and have  
16 something happen, so from an advertiser's perspective,  
17 that means that we're looking for those places where we  
18 can deliver shorter form message and endorse those  
19 experiences without shoehorning our way into them in an  
20 intrusive manner, and that includes everything from the  
21 ATM to more advanced ATMs to things that are happening  
22 in the marketplace like QR codes in Japan.

23 What this looks like is kind of a Chuck Close  
24 kind of a painting, but it's actually the UPC code of  
25 the future. Right now UPC codes look like this. Quick

1 Response Codes, which is the mosaic on the right which  
2 exists in Japan, that's actually a Northwest Airlines on  
3 an outdoor billboard in Tokyo. If you point your cell  
4 phone at that and you press a button, it actually gives  
5 you the schedule of flights and fares for Northwest  
6 Airlines that day.

7 So you're actually opting in to the technology  
8 that if you point it at it, advertisers are using  
9 technologies like this today in Japan to be able to  
10 deliver messages right to your cell phone, and this  
11 creates many new opportunities. Nike has used this,  
12 posted some of these codes on a poster for Lebron James,  
13 and essentially what it looks like is a very small  
14 postage stamp in the right hand corner, and what you're  
15 able to do is opt in and click on that to a sweepstakes.

16 Essentially what this means is that these QR  
17 codes will enable us to do more guerilla style marketing  
18 and advertising, and it will enable us to use codes in  
19 new ways, using outdoor billboards, and even at the  
20 point of sale where if you're comparing a day night  
21 cream in a drugstore that costs \$25 and you're deciding  
22 between the Neutrogena and you're deciding between that  
23 and perhaps something from Maybelline, what these codes  
24 will enable you to do is pull down information right to  
25 your cell phone that provides deeper, richer

1 information.

2           So advertisers are leveraging these  
3 advertisements, and I think we're looking at ways to  
4 supercede the consumer, all based on the ability to  
5 opt-in, and again it's not a matter of pushing messages  
6 at you. It's giving you greater, deeper, richer tools  
7 as a result of the technologies to do so.

8           So what we're looking at with things like QR  
9 codes is could this be the next ad that we see in the  
10 states? Could this be the next billboard? Could this  
11 be the next thing at the point of sale when you walk  
12 into your CVS that you use to get more information about  
13 products? In an age of declining television viewership,  
14 technologies like this are helping us deliver consumer  
15 messages in ways that enable them to have the control  
16 over what they see and when they see it.

17           So one of the things that happens when you have  
18 PVRs and declining viewership is with the consumer in  
19 control, basically you have categories of content that  
20 are personal or perishable. That means that there are  
21 things like sports scores that once you know the score,  
22 what's the use of keeping the game unless you're a fan  
23 of that team and you want to hold on to that team.

24           What we find is there's a keep it or trash it  
25 mentality, particularly in the younger demographics, and

1     what advertisers are doing is saying, It's probably  
2     better for me to spend my advertising dollars on the  
3     Harry Potter DVD because that's going to stay in the  
4     household for a long time versus sponsoring a newscast  
5     where my commercial might be appearing in the newscast  
6     but eventually it's going to go away after that newscast  
7     is over and then I've spent my money, and that content  
8     doesn't stick around, whereas a DVD set from a very  
9     famous television series, if I'm a sponsor of that and  
10    my sponsorship package includes something that's going  
11    to stay in the household, that's a much more efficient  
12    way for me to stick around in digital technologies for  
13    the DVD market than strictly over the air.

14           The implication there is is that advertisers  
15    need to align their sponsorship messages as we are with  
16    those digital types of content that are going to stick  
17    around as opposed to just the linear broadcast where  
18    we've spent tens of thousands or even hundreds of  
19    thousand of dollars in a place like the Super Bowl for  
20    one message, and then it's not going to be seen again,  
21    so we're getting smarter in that area as well.

22           This is probably the main one as a result of  
23    things like YouTube, and that is that in the old model  
24    Hollywood was the gatekeeper to the content that you saw  
25    on television, and now we live in a world where actually

1 the new model is the consumer is in control. The  
2 consumer creates a video for YouTube, posts it up  
3 online, and millions of people see it.

4 So the question for advertisers is: How do we,  
5 in light of that massive shift, align ourselves with  
6 user generated content in a way that protects our  
7 advertisers' brands, and there are plenty of examples of  
8 social networking where content is being shared  
9 illegally as well as legally, and examples of things  
10 that are essentially showing that the cream rises to the  
11 top. Lonely girl video on YouTube, tens of million of  
12 views. Why? It's sort of an enigma to everybody, isn't  
13 it, why some many people watch the video?

14 And the name of the game for advertisers is to  
15 sort of look at that marketplace and say: How do we  
16 participate in that? One of the outcomes of this though  
17 is the digital rights piece. How much of this content  
18 on MySpace and how much of this content on some of these  
19 social peer-to-peer platforms is copyrighted content?  
20 And as advertisers, we have no interest in aligning  
21 ourselves with places where there's violations of  
22 copyright laws, so we have to be very careful about  
23 participating along side user generated content because  
24 of the digital rights management issue.

25 As you know the SAG AFTRA negotiations this year

1 with Hollywood were they basically agreed to keep the  
2 existing contract in place until it was renegotiated.  
3 There are lots of issues around digital rights  
4 management, not just as a result of the technologies  
5 themselves, but how does the talent get paid? How do we  
6 protect copyright laws and copyright images? And these  
7 are one of the major challenges for advertisers that  
8 we're up against.

9 I heard someone from NBC say that the first  
10 three episodes of shows that were made available to  
11 iTunes took six weeks and 50 people just to clear the  
12 rights for the talent for those three shows to be  
13 available on Apple's iPod platform. That's an enormous  
14 amount of work to make sure that we weren't breaking  
15 laws with regard to copyright and talent rights, so it's  
16 not as easy as just buying these devices and placing all  
17 this content on them. We have to get to a point where  
18 we have models for how we protect those digital rights  
19 of the copyright owners as well as the talent. The fact  
20 of the matter is though for advertisers, we've got to  
21 really look at this user generated content stuff and  
22 figure out a way to move on from it.

23 One of the dangerous things that we've been  
24 looking at is a lot of these social networking dynamics,  
25 and essentially what we're finding is that in many

1 cases, the nuclear family as a result of things like  
2 peer-to-peer networks, we're finding that kids are,  
3 through things like Friendster and Flickr and other  
4 platforms like MySpace, P-to-P social networks are  
5 creating new networks of friends and community that  
6 rivals that of family.

7           So rather than the kid coming upstairs for  
8 dinner, the kid would rather stay in the basement, and  
9 whether it's blogging communities or Sims communities or  
10 things like Friendster and Flickr, it's a real concern  
11 from an advertiser standpoint that we don't find  
12 ourselves in places where one of the byproducts of just  
13 being in these environments is that we're detracting  
14 from some of the other media we're investing in in live  
15 television. So these are very careful considerations  
16 that we have to be aware of.

17           MS. PARNES: The last point?

18           MR. SCHULMAN: My last trend before I open it up  
19 to questions, and I'll fly through this last one here,  
20 is that the search engines like Google are creating  
21 algorithms that are enabling tag words to be able to  
22 pull things like Blue Dot and del.icio.us, for those of  
23 who you are aware of those applicants, they're enabling  
24 Google and other search engine algorithms to have  
25 advertisements and text messages appear in new places.

1 Some people say this poses a threat to the traditional  
2 ad model right now. We're just figuring out ways in  
3 which we can get national brands into these  
4 environments.

5 So to summarize, I would say a lot of  
6 technological trends. The main thing we're doing is  
7 producing both shorter and longer forms of messaging  
8 than the 30 second commercial to meet with some of these  
9 digital platforms, and as such, the challenge for us  
10 will be to migrate our messaging from narrative  
11 storytelling in a 30 second commercial which has a  
12 beginning, a middle and an end, to both shorter form  
13 messaging, 5, 10, 15, second form, as well as longer  
14 form messaging that can appear in places like Video on  
15 Demand and other long form platforms.

16 So while it's a time of chaos, it is also very  
17 much a time of opportunity. Thank you.

18 MS. PARNES: Great. Thank you.

19 (Applause.)

20 MS. PARNES: Now it's time for our ask the  
21 audience. This is our first polling opportunity. I'm  
22 thinking that the pole should be up there. There we go.  
23 The pole is up there. Everybody has a device, and you  
24 see the questions, and you can just plug in what you  
25 think the marketing method that will have the most

1 success in the next ten years is. You've got 15 seconds  
2 left to vote, and then we'll see the results.

3 And because time is at a premium here, Fred,  
4 this is terrific. If you can start your presentation  
5 that will would be great. Thank you.

6 MR. CATE: I want to know what the answer to the  
7 question is.

8 MS. PARNES: It's targeting technology.

9 MR. CATE: Lydia, thank you very much, and let  
10 me say, Chairman Majoras and members of the Commission,  
11 it's really a privilege to be here. It's striking at  
12 all that has happened in the past ten years. Since the  
13 last hearing like this was held, we've heard a lot about  
14 the technology, and we're going to talk about some of  
15 the legal and other issues now, but one of the most  
16 striking things is that frankly ten years ago, it was  
17 not clear whether the FTC was going to be the primary  
18 agency with jurisdiction in this area.

19 And on questions of privacy and security and  
20 their implications for consumers, I think now that  
21 question is resolved, and so at least we know what we're  
22 doing here together and the framework in which we're  
23 looking at this issue for the next decade.

24 Now, if I can get my slides up here. I think  
25 this is a control probably beyond my capacity.

1     Excellent.  That's who I am.  This is my two points.  
2     Then you'll know we're done.

3             I was thrilled when I got asked to talk about  
4     the challenges ahead relating to security and privacy,  
5     and then I was told I had ten whole minutes to do it in,  
6     and I wondered what I was going to do with the extra  
7     time that would be left over at the end.  I've worked  
8     and worked to come up with ten points, and finally by  
9     dividing them into two categories unevenly, I've managed  
10    to do so.

11            Let me just tell you as a starting point, it  
12    seems like the message is technology is extremely  
13    important.  Technology may very well exacerbate these  
14    issues.  Frankly I don't think I'm going to touch on a  
15    single issue that isn't already in existence and that is  
16    not driven solely by technology, so we make a mistake to  
17    think of these just as technology issues.

18            The first of the six security and privacy issues  
19    that I would like to talk about are the changing fraud  
20    and security threats.  Whatever the case today with  
21    identity theft and other types of threats, we know from  
22    the data that's being collected about fraud and the data  
23    collected by industry, that those fraud patterns are  
24    changing, that they are moving increasingly into more  
25    organized types of fraud, that we're seeing a greater

1 role of organized crime, that we are seeing data being  
2 obtained from individuals in more and more creative  
3 ways, so instead of just rummaging through trash or  
4 stealing wallets, which up until now have been very  
5 popular methods of obtaining information, we see  
6 phishing becoming more effective, many more aggressive  
7 and devious ways of obtaining data.

8           And frankly probably the greatest concern, here  
9 we see something which so far is being called synthetic  
10 identity theft, identify theft based upon the creation  
11 or the aggregation of an identity rather than simply  
12 taking somebody else's identity, and this of course  
13 poses significant issues in terms of identifying that or  
14 tracking it down.

15           We, of course, see a range of issues related to  
16 location information, both privacy and security, and  
17 here I refer not to just cell phones and RF ID tags and  
18 the increasing numbers of computers in our cars, not  
19 just auto navigation systems, but computers that monitor  
20 are engine, our tires and so forth. We're not just  
21 talking about them, about the law surrounding how this  
22 information is protected but also the whole range of  
23 privacy and security issues. It's frankly difficult to  
24 imagine notice and consent, notice and choice, however  
25 well that has worked in other settings, and you know I'm

1     dubious of that -- it's hard to imagine that working  
2     terribly well in a setting where the device has no  
3     screen or where there may be no contract. There may be  
4     no opportunity to provide any form of notice or opt-out  
5     or opt-in.

6             A third issue that has already shown great  
7     importance, and I think we will see even more so in the  
8     decade ahead, has to do with information aggregation,  
9     very controversial today, even though we know that  
10    information aggregators provide data and provide  
11    services based on data for a wide variety of roles, all  
12    the way from marketing, what we typically focus on, to  
13    other uses such as verifying identity or keeping  
14    identity straight in trying to match data, even managing  
15    things like privacy opt-out lists, and to date, we  
16    simply don't have a very thoughtful way of thinking  
17    about information aggregation.

18            Our traditional ways of thinking in terms of  
19    notice and choice, and again these legal doctrine that  
20    assumed there's some sort of face-to-face relationship,  
21    just don't work very well when there is no relationship  
22    whatsoever, and we have seen this as well in the area of  
23    security breach notices. To get a notice from someone  
24    who you didn't even know had your data creates a set of  
25    issues that frankly are going to have to be addressed in

1 the next decade.

2 One of the most significant and in many ways I  
3 think this list is ramping up towards great more  
4 significant issues, are those dealing with global data  
5 flows and outsourcing. We have, up until this point,  
6 largely or perhaps exclusively been using national or  
7 sub national law, state law, provincial law, in  
8 California city law, to deal with what is intrinsically  
9 a global issue, and global information flows are  
10 increasingly challenged, not just by privacy and  
11 security issues, but by our inability to find a  
12 thoughtful way to deal with those.

13 So, for example, we've all lived through Article  
14 25 of the European union and its efforts to block  
15 information flows, the enactment by British Columbia  
16 prohibiting outsourcing to the United States because of  
17 fear about data security issues and other similar issues  
18 from Canada, Australia and elsewhere, and our own debate  
19 over India and other countries where U.S. personal data  
20 is outsourced. Dealing with these issues in a more  
21 thoughtful and in a more aggressive and frankly a more  
22 rationale way is clearly going to be one of the great  
23 challenges over the next decade.

24 National security and law enforcement, of  
25 course, would have to appear on this list, and it does

1 so really for two separate reasons. One is of course  
2 because these issues have very much come to the  
3 forefront post 9/11, and at the same time that we've  
4 seen great attention paid to enhancing privacy in the  
5 commercial sector, we have seen a significant erosion of  
6 privacy in the public sector, the area where  
7 traditionally we have thought of privacy as being the  
8 most or more important in the United States.

9 This has significant issues, presents  
10 significant issues in and of itself, but also for a  
11 second reason, and that is that the walls separating  
12 private sector acts as to data and government data is  
13 effectively today nonexistent. There's no  
14 Constitutional barrier between accessing that  
15 information, and the statutory barriers have proved  
16 minimal indeed.

17 So in point of fact, it is very difficult, even  
18 if we did not want to talk about national security and  
19 law enforcement issues, to talk about commercial privacy  
20 and security issues without touching on those as well.

21 Finally what I really think of here as what  
22 might be thought of as a technology issue -- no, a  
23 catchall issue is the question of accountability and  
24 transparency across all of these issues. We continue to  
25 look for ways to make accountability meaningful.

1 Transparency is one of those, and we tend to think -- I  
2 think most of us tend to think that it's an essential  
3 part of making accountability meaningful.

4           Nevertheless, we have not done a very good job  
5 with accountability, and increasingly we see what a  
6 major issue it continues to be so that under safe harbor  
7 or in other issues, the question of how is  
8 accountability going to be carried out, how was there  
9 going to be enforceability or how would consumer rights  
10 be protected continues to remain a forefront issue.

11           Let me conclude with four broader issues, what I  
12 think as obstacles to addressing these issues. The  
13 first is that we have focused so much on individuals as  
14 potential victims in fighting fraud, and there are a  
15 number of issues that this raises. Let me just touch on  
16 two.

17           One is that individuals have shown a remarkable  
18 reluctance to use the tools we give them, so Congress  
19 enacts free credit reports. It enacts mandatory  
20 electrification procedures and so forth, and what we  
21 know is that many, perhaps most consumers, do not take  
22 advantage of these.

23           In addition, we see the problems of synthetic  
24 identify theft and other forms of fraud where there may  
25 not be an identified victim, so if we focus exclusively

1 on fighting fraud by looking at individual victims to  
2 tell us about it, we are going to be missing a growing  
3 category of the fraud.

4           The second issue, I was just thinking about  
5 there's a guy back there typing these for us as we go,  
6 we focus so much on notice and choice to protect  
7 privacy, I would argue it has not worked well. There's  
8 no one in America that's read a privacy notice who  
9 wasn't paid to do so, and it's difficult to believe that  
10 we can call it a great success, although I'm sure we'll  
11 find a way to somehow, but even if the model has worked  
12 very well in the past, I think there's a lot of reasons  
13 to think it may not work terribly well in the future,  
14 particularly as technologies becomes more integrated, as  
15 they provide less opportunity for face to face dealings  
16 with the service provider or the information collector  
17 or user.

18           We know we have very poor experience with  
19 consumers acting to vindicate their own privacy rights.  
20 Notice and choice just seems a poor place to base  
21 privacy or security protection. We don't use it in  
22 other areas. Most of the consumer protection laws are  
23 not things you can opt-out of just by persuading the  
24 consumer. It's a little unclear why we lose so much in  
25 this area.

1           Third, we have this incomplete or incoherent  
2 frame work of privacy laws, different laws for different  
3 types of data enforced by different agencies subject to  
4 different norms, even though to consumers it all looks  
5 the same. The data passes across our lives, and we  
6 don't understand why these different and confusing  
7 regulatory environments.

8           This is going to again become more of a problem  
9 as we see technologies integrate these issues. We have  
10 already seen the issue with the Fourth Amendment  
11 providing no barrier to government access to this data.  
12 Again it's just simply difficult to explain why the  
13 Supreme Court believes that once you've disclosed data  
14 to your telecommunications carrier, you have no further  
15 privacy interest in it.

16           Finally, we have the broad set of issues dealing  
17 with shifting privacy norms, and just take my word,  
18 that's what the next bullet says, yeah, norm, like  
19 person's name, exactly. Again here we could lump a  
20 number of issues under this. One is of course that as  
21 we come to accept greater incursions on privacy or we  
22 accept greater laxity with regard to security, we begin  
23 to think that is normal, and that seems a particular  
24 risk in light of the national security and law  
25 enforcement issues.

1           A second issue is of course the reality, which I  
2 think we all know that these things, once given up, are  
3 very hard to get back. It is very hard to work our way  
4 back to serious protection from privacy once we get used  
5 to not having it, but finally, shifting privacy norms in  
6 the context that privacy is not the only issue here, and  
7 for example both of the prior presenters talked about  
8 the demand for convenience, for instant gratification,  
9 for what I want, when I want it, where I want it. These  
10 are things which can only be provided with great amounts  
11 of information.

12           This is the way it's going to have to work. We  
13 don't have any other way to tailor but through  
14 information, and therefore we have still not done a good  
15 job balancing or creating a regulatory system that helps  
16 us balance the various demands for convenience, for  
17 safety, for respite from the technologies with our  
18 interests in privacy and security at the same time.

19           With that, I am done. Thank you.

20           (Applause.)

21           MS. PARNES: Thank you. I want to thank our  
22 panelists, and I know that we have a lot of interesting  
23 questions, but because of time constraints, we're going  
24 to have to find some other way to get these questions to  
25 you and get answers back out to our audience, and I'm

1 certain that we'll be able to do that.

2 I would also ask everybody to be back in five  
3 minutes. Five minutes, and Katie has an announcement.

4 MS. HARRINGTON-MCBRIDE: Hello, everyone. Thank  
5 you very much for coming. I wanted to let you know that  
6 we have some refreshments on the lower level in the  
7 foyer, and you're welcome to get them very quickly and  
8 come back to your seats.

9 We have some plasma screens so if you want to  
10 linger over a doughnut, please feel to do that and then  
11 come back in when you're ready. We will be starting  
12 promptly.

13 (A brief recess was taken.)

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1 PANEL 2: THE CHANGING INTERNET

2 OPENING REMARKS: COMMISSIONER JON LEIBOWITZ, FTC

3 MODERATOR: KARA SWISHER, Technology Columnist, The Wall  
4 Street Journal

5 PRESENTERS:

6 SUSANNAH FOX, Associate Director, Pew Internet and  
7 American Life Project

8 DR. VINTON G. CERF, Vice President and Chief Internet  
9 Evangelist, Google

10 PETER CULLEN, Chief Privacy Strategist, Advanced  
11 Strategies & Policy, Microsoft Corporation

12 DR. WILLIAM T. EDWARDS, Senior Vice President and Chief  
13 Innovation Officer, AMD

14 ALBERT CHENG, Executive Vice President, Digital Media,  
15 Disney-ABC Television Group

16 SAFA RASHTCHY, Senior Research Analyst, Piper Jaffrey

17

18 MS. SWISHER: If everyone can get seated, it  
19 would be terrific because we're working on Internet time  
20 here, not analog. Close the doors. Great.

21 Thanks for coming back. Our next panel is about  
22 the changing Internet, and we're going to begin by  
23 commissioner Jon Leibowitz giving a short introduction.

24 (Applause.)

25 COMMISSIONER LEIBOWITZ: Thank you so much,

1 Kara. You know, can you hear me? Can you hear me?

2 Good.

3 You know, it's hard to predict the future, and  
4 even the brightest people don't always get it right.  
5 Take Woodie Allen, for example. In his 1973 film  
6 Sleeper, he played a health food restaurant owner who's  
7 cryogenically frozen and defrosted centuries later. In  
8 Woodie Allen's vision of the future, scientists have  
9 learned that cream pies and hot fudge are actually good  
10 for you. Of course we have higher expectations about  
11 our expert's predictions today.

12 Now, this is the second time that the Commission  
13 has gathered the best and the brightest to tell us where  
14 the web is going. In 1995, as you heard before, the  
15 agency held similar hearings. The Commission's report  
16 was surprisingly precious. It warned that it unless  
17 controlled, spam threatens to hinder the healthy growth  
18 of the Internet.

19 It pointed out difficulties for law enforcement  
20 in identifying and locating mal factors in the anonymity  
21 of cyberspace. Now, the Internet though was a little  
22 different than. Fewer than six million Americans, six  
23 million American households had Internet access, dial up  
24 of course. Web based retail sales amounted to a  
25 whopping \$39 million annually. That's approximately

1 what Sergei Brynn and Larry Page made this morning.  
2 That was a joke.

3 By way of comparison, the Census Bureau's last  
4 estimate at Ecommerce retail sales was more than \$26  
5 billion, a billion dollars just last quarter so here we  
6 are, 11 years later, and the future of the Internet  
7 shines brightly. Just as an example, I got a chance the  
8 other day to watch a portly young man in a bikini  
9 vamping it up in a satire of a Shaker Video. Let me  
10 show you a clip.

11 (Whereupon, a video was played.)

12 COMMISSIONER LEIBOWITZ: I'm told those guys now  
13 have an agent by the way. Think about it, more than 12  
14 million people around that world have watched a video  
15 that a bunch of kids, not a major movie studio, filmed  
16 in a single afternoon. User generated content like this  
17 one is one of the many small miracles, some might say  
18 tasteless miracles, but clearly one of the many small  
19 miracles that the Internet serves up daily.

20 One of the goals of these hearings is to  
21 anticipate the problems that new technologies can create  
22 for consumers. Take the clip, for instance. Is there a  
23 rating system to tell me whether it's appropriate for my  
24 young daughters? Of course they saw it anyway, before I  
25 had seen it and decided they could see it, and how can

1 we make sure that we continue to foster an opportunity  
2 where the next YouTube is able to flourish without  
3 confronting new tools along the Internet highway.

4 From a law enforcement perspective, the global  
5 nature of the Internet poses one of our biggest  
6 challenges. The thorniest issues we face  
7 cross international boundaries, spammers calling  
8 Americans from abroad, spam and spyware most of which  
9 comes from foreign sources, and data breaches at  
10 overseas call centers.

11 Our challenge over the next decade is to figure  
12 out what role government can play in this global  
13 environment. To be certain, for many consumer  
14 protection issues, private sector efforts are crucial,  
15 companies that design secure software and firewalls,  
16 ISPs that filter spam, organizations like Spamhaus,  
17 StopBadware.org, the AntiSpyware Coalition, TRUSTe, and  
18 the Anti-Phishing Working Group. These efforts aren't  
19 limited by national boundaries, and they've benefitted  
20 consumers around the globe.

21 But government is not irrelevant by a long  
22 stretch, especially because it defines when conduct is  
23 unacceptable. For instance, state laws requiring  
24 notification of security breaches have exposed  
25 vulnerabilities that existed for years under the radar

1 screen. Just ask ChoicePoint.

2 When breaches never became public, there wasn't  
3 much of an incentive to get the problems fixed, and in  
4 the early days of the Internet, it wasn't clear that it  
5 was illegal to send unsolicited commercial Email. The  
6 CAN-SPAM legislation, brought by the FTC's own law  
7 enforcement issues, made the ground rules crystal clear.

8 In the coming decade though, we in government  
9 will have to be creative about reconciling the  
10 borderless Internet with our bounded authority whether  
11 through information exchanges, beefed up alternative  
12 dispute resolutions, mechanisms or cooperation with  
13 private groups working to fix the same problems.

14 But make no mistake, no matter what else  
15 happens, the FTC's law enforcement role will be  
16 critical. The civil penalty authority that Congress  
17 granted us in CAN-SPAM gave our anti-spam efforts real  
18 teeth. Sadly, in spyware cases, we don't yet have that  
19 authority.

20 Why does this matter? Well, consider a company  
21 like 180 Solutions, now calling itself Zango, which  
22 placed more than 6.9 billion pop-up ads, 6.9 billion on  
23 consumer's computers without notice or consent. Many  
24 came from major corporations who, I hope, I believe  
25 would be shocked and dismayed if they knew how their

1 Internet ads were reaching American consumers.

2 Now, right now in a case like that, and we  
3 announced that case on Friday, all we can do is get some  
4 disgorgement of profits, some. We can't find the mal  
5 factors at all. What kind of deterrence is that?

6 If Congress really wants to enhance consumer  
7 protection in the next decade, it needs to come up with  
8 a consensus anti-spyware law that gives us the authority  
9 to penalize the purveyors of spyware, and we at the  
10 Commission, we need to start naming names, that is,  
11 releasing the names of companies whose dollars, perhaps  
12 inadvertently, fuel the demand side of the spyware  
13 problem.

14 In the Zango case, we're taking a useful first  
15 step, sending letters with copies of the settlement to  
16 the major advertisers who use Zango to deliver pop-ups  
17 so they will know, if they didn't already, how their ads  
18 were delivered and how not to advertise in the future,  
19 but nothing would be more effective I believe than  
20 having the CEO of a major corporation open the morning  
21 newspaper, learn that his company's ads are reaching  
22 consumers' computers via spyware, picking up the phone  
23 and calling up his subordinate to say, Don't ever let  
24 this happen again.

25 Spyware and spam and their ilk are not the only

1 issues we're concerned about of course. If we in  
2 America are truly to achieve the promise of the  
3 Internet, people will need to have meaningful access to  
4 the vast breadth of web based applications and content,  
5 and that's why the net neutrality debate it seems to me  
6 is so important.

7           So to those who ask: Why are we undertaking a  
8 study of net neutrality at the FTC? I say how could we  
9 not? Both consumer protection and competition issues  
10 are at play here, a combination at the core of what the  
11 FTC does. Some of the most important issues regarding  
12 net neutrality involves transparencies in disclosures,  
13 will carry block slower in your premium applications and  
14 services applications or services? If so, will  
15 consumers be told about all this before they sign up?

16           In my mind, failure to disclose these  
17 limitations would be unfair or deceptive in violation of  
18 the FTC Act. Net neutrality also invokes complicated  
19 competition issues. The last mile of the Internet is  
20 its least competitive. Nearly all the homes in the  
21 U.S., upwards of 90 percent that receive broadband, get  
22 it from their cable or telephone company.

23           Up until now, the relative talent of the  
24 Internet has meant that competition and innovation  
25 elsewhere in cyberspace has not been affected by the

1 market power of the telephone and cable companies, but  
2 if these companies are able to discriminate treating  
3 some bits better than others, then there's a danger that  
4 their market power in the last mile can interfere with  
5 the growth, the character and the development of the  
6 Internet.

7 To be sure, there's another side to this debate,  
8 the ability of providers to charge more for time  
9 sensitive applications and content that takes up more  
10 broadband may encourage them to make necessary  
11 investments. That's a goal all of us should support.

12 Of course, I'm lucky, I can raise these  
13 questions without providing answers, ones by the way  
14 that I don't necessarily have. Like you, I'll be  
15 looking for solutions for the problems of the future  
16 from our panel of experts today. Hopefully Woodie Allen  
17 will be proven right, they'll involve cream pie and hot  
18 fudge.

19 Now, let me kick things back over to Kara  
20 Swisher, one of America's finest technology writers, to  
21 introduce our outstanding panelists. Kara?

22 (Applause.)

23 MS. SWISHER: Great. Thanks. We're going to  
24 try to keep things a little lively here because I know  
25 you're fascinated and riveted. We're going to start out

1 with a report of the future antitrust with Susannah Fox,  
2 who's associate director of the Pew Internet and  
3 American Life Project. She's going to be talking about  
4 Internet usage trends, and we'll move into the various  
5 panels.

6 Before you start, Susan, one of the things we  
7 really want to get at is topically what's happening now  
8 and what's going to be happening in the future with the  
9 Internet, and just three observations I'm going to make  
10 as we start and start to think about it for the  
11 panelists.

12 When I hear about all these things, I walked in  
13 and the guy was talking about that oven that you call  
14 your cell phone. It doesn't work actually, and I don't  
15 know why you would want to call your oven, but the fact  
16 of the matter is a lot of what you're going to hear  
17 today and throughout the next few days would be really  
18 nice if it happens, but let's keep in mind a lot of this  
19 technology doesn't work, and it's not your fault. As my  
20 partner, Walt Mossberg, at the Wall Street Journal  
21 always says, a lot of these things they talk about do  
22 not work properly, they're not consumer oriented and  
23 they are not made with consumers in mind. They're often  
24 hoisted off into the public without a lot of testing,  
25 and you become guinea pigs for technology companies.

1           So even though a lot of it should be working  
2 well, it still doesn't, and it's really important for  
3 this country for it to work properly, which gets into my  
4 second point: That this country, whether you realize it  
5 or not, is in fact the third world of technology. All  
6 across the world, many countries much smarter than U.S.,  
7 much less advanced than the U.S., have much better  
8 technology systems and wireless and broadband, Korea for  
9 one, Japan, all sorts of countries.

10           China is moving fast forward quickly, and it's  
11 really important for our government to get much more  
12 involved and not allow these backward movements in our  
13 country, and I think just the difficulty of finding a  
14 wireless access point or DSL being so slow is pretty  
15 much appalling in this country, that most people don't  
16 have quick Internet access.

17           The third point I want to make, I want to talk  
18 about the issue of privacy which you're also talking  
19 about today. I am always brought to mind an idea of  
20 Scott McNealy, who is the chairman of Sun Microsystems,  
21 said that you have no privacy, get used to it, and I  
22 think we have to start thinking about what that means in  
23 this society.

24           As you saw from that delightful YouTube video,  
25 and the parents of the inventors must be so proud, that

1 we have to think about what that means because there  
2 really is no privacy, and we have to think about what  
3 that entails and how we do want to protect ourselves.

4 The last part, I'm sounding a little negative,  
5 the trend is moving, spinning forward for the Internet I  
6 think, and you cannot fight this trend in whatever  
7 industry you're in. The Internet is a worldwide  
8 communication system. I like to call it the board, it  
9 is really centered at Google. I think we have to get  
10 used to the fact that this is how we're going to  
11 communicate in the future, and a lot of this, what's  
12 happening is about -- I have a four year old and an  
13 almost two year old.

14 In Internet terms everyone in this room is  
15 pretty much dead. This is about our children and what  
16 their lives are going to be like, which are going to be  
17 a full digital universe of things, so with that.

18 (Applause.)

19 MS. FOX: All right. Well, maybe this is a  
20 report from the undead. I'm going to talk about the  
21 current realities of today's demographics and also spin  
22 it forward a little bit into the future.

23 Just to introduce myself, in case you don't  
24 know, the Pew Internet and American Life Project is a  
25 nonprofit, nonpartisan research organization based here

1 in D.C. We are funded by the Pew Charitable Trust. We  
2 study the social impact of the Internet, which means we  
3 study who's online and what they do, but also who's not  
4 online and why.

5 Most of our research is based on telephone  
6 surveys which we feel provide a pretty accurate picture  
7 of the changing population. All of our reports and our  
8 data sets are available for free from our web site at  
9 [pewinternet.org](http://pewinternet.org).

10 Our current estimate is that 73 percent of  
11 American adults go online. Age is a strong predictor  
12 for whether you're online or not. 88 percent of  
13 Americans age 12 to 29 go online, and this is the  
14 digital native group that we'll hear more about this  
15 afternoon.

16 What's interesting to me is when you talk to the  
17 12 percent in that young age group who are not currently  
18 online, half have been online in the past. They just  
19 don't currently have access. That is not true when you  
20 look at the senior demographic people, people 65 and  
21 older, of whom only 32 percent are online.

22 If a senior is offline, they're most likely part  
23 of what we call the truly disconnected. They not only  
24 have never been on line, they don't live in a connective  
25 household, and many of this group say that they don't

1 even know anyone who goes online, so if there's  
2 something on a web site that they need to access, they  
3 probably wouldn't know where to start.

4 Health status is another demographic reality  
5 that limits the Internet's reach. 17 percent of  
6 American adults are living with a disability or a  
7 chronic illness that limits their ability to participate  
8 in work, school, housework or other activities pay. 51  
9 percent of this group go online compared to 74 percent  
10 of American adults who are not living with a disability  
11 or a chronic illness.

12 Ethnicity is another demographic reality. 73  
13 percent of white adults go online compared to 61 percent  
14 of African American adults. We are going to be  
15 releasing some data later this fall, a special survey of  
16 Latinos that was conducted in Spanish and English. I  
17 can tell you now that about three quarters of English  
18 speaking or bilingual Latinos go online compared to only  
19 about a third of Spanish dominant Latinos.

20 There are pockets of non Internet users in this  
21 country, just as there are still pockets of people who  
22 do not have a home phone. As Penn State scholar  
23 Courtney Katrina Schmidt wrote in 1996, and it's still  
24 true today: "Isolation is not distributed randomly.  
25 Rather it is concentrated in certain groups so that they

1 suffer its consequences with intensity."

2           It's striking that despite a 10 point increase  
3 in the percentage of adults who go on line over the last  
4 three years, the percentage of those who are truly  
5 disconnected remains 22 percent. They're overwhelmingly  
6 over the age of 70 and have less than a high school  
7 education.

8           At present when it comes to the Internet, if  
9 you're on you're on and if you're off you're off, and  
10 when we look forward into the future and see that  
11 increase in the number of Americans who are 65, we know  
12 that the senior demographic is changing from the bottom  
13 up, but those oldest old are not going online at this  
14 time.

15           For many, those that are online the Internet has  
16 become embedded in their daily lives. In one example we  
17 found that the Internet helps people get through what we  
18 call majore life moments, like buying a car, finding a  
19 new job, finding a new place to live or helping someone  
20 deal with a major illness.

21           The most frequently cited benefit of the  
22 Internet was in helping people to tap into some  
23 networks. Here I'm not talking about MySpace,  
24 Friendster, Facebook. I'm talking about people's Email  
25 contact list which for many people is the definition of

1 their social network online.

2           What we found is American communities are  
3 transforming. People are not bound to one geographical  
4 space, but instead are keeping in touch with many social  
5 networks. It's friends and family and neighbors, but  
6 also colleagues all across the country and across the  
7 world. They're able to keep in contact with the size of  
8 the social networks using Email and IM and the Internet.

9           And contrary to what some of the people in the  
10 early videos said about how it's shutting down their  
11 social interaction, that's not the experience of most  
12 Internet users. They are not shut ins. They're not  
13 people who are confining their social interaction to the  
14 screen. We have actually found in our studies that the  
15 more you socialize offline, the more you use the phone  
16 and meet people in person, the more you use the  
17 Internet.

18           So it has a positive effect on people's social  
19 interaction, and people are using their social networks  
20 to solve real life problems. I want to give you two  
21 examples. One is just last weekend I woke up with my  
22 broken dishwasher, and I had the most disgusting  
23 standing water, and I didn't know what to do, seven  
24 a.m., but I Emailed my neighborhood list serve.

25           Within five minutes, my friend Brian from down

1 the street Emailed me back, and he had this two prong  
2 turkey baster it turns out that was the perfect gadget  
3 to solve my problem. I never would have known that, but  
4 it solved the problem that I needed.

5 Another way that Internet users solve problems  
6 or choose products is to go through a search engine.  
7 These days I'm starting to think about search engines  
8 like public utilities of information. People go to  
9 their kitchen faucet, turn on the tap and expect clean  
10 water to come out. It's the same thing with search  
11 engines.

12 Like it or not, Internet users expect clean  
13 information to come pouring out of the search engine,  
14 and they're relying on search engine information and  
15 their social networks to make decisions in their lives,  
16 again whether it's choosing what car to drive or what  
17 treatment to give to their loved one who is ill.

18 We've also noticed that people are not really  
19 thinking about going online anymore. They just are  
20 online. Their communications and entertainment  
21 technology are seamless, and one example of that is the  
22 percentage of TV viewers who have looked at a TV show  
23 not on a TV. 13 percent have done that. 13 percent of  
24 TV viewers have looked at a TV show most likely on a  
25 computer.

1           Broadband is having an effect. We see between  
2 2005 and 2006 that there's been an amazing increase in  
3 broadband to people's homes, and it's actually being led  
4 by people of middle income and African American  
5 households, so there is the possibility for change.

6           Another trend to watch is cell phone  
7 penetration. 50 percent of people 65 and older have a  
8 cell phone, again while only about a third have the  
9 Internet. 40 percent of Spanish dominant Latinos have a  
10 cell phone. Again only a third have the Internet. The  
11 Internet population is starting to look more like  
12 America, but there are pockets of technology that are  
13 not reaching these Americans.

14           Thank you.

15           MS. SWISHER: I'm going to ask Susannah a couple  
16 quick questions, and anyone can jump in if anyone has  
17 thoughts. When you talk about not online, a lot of  
18 cities right now are trying to put wireless systems in  
19 to blanket cities. I don't think D.C. is among that.

20           MS. FOX: Not yet.

21           MS. SWISHER: But what is that going to mean  
22 from your perspective? I'm dubious about the systems to  
23 be honest with you.

24           MS. FOX: Well, I think that it's going to bring  
25 -- again like somebody said on the video that she wants

1 free wireless, I think that for people who are already  
2 online and using the technology, it will deepen their  
3 connection to it. It will be easier to again get GPS.  
4 It will be easier to find things if you're already  
5 online, but you need that device, and that's why I  
6 brought up the cell phones.

7 MS. SWISHER: Right.

8 MS. FOX: For seniors a phone is a familiar  
9 thing. A computer is not.

10 MS. SWISHER: Right.

11 MS. FOX: So I think --

12 MS. SWISHER: So in building these wireless  
13 systems that governments are possibly wasting money, it  
14 could be a bunch of yuppies jacking in instead of  
15 Starbucks anywhere in the city. How do you get those  
16 people on line, the people that most need to be online?

17 MS. FOX: In some ways I'm a bit pessimistic in  
18 terms of it has to happen organically, that when you're  
19 looking at the oldest old, these folks are resistant.  
20 They don't want to go online.

21 That is very different from people with less  
22 education or lower incomes who are already on. It's  
23 amazing to look at the demographics of people under 30.  
24 They are stretching their budgets to get broadband at  
25 home, and as the price of broadband falls, we're going

1 to see more middle income, more ethnically diverse folks  
2 getting broadband at home, stretching that budget just  
3 as we do in many ways for cable television.

4 MS. SWISHER: So you're saving coming from  
5 individual consumers rather than government or  
6 companies? What do you think that's going to do? I  
7 mean, I know Google is trying to do several wireless  
8 mesh networks.

9 MR. CERF: Yes, although if I could clear things  
10 up, we were asked to help out by the Mayor of San  
11 Francisco. This isn't part of our business model, but  
12 we're good neighbors, so we tried it out just to make  
13 sure we knew what we were going to do, getting into  
14 frankly, and proceeded with Earthlink to look at making  
15 wireless available in San Francisco, but this was  
16 essentially a good neighbor thing.

17 It's not part of our plan to unwire everybody,  
18 although we certainly hope that that will be good  
19 business models that will permit that to happen,  
20 municipal networks for example.

21 MS. SWISHER: Now again getting people online,  
22 what would be the thing that would be most important?  
23 Is it that people will get through the cell phone? How  
24 do you envision ten years -- there's a movie that's  
25 really good, Minority Report where Tom Cruise was

1 holding up the newspaper, and it kept changing, or if  
2 you watch Harry Potter, you know they would watch that  
3 whatever their newspaper is in Harry Potter, but it  
4 keeps changing and shifting and you see things. That's  
5 completely possible at this point with some  
6 technologies, although it certainly is glitchy.

7 MS. FOX: It is possible. When you talk about  
8 people who are offline, especially seniors or if you  
9 talk to people who have just converted, they've just  
10 gone online and you ask them why. A lot of it is  
11 because of their social life. It's their grandchildren.  
12 To get those pictures of those grandchildren, they have  
13 to be online.

14 So it's often a very social decision, and that's  
15 why I think that you see so many young people because  
16 it's almost embarrassing if you're under 30, and you  
17 don't have an Email address but it's not embarrassing if  
18 you're over 60.

19 MS. SWISHER: Are you saying in your research,  
20 Email, no matter how you slice it, it's terrific, but  
21 it's a Neanderthal way of communicating. I think these  
22 social networks could point away how people -- as silly  
23 as MySpace looks, it really does represent a new  
24 paradigm shift in online presence, even though perhaps  
25 many of you are not going to have a page that jiggles or

1 has all sorts of crap on it.

2 The idea of online presence is really important,  
3 where your presence is that you will have one going  
4 everywhere you go. Do you see them moving out of the  
5 Email space or --

6 MS. FOX: Well, there is content creation.  
7 Content creation is starting to -- and that's how we  
8 start of talk MySpace blogs, anything we hear should  
9 have content, product reviews. It's dominated by young  
10 people, but it is starting to flow through other  
11 demographic groups as people get broadband frankly, and  
12 it becomes easier to upload content, and becomes as  
13 quick to upload content as it is to download.

14 MR. CERF: Can I interrupt for a second, Kara?

15 MS. SWISHER: Yes.

16 MR. CERF: A couple observations about the older  
17 population, among which I now count myself, one  
18 observation is that this cohort of over 65 people will  
19 find themselves looking for people who are in the same  
20 generation and experience the same things, and they're  
21 local friends may die out literally, and so if you  
22 maintain this sort of common experience, they need to be  
23 online to find those people.

24 The second observation that we make is that the  
25 broadband services that we get today don't lend

1 themselves as satisfactorily to the upload side as I  
2 would wish. They're mostly asymmetric. They're  
3 designed around and they in some sense constrain what we  
4 can do by making the downloading speeds much, much  
5 higher than the uploading. There are other places in  
6 the world, Kara, you mentioned, for example, I was in  
7 Taiko a few weeks ago. You can get a billion bits per  
8 second access to the Internet for 8,700 yen.

9 MS. SWISHER: That means really fast. A duplex  
10 environment.

11 MR. CERF: Sorry?

12 MS. SWISHER: Nothing.

13 MR. CERF: The point here is that I think that  
14 the current asymmetric services are only a stopping  
15 point towards what I hope will be a full duplex  
16 environment.

17 MS. SWISHER: So this is the last question, and  
18 then we will we move on to the other panelists here and  
19 the other part of this panel. Broadband is so important  
20 for people to get this stuff, and of course you're  
21 seeing upswings of what I would call sub par broadband  
22 experience.

23 How do people -- they're going to have to  
24 stretch their budgets so they can pay -- I don't mean to  
25 be rude, the phone and cable companies are like the

1 Soviet Ministries in this country. You can't get --  
2 believe me, you talk to anyone in Silicon Valley and  
3 they create jobs. I was at a conference I run with Walt  
4 Mossberg, and he said -- we talked about whether he was  
5 going to get in the cell phone business, and he said,  
6 I'm not really good about it going through orifices.  
7 And I think he was talking about what you holds us back,  
8 and I'm curious what think holds us back. I don't think  
9 people should have to stretch their budget to pay these  
10 companies for it.

11 MS. FOX: It should be something that people  
12 actually become a nation of broadband. How much they  
13 pay for broadband and also what speeds they get and how  
14 broadband is not in 2006, if you want to download a  
15 report, and we are seeing that the prices are dropping,  
16 and it seems that people are responding to the dropping  
17 prices, and also Internet is just a feature that comes  
18 along with the other things in your phone bill and your  
19 cable bill, so I think that people are starting to make  
20 that choice.

21 MS. SWISHER: Do you have numbers where it's  
22 dropping because right now it's in the \$80 to 90 month.  
23 That's a lot of money a month if you get the whole  
24 package.

25 MS. FOX: We found the difference between

1 broadband and dial up is \$18 on average in our survey.

2 MS. SWISHER: It's still a high price.

3 MS. FOX: It's still a high price. It's still,  
4 what is it, \$40?

5 MS. SWISHER: Should it be like the universal  
6 telephone where everybody gets a telephone at a certain  
7 lower level. Do you see that?

8 MS. FOX: I try not to advocate for Internet  
9 access, and I've always said to people, don't go online  
10 if you really don't feel you need to, but as I see more  
11 services going online, the Medicare Part D was the one  
12 that was starting to get -- I think about that and think  
13 about the seniors who didn't have a chance to get the  
14 right plan.

15 MS. HARRINGTON: I'm a surprise guest. We have  
16 80 minutes of content and 60 minutes to get you in, and  
17 we don't have a polling question for the audience on  
18 whether they want to skip lunch, so I'm here to implore  
19 us to keep moving.

20 MS. SWISHER: Absolutely.

21 MS. HARRINGTON: Thank you so much.

22 MS. SWISHER: The next panel is on changing  
23 technologies and applications on the Internet, and we're  
24 going to talk a little bit with Vint Cerf, who works at  
25 Google now and who everyone should understand is

1 critical to the development of the Internet, if not the  
2 father of the Internet certainly.

3 MR. CERF: One of them.

4 MS. SWISHER: One of the fathers, but an  
5 important one, believe me. Everyone says that they're  
6 the father of the internet, but that is the real thing.  
7 We have Peter Cullen from Microsoft, and Billy Edwards  
8 from AMD, a chip company.

9 Let's talk a little bit about -- if you want to  
10 make little brief presentations, and if you can keep  
11 them short, and then we'll discuss some trends that are  
12 happening.

13 MR. CERF: Okay. I'll start here. Let me  
14 suggest a kind of framework for thinking about what's  
15 happening. We have built a road system that we're going  
16 from the driveway to a super highway, but now in  
17 addition to the technical rules of the road, which we  
18 pretty much have, we need social and ethical rules of  
19 the road and we need legal, and frankly they're still in  
20 the middle of developing them, and that's why this  
21 conference is so important.

22 The only other point I would like to make  
23 briefly is that economics really count here, and the  
24 things which drives people's interest in and use of  
25 Internet is driven in part by the economics, and I will

1 say that the two things that are driving it most  
2 importantly is the dropping cost of equipment to get on  
3 to the net, memory, processors and so on, and the  
4 reducing cost of high speed access, although frankly  
5 we're a little behind in the United States when it comes  
6 to having very competitive environments, so we could do  
7 better.

8 On to you, and maybe we'll come back to this.

9 MS. SWISHER: Peter?

10 MR. CULLEN: So we talked a lot this morning  
11 about technology, but in many respects we're talking  
12 about access to information because that's what the  
13 value is all about, and to add to what Vint is talking  
14 about, we're seeing this shift from the computer or PC  
15 revolution to computing revolution, where all devices  
16 will be connected.

17 Kara referred to them as that technology doesn't  
18 work, in some of the ways that we might think of as  
19 early adopters, but I think we're also seeing this  
20 concept of a tailored Internet, although I think we're  
21 still at the fledging part of it where relevancy may not  
22 be quite where it needs to be, and I think this also  
23 means that we need to think of the rules very  
24 differently.

25 In many respects the technology, the access to

1 information hasn't quite kept up with our ability to  
2 have developed social norms, norms around security,  
3 privacy, identity, family controls, those sorts of  
4 things.

5           And I think the last point I would like to make  
6 is that we're at kind of an interesting point and I  
7 believe this is in some respects driving perhaps the non  
8 adoption of the Internet. Right now they've found this  
9 weak spot, whereas as an industry we are still sort of  
10 wrestling with the relevance kinds of things.

11           MS. SWISHER: Billy?

12           MR. EDWARDS: Well, I'm going to take it a  
13 little bit different. I get asked the question a lot  
14 about the future of being the chief innovation officer.  
15 A little different angle in that, yes, people talk about  
16 the maturity of the Internet in a lot of the countries.  
17 We have a long way to go. There's a lot of innovation  
18 still required, and as Vint said, how do you think of  
19 the roads of infrastructure, how do you tailor this --  
20 it's a classic Model T, as long as you want it black,  
21 you're okay.

22           We're talking about everybody is getting much  
23 more specific on what they want. The ability to tailor  
24 what people want, tailor our offerings to them is just  
25 beginning to blossom, but that's only for a small part

1 of the population of the world.

2 I spend most of my time outside the U.S. Yes,  
3 we're talking about the FTC and so forth but the impact  
4 of this group in the world is always there. Sometimes  
5 it's a beacon. Sometimes it's less than that, but it's  
6 always part of the discussion, and it's important  
7 because we get to thinking like we're talking about the  
8 cost of this.

9 17 percent of the world has access to the  
10 Internet right now. That means 83 percent don't.  
11 That's where we have to get to the cost. That's where  
12 you've got to get to different devices. That's where  
13 you have to get to what is the technology to how do we  
14 make it useful for people.

15 The term we used is human centric computing and  
16 keeping theirs accessible. This isn't just, Can I get  
17 my hands on it, but can I afford it? It does not break  
18 down on me because in a lot of these places you don't  
19 have the neighbor or friend that can help you.

20 Does it have what I want, content? Does it have  
21 all these things? And that's where we start getting  
22 into true, true, true innovation, and that means  
23 competition to get to that innovation, business models.  
24 We're working with folks like Microsoft on how do you  
25 think about a prepaid system?

1           Most people know what that is for cell phones  
2 but outside the U.S., it's a massive thing. You get to  
3 things like how do you kind of even think about a  
4 business model of ad sponsored computing, somebody that  
5 can't afford a computer, but if they'll look at the ad  
6 we'll pay for the computer.

7           Now, we all can afford computers and the  
8 broadband, so we say I don't want to put up with it.  
9 Well, a lot of folks that can't afford it, I'll gladly  
10 put up with that if it gets me access. So you really  
11 have a challenge. How do you think about new devices,  
12 new access points, new ways to get things in there, new  
13 business models, and that's really going to be a lot of  
14 that outside the U.S., driven by the U.S., enabled by  
15 the U.S. but outside.

16           And that's where you have to take the broader  
17 scope of what that might look like, how can we play a  
18 role in it? The answer is a lot of different ways, and  
19 really it's almost unlimited at this point looking  
20 forward to what you can get in there, so it's all going  
21 to be driven by innovation for those things and good  
22 competition and to figure out what the best answer is.

23           You know what? It's going to be lots of  
24 answers. Every region, every country, every group it  
25 will be a little different, so wide open. Don't look

1 just to the U.S., you'll get skewed views, and a lot of  
2 that will happen in the rest of the world and will come  
3 flowing right back in.

4 And so the borders aren't what they used to be a  
5 lot of times. In this world it's nothing. You have to  
6 ignore them in a lot of respects.

7 MS. SWISHER: Great, terrific. Let's talk about  
8 where -- we want to spin forward, but when you first  
9 begin designing this with Bob Kahn, what did you imagine  
10 it would be? Is this basically what you imagined?

11 MR. CERF: First of all, you need to remember  
12 this was 1973. This was well before personal computers,  
13 although Xerox Park had some things that could have been  
14 called a personal computer. It was a \$50,000 work  
15 station, not exactly affordable to everyone, but our  
16 model was driven in part by the Defense Department.

17 Need and interest in having computers available  
18 everywhere in the tactical and other environments,  
19 strategic environments.

20 So we had to have networks that would work over  
21 satellites and over mobile radios, so our thinking was  
22 very much driven by that application space, but it was  
23 implemented by people in computer science departments  
24 around the United States and in some cases in Europe, so  
25 the model there was sharing the information and sharing

1 computer resources.

2 As this all evolved, of course, new technologies  
3 came along, and we took advantage of the strength, the  
4 size and power requirements of computing devices to make  
5 them more and more easily transported so finally we  
6 approached this thing that we carry around that says  
7 it's a phone, but in fact, it's a lot more than that.

8 MS. SWISHER: The computer?

9 MR. CERF: The general purpose computer, and I  
10 want to say that one thing about the rest of the people  
11 in the world who don't have a PC or a laptop, a huge  
12 fraction, two and a half billion of them have mobile  
13 homes that are behind on the Internet, so their first  
14 thing is about accessing the Internet through this  
15 medium.

16 So a lot of us at Google and elsewhere are  
17 challenged to find ways of using these technologies in  
18 ways that are comfortable and accessible as we return,  
19 despite the limitation of the broadband or despite  
20 space.

21 MS. SWISHER: Peter, how would you envision --  
22 they're talking about like 2016. How do you envision  
23 that playing out? What do you see if you're the  
24 imaginer? It's not that far away. How do you see  
25 people -- you couldn't have imagined 10 years ago

1     BlackBerrys and cell phones, ubiquitous cell phones,  
2     never using the pay phone again.  What would you see as  
3     the biggest and post important trend going forward?

4             MR. CULLEN:  It's almost daunting to think  
5     about.

6             MS. SWISHER:  Given the fact that Microsoft was  
7     built around the PC and about delivering information  
8     throughout the PC.

9             MR. CULLEN:  I think less and less around the PC  
10    and more around connected devices, and I think that the  
11    significant trend is the convergence of those devices,  
12    which kind of, if I think about even where we're at  
13    today and forecast forward, we're now starting to think  
14    about the changing norms around what do we consider our  
15    own information.

16            And if we think about the unfortunate example of  
17    the AOL situation, that put into the public things like  
18    our search results, our deepest thoughts, so we're  
19    confronting not just this tension between exchange of  
20    information for value but having to think about all  
21    sorts of data, all sorts of information that may be  
22    linked to us.

23            So I would like to think that by 2016 we will  
24    have created a new social contract, new rules that will  
25    allow us to comfortably benefit from all of that

1 information, all of that convergence in a way that we  
2 also feel in control and protected.

3 MS. SWISHER: How does that happen, I mean,  
4 because at this point it's almost -- I can't imagine  
5 what's not out there among people.

6 MR. CULLEN: You know, all of the studies we've  
7 done with users from IT pros in organizations to  
8 consumers is that fundamentally we're looking for a  
9 level of control. People are comfortable making that  
10 benefit risk trade-off, but they're not comfortable  
11 doing it in absence of control.

12 So in our belief this is the way that you have  
13 to design access to information. It needs to be done in  
14 a way that people do feel that they do have a say, that  
15 they have some control.

16 MR. CERF: Can I test a theory with Billy?

17 MS. SWISHER: Sure.

18 MR. CERF: And I'm sitting here looking at this  
19 little BlackBerry and thinking about the fact that most  
20 of us interact with the Net one device at a time,  
21 whether it's a laptop or BlackBerry or whatever PDA you  
22 happen to have or desktop, but we don't necessarily  
23 think about having multiple devices concurrently engaged  
24 for us.

25 And I imagine maybe ten years from now that the

1 devices that we carry around could easily have  
2 interfaces on them but then become routers, for example,  
3 that your wireless access to the Internet, plugging  
4 other devices in maybe with Bluetooth or something of  
5 that sort, or maybe you walk into a hotel room and  
6 there's this really beautiful, big display, that this  
7 device now simply becomes your access device, and the  
8 display now becomes the output, and then you mentioned  
9 earlier about many devices showing up on the network and  
10 being manageable that way.

11 Are we going down that path? Does that make  
12 sense?

13 MR. EDWARDS: I hope so. I absolutely hope so.  
14 One of the things I look at is, I know Albert is going  
15 to talk about it in a few minutes, but there is an  
16 explosion of people talking about today for what I will  
17 call the content side in terms of the YouTubes of the  
18 world and so forth, whether it's user created or a  
19 variety of creation points for content, and that's  
20 explosion.

21 What I really look forward to is how do we  
22 foster, enable the innovation around I'll say delivery  
23 mechanisms. I won't say pipes per se, but mechanisms  
24 and in devices that are of that variety.

25 MS. SWISHER: There's been a lot of talk about

1 smart devices.

2 MR. EDWARDS: They're all smart. It's just a  
3 relative level, how to retail that as to what you really  
4 want. Why are there all the different kind of cars we  
5 have today? Not everybody wants a sedan or pickup or  
6 hybrid or whatever.

7 It's how do we start to learn more because users  
8 are getting sophisticated? They know more and more  
9 about what they want. In some cases they're just  
10 learning, so as sophistication increases, how do you  
11 tailor it to what you need?

12 So as a kicking point that I'll throw out,  
13 that's a full fledged computer right there, and this is  
14 not for anyone living near here, although a lot of  
15 people want it. This is really designed for our 50 by  
16 15 effort, which is how do we connect 50 percent of the  
17 world's population to the Internet by 2015, so about the  
18 same time frame.

19 The idea is to make it really cheap, and you can  
20 throw this thing around, bang. Nothing comes loose,  
21 there's no moving parts. It's a real product.

22 MS. SWISHER: So you know MIT just introduced  
23 one --

24 MR. EDWARDS: That was another one. At one  
25 point we and Google are involved with the One PC Or

1 Laptop Per Child and like right here, how do you move  
2 forward with thinking about it from the human user  
3 interface? The desktop model that we talk about on  
4 computers, your point is, it doesn't really work on a  
5 small screen.

6 People struggle with that. They've gone at a  
7 different way with desktop interface that presumes  
8 people. Kids in the middle of Nigeria don't know what a  
9 desktop or a file folder is. How do you make it useful  
10 for them?

11 MS. SWISHER: Let me give some background here.  
12 A hundred dollar computer which actually costs \$130  
13 right now?

14 MR. EDWARDS: The goal is a hundred.

15 MS. SWISHER: You'll get there.

16 MR. CERF: One laptop per child.

17 MS. SWISHER: It's essentially a small computer.  
18 It has hand cranking for --

19 MR. EDWARDS: Let me back up. It's a small  
20 computer. Target is a hundred dollars eventually, but  
21 130 right now. The idea is it's a learning -- we're  
22 trying to get away from saying computer in the sense  
23 that people say PCs. It is a computer. It has a chip  
24 in it. It has a screen but it's really a tool.

25 The interface is designed so kids can interact,

1 very, very collaborative interface, and it shocked me as  
2 much as the first time I saw a AC or some of the people  
3 at Park many years ago, I won't say how many.

4 It is really focused on collaboration, how  
5 children interact and learn, and it is time to say  
6 forget the technology.

7 MS. SWISHER: It's very simple. They're so  
8 tiny, that actually a lot of people are going to want to  
9 buy it. It's a significant little device that flips  
10 around. It's made of rubber. You can throw it at  
11 people's heads.

12 MR. CERF: This is very much along the lines of  
13 Alan Cain who believes children and people naturally  
14 explore, they're natural scientists and it has allowed  
15 them to do it.

16 MS. SWISHER: Peter, Microsoft is well known for  
17 dominating computing for awhile.

18 MR. CULLEN: Amazing.

19 MS. SWISHER: They're a very strong gun, so how  
20 does that change for Microsoft? This is not the era of  
21 domination anymore, even though people think Google is  
22 ubiquitous by not controlling, and in the older era,  
23 Microsoft dominated by being dominant.

24 How does that change at least one operating  
25 system? The Internet is now the operating system I

1 think for a lot of people or will be. How does what  
2 happens --

3 MR. CULLEN: As I said earlier, whether it's the  
4 PC, whether it's the Xbox, whether it's the cell phone,  
5 whether it's the car, whether it's the refrigerator.  
6 These things all just converge. I had the experience of  
7 recently purchasing a new car with Bluetooth. Suddenly  
8 my car becomes a phone. That's a fantastic enabler car,  
9 maybe not for other drivers.

10 MR. CERF: Can't get your refrigerator to drive  
11 down the street.

12 (Discussion off the record.)

13 MS. SWISHER: Do you see one company dominating  
14 or how does this -- how does that work?

15 MR. CULLEN: I think the answer will be  
16 interoperability, which I think is going to require all  
17 of us learning how to create that experience for the  
18 consumer so that it doesn't have to -- my mother doesn't  
19 have to become a computer science graduate in order to  
20 figure out things.

21 MS. SWISHER: In other words, that it becomes  
22 like electricity. I mean, I did it this morning when I  
23 was blow drying my hair. I just jacked into the  
24 electrical grid. It's crazy.

25 MR. RASHTCHY: Can I say something? It's a very

1 interesting discussion about how technology can be  
2 varied by an active consumer, and access can be provided  
3 globally, but I'm wondering if there is some classes of  
4 socioeconomic demographics in the IS, and if you look at  
5 it globally in some countries, where that's not going to  
6 be sufficient for them to make use of it, that's a great  
7 place for computers, but don't we need innovation and  
8 content? If you think about it, isn't the Internet  
9 truly inherently a very complicated media? It is not  
10 like TV where people turn it on and watch it. I'm  
11 wondering about that there is a need for innovation and  
12 content and innovation.

13 MS. SWISHER: You're saying essentially how does  
14 it get easier because right now it still is very  
15 difficult.

16 MR. EDWARDS: I don't have all the answers.

17 MS. SWISHER: Why not? Jeez.

18 MR. EDWARDS: Give me 24 hours. You're exactly  
19 right. When we talk about the humans in computing and  
20 look forward, accessibility is just one aspect of the  
21 puzzle. The other is content, and it's not just the  
22 content that you and I care about. We set up systems in  
23 schools in South Africa or throughout Latin America or  
24 different parts, what they care about when you go to  
25 things that were done in basically very rural

1 communities -- what they care about is, they like to  
2 hear the news, but that's not really it.

3           There's some basics that are always there like  
4 education for my children. That one is always there.  
5 Health care, how do I do something, get better  
6 information? Jobs, how do I get a better job, improve  
7 my job?

8           There are a bunch of others but those are three,  
9 but what they care about relative to those is very  
10 specific. Sometimes it's about how do I get more money  
11 for my crops or how do I find out this information? So  
12 the content, and this is referring to the explosion,  
13 even here, it's going got to happen elsewhere too, it's  
14 got to be tailored to those needs, those specific  
15 desires, and I think that's one of the things when we  
16 think about innovation, the opportunity for vast amounts  
17 and thus competition in my mind, that's wide open.

18           MR. CERF: I would like to improvise, and you're  
19 very right, and it also implies information that's  
20 local, but what we're looking for I think, and we're  
21 taking advantage of, is the fact that Internet is  
22 participation technology increasingly so.

23           We see higher memory with more capabilities and  
24 cheaper computing systems with more ability to produce  
25 content. We really need that diversity of input, and

1 one of the scary things about the media in general is  
2 that there is a consolidation trend which is actually  
3 eliminating a lot of the whole information which would  
4 otherwise be valuable.

5 MS. WISHER: Put in by the Internet. What is  
6 the greatest threat to that? To get to everyone else,  
7 but the greatest theft to where this growth to the  
8 Internet is happening? I mean, even though you talk  
9 about media consolidation, there's now more voices than  
10 ever in blogs.

11 MR. CERF: Two issues that I can see are  
12 troublesome at least here in the U.S., one of them has  
13 to do with the ability of the last mile provider to  
14 interfere with the openness of the Internet. The  
15 accessibility and consumer choice has gone with it for  
16 all this time.

17 And the second one has to do with the general  
18 media consolidation, which is going on changing and  
19 rules of the FCC and the like has eliminated large  
20 numbers, for example, of local radio stations whose  
21 content would otherwise have been available.

22 So I think there's lots and lots of things that  
23 we should be attentive to. Internet can facilitate the  
24 creation of that local content, as long as it stays open  
25 and neutrality accessibility.

1           MR. CULLEN: I was saying the same thing here,  
2 but if you think about this -- the media side of things,  
3 this is why we've seen the growth of the blogging, the  
4 decline of newspaper reading, the growth of blogging

5           MS. SWISHER: The same thing, it's interesting.  
6 I was with a bunch of students recently, and they said,  
7 we don't read the newspaper. I said, where do you get  
8 the news? Newyorktimes.com. I was like, it's the same  
9 thing. It was really interesting.

10          MR. CERF: It wasn't the paper.

11          MS. SWISHER: It wasn't the paper. It's beyond  
12 that. When you see the decline of local radios, there's  
13 all these Internet radio stations. I mean, does that  
14 make it?

15          MR. CULLEN: The obvious example of relevance,  
16 we haven't yet solved the spam problem.

17          MR. CERF: Actually to make a point here, radio  
18 is a particular median, and the fact that you can do  
19 radio over the Internet doesn't necessarily mean you can  
20 always receive that which is on the Net if you're  
21 sitting here in the middle of a flood like the Katrina  
22 situation. About the only things you had was radios  
23 with batteries in them, so you needed literally local  
24 radio transmissions to deal with the emergency and  
25 problems, and there weren't all those available. If you

1 read the stories about Katrina, you'll see in startling  
2 amounts the utility of and the berth of local radios,  
3 the big sales plan for local radios, but I want to say  
4 that the Internet, while it provides sources of content,  
5 doesn't necessarily provide them over the air except for  
6 AOL.

7 MS. SWISHER: Do you want to address this from  
8 your perspective?

9 MR. EDWARDS: Looking at this, let me put it  
10 this way, and one of the things that concerns me is we  
11 can't control it too much, and it's back -- I have to  
12 admit back when it began, and if anybody back then  
13 thought they understood that there might be a thing  
14 called spam and all this stuff, hell no. We weren't  
15 even close.

16 What it is is: How do we kind of set boundary  
17 conditions that are not constraining but just say, Yes,  
18 there's always going to be bank robbers, so we aren't  
19 going to legislate them out, how do we kind of hit the  
20 boundary issues and then allow the people around the  
21 world to go at it, innovate and then compete for  
22 opportunities there, and knowing if something bad is  
23 going to happen, but you know what, how do we respond  
24 quickly and understand what's within the correct  
25 boundaries and not outside of that?

1           So you want to make sure that we get the  
2 competition, we get the innovation and we recognize that  
3 we're going to have to keep ahead, keeping moving  
4 forward recognizing.

5           MS. SWISHER: If we can move on to Albert's  
6 presentation, what is to you the most exciting -- each  
7 of you very briefly the most exciting trend happening  
8 right now, the most exciting? Is it generated content,  
9 online presence, if each of you can address that?

10          MR. EDWARDS: I'll go ahead and handle mine, and  
11 that is the two go hand in hand. Online user generated  
12 content because it gets down to what people care about  
13 in combination with letting that content get to whole  
14 new classes of individuals around the world.

15          That combination I think is just going to build  
16 momentum and say, folks that never have touched the  
17 Internet before, I can do this, I can do that, I can  
18 bring that in. It will build on it itself, and that  
19 over the next ten years will be massive.

20          MS. SWISHER: And you feel that that's the  
21 important information rather than videos?

22          MR. EDWARDS: It's important for them to go on  
23 in Brazil, but it will be important to them and that's  
24 all that matters.

25          MS. SWISHER: Peter?

1           MR. CULLEN: Accessibility of destination  
2 through convergence in an era where people control over  
3 that, which I think is really just another way of saying  
4 that I chose what I get, when I get it, and what device  
5 almost becomes irrelevant.

6           MR. CERF: Actually this whole notion that  
7 consumer control over things is quite an aversion from  
8 the previous history of the mass media.

9           Frankly I think the most exciting trend from my  
10 point of view is simply the increasing number of people  
11 who have access to the Internet by any means whatsoever,  
12 and the reason I'm excited about it is precisely because  
13 of the information that they will put on the network and  
14 share with other people.

15           I don't know if you're like me, but I am  
16 astonished every time I go on the Net looking for  
17 something, the Google search turns up incredible useful  
18 information in zero time, and I think, my God, somebody  
19 went to the trouble of putting this online and they  
20 aren't necessarily getting paid to do it. They're doing  
21 it because they thought it would be useful, and they  
22 like the idea that somebody else used it and put it  
23 online. This is an incredible.

24           MS. SWISHER: Incredible. Let's talk about some  
25 things that television networks are doing. Albert is

1 going to make a presentation for us, and then we're  
2 going to talk about it.

3 Albert is the executive vice president of  
4 digital media at Disney ABC. I can tell you, ABC is  
5 doing some of the most interesting stuff from a  
6 television perspective. Right now the television  
7 industry, just to give you a background, panicked about  
8 the Internet and the decline of network television and  
9 everything else, but some of them are sort of taking the  
10 attitude that if someone is going to eat our lunch, it  
11 might as well be us.

12 So ABC is doing some exciting things with  
13 streaming shows on television, with selling over the  
14 iPod. Now they're doing -- because of the link with  
15 Pixar and Steve Johnson's Apple, selling shows like Lost  
16 and others, and so it's pretty exciting, some of the  
17 things they're doing. Albert?

18 MR. CHENG: Great. I think from our company's  
19 standpoint, technology is definitely changing the way  
20 consumers are submitting content, and I think of all  
21 the companies being out in the industry being very  
22 proactive and figuring out how do we make sure we're  
23 reaching to consumers and adapting and meeting their  
24 needs.

25 What I thought I would do is briefly go over how

1 we, as an entertainment company, look at how technology  
2 is changing its business, and one of the first things I  
3 want to do is first talk about the market evolution.  
4 This is a typical chain, media value chain, how we get  
5 content, and you can barely see that. I'm sorry, Vint.

6 MR. CERF: This is for the 26 year old.

7 MR. CHENG: Exactly, but if you can make out  
8 whatever is up there, it's basically showing you how we  
9 typically get content. It starts with the left-hand  
10 side which is the content producer, film, television  
11 studios. We're familiar with the idea of producing long  
12 firm content, and that's what we do today. Then that is  
13 packaged together. They're bought by programs or  
14 aggregators.

15 They essentially program it, hoping that they'll  
16 program to an audience, and they'll show up. Then that  
17 programming is then distributed over a technology.  
18 We're familiar with over the air networks, cable  
19 satellite delivery, and then at the end user, people  
20 watch video over the television.

21 Now, what the digital media has done is  
22 essentially created competition and a lot more choice in  
23 all of these segments so let's start with the content  
24 side. So no longer are there TV and film studios. Now  
25 there are the video bloggers. They're the bloggers, the

1 video bloggers, the games producers, the interactive  
2 applications companies. Not only is it creating the  
3 individual the ability to create content and broadcast  
4 it out to the world just from their own web site, but  
5 they're also creating new forms of content, things that  
6 compete with television, games, video games, interactive  
7 applications. All these things have made more choice  
8 for consumers.

9           When you then move on to the programming aspect,  
10 the days of linear television is pretty much done. What  
11 you have here is on demand services. Your cable  
12 operators are putting together a huge platform to  
13 deliver video on a nominator basis. You can ask or call  
14 for any type of video given a certain amount of choice  
15 that you have on the television screen to watch it any  
16 time you want. TiVo, DVRs, these are all technologies  
17 that allow you to program things on your schedule.

18           In addition, we also look at Internet web sites,  
19 search engines. All of these things are ways of  
20 producing very customized delivery of content. You no  
21 longer are at the mercy of a schedule. You've decided  
22 what you want to watch. You can ask and pull things  
23 from any one of these access points and program to  
24 yourself.

25           And one of the other things, mobile networks

1 too, with the advent of mobile video or cellular  
2 networks, small starts-up are creating their own  
3 networks with providing content, building little  
4 networks that they can actually sell to the cell phones.

5           Then when you move on to the distribution  
6 technology, we've also created more choice here too.  
7 Not only do you have it out over the air, satellite, but  
8 you also have telecoms giving you business and  
9 delivering videos as well as broadband Internet now  
10 being capable of delivering video to itself.

11           And lastly the mobile phone.  
12 Wireless technology has also enabled you the ability to  
13 get video just to your cell phone, and then there are  
14 about two and a half million or three million or so  
15 people who actually subscribe to services to watch video  
16 over their cell phone.

17           Now, to the end of the chain. People are  
18 watching video on any device, not only television but  
19 you also have media devices. You have your computer.  
20 All of these things have sort of added to the tool kit  
21 for a consumer to get what they want.

22           So at the end of the day, what is happening is  
23 it's creating competition because consumers can get  
24 access to anything they want, when they want it, and  
25 essentially we used to think that content is the king.

1 As long as we had great content, that was the way to  
2 sort of survive in the media world, but at this point in  
3 time, we actually have them on to the consumer's case,  
4 because they're the ones who want to watch it when they  
5 want to watch it, and we have to make sure that all  
6 these changes are being sort of ingested.

7 And we try to figure out how we're going to deal  
8 with getting to the consumer -- giving them what they  
9 want and creating an environment and packaging it in a  
10 way that they will find enjoyable.

11 So with all this chaos and change and  
12 potentially competition and the challenges for us, how  
13 are we looking at entering the space or how are we  
14 thinking about moving ahead in the space.

15 We sort of have eight kind of general guidelines  
16 on what we want to do. First and foremost we're a  
17 content company so the first thing we want to make sure  
18 is to invest in great content. That's sort of a no  
19 brainer. We're a content company. We better make hits.

20 That's why we spend a lot of time in focusing on  
21 our hit shows, trying to make as many hit shows as we  
22 can because there is -- the only barrier to entry with  
23 high production value is the things -- is basically  
24 money which we have a lot of, and also the ability to  
25 take risks with a lot of these types of content.

1           That being said, there's also a quality of  
2 content that can be developed by the individual person  
3 whose video blogging are out there, and that's  
4 incredible, but there's a difference between  
5 professional, high production, value content and sort of  
6 individual blogger, and there are definitely a market  
7 for professional content, and that's why we want to make  
8 sure where we're competitive and always creating good  
9 story telling.

10           The next thing is creating great consumer  
11 experience. That's sort of part of the DNA of our  
12 company. Not only do you have great, great content, but  
13 the way you deliver it has to be accessible, easy to use  
14 and enjoyable. It's an entertainment medium that we're  
15 trying to put out there, and we better make it easy to  
16 use.

17           The next thing I usually like talking about is  
18 redefining the network. Our business has always been  
19 defined by the technology by which it was delivered.  
20 ABC is a broadcast network. Disney Channel is a cable  
21 network. New world digital, we actually have to think  
22 broadly and not be confined to the original technology  
23 platform on which our business was built. So we have to  
24 think of ourselves as an entertainment network, a kid's  
25 network that reaches kids and their shows across any

1 platform or in the case of absences, connecting our  
2 viewers to the hit shows on any one device.

3           The next thing we also have to do in this world  
4 is sharpen the brand. There's a lot of choice out  
5 there, and one of the things we have to do is make sure  
6 people understand, what does Disney Channel stand for?  
7 What does ESPN stand? What do people expect from ABC?  
8 Because there's so much choice and so many ways to find  
9 content through search engines, we want to make sure  
10 there's some brand equity in order to serve for people  
11 to understand that Lost is someplace they can get, they  
12 can go get Lost on ABC or ABC.com or ABC mobile.

13           The next thing that we're proactively doing is  
14 moving towards interactive advertising. Part of this is  
15 driven by technology. DVRs are putting our advertising  
16 business putting it -- it's very challenging for us to  
17 try to monetize our advertising dollars through all the  
18 DVR and TiVo activity that's happened.

19           So what do we want to do? We want to cut rates  
20 and use technology to create different advertising  
21 experiences. How do we use online, the two-way  
22 platform, the ability to create interconnectivity, to  
23 really create a better experience than the 30 second  
24 commercial? These are all certain things that I'll show  
25 you that we're trying to do at ABC.com.

1           The next thing is being very flexible in  
2 business models. We can't hold -- we just can't stick  
3 to the ways of doing things the old way of doing things.  
4 We have to be willing to experience. We're at a time  
5 where there is an amazing emerging platform. We need to  
6 make sure that how we're pricing our products, how we're  
7 serving it up, monetizing it, can be done many different  
8 ways, and we can't be held to one single way of doing  
9 things.

10           Lastly, something that we hold ourselves to  
11 which is establishing selective partnerships. Just  
12 because we want to make sure that we are providing our  
13 content anywhere, any time on any device doesn't mean  
14 that we do any deal.

15           So out of a lot of our colleagues we're probably  
16 one of the more conservative companies in doing certain  
17 types of deals. We won't do deals with just anybody  
18 because there's a certain set of criteria that we hold  
19 ourselves to in terms of why we want to work with a  
20 certain type of company, and a lot of times it comes to:  
21 Is it a brand that we want to be associated with, do  
22 they respect copyright and intellectual property and  
23 DRM? Do they have a great financial terms? Do help us  
24 market, and do they have a great consumer experience?  
25 So all of these things we kind of measure and weigh to

1 make sure we're not just doing any deal, but a deal that  
2 makes sense for other company.

3           This is a visual depiction of what I talked  
4 about, redefining the network. What we're trying to do  
5 with our programming services is basically create a  
6 branded programming ecosystem in which our shows can  
7 live on any device. It starts with television. Now,  
8 we're pretty much a TV company, but, how we will look at  
9 all these different platforms and devices are  
10 supplemental and complimentary to our viewing, and that  
11 actually dictates how we look at where our content flows  
12 through the system.

13           So let's take Lost. Lost starts on television.  
14 It's on Wednesdays at nine. People show up for it, and  
15 hopefully we get about a 6.7 rating, and we get a lot of  
16 people watching it.

17           But the next day, once it's off broadcast  
18 television, it then moves off to the other platforms.  
19 The next day it's available in other digital platforms.  
20 It can be on iTunes for 1.99. You can watch a screening  
21 for free with ad supported on ABC.com. You can find  
22 clips, teasers, recaps on ABC Mobile through your  
23 wireless phone, either Verizon or Sprint, and maybe  
24 perhaps, assuming we get a deal done with cable  
25 operators, you will find it on cable VOD the following

1 day as well.

2 MS. SWISHER: Also stolen on LimeWire.

3 MR. CHENG: Yeah, exactly, stolen. And that's  
4 one of the biggest issues Kara pointed out. We're  
5 dealing with piracy which is the best business model out  
6 there. It's free. It's great quality, and someone pays  
7 for it so we need to make sure that we are being  
8 proactive in the space to deliver our content in many  
9 different ways that we can monetize and make it in a  
10 secure environment.

11 The other on the outskirts are obviously  
12 portability, portable media devices, and we look at all  
13 these things playing into our entire ecosystem by  
14 supporting the show, so when you finally see these shows  
15 on these other platforms, one thing that you may or may  
16 not notice is that they all point back to the network,  
17 people love this series and what we always say is, Go  
18 back to Lost to catch it first on broadcast. Watch Lost  
19 Wednesdays at nine.

20 It's how we speak to the consumer. You will  
21 always find a show premiering on broadcast television,  
22 then pushed out to all the answering devices in order  
23 for people to catch up, if they haven't been able to see  
24 it, and then basically when you get the other devices,  
25 it will push you back to the network to remind you if

1 you want to watch it first, you can go back to the  
2 broadcast premier.

3 So let's look at cable VOD. One of the things  
4 when we talk about branded programming services is make  
5 to be sure when we have a deal with a cable operator,  
6 when you look and see and try to find on demand  
7 programming, that it is around random environments.  
8 You're not going to go to Comcast on Demand and sort of  
9 sift through a whole bunch of things and try to find  
10 Lost there.

11 You will find it on ABC on Demand as one way, as  
12 a primary way, and if you did have to go through a show,  
13 I'm sure at some point there's a search engine that can  
14 help you sift through and actually hopefully get you  
15 straight to the title without having to sift through the  
16 entire alphabet to get to it.

17 The next thing we want to do is broadband. And  
18 we look at how do we create an asset that's branded in  
19 our environment and really -- and one of the things that  
20 we did this year was really think about how to look at  
21 broadband web sites or web sites in general prior to the  
22 broadband video wave we looked at .com as basically a  
23 marketing platform.

24 Right now we have to look at these as more than  
25 just a marketing platform but actual entertainment video

1 and all these things directly to the consumer on their  
2 terms in an environment. We want them to enjoy and  
3 monetize it somehow in this point, at the point it's  
4 advertising so with all these web sites, that we have  
5 that are TV braced we're converting them all --  
6 destinations.

7 We were the first network to decide to do full  
8 episodes streaming online. In the past, if you go back  
9 a year ago, all we were doing was short form content,  
10 some original content from a lot of cable networks, but  
11 we decided from a broadband time, we were going to put  
12 our best show on, not only just old shows or library  
13 stuff. We went full board, took a risk and said, you  
14 know what, we don't know what's growing, but if we're  
15 going to eating our own lunch, we might as well eat our  
16 own lunch and put Lost and Desperate Housewives and  
17 Commander in Chief on in May and June.

18 It was a great success. We had about 5.7  
19 million episodes requested during that trial and we  
20 decided to relaunch it again this fall, and there is the  
21 player that you have with six to seven new shows, all of  
22 our best shows including some new ones, so Lost came  
23 back, and then we had new show like Ugly Betty at nine,  
24 and I'm forgetting, it's one of our shows. What we  
25 wanted to do was basically have a great player, great

1 experience. This is where the summer experience comes  
2 into play, why we're really, really a stickler on making  
3 carousel cinematic points of view able to essentially  
4 search and navigate to your favorite show.

5 We create a new commercial ad model too as  
6 people who consumed video on Internet. We added the 15  
7 second and 30 second pre roll. It was just annoying so  
8 we decided, how do we create a whole new advertising  
9 experience that could actually help the advertiser get  
10 their message across but create a great consumer  
11 experience?

12 In this case when you started a show, you would  
13 get essentially just a ten second sponsorship message.  
14 In this case Lost is sponsored by Visa and it was very  
15 quick, a quick message and then basically you're into  
16 the show. The show, we wanted to create a 16 by 9 so we  
17 took a strong point of view that it had to be cinematic,  
18 four by three aspect ratio. We went and tried to make  
19 it look like a movie online, and we encoded it at a very  
20 high bit rate.

21 We tried to use a lot of technology that we had  
22 unfortunately in-house. We built everything from  
23 scratch in about 60 days and probably the quickest  
24 development in our company history of a product that was  
25 launched to the public -- when you finally reached to a

1 commercial and there was only three commercial breaks in  
2 that you actually get one ad which is not only what you  
3 see -- that one ad you're not able to skip it. It has a  
4 30 second count down. It will tell you when that count  
5 down is done so that you can actually click and move on  
6 to the video, but if your advertiser was creative  
7 enough, they may actually have you stick around for a  
8 little bit just to play around with the ad.

9 Mobile phones will basically create short form  
10 content and putting mobile -- all our content recaps and  
11 teasers on mobile phones. And multi platform we're  
12 using online to distribute downloads. A great example  
13 of that is where a lot of people pay 1.99 to download to  
14 their computer, take it with them on their iPod so they  
15 can actually watch it.

16 When you look at all these different things and  
17 all these different aspects, we've essentially tried to  
18 make sure that our content is within a branded  
19 environment and being able to be pushed across any  
20 platform, and we window it in a way so that we're trying  
21 to maximize a reach of viewership across all the  
22 platforms that then reaches as high a number of people  
23 as possible with our shows, so that's kind of what we're  
24 doing in a very quick nutshell.

25 (Applause.)

1 MS. SWISHER: Thanks, Albert. Albert has such a  
2 nice presentation. The fact of the matter is what  
3 they're doing at ABC is quite innovative especially for  
4 a traditional media company. I spent a lot of time  
5 lately because I'm very interested in entertainment and  
6 versions of technologies. It's a new, big thing I'm  
7 focusing on.

8 It's kind of shocking what ABC is doing, and  
9 it's very innovative. I have to say it's great, I'm  
10 thrilled because most of the time when you talk to  
11 anyone in Hollywood, the film companies, the music  
12 companies which of course stabbed themselves in the  
13 front and ruined their business because of lack of  
14 innovation.

15 MR. CHENG: That comes -- that comes with time.  
16 When you have Bob Eiger who is essentially pro consumer,  
17 very technology savvy, and he understands that -- he's  
18 sort of set the bar for when to say, look, you know  
19 what, at the end of the day it's all about the consumer  
20 and this is how they're behaving so we need to be  
21 proactive and aggressive.

22 MS. SWISHER: Yet no one in Hollywood does that.  
23 I think what's happening is they're beginning to  
24 understand. They saw the lesson of the music industry  
25 and saw how an industry could be almost disseminated and

1 collapsed, which I think the music industry is still in  
2 a real free fall because of what's happening.

3 Despite the popularity of iPods, kids -- most of  
4 the consumption of music is stolen and so you're giving  
5 the alternatives. I urge you to go to ABC.com to look  
6 at the approach that they've got. It's a really cool  
7 version, so let's talk about what that means.

8 I mean, when you guys did for example the iPod  
9 deals with the Pixar movies, the Disney movies which is  
10 the next group of products that you sell, and you're in  
11 the television group, but still it's the same idea. I  
12 remember asking Bob Eiger, Now Wal-Mart is mad at you,  
13 now your affiliates are mad at you, now everyone that is  
14 a client that you happen to have, the head of Comcast  
15 happened to be at that conference, he's furious at you  
16 because he just gave you a billion dollars for some  
17 things.

18 Where does that transition happen because it's  
19 going to be a sort of bumpy road because you're  
20 basically turning your backs on a lot of people that  
21 handed you billions of dollars?

22 MR. CHENG: Right. That's the way we look at  
23 it.

24 MS. SWISHER: That's one way to look at it, and  
25 a group not handing you billions of dollars.

1           MR. CHENG: It all goes back once again to  
2 making sure we are reaching the consumer. We have  
3 existing partners that we work with. They spend  
4 billions of dollars putting our product on the shelves  
5 to distribute to consumers.

6           I think how we manage that is, look, we do have  
7 standing business relationships. We have been actively  
8 working with them to figure out, well, how can we help  
9 them migrate that to digital feature. Some respond to  
10 it well, some don't, and the fact of the matter is is  
11 that look, you either get on the train or sorry.

12           I think Bob has a point of view which is if our  
13 partners really want to be pro consumer, they need to  
14 really figure out how to make themselves relevant. We  
15 cannot hold our content hostage to help old distribution  
16 channels. They need to figure out really how to adapt.  
17 Well, if Wal-Mart wants to figure out how to create new  
18 distribution system, by all means, go ahead and do it if  
19 they can really figure out how to add value to the  
20 consumer. We would be happy to work for them.

21           But a lot of times what you find is that those  
22 don't quite get in, which is still holding on to control  
23 and the whole interesting thing in the Internet is it  
24 does put gatekeepers in a different spot. You're really  
25 releasing the ability for people to get access anywhere,

1 and it just forces all of us to be more competitive, and  
2 I think our message is, look, you have to be more  
3 competitive. Let's figure out how you can do that and  
4 we'll help you do that, but if you're just going to say,  
5 I'm not going to pay for your content, then go ahead.  
6 That's fine, if they don't want to buy it.

7 MR. CERF: Go ahead, make my day.

8 MR. CHENG: Exactly.

9 MS. SWISHER: Again to refresh this, do you feel  
10 like Hollywood is there? I'm talking Hollywood film,  
11 music all different things right now? Besides the  
12 assault from user generated content, I mean YouTube and  
13 the recent multi billion dollar purchase by Google is  
14 something that they're embracing and horrified by.  
15 They're all doing deals with YouTube because millions of  
16 people watch these things, but at the same time  
17 horrification that this probably could be happening.

18 MR. CHENG: Yeah. I can't speak for my  
19 colleagues and how they view it.

20 MS. SWISHER: In general, do you feel Hollywood  
21 is moving that way?

22 MR. CHENG: I think in general this is a very  
23 confusing space. There's something new that happens  
24 every day, and a lot of these things and innovations are  
25 happening not within the industry. They happen in

1 Silicon Valley and outside, so I think what's happening  
2 is change is hard, and when you don't understand the  
3 change, it's horrifying.

4 So I think the hard part is I think people want  
5 to do something, and the question is how and how to do  
6 it and how to approach it. Some are driven by stock  
7 price. Some, I think we have a very kind of long-term  
8 view of how we want' to build on our presence on the  
9 Internet and I just -- there is a little bit of --

10 MS. SWISHER: What was the reaction of Disney to  
11 the creation of YouTube? It comes out of nowhere,  
12 suddenly a hundred million, I mean, good God, that's a  
13 lot, the numbers you wish you could have.

14 MR. CHENG: I think it's great. I think YouTube  
15 is incredibly innovative. It definitely served a need  
16 that did not exist and executed as well, and it all goes  
17 down to what YouTube is -- I think the hard part is a  
18 lot of media companies think YouTube is a threat. I  
19 don't think it's a threat. It's actually supplemental  
20 and is going to actually drive a lot more participatory  
21 entertainment because if we're going to come and invite  
22 Lost fans to come in and participate, guess what?  
23 They've already been trained on YouTube. They all know  
24 how to do it. If you want to download, come to our web  
25 site and do it there.

1           For YouTube, it may be a need like Ebay did,  
2           like some of the other companies which essentially  
3           connected the individual user to broad media,  
4           broadcasting medium or marketplace. They feel a need.  
5           It's definitely there to have people be able to put on  
6           their creative work and allow it to be showcased.

7           The flip side of that which is creating some of  
8           the scariness is a lot of stuff that's being uploaded is  
9           covered with content, so we're all for creating a  
10          marketplace or a broadcast medium that I, Albert Cheng,  
11          could put my home video and upload it and have people  
12          see. I think when you start looking at, Well, gee if a  
13          lot of it is uploaded, we have to figure out how do we  
14          deal with that.

15          MS. SWISHER: Let's deal with sort of notion of  
16          copyright and DRM, deals rights manager. I'm a believer  
17          of just removing it because it's kind of a -- it's  
18          impossible to protect them.

19          In the case of say a YouTube, I'll use an NBC  
20          piece of content, there was a video on Saturday Night  
21          Live that got on to YouTube. Millions and millions of  
22          people who do not watch Saturday Night Live watched  
23          this. Saturday Night Live, I talked to Chad Hurley  
24          about this, he wrote this saying -- they were noticing  
25          on YouTub millions of people are watching, so he wrote a

1 letter to NBC and said, hey, do you want to push this,  
2 do you want to do something with this? Didn't hear from  
3 them, didn't hear from them until they got a letter  
4 saying you have to take it down, even though lots of  
5 people went to Saturday Night Live because of it.

6 What happens within the companies to get  
7 there -- not have that reaction and to have a reaction  
8 of millions of people are watching?

9 MR. CHENG: Yeah, I think with respect to  
10 putting copyrighted material on up on YouTube and having  
11 it been seen by many, I think there are pros and cons.  
12 I think we're still struggling with what does it mean  
13 exactly. I think as a company we believe in protecting  
14 the rights of the content. That clearly for us is a  
15 concern when something is being facilitated where  
16 such -- that type of activity is being encouraged.

17 But at the same time especially when you're in a  
18 position to try to promote your content, you're not  
19 going to complain about a million people watching your  
20 clip because actually is there a way -- I think we  
21 should approach it as: Is there a way for us to  
22 proactively figure out how it can be done legally?

23 MS. SWISHER: How do you professionalize it?  
24 Because one of my feeling is it all is going to become  
25 -- blogs are terrific. YouTube stuff is terrific, but

1     there is going to be professionalizations of it because  
2     a lot of it is sewage essentially.  It's kind of just  
3     people will run out of interest in it.  Does it have to  
4     move up the food chain of professional content and who  
5     is going to be doing it?  Is it going to be like a  
6     Disney or another company we've never heard of?

7             MR. CHENG:  You know I think YouTube can say  
8     what they want to do.  I think there's definitely still  
9     a value in creating a sort of hub where a lot of  
10    people's own videos are uploaded.  That's exactly the  
11    value they bring.  Big companies like Disney or even our  
12    colleagues at CBS or NBC or Fox, they have a presence  
13    and a brand that lives offline that can easily be  
14    leveraged and create an online presence.

15            MS. SWISHER:  Nobody thinks of Lost and ABC  
16    necessarily.  They think of Lost.  Lost is really the  
17    thing.

18            MR. CHENG:  They do.  I think you're going to be  
19    seeing a little more of our company pushing ABC, Lost on  
20    ABC but, yeah, you're right, the shows definitely stand  
21    out for themselves.  One of the things when you look at  
22    the graphic that we have is the multi platform aspect,  
23    so for us that's our sort of --

24            MS. SWISHER:  You don't care where it is.  
25    You're like promiscuous, right?  You should be.

1           MR. CHENG: Well, I think the key thing --  
2 promiscuous? I think the main thing is to make sure  
3 we're on every platform.

4           MS. SWISHER: One more speciality question, and  
5 then we'll ask Vint. At this moment who is the most  
6 powerful player in this? If you had to pick one company  
7 in the distribution and finding of content, who would  
8 you pick?

9           MR. CHENG: Well, I would say the person, the  
10 company that's -- I would say I would pick two, so two  
11 different ways to look at it. I would say from our  
12 company's standpoint because we are blessed with great  
13 content so still content does drive a lot of this stuff,  
14 so if you don't have great content, it's very tough to  
15 generate an audience, no matter what platform you're on.

16           But then I also talked about right now just in  
17 terms of pure eyeballs, I would say Fox.

18           MS. SWISHER: What about among the technologies  
19 companies, who would you say is sort of moving needles  
20 all over the place?

21           MR. CHENG: I think Google. I think Google is  
22 driving a lot of innovation on the Internet, and they're  
23 actually creating new models for us to -- everything  
24 they do is forcing us to rethink, gee, how is this  
25 working.

1 MS. SWISHER: What was your reaction to their  
2 YouTube purchase, Jesus, good God?

3 MR. CHENG: I was thinking, wow, we can actually  
4 sue someone. I think it made sense. I think it makes  
5 sense. I think that if there's anyone out there who can  
6 actually figure out how to advertise it --

7 MS. SWISHER: And once they hand you a bag of  
8 money, you'll pull off the lawyers.

9 MR. CERF: Thank you for providing that opening.

10 MS. SWISHER: Bag of money, please.

11 MR. CERF: Let me first of all make a --

12 MS. SWISHER: Briefly so we can get to Safa.

13 MR. CERF: The first issue has to do with  
14 quality of material on the Net. I'm worried that  
15 there's this conservation law, that there's only a  
16 finite amount of quality in the universe, and that means  
17 that there is more production. On the average every  
18 piece of production is lower quality so I hope you guys  
19 stick to your guns.

20 Digital copyright material, I absolutely agree  
21 that protection of intellectual property makes sense. I  
22 do want to suggest to you that when we introduce these  
23 new technologies, that we may change opportunities.  
24 You'll remember when books were copyrighted, and the  
25 basic right you have is to reproduce the book but then

1 something came along, a whole new meaning and a whole  
2 new technology that created new rights. Like the movie  
3 rights to the book which didn't exist before there were  
4 movies, so my suggestion is that there may be some  
5 rights hiding in the digital presentation of things that  
6 we don't normally know about.

7 Last point has to do with Video on Demand. Too  
8 many people think of it as being streaming video, and I  
9 might suggest it's very important to think of it as  
10 downloading as well partly because you can do it at any  
11 speed. You can even do it faster in real time at a  
12 gigabit of 16 seconds to download an hours worth of TV.

13 Moreover, it doesn't have to be just video  
14 content. It could be advertising material as well with  
15 which you could interact when you are in fact enjoying  
16 the entertainment so there's a richness here that we  
17 haven't begun to explore. Companies like Google and  
18 Disney and others are going to be uncovering these  
19 monetizing opportunities.

20 MS. SWISHER: I agree it's going to be a bumpy  
21 road. I shouldn't say that Google is actually in a war  
22 with the book industry, some of the television industry  
23 about unlocking this. Google calls it unlocking. The  
24 book industry for example calls it stealing.

25 Safa, with that?

1 MR. CERF: Do I get to respond?

2 MS. SWISHER: No, no. I'm on your side.

3 MR. RASHTCHY: Let's see if we can get this  
4 going.

5 MS. SWISHER: I'm sorry, Safa Rashtchy is a  
6 senior analyst at Piper Jaffrey.

7 MR. RASHTCHY: I am pointing to the right. I  
8 will try to do it as fast as possible which means given  
9 the time that I was shown, five minutes, I'll skip a  
10 number of slides, but let me tell you I was asked to  
11 talk about the money flow.

12 I'm from Wall Street, and my presentation  
13 actually is about where the status of the Internet is  
14 because that's what investors and PCs are looking at.

15 Let me give you kind of the bottom line first.  
16 Even though my presentation is set up for everyone, I do  
17 think that this everyone excludes certain parts of the  
18 population, and that's because the companies that make  
19 money, companies like Google, Amazon, EBay and others  
20 really can't monetize that statement.

21 So there's a segment that I think will be left,  
22 and that's kind of the message I'll give, especially  
23 given the mission of this panel.

24 I work for an investment bank, so I have to let  
25 you read this about three times to make sure you know

1 everything, that I don't have any conflict of interest  
2 on the stuff I'll talk about. I don't own Google. I  
3 wish I did, but our company is an investment bank and  
4 they make money by trying to do banking services.

5 So we'll go to the obvious. The Internet has  
6 changed our lives already, but our assertion is that  
7 companies that cover this is there are bigger changes  
8 are yet to come.

9 Let's take a quick look at what happened to  
10 Yahoo ten years ago, 1997, and today. There is how  
11 Yahoo looks. Same thing with Amazon, except the speed  
12 of this thing is not quite this year.

13 Okay. I think it's illustrative to see where we  
14 are because it will show you where we're going. If you  
15 look at who's online and where they're going, the  
16 picture is even more interesting. Now, this is a sample  
17 of the top size. Yahoo is still the top, but very  
18 quickly, MySpace is gaining over. In fact, we think  
19 MySpace will probably surpass Yahoo.

20 MySpace is in fact a new phenomena. It's a very  
21 important phenomena that can be understated. It isn't  
22 just about your teenagers going online to MySpace. It  
23 is about real people. Why do they go online? Because  
24 it's easy for them to re express them self like this  
25 woman here who is up there, who is giving all her

1 interests up there because there's a need for people to  
2 share these things, and until then there wasn't an  
3 efficient platform.

4 So that's what's happening with the traffic.  
5 The traffic is going to Facebooks and MySpaces, not so  
6 much the Yahoos and MSNs and Googles. They only have 1  
7 to 5 percent over last year.

8 Let's take a look at who's on line today. This  
9 stuff is really not as detailed as Susannah, and I  
10 really respect what Pew does, so the statistics you  
11 heard are fairly more accurate, but from what we gather  
12 this is a rough breakdown of the population, but what I  
13 really want to point your attention to is the largest  
14 categories of Boomers, 38 percent of the population  
15 online according to our estimate right now are between  
16 that age.

17 Now, Internet today is widespread, and is going  
18 across generation, but take a look at this chart. You  
19 will see some interesting variations in age, that not  
20 all age groups are online in the same amount, especially  
21 over 65 years old where only half of them are online.

22 I'm going to read this very fast because of  
23 time. If you want to get a copy of the presentation see  
24 me afterwards.

25 So the digital divide still exists both racially

1 and economically, especially if you look at Hispanics,  
2 for instance, they're highly underestimated, and  
3 economically of course it's very interesting because  
4 where the money is for the advertisers is where you have  
5 users, and the least represented group are the ones  
6 making under \$25,000.

7 I'm going to go through this very quickly, but I  
8 wanted to go through what our the typical generations  
9 that are considered by demographers, and as you can see  
10 that the fastest growing segment is actually what's  
11 called a solid generation, but the largest group at this  
12 point are the Boomers so as much as you hear about Gen-Y  
13 and MySpace, that's great, but it's possible to ignore  
14 those two areas that are really growing fast and are  
15 larger than these.

16 Internet is still two Internets that they call.  
17 About 25 percent according to our estimates are what I  
18 would consider advanced users. You see I work and live  
19 in Silicon Valley. It's easy for us. Everybody reads  
20 blogs. Kara writes a blog, I read her blog. She reads  
21 our blogs, but the fact is that 75 percent of the  
22 population according to the studies that we have done  
23 don't write -- certainly don't write blogs and many of  
24 them don't read blogs and don't use Internet in the  
25 advanced ways that the other segment of the population

1 does.

2           So it is not really useful to try to group  
3 everyone together. This is the newer users of the  
4 Internet right now, the 75 percent, and very little  
5 content and more importantly very little usability is  
6 addressed towards this population.

7           I'm going to go through a couple of key areas  
8 that have really shaped Internet. Search is the most  
9 important innovation in the Internet, both for users and  
10 for companies and advertisers. Search right now is  
11 dominated by Google, of course as you may well know. In  
12 the U.S. they have about a 63 percent market share, and  
13 in some markets offsite, it's even larger than that.

14           What is happening to search is that it has  
15 become a medium well beyond the initial stage. First it  
16 was to find a web site, and then products and  
17 information, and now what we're finding is people you  
18 search as a medium of exploration. Look at these charts  
19 here and the table here of key words. These are the top  
20 ten searches fairly recent. These are actual searches  
21 and it was the most frequent this month.

22           Look at the terms, poker, restaurant, taxes.  
23 You would think what somebody was thinking when they  
24 typed in taxes in Google or in Yahoo. What they're  
25 thinking is the search media will guide them to the next

1 question, and it is a medium of exploration, and that's  
2 just to find specific data or a specific company, so  
3 this is really very important implications because it is  
4 really becoming a third medium in our view, but beyond  
5 online shopping and offline search itself becomes a new  
6 medium, and of course fueling the growth of search ,  
7 we're projecting global revenues a little over 26  
8 billion by 2010.

9           Okay. One reason search is growing so fast is  
10 because it is actually very efficient for advertisers.  
11 This chart was fairly recent. We tried to update it but  
12 I'm sure numbers haven't changed much. It costs a  
13 fraction of what it costs advertisers to get a customer,  
14 8 and a half dollars compared to let's say of 70 dollars  
15 direct mail. Even other types of online don't even come  
16 close to searched. Prices have gone up quite a bit.

17           One aspect of search which I'm very excited  
18 about, I think it will be very big, is local search.  
19 Local search is just beginning to creep in, but we don't  
20 really have a way to have all the local advertisers in.  
21 I do believe that over the next few years, and I'm  
22 careful not to give you an exact number because I don't  
23 really know, but we will have local search be as much as  
24 50 percent of all the searches right now. Let me give  
25 you an example how local can be very powerful.

1           Let's say you're looking for -- this is an  
2 example from one of my associates who has a drink which  
3 apparently she says is very popular, and I can't figure  
4 it out, but you guys can probably read it. So if you  
5 type it in, typically this would be something very  
6 obscure, and if you would want buy this because you  
7 wouldn't have the storage know, but the local search in  
8 Google in this case would actually see the places that  
9 you can find even the most obscure things. The power of  
10 local search is that especially metropolitan areas it  
11 would bring in hundreds of thousand of merchants that  
12 are there but you don't have an easy way to find them.

13           ECommerce on the other hand is growing through a  
14 different type of evolution. It is grateful consumers  
15 today shop online. We estimate nearly half a billion  
16 ECommerce types of merchants are selling online.

17           The importance of this is that you have access  
18 to all of those 500,000. Think about it. In your  
19 offline world, how many shops and merchants can you have  
20 access to within the physical limits?

21           With online of course you have everything. Now  
22 the problem is because of the competition, margins are  
23 shrinking and of course searches are creating a totally  
24 new median. ECommerce is growing and is a very big  
25 industry, over a hundred billion dollars this year and

1 is growing fast, but it's not an area where people can  
2 make money.

3 Part of it is and part of is because your  
4 offline companies have come online very quickly much  
5 faster than -- look at this picture now. I think we had  
6 a picture here. About a third of the online commerce  
7 has been generated by what we would call pure retailers  
8 that are created just to do business online. If you  
9 take EBay's revenues as a pure revenue, not just the  
10 gross merchants, or less than that, so most of the  
11 online is already being done but offline companies are  
12 growing faster than many others.

13 So this is partly because consumers have said  
14 that now we're comfortable searching and buying online,  
15 so they go directly to a site or they use search to find  
16 a site that they want. The bottom line is that they  
17 don't need somebody like an EBay or other AOL type to  
18 hold their hand and guide them through the purchase  
19 process.

20 This is an illustration of that. Let me go  
21 through. As I said, the result that our companies that  
22 -- we cover EBay and others are really suffering  
23 financially because of distribution costs are growing.  
24 I won't go through these eight, but we think that these  
25 are the top nine. Google has certainly created a major

1 new way of accessing information, both for consumers and  
2 advertisers.

3 Digital device is still there, but it's being  
4 helped by the fact that many people do use Internet at  
5 work, and as I said let me just pass through this  
6 quickly because I want to keep some time.

7 What happens is that Internet usage is  
8 continuing. The markup is -- they're here to make  
9 money. There's a monetization lag which is now closing.  
10 We think that over the next ten years this gap will  
11 narrow. Many more companies will be able to make a lot  
12 more money. Still it won't match usage, but we do think  
13 that that is narrowing, and this is really where a lot  
14 of the discussion that you will hear today and the next  
15 couple days is important because how do you protect  
16 consumers as that gap narrows.

17 I think I'm going to just mention the name of  
18 the areas that we think are important. These are the  
19 areas that are. Online entertainment is number one.  
20 Certainly YouTube and you see why it is so hot.  
21 Communities and content site these are the areas that  
22 are very hot. Six years ago when Yahoo paid \$4 billion,  
23 which they're coming back to life.

24 Local search information is going to be very  
25 important and a bigger part of the search, compared to

1 web search, wireless and other mobile services. It's  
2 still too early. We don't have everything, but it will  
3 come over the next five years, and finally web  
4 applications, being able to do things on the web when  
5 you use it only on PC so the bottom line is Internet has  
6 changed our lives but we think the bigger change is yet  
7 to come, and that's where most of the companies that we  
8 cover follow the money form. That's it.

9 (Applause.)

10 MS. SWISHER: Thank you. That was excellent, so  
11 fast. There's a lot of important ideas to talk about.  
12 We have about a little less than ten minutes to talk and  
13 folks had some questions.

14 MS. HARRINGTON: We're ten minutes over.

15 MS. SWISHER: 12:45, is that correct?

16 MS. HARRINGTON: 12:30.

17 MS. SWISHER: Let me ask you a few quick  
18 questions, and then we'll end the panel. Search, right  
19 now most people think search is pretty Neanderthal the  
20 way it is, the key word idea, it's very nice but not  
21 going to be the way it's going to be. What do you see  
22 as the most important trend or change in search as you  
23 go forward because it is driving us?

24 MR. RASHTCHY: I think over the next five or ten  
25 years, the important thing would be for the search

1 engine to understand what we wanted on the key word, but  
2 I have to say the use of the key word search still has a  
3 long way to go. People really haven't discovered how  
4 well they can use even the key word search, so I  
5 think it's too early to see that a key word such is debt  
6 and you try to --

7 MS. SWISHER: Debt. What happens? What is the  
8 places?

9 MR. RASHTCHY: I think it's actually a more  
10 linear of the covenant of the long tale. I don't expect  
11 evolutions there. I think Google is doing exactly the  
12 right thing, much more expansion of the mileage.

13 MS. SWISHER: One of the things, one of the  
14 ideas you were talking about is how EBay becomes, oh,  
15 instant Internet eats its own, kind of things like that.  
16 What is the problem with those things? Are they too  
17 closed? Are they -- what becomes --

18 MR. RASHTCHY: I think there are two problems  
19 which I think would be interesting for companies like  
20 Google. One of them is they don't end up changing the  
21 environment user generated content, and they don't need  
22 anyone to hold their hand.

23 And the other thing is they are a victim of  
24 their own success. EBay was tremendously successful, so  
25 was in a much smaller way Yahoo in 2003, so I think

1 they've become complacent, and that's the key area, not  
2 to become complacent.

3 MS. SWISHER: My last question, and we'll finish  
4 up the panel. Social networking, obviously MySpace  
5 getting a lot of ink, a little too much hype from my  
6 point of view and probably will fall off the same cliff  
7 that everyone else has. What does social impact mean in  
8 a bigger sense? You talked about that briefly. I agree  
9 it's a bigger trend.

10 MR. RASHTCHY: I think social networking really  
11 hit on two basic needs. One is to be connected with  
12 others but at the same time the other one is to be  
13 unique, to say that this is me and I'm different from  
14 everyone else. It actually works really well for people  
15 who couldn't do it in the real world, but you can go  
16 online and have 10, 20, 30 million, see your profile and  
17 you feel you're connected and still maintaining your  
18 identity. I think that's a really basic need that we  
19 had and that's why I really think that MySpace in  
20 particular was able to create it.

21 MS. SWISHER: Of all the trends you talked about  
22 what's the most important one from your perspective  
23 that's driving things at this point?

24 MR. RASHTCHY: I think the most important trend  
25 is the fact that we won't to have people, the younger

1 population that won't even think about how they're using  
2 different systems. For them it's really natural. I  
3 didn't mention I think some part, we can't do a whole  
4 lot about the other part population. None of these  
5 things would matter. They don't care about the social  
6 connections or not. It's there and they're users.

7 MS. SWISHER: Great. That's the way we end.  
8 Kids love it, just remember that.

9 Everyone, thank you so much for the panel.  
10 Thank you for being so patient, and if there are any  
11 questions, just come up.

12 MS. HARRINGTON: I want to let you all know we  
13 are lucky enough to have with us some technology items  
14 who are displaying over at the Marvin Center. Take a  
15 left, it's about half a block down. It's in the Marvin  
16 center, and there's free ice cream, and please go over  
17 and have some tech-ade lunch.

18 Thank you.

19 (Whereupon, at 12:38 p.m., a lunch recess was  
20 taken.)

21

22

23

24

25

## 1 AFTERNOON SESSION

2 (1:45 p.m.)

3

4 PANEL 3: HOW WILL WE COMMUNICATE IN THE NEXT TECH-ADE?

5 MODERATOR: GARY ARLEN, President, Arlen Communications

6 YOUNG CONSUMERS PANEL MEMBERS:

7 FELDMAN

8 JOSHUA MEREDITH

9 MARSHALL COHEN

10 STEVEN MILLER

11 NELL MCGARRITY

12

13 PRESENTERS:

14 DANA J. LESEMANN, Vice President and Deputy General  
15 Counsel, Stroz Friedberg

16 DAVE COLE, Director, Symantec Security Response

17 ARI SCHWARTZ, Deputy Director, Center for Democracy and  
18 Technology

19

20 MR. ARLEN: Good afternoon. That is not our  
21 slide. We can take the social networking away until  
22 we're ready for it in a couple of hours. This is a  
23 combination session about how we'll communicate in the  
24 coming tech-ade.

25 My name is Gary Arlen. My research company

1 Arlen Communications has been looking at new media since  
2 cable and home video were new media over 20 years ago.

3 So what we thought we would start with right now  
4 and this is also not the break and technology pavilion,  
5 we're going to talk first of all about one of the real  
6 world aspects of in business and that is how the  
7 audience you heard about today, you heard Kara Swisher  
8 talk about her two and her four year olds, which  
9 represent the next tech-ade.

10 We're going to start a little older than, but  
11 maybe we can have our opening panel talk about the  
12 younger brothers and sisters, but I thought we would  
13 started by just sort of wrapping up. As I've said, I  
14 have been at this 25 years. I'm somewhat of a  
15 skeptic-enthusiastic. I'm enthusiastic about a lot of  
16 claims I've heard over the past years about what's going  
17 to happen next.

18 At the same time I'm a little skeptical because  
19 not everything works out the way we think it's going to  
20 work out, and one of the things I've been looking at is  
21 the convergence of technology and content, and most  
22 importantly, creating the new kinds of applications and  
23 arrangements that will emerge from the new kinds of  
24 companies that we heard about earlier today.

25 Example, we didn't hear much about games, but

1 yet video games are ready to outpace Hollywood as the  
2 major source of entertainment. Technology is coming  
3 along which will already allow you to communicate as  
4 part of a game playing experience and network game, and  
5 actually insert yourself into the game through new video  
6 cameras and video commercial products.

7 So really we're really looking at a very big  
8 kind of group, and we heard a little bit this morning  
9 about emerging business models, and when Mr. Cheng from  
10 ABC was talking about displaying programs after network  
11 airing, this is a week after Fox announced it was going  
12 to put some of its shows like the OC on the Internet and  
13 through off network application or distribution before  
14 the network airing, so there's a lot of things going on.

15 Also we're looking at an issue of what I call  
16 killer attributes, not just killer application, but we  
17 talked about access this morning. Certainly mobility is  
18 a big issue which we'll hear about throughout the next  
19 hour. Visualization including video clips. I've been  
20 doing some research lately on the whole idea of looking  
21 for images and finding them to match up through a video  
22 search technology which opens some very interesting  
23 issues about privacy and security of what people look  
24 at.

25 So with all that in mind, and knowing that we

1 have what we call the unkunks, the unknown unknowns  
2 factors that we really can't even speculate upon yet, we  
3 don't know yet, so given the success we've had this  
4 morning with those handheld devices I'm going to ask the  
5 old fashion way of raising your hand. I want you to  
6 fill in this sentence: The blank is king, something is  
7 king.

8 Now, the first choice is: How many think  
9 content is king?

10 THE AUDIENCE: What are the other choices?

11 MR. ARLEN: You can raise your hand more than  
12 once. How many of you think content is king, the way it  
13 fits into the whole millennia? Don't know what that  
14 means yet. What about convenience? Yes, yes, yes,  
15 consumer choice. What about competition? Competition?  
16 Come on, the FTC, there's got to be competition  
17 somewhere. What about chaos is king? Yes, yes we all  
18 know that.

19 So these are some of the big Cs of this  
20 business, so seeing what's up ahead, competition,  
21 choice, context, content, raises some big issues of  
22 where the next generation is going to use these new  
23 objects that we're talking about here.

24 So what I want to do is start with some  
25 millennia generation, and as I said these older people,

1 they're all students at George Washington University,  
2 but they're an older generation from the millennia, in  
3 the demographic record, we have what's called the  
4 millennials and the super millennials.

5 So I have a question for you guys: Have any of  
6 you remembered life without dial up, dial up Internet  
7 access? Do your young siblings know about dial up?  
8 They've heard of it, but they never used it, right. Has  
9 anybody lived without a mobile device, mobile phone,  
10 mobile PDA? Oh, you remember that.

11 Think about that. There's a generation of  
12 consumers that really have never had life without high  
13 speed mobile connectivity. Big issue, so let's  
14 introduce here we are going to hear, and see if I can  
15 get all their names correctly.

16 I'll start with Peter Feldman who is a second  
17 year law student at GW, and next is Joshua Meredith, who  
18 is a senior history major. We have Marshall Cohen, who  
19 is a sophomore in political communications. Steven  
20 Miller is a junior in international affairs, and Nell  
21 McGarrity is a graduate student in media and public  
22 communications also.

23 So I think, Steven, you were saying you use the  
24 Internet for communications internationally.

25 MR. MILLER: Absolutely.

1 MR. ARLEN: How so?

2 MR. MILLER: There's different programs, one of  
3 which is called Skype that I use. You can often  
4 communicate with people in a much clearer fashion over  
5 the Internet than through cell phones, telephones.

6 MR. ARLEN: Now what do you use the digital  
7 communications for?

8 MS. MCGARRITY: I guess communicating across  
9 through different platforms like Facebook or I guess  
10 getting information I can't get through the news like  
11 the YouTube, things like this.

12 MR. ARLEN: So like social networks?

13 MS. MCGARRITY: Yes.

14 MR. ARLEN: Peter?

15 MR. FELDMAN: It's mission critical in doing  
16 legal research.

17 MR. ARLEN: So you're using it for sort of  
18 business, academic purposes?

19 MR. FELDMAN: Yes.

20 MR. ARLEN: And no social or personal uses?

21 MR. FELDMAN: No, there's plenty of that.

22 MR. ARLEN: Such as?

23 MR. FELDMAN: Tons of Emailing, lots of reaching  
24 out to sort of learn more about the legal profession and  
25 who's practicing here in town and also purely social

1 thing likes Facebook.

2 MR. ARLEN: Marshall?

3 MR. COHEN: I use the Instant Messaging a lot to  
4 keep in touch with friends from high school that are  
5 scattered across the country.

6 MR. ARLEN: Do you IM on your computer or SMS  
7 texting?

8 MR. COHEN: Mostly on the computer and text  
9 messages as well.

10 MR. ARLEN: Joshua?

11 MR. MEREDITH: I would say I use it mostly for  
12 Email and senior thesis that I'm working on. I think  
13 that would be the biggest uses.

14 MR. ARLEN: So a lot of students use all the  
15 tools you have. Which one couldn't you live without?  
16 If I said, I'm going to take away all those accesses and  
17 devices except one, which one could you keep?

18 MR. FELDMAN: It would have to be my cell phone.  
19 Otherwise I would have just no ability to function.

20 MR. ARLEN: No ability to function without a  
21 cell phone? Think of that, you guys, who remember the  
22 old phone company.

23 MR. MEREDITH: I think if you took away my Email  
24 I would kind of be distraught. I couldn't really handle  
25 not being able to get information through Email.

1 MR. ARLEN: Marshall, what would you keep?

2 MR. COHEN: I would say I would keep Instant  
3 Messaging. I can find out news. I can talk to people.  
4 I can do everything through that.

5 MR. ARLEN: Doing everything digitally. Steve?

6 MR. MILLER: Cell phone 100 percent.

7 MS. MCGARRITY: I would have to go with my phone  
8 too.

9 MR. ARLEN: Your cell phone or your --

10 MS. MCGARRITY: Yes, my cell phone.

11 MR. ARLEN: Do you consider your land phone to  
12 be your phone anymore?

13 MS. MCGARRITY: No. The only people that call  
14 my landline are telemarketers, so I generally don't  
15 answer it anyway.

16 MR. ARLEN: Even your parents call you on your  
17 cell phone?

18 MS. MCGARRITY: Yeah, I don't think my parents  
19 even know what my landline number is.

20 MR. ARLEN: Now, here's a couple other things.  
21 What's your preferred method of staying in touch? You  
22 said you used IM. A few of you said Email. Do you have  
23 any preference you want to add to that?

24 MR. FELDMAN: Yeah. Email is probably the best  
25 way to stay in touch with people because you always have

1 a record of it. You don't forget what somebody said to  
2 you because you can just go back and read it, and it's a  
3 lot easier because sometimes if you haven't called  
4 someone in awhile, it's a little bit easier to reach out  
5 with Email. It's a little bit less personal but still  
6 gets the job done.

7 JUDGE: Nell?

8 MS. MCGARRITY: Yeah, I would say Email just  
9 because it's really efficient. Where when we're talking  
10 on the phone, you can't necessarily be talking on your  
11 phone all the time.

12 MR. ARLEN: Since you mentioned you were worried  
13 about telemarketing, did you ever think about spam and  
14 Email, people try to get to you by Email?

15 MS. MCGARRITY: I report my spam, so I have a  
16 pretty good filter so I don't really get too much that  
17 I'm not really looking for.

18 MR. ARLEN: Marshall?

19 MR. COHEN: I think the biggest thing about  
20 using Email would have to be that it's completely free,  
21 whereas cell phone services and the phones themselves  
22 are getting very expensive. That's the biggest part for  
23 me is just free communication.

24 MR. ARLEN: That raises another question I  
25 wanted to ask you. Do you ever think about price or do

1 your parents all pay for it so you don't care about it?

2 In other words, does price matter, Joshua?

3 MR. MEREDITH: I would say I was just looking  
4 into trying to get a BlackBerry device, and the price of  
5 the hardware is extremely expensive. I know you're  
6 going to pay a certain premium for the service, but the  
7 hardware is expensive, and I think that's limiting.

8 MR. ARLEN: What bothers you more, the \$300  
9 upfront hardware or the \$70 or \$80 monthly charge?

10 MR. MEREDITH: Oh, no, definitely the \$300  
11 upfront for the hardware. I mean, cell phone plans, my  
12 plan is like \$49 a month anyway, and the extra \$20 isn't  
13 going to break the bank, but the hardware is expensive.

14 MR. ARLEN: Some people will say that 600 or 700  
15 to 1,200 dollar computers is a lot more expensive than a  
16 \$300 handheld, but these are issues. Peter?

17 MR. FELDMAN: I agree with Josh. There's  
18 something which at least I think that -- the cost of the  
19 hardware is something that seems like you can't  
20 negotiate. At least with the cost of the service, you  
21 feel like you're really getting the value, and there's  
22 always a ton of options. With the hardware there  
23 doesn't seem to be that flexibility.

24 MR. ARLEN: Nell and Steven, who pays?

25 MS. MCGARRITY: I definitely agree, especially

1 since the BlackBerry might be hot now, but come  
2 Christmas time, that might not be the coolest thing so  
3 you might not want to put your \$300 up for your  
4 BlackBerry when it will be \$99 come February after  
5 Christmas.

6 MR. ARLEN: Marshall, you're agreeing?

7 MR. COHEN: Yeah. I agree 100 percent. I'm  
8 always thinking I'm going to get the next iPod or the  
9 next BlackBerry. And then the day after I buy it, the  
10 new one comes out, and it breaks my heart every time.

11 MR. ARLEN: That leads to customer issues.  
12 Pricing, do other things frustrate you about using these  
13 services? I'm thinking of things like customer, service  
14 reliability, customer support.

15 MR. MILLER: Absolutely, I would say -- I'm with  
16 a certain network, Sprint, that has awful customer  
17 service, and it's annoying.

18 MR. ARLEN: But do they have awful customer  
19 service?

20 MR. MILLER: Absolutely, and to a certain  
21 degree, you can get around it, but at a certain point  
22 you need customer service, and you need human  
23 interaction still.

24 MR. ARLEN: What are the kinds of things that  
25 frustrate you, Peter?

1           MR. FELDMAN: I agree with my friend, customer  
2 service is pretty awful with my cell carrier which is a  
3 different one.

4           MR. ARLEN: As the Commissioner said this  
5 morning, you have to name names.

6           MR. FELDMAN: Getting through to a live person  
7 is almost impossible.

8           MR. ARLEN: And it frustrates you even, though  
9 you are growing up digitally?

10          MR. FELDMAN: Yeah, it's very frustrating  
11 because even though everything is digital, you still  
12 want that human on the other end of the line who can  
13 empathize with your plight when your phone doesn't work.

14          MR. ARLEN: Joshua, you're nodding your head  
15 also.

16          MR. MEREDITH: My cell carrier has been pretty  
17 good lately, so I don't really have any complaints. I  
18 would say the biggest thing for me is trying to get  
19 wireless in certain locations, the lack of good wireless  
20 is kind of tough.

21          MR. ARLEN: So access?

22          MR. MEREDITH: Yes.

23          MR. ARLEN: What about speed, reliability?  
24 You're thinking you're always going to have a high speed  
25 and then you go someplace, and it just drags. Does it

1       bother you guys at all?

2               MS. MCGARRITY:  There's nothing more frustrating  
3       than a page taking too long to load or having to retry a  
4       call if your in a low service area.  Sort of like it's  
5       there, it's there to be fast, and when it's not, that's  
6       the worst.  It's like getting the old-fashioned like  
7       busy signal on your phone.  I hate that sound.  That's  
8       like the worst.

9               MR. ARLEN:  You shouldn't have it on high speed,  
10       should you?

11              MS. MCGARRITY:  No.

12              MR. COHEN:  You should have pages coming up  
13       instantaneously.  You don't want to wait for a page like  
14       you did five years ago.

15              MR. ARLEN:  I'm hearing impatience here.  Does  
16       that mean people out here in the audiences who are  
17       building services should be aware of it?  How important  
18       is it to get service delivered reliably with good  
19       customer service when you have a problem?

20              Do you ever feel you're too much in touch?  In  
21       the same context here, we live in a 24/7 environment,  
22       that you're always online.  Do you ever feel like you  
23       would like to get away from it all.  Marshall?

24              MR. COHEN:  I mean, if I'm trying to take a nap  
25       during the day and getting text messages and calls and

1 Emails, it's like, I just want to sleep for a half hour.

2 MR. ARLEN: You press the off button.

3 MR. COHEN: I can't turn it off because then I  
4 feel like I'm not connected at all. I don't know what  
5 to do.

6 MR. MILLER: Our generation has grown up with  
7 much more availability than maybe some other people  
8 have. So I'm used to it.

9 MR. ARLEN: Don't point at me.

10 MR. MILLER: I'm used to always being in touch.  
11 I can't turn it off, and I don't mind being woken up if  
12 it's part of being in touch.

13 MS. MCGARRITY: I look at it differently. Like  
14 I'll leave my phone on. I'll leave my computer on, but  
15 I work and go to school at the same time, so I'm  
16 fortunate that my job doesn't require me to have a  
17 BlackBerry because I want to work the hours I get paid  
18 for. I don't want to have be -- if I have a BlackBerry,  
19 I feel like I'm going to have to have it with me all the  
20 time.

21 MR. ARLEN: Do your folks feel the same way?

22 MS. MCGARRITY: My parents don't work anywhere  
23 that require anything like that, so they're fine.

24 MR. FELDMAN: I think that's just like  
25 everything else. There are trade-offs, and I guess the

1 price that we're all willing to pay, at least I think  
2 we're all willing to pay for being in touch is being in  
3 touch always.

4 MR. ARLEN: Interesting issues, but frustrating  
5 about getting connections.

6 A couple last questions, big issues, this is a  
7 segue to the rest of our hour here is: Do you ever  
8 worry about the people you meet online or the privacy  
9 and security of what you communicate through your phones  
10 or computers or IMs or any of the tools you use? Ever  
11 worry about security, privacy of who you're meeting?

12 MR. FELDMAN: Yes. I used to buy a lot of my  
13 textbooks online. It's just easier and certainly more  
14 efficient and always -- it's almost always cheaper, but  
15 at the same time, you always have in the back of your  
16 mind, especially because it's constantly in the news  
17 now, the idea that, Well, maybe the information you are  
18 sending isn't really going to go to Amazon or isn't  
19 really going to go to EBay, maybe it will go to someone  
20 else and who knows what they'll do with it, so I think  
21 that identity security is certainly something that's an  
22 issue.

23 MR. ARLEN: Joshua, do you think about that when  
24 you communicate online or order something through  
25 ECommerce?

1           MR. MEREDITH: The biggest thing for me is my  
2 credit card online or I'm checking into my bank  
3 statement through on the Internet. I always get a  
4 little worried. You have to make sure you close that  
5 page off and sign out just to make sure, and I try to  
6 not give out as much information where they say that  
7 some of these boxes are optional. Sometimes I just  
8 won't fill those in because I'm a little hesitant to  
9 give away all that information.

10           MR. ARLEN: Marshall?

11           MR. COHEN: I just can't bring myself to use  
12 EBay. I still can't trust it, even though all my  
13 friends say it's reliable, and like I'm faced with  
14 especially -- it's almost starting to get creepy to me  
15 how many people are involved and what people can see. I  
16 don't put my cell number out there, and people think  
17 that's strange.

18           MR. ARLEN: Did you do that originally?

19           MR. COHEN: No, I never wanted to. I didn't  
20 want people that I didn't know having my number.

21           MR. ARLEN: You're cautious?

22           MR. COHEN: Yes.

23           MR. ARLEN: Peter?

24           MR. MILLER: I think I would say the same about  
25 credit card information and cell phone information, but

1 sure, mailing address, my name, social security maybe, I  
2 mean, you put that up online often.

3 MR. ARLEN: That's all that information about  
4 the overseas people you're communicating with.

5 MR. MILLER: Absolutely.

6 MS. MCGARRITY: Yes, definitely my credit card  
7 information and any sort of financial information is  
8 what I'm definitely most concerned about. I don't  
9 really give out my phone number to anyone that I don't  
10 know, so personally or not, and I don't really seek  
11 out --

12 MR. ARLEN: Do you think your friends are as  
13 security conscious and as privacy conscious as you are?

14 (All say yes).

15 MR. ARLEN: Good. That's a great segue to my  
16 next panel, where we're going to talk about privacy and  
17 security. If you could join me in thanking the GW  
18 students for sharing a few ideas.

19 (Applause.)

20 MS. HARRINGTON-MCBRIDGE: While we rearrange the  
21 furniture, we have a short video clip that we thought  
22 you might want to look like about how some students use  
23 technology to stay in touch.

24 (Whereupon, a video was played for the audience  
25 but was not transcribed.)

1           MR. ARLEN: Thank you. Now we're back for some  
2 more discussion. I'm going to move my chair a little  
3 closer if you don't mind.

4           Let's see if we have our introductions. Sooner  
5 or later there will be a slide up there that tells this  
6 is Dana Lesemann from -- I'll let you all introduce  
7 yourselves after this -- from Stroz Friedberg, a law  
8 firm.

9           MS. LESEMANN: A consulting firm.

10          MR. ARLEN: A consulting firm. Ari Schwartz,  
11 who is the deputy director for Center for Democracy and  
12 Technology, and we'll be hearing from Dave Cole,  
13 director of Symantec Security Response. I think you've  
14 come in from California for this, haven't you?

15          MR. COLE: I have, Los Angeles.

16          MR. ARLEN: So we want to talk about what  
17 security and privacy mean in the upcoming tech-ade,  
18 looking at some of the issues that affect how we'll  
19 communicate. Since communication inevitably, as we  
20 heard from the final comments of the GW students a  
21 moment ago, is very much on people's minds, although I  
22 don't know if you heard their conversation, but it seems  
23 that they're very conscious of this.

24                 So Dana, why don't you start and give us a few  
25 ideas about where you see the communications trends and

1 the primary factors that your consulting firm looks at.

2 MS. LESEMANN: Sure. First, Gary, I would like  
3 to start by thanking the Commission and the Bureau of  
4 Consumer Protection and BE. This is a little bit of a  
5 homecoming for me because I don't know if you know, I  
6 used to work for the Bureau in the mid '90s doing  
7 consumer fraud litigation, so this is great for me to  
8 come back.

9 And also being here at GW, I worked with Katie  
10 Harrington-McBride, and also we both taught here at  
11 George Washington at the law school, so it's really an  
12 honor and a privilege to be back there so I would like  
13 to thank Katie and the Bureau for having me back here.

14 I would like to talk about security and privacy  
15 in the context of where the Internet and communications  
16 are going, but I thought it would be really interesting  
17 to look back at where we've been and where we're going  
18 to see how communications have evolved because  
19 technology is neutral. Good guys and bad guys have the  
20 same technology, so we can see how technology, privacy  
21 and security have been really changing.

22 When we talk about the crime scene before when  
23 the FTC is prosecuting fraud cases, when the U.S.  
24 attorneys are looking at fraud cases, when the FBI are  
25 looking at fraud cases, the crime scene is changing

1 exponentially. They're looking at encrypted data. The  
2 co-conspirators who are doing data communications are  
3 encrypted. Data is decentralized, and all these things  
4 have really been changing dramatically over the last 20  
5 years or so.

6           So when you look back at really way, way back in  
7 the '80s, if any of you remember, we had maybe two  
8 computers, two computers that were connected by a cable.  
9 There were actual cables that connected computers. If  
10 you wanted to transfer data, you used a disk. We had  
11 floppy disks, and there was maybe kilo bytes of data, if  
12 you were lucky there were megabytes, and if there was  
13 fraud that was going on, you got those two computers,  
14 and the data was clearcut, and that was the end of the  
15 story. The FBI or the FTC would look at the computers.

16           Then the next structural revolution came along.  
17 The first structural evolution came along, and you had  
18 LANs, localized access networks, and you had maybe --  
19 and I had slides but Katie convinced me that slides were  
20 really, really a problem so I didn't bring my slides.

21           MR. ARLEN: As we learned thi, morning.

22           MS. LESEMANN: As we learned this morning, that  
23 slides were a little problem, but I had really great  
24 pictures. So we had computers that were connected by  
25 modems, so at this point, you have maybe megabytes, so

1 then you had computers that were connected by modems,  
2 and you had megabytes of data, and maybe you had multi  
3 users using machines and multiple data streams that were  
4 involved, and then when we were talking in the late  
5 '80s, early '90s, you had the beginning public computer  
6 centers. This was the beginning of the encryption list.

7 And honorable people disagree about how  
8 encryption -- honorable people disagree about how  
9 encryption should be used and whether or not keys should  
10 be kept for encryption, and the crime scene expanded at  
11 this point. We're talking about large amount of data,  
12 and from there we went to the client server model, and  
13 this is where I came on to the scene for the Federal  
14 Trade Commission, and all of a sudden when you went into  
15 a boiler room, you had to find the server, and usually  
16 you're in a really hot room, then you found the air  
17 conditioned room, and that's where the server was  
18 because that's where the data was.

19 So you had text based realtime communication.  
20 We're talking about gigabytes of data, but multiple  
21 users could access the information from pretty much  
22 anywhere on the Internet so the world changed again.  
23 Then these were great pictures.

24 MR. ARLEN: You have to tell us what's going to  
25 happen in the next tech-ade.

1 MS. LESEMANN: I believe the next tech-ade is  
2 moving from the peer-to-peer network which is where we  
3 are now. Computers connect from anywhere. There's no  
4 client server model. Everything is connected together.  
5 Any computer anywhere connects together. There's no  
6 client. There's no server. Any computer can get to  
7 anywhere on the network. That's where we are now.  
8 That's where we're going in the future, but any computer  
9 will be able to use all of the processing of resources  
10 from any of the computers that are accessed anywhere on  
11 the network.

12 I'm going to be sitting at my home in Takoma  
13 Park. I'm going to be able to use any of the computers  
14 that are accessed on that network. Maybe it's once or  
15 more. Hopefully, in Chillant they have produced their  
16 nuclear data, but if it's the public computers, I'm  
17 going to be able to use their networks. There's going  
18 to be increased mesh networks where access is going to  
19 be instantaneous anywhere on the network. I'm going to  
20 be able to get on there with my cell phone. I'm going  
21 to be able to get there on my pager. I'm going to be  
22 able to get there on my walkie-talkie. I'm going to be  
23 able to get there from anywhere.

24 What does this mean though for law enforcement?  
25 It means that data is going to be ten times what it was

1 even before in the '90s. We're not talking kilobytes,  
2 megabytes, gigabytes. We're talking terabytes and  
3 petbytes. We're talking about data that's anywhere, in  
4 multiple jurisdictions. We're talking United States,  
5 UK, friendly jurisdictions, unfriendly jurisdictions.  
6 We're talking about server set-up in Cubastan and any  
7 kind of Stan you can think about. We're talking about  
8 entry and entrance networks anywhere.

9 We're talking about -- Ari and I were talking  
10 about this before, you can set up any kind of device  
11 that gets onto this the network, puts information on the  
12 network and gets it off the network. Ari thinks about  
13 honorably people using information in honorable ways. I  
14 think about dishonorable people using information in  
15 dishonorable ways using a breaker, breaking up their  
16 waves in different routes, and you'll never be able to  
17 find it again.

18 But I think the question is not how will we be  
19 communicating, but it's an article I read about the 2016  
20 symposium at Columbia University. The question is: How  
21 will we communicate in the seminar, in the next ten  
22 years, so with that, I'm done.

23 MR. ARLEN: Actually I have a question for you,  
24 Dana.

25 MS. LESEMANN: Yes?

1           MR. ARLEN: So you say you can get anywhere from  
2 Takoma Park, but that means they can get to you, to your  
3 devices.

4           MS. LESEMANN: Absolutely.

5           MR. ARLEN: Do you have firewalls? What do you  
6 do? Do you put up any protection for yourself?

7           MS. LESEMANN: Absolutely. There are going to  
8 be two keys. One is authentication. You are going to  
9 have to know who are you communicating with at all  
10 times, strong authentication is what is going to be key,  
11 and I think businesses have really been thinking that  
12 consumers were not willing to they thought indulge in  
13 strong communications, that strong authentication  
14 because they thought it wasn't going to be worth it.

15           I think they're coming around to the idea that  
16 authentication, strong authentication, is the price of  
17 doing business. I think that's it, and the other is  
18 firewalls and encryption. I think firewalls and  
19 encryption are really going to be the price of doing  
20 business with any kind of wireless network.

21           Now, we deal with people who have been spoofed.  
22 I think everybody here, especially those under the age  
23 of 25, knows what spoofing is.

24           MR. ARLEN: There's not that many under the age  
25 of 25, so why don't you tell us.

1 MS. LESEMANN: We deal with businesses all the  
2 time where somebody has gone around, and their Emails  
3 have been high-jacked by someone else who has sent out  
4 Emails in their name, because somebody is war driven,  
5 gone around with a computer and driven around until they  
6 find an encrypted network where they could send out  
7 Emails from those addresses, and that's war driving and  
8 spoofing, sending out an Email from that address.

9 MR. ARLEN: What you're saying is that all of us  
10 have to be much more vigilant about how are own  
11 facilities are protected.

12 MS. LESEMANN: Sure. Encryption offensively and  
13 defensively. Encryption defensively on your network,  
14 and then you don't have to worry about spoofing, and  
15 encryption offensively by the bad guys.

16 MR. ARLEN: Let's move to Ari from the Center  
17 For Democracy and Technology. You're going to talk a  
18 little bit about some emerging and potential concerns  
19 that Dana has just discussed.

20 MR. SCHWARTZ: Well, Dana I think made out some  
21 of that on good guys and bad guys, and I would say more  
22 that Dana is looking at from the perspective of law  
23 enforcement, and we're looking at more from the  
24 perspective of the consumer and what the consumer is  
25 interested in.

1           So the question is, and looking -- in thinking  
2 about these issues, I try to look back at what people  
3 were talking about ten years ago, and there was a lot of  
4 talk about convergence. I think people had different  
5 views about what convergence would be. We heard a lot  
6 about everything coming in through the TV, and ten years  
7 ago, et cetera, and that seems unlikely now, but if you  
8 look -- I think that we're actually at the point of  
9 convergence that we were -- that people had maybe  
10 envisioned ten years ago, maybe not.

11           If you think about the -- about how we  
12 communicate today, we have a lot of devices that use a  
13 lot of different communications method. You don't have  
14 a phone that's only good for telephone service anymore.  
15 You have phones that do IM, that do text, that do Email,  
16 that do calls, that have calls that may have video music  
17 on them or they may have video music and they have video  
18 music preference that goes along there on them as well  
19 as laptops that do all those things as well as maybe MP3  
20 players, but the main focus may be different, but they  
21 do all of these different things.

22           We have DVRs that connect to the Internet. We  
23 have PlayStations and gaming consoles that are really  
24 Internet devices, and you start to see a lot of that so  
25 people are communicating. It's not so much we're going

1 to have no means of communication that are going to come  
2 up, but it is the focus on the hardware is much  
3 different, and one thing that we don't have today is the  
4 ability to sink all of this together, and we've heard I  
5 think Peter Cullen focused on this, from Microsoft  
6 focusing on this on an earlier panel, that really the  
7 discussion is going to be in the future for the next ten  
8 years about how we pull all that information together  
9 and the privacy and security risk that comes from  
10 pulling all that information together.

11 Dana laid out a vision of peer-to-peer space. I  
12 think that that's a possibility and especially in the  
13 longer term. In the shorter term, I think that we're  
14 talking very cheap storage, and there's going to be a  
15 discussion of that in the next couple days here, but I  
16 think that the idea of storing things and passing  
17 information along to different devices so that you get  
18 your Email, that you receive that on your cell phone and  
19 it shows up in your Email, in your Email -- and it shows  
20 up in your -- on your computer and it shows up on your  
21 iPod at the same time and you get all that information,  
22 don't lose any messages. IMs, the same thing, that  
23 because different people from different generations are  
24 going to communicate in different ways as I think  
25 Susahanna Fox laid out very well this morning from Pew.

1           The problems that we see with this movement is  
2   you look at the broader vision. I think a lot of people  
3   have laid out that broader version and how they will  
4   work really well. You heard the group talking about  
5   pulling together all the world's information and making  
6   it accessible, and they have a grand vision for doing  
7   that. You have the Tim Burners Lee talking about the  
8   semantic web, the original creator of the web, moving on  
9   to the next steps of the web, and what that's going to  
10  look like and how people are going to be accessing that  
11  information.

12           And I think people have that kind of grand  
13  vision how we get to these next steps of being able to  
14  get the content down to all these different devices.  
15  The problem comes with the attacks that you're going to  
16  see from people involving themselves. I think a lot of  
17  it is sort of based on old attacks, and we've seen that  
18  online too. It's not a coincidence that you have these  
19  Nigerians, the Nigerian spam that were some of the first  
20  major fraud scams out there. That's an old scam.

21           MR. ARLEN: I shouldn't have sent them that \$2  
22  million?

23           MR. SCHWARTZ: It's an historically old scam,  
24  the Spanish prisoner, right? And so I think that we're  
25  going to see these repeated in new ways, taking

1 advantage of the new communications. You can think of  
2 people using VOIP where Nigerians today can get a U.S.  
3 area code, make it look like they're coming in from a  
4 U.S. phone number and starting to make calls, direct  
5 calls, and they've lost the expense of making a long  
6 distance phone call, the VOIP that works in that way.

7 MR. ARLEN: Are any parts of that chain more  
8 vulnerable than others? You've laid out wire and  
9 wireless pieces and broadband and others. Are there any  
10 things that you see particularly vulnerable to that kind  
11 of intrusion?

12 MR. SCHWARTZ: I think they're all equally  
13 vulnerable. I think it depends on how the  
14 communication, how the technology is designed from the  
15 beginning and whether there was thought put into the  
16 kinds of attacks we've seen in the past and the way  
17 people might be thinking in the future and putting those  
18 protections in from the beginning.

19 I think a lot of people from the Mark Foley case  
20 learned for the first time, and some of my own clients,  
21 all your IMs are logged forever on the other side. Some  
22 IMs don't have the do not -- an off the record button  
23 where you can stop it from logging on the other side,  
24 but for the most part it's up to the person receiving  
25 the message to decide whether it's stored or not.

1           So that's something entirely that came out in  
2 this discussion, but for people that don't use IM very  
3 much and use it only sparingly, they don't necessarily  
4 know that they're even storing all of those messages,  
5 and I think that those are the kind of risks that we  
6 have out there. That's kind of an accidental risk.  
7 There's also the scams out there, the phishing scams and  
8 the spam and spyware, kind of new versions of those  
9 things, many in the middle attacks where they're picking  
10 off this informations as it flows back and forth or the  
11 equivalent of a phishing scheme where they'll ask you  
12 or they'll use a fraudulent device that mimics what your  
13 device does to pull off that information and get it that  
14 way, kind of the middleman issue.

15           But I think there's also the bigger privacy and  
16 security concerns from the kind of companies that are  
17 going to be doing with information. Because we're going  
18 to be storing more information and more information is  
19 going to be flowing back and forth, things that we used  
20 to have in our homes, in our desk drawers are going to  
21 be flying across the network, as we've already been  
22 seeing, but even more so in the future, and there's  
23 going to be a temptation for peer industry to try and  
24 use this information, and there's a question of: How  
25 effectively are they going to do it and give control

1 back to the consumer?

2 We already see this in the advertising space now  
3 all the time, in the online advertising space, and this  
4 discussion is an ongoing discussion there, but I think  
5 it's going to be kind of a more general discussion about  
6 privacy and security and how all this information flows  
7 and what we do in that space.

8 Now, Dana also mentioned authentication. I  
9 think there are a lot of people, including CBT, put out  
10 a set of authentication privacy principles awhile ago, a  
11 guide of some, of the broader high level discussion  
12 about how you go about making authentication, privacy  
13 friendly from the beginning, but I think that that  
14 discussion is going to be ongoing especially over the  
15 next five years when you're talking about putting these  
16 devices and authenticating.

17 There's going to be a lot of discussion in that  
18 area so that's one place to go.

19 MR. ARLEN: That's a great segue to David Cole,  
20 whose company, Symantec, is very deeply involved in  
21 security in order to make sure we communicate closely.  
22 So why don't you give us a little view of where Symantec  
23 sees this going.

24 MR. COLE: Absolutely. So I'm going to do  
25 something unusual. I'm going to start out with some

1 good news. Normally we're the bearer of bad news. It  
2 starts off by saying that one of the things that's been  
3 the biggest component, it's been the biggest tool for  
4 distributing spyware, adware, malware, Trojan horses,  
5 over the past -- really since the year 2000, has been  
6 the drive-by install.

7 This has been either some ways using flaws and  
8 vulnerabilities in web browser to foist unwanted things  
9 on people's machines, and over the next 12 to 24 months,  
10 that is actually going to drop off precipitously. New  
11 technologies, web browsers like Fire Fox 2.0, Internet  
12 Explorer 7.0, Vista, Advisory Services Online now, the  
13 search engines are starting to filter out some of the  
14 bad web sites from their search results. All of that is  
15 going to drop off the level of these drive-by installs  
16 that have really plagued the Internet over the course of  
17 the last five or six years, so that's the good news, not  
18 the only good news, but the good news.

19 Nonetheless, I want you to think of sort of the  
20 Internet landscape as a big chest board, and you have  
21 the black pieces and the white pieces, the black being  
22 the bad guys and the white pieces being the good guys as  
23 tradition, so as the black moves their piece, the white  
24 counters, and then the black moves to the next  
25 advantageous square.

1           So what we're seeing is that as that vector  
2 stops, where will they go? And as we look at our threat  
3 modeling and the kind of early kind of indication of  
4 what's happening, Instant Messaging is the logical next  
5 step, so you'll look at increasing usage. In China  
6 alone there's 800 million registered Instant Messaging  
7 users. That's massive. If you look at youth who are  
8 using it, it's very prevalent among teens. It's being  
9 used more and more in the workplace by 30 percent of  
10 people who work inside a large organization. It's  
11 increasingly being used to transfer executable content,  
12 videos, pictures and so on.

13           It's also increasing on mobile devices as well.  
14 It's still not very good, but it's there. You have your  
15 buddy list which is tailor made. If you hack into  
16 someone's machine or programmatically through a worm,  
17 you have that buddy list sitting there. You can grab  
18 that and make it look like it came from a friend,  
19 someone you trust, so it's kind of tailor made for  
20 hacking, much in the same way Email was awhile back in  
21 the wooly days of I love you, Melissa worm and all that  
22 stuff.

23           So you have a lot of things which set IM up  
24 really to be the next ground for attack, and on top of  
25 that, we have a good thing here. As mentioned before,

1 technology isn't good or bad most of the time. It just  
2 is. On compatibility that there is, between the  
3 networks it's dropping, so now Yahoo and MSN are talking  
4 which is fantastic, but what happened before is when you  
5 had a threat, when you a worm that would rip through  
6 Yahoo, well, it couldn't get over to MSN because the two  
7 networks weren't linked up.

8 All of a sudden the worms can start to bounce  
9 from network to network, so it's a good thing in one  
10 way, and then on the other side it opens up for a lot  
11 more virulent threats in IM space.

12 Also I want to make a mention of peer-to-peer as  
13 well, so one of the things we've seen at Symantec is  
14 threats are using peer-to-peer to traverse the Internet  
15 a bit more and infect people. About 23 percent of the  
16 thefts for the first half of 2006 could use peer-to-peer  
17 to circulate. That's an increase from about 14 percent  
18 from the latter half of 2005, so that's happening, and  
19 as we look out, Vista will be shipped with the plumbing  
20 for peer-to-peer in it, so some of the future that Dana  
21 was pointing out and some of the things we're seeing, I  
22 think the story is kind of far from over when it comes  
23 to peer-to-peer, file sharing and so on.

24 So let's look a little bit at conversion, and I  
25 do think it's a little further ahead of anything that's

1     happening around us, but having said that, I would still  
2     rather jog home to LA then try to buy something with my  
3     Trio. It's just too painful. It's just painful. It's  
4     not good for web browsing yet, and I happen to think  
5     it's a great device. It's just not quite all there yet,  
6     so instead we can use IM on the phone, use it as a  
7     payment, as a wallet as they do in Japan, use it to view  
8     TV programs, use office productivity applications off of  
9     it, I would say that convergence isn't quiet right here  
10    yet or it's not to the point where my grandmother in  
11    Toledo, Ohio, who is an avid online user, loves her  
12    online canasta, she can't use it. If I have to upgrade  
13    my firmware, she's not ready.

14            So as was mentioned before, typically the only  
15    devices we use, as a matter of fact 2.5 billion people I  
16    think was the stat from earlier today, they're using  
17    hand-held devices, phones. There's a lot more chance  
18    that people are going to be accessing the Internet  
19    through the devices than they are through a PC or a  
20    kiosk, you name it.

21            So one of the things I want to point out is the  
22    bandwidth is rapidly expanding. That plus costs are  
23    going down, and online services keep getting better and  
24    better, so take a look out there at mapping applications  
25    and what we have today, whether you use Google, whether

1 you use the new Microsoft service, it is light years  
2 past what we had when MapQuest first came out, so you  
3 look at that and Ajax and other web technology, YouTube,  
4 Flickr. All these things are really starting to feel  
5 like genuine applications, like we used to have on our  
6 desktop, and that's pretty exciting.

7 MR. ARLEN: Are you looking including MapQuest  
8 and kind of Web 2.0 service in that as well?

9 MR. COLE: Exactly, absolutely. All these  
10 applications or a lot of the technology that used to use  
11 servers is coming down to the client side so now it  
12 feels like a really full loaded application. You throw  
13 into that a brand new bubble that brand new Web 2.0, the  
14 pioneering spurts competition. You have some serious  
15 applications. You have fast bandwidth devices from  
16 anyone accessing this stuff, so what does that mean for  
17 the threat space?

18 Well, a lot of people have been saying, Oh, dear  
19 God, our house is all Interneted up, and so we're going  
20 to have viruses in the toaster. Well, I would propose  
21 that that is not going to be a problem or at least it  
22 won't be the worst of the problems. What's happening is  
23 that the web is becoming the platform. The network is  
24 becoming the platform, so we're not as big a threat as  
25 mobile worms and so on attacking your cell phone as we

1 are of threats circulating through the web space.

2 As a matter of fact, we saw one of the first  
3 virulent ones this year. There was a worm called Yamina  
4 (phonetic) which only struck for about two days, but it  
5 hit 100,000 people in just about 24 to 36 hours so very  
6 virulent. The plug was pulled on it because it was all  
7 confined within the service provider's servers, but it  
8 gave us a little glimpse of what's ahead.

9 I would like to propose that even though web  
10 service threats will absolutely be part of our future,  
11 probably more so than the toaster infecting virus,  
12 there's a heck of a lot more vulnerable people than  
13 there are vulnerable web services, so as the bad guys go  
14 out there and look for things to exploit, they've got  
15 new people joining the Internet every day who may not  
16 have the online street smarts, who may not have the  
17 suave fair to stay away from the online threats and so  
18 forth.

19 So a lot of the attacks we see are moving away  
20 from exploiting a PC exploiting application and to dupe  
21 people into doing things like they're doing on the 419  
22 scams, like misleading applications. We're seeing a  
23 whole new genre of what we call Rogue spam, kind of fake  
24 security products, trying to dupe people into saying  
25 that they have hundreds of flaws in their machines and

1 they have to pay them to fix them.

2           So this is really where we see a lot of the  
3 activity going is not so much exploiting technology but  
4 exploiting people's use of technology and exploiting  
5 perhaps their lack of understanding of the Internet,  
6 commerce on the Internet.

7           So I'm going to wrap up by talking about one  
8 thing which I think is a wild card which I haven't heard  
9 a lot of talk about today, and that's the kind of the  
10 exciting arena of virtual worlds, it's sometimes called  
11 massively and multi online games and massively and multi  
12 online role playing games, war peps. They're a bit of a  
13 wild card because they're not so much games, but they're  
14 really 3 D web browsers in some ways. They're  
15 interactive communities and they're just starting to  
16 take off.

17           Look at Second Life. Second Life is one of the  
18 most popular today. It's expanded its population at 35  
19 percent month over month. Annually, 978 percent per  
20 annual. That's about a thousand percent per year.  
21 That's staggering and great business for Linden Labs I'm  
22 sure.

23           If you try and dismiss this as sort of a niche  
24 for the hopelessly nerdy and socially inept, the reality  
25 is that the vast majority that are typically using this,

1 the median age is 32, and these aren't terribly socially  
2 inept people. These aren't kids. These are adults who  
3 are interacting socially. Some part are kids, but kids  
4 stay on the teen grid and there's an adult grid and so  
5 on, but these are services that are being used by normal  
6 people many times.

7 The most popular activities here aren't slaying  
8 dragons or trying to find the mystical pot of gold too.  
9 It's building things. It's solving puzzles together  
10 which is teaching. It's strategizing and it's  
11 interacting, so we've really only begun to scratch the  
12 surface of the safety, security, privacy issues of  
13 virtual worlds.

14 And you have to consider as well -- one thing  
15 here is that there's real economies going on here, so in  
16 the Second Life one of the very innovative things is you  
17 build something in Second Life, you own it. It's your  
18 intellectual property, so that the actual economy of  
19 Second Life is growing about 15 percent month over  
20 month, and that's about 270 percent annually. You can  
21 also buy a brand new Toyota car in Second Life for no  
22 more than \$2. No matter how good you are at the  
23 dealership, you're not getting that deal.

24 So it's starting to be used by major brands to  
25 promote products. There's a variety of boutique shops,

1 most of them in the Bay area who are developing these  
2 kind of campaigns for them and so on.

3 MR. ARLEN: When you were the greeter, I  
4 mentioned that the games environment overall was growing  
5 at a pace that puts it beyond the Hollywood environment  
6 on some growth curve, and of course the immersive kind  
7 of participatory games with the technology to assert  
8 yourself, your face, your life, your holdings, your  
9 company into where it offer tremendous opportunities and  
10 a few risks and threats passed along the way.

11 MR. COLE: Absolutely.

12 MR. ARLEN: Before I turn to questions that I  
13 want to ask, I want to remind you and welcome your  
14 questions, there's a form to fill out in your kit or  
15 take a piece of paper and just jot down a question if  
16 you have it for Dana, Ari or Dave, and send it on up  
17 here. We'll try to have a few minutes for your  
18 questions in this session.

19 While you're writing those down, and I think  
20 Katie is out there somewhere to set up a team to collect  
21 those questions later, if you have any and you want to  
22 send them up here.

23 I just want to say you've all mentioned issues  
24 of records, someone keeps the records, and I alluded to  
25 in my opening remarks of the divestiture of the old

1 telephone companies, now that you have two major  
2 companies for wired and then three or four with  
3 wireless, but some of those are going to consolidate.  
4 It seems that those records are being kept both for  
5 business purposes and potentially for criminal  
6 investigations in a very concise number of players.

7 Of course the ISPs, the cable companies as they  
8 become multiple media carriers as well, what do you see  
9 the issue of who holds the records? And, Ari, you  
10 mentioned VOIP and some of the issues associated with  
11 that.

12 What are the big issues and even the minute  
13 issues that you're going to look at on keeping security  
14 and privacy in this kind of a consolidated environment?

15 MS. LESEMANN: Well, I think there are several  
16 different issues. One is how long are you going to keep  
17 the records? How are you going to make sure that their  
18 privacy issues -- do you want to be keeping a large  
19 amount of data? There's a huge amounts of data. Do we  
20 as a public policy matter want to keep large amounts of  
21 data? If you're having large amounts of data, are you  
22 going to be able to keep that safe?

23 MR. ARLEN: You have questions. Do you have  
24 answers?

25 MS. LESEMANN: Well, let me layout the questions

1 first. How are you going to keep that safe? You have  
2 data intrusions, data breaches for all different levels.  
3 There's insiders hackers, just negligent thefts. Then  
4 there's: What do you for law enforcement? What's your  
5 law enforcement -- what should law enforcement be  
6 allowed to have? Should CALEA, the assistant law  
7 enforcement -- what does that stand for, Communications  
8 Assistant For Law Enforcement Act? Should it be amended  
9 for the Internet and how? What should be done? What  
10 should they -- what should AOL should be -- how long  
11 should AOL be required to keep information?

12 Do they only keep information for a very short  
13 period of time? If you ask AOL for something that  
14 happened a year ago, they'll laugh. They have records  
15 going back for a very short period of time, and it's  
16 already at warehouses. If you ask them to keep it for a  
17 little bit longer, they'll laugh and say that that is  
18 just a huge amount of intrusion on to their business  
19 practices that they couldn't possibly do it.

20 Those are just the things that I thought just  
21 sitting here spinning them off the top of my head.

22 MR. SCHWARTZ: I'm actually going to take a  
23 slightly -- the same question a slightly different  
24 direction. We've seen a real change in the way that we  
25 think about transaction information, and several years

1 ago when we talked about privacy bills --

2 MR. ARLEN: When you say transactional  
3 information, do you mean as call launched or actual  
4 financial --

5 MR. SCHWARTZ: It can be location information.  
6 They can be the logs themselves, and I'll get to an  
7 example and give a little more detail, but several years  
8 ago there was the privacy bill that we would see would  
9 all have personal -- a description of personally  
10 identifiable information, and that idea of personally  
11 identifiable information used to mean -- was more  
12 focused on name, address, Social Security number,  
13 specific identifiers in that area.

14 Now we're seeing, because people are more  
15 concerned about anything that can be related or anything  
16 that can possibly identify an individual, so you have  
17 the AOL case where you have people putting out search  
18 terms, their search terms that are listed, there's  
19 not -- their IP address wasn't listed, their cookie  
20 information wasn't available, but the New York Times was  
21 able to go through it to get all these records together  
22 and figure who an individual was whose information was  
23 involved here.

24 And I think that that idea sort of is starting  
25 to percolate out there, that this transactional

1 information can be used in these other ways, so now you  
2 have a definition, and a bill that's in front of  
3 Congress today that passed the House that has a  
4 definition of sensitive personal information which is  
5 anything that can be used to identify an individual, not  
6 that it is being used that way but it can be used that  
7 way.

8 MS. LESEMANN: Very broad definition.

9 MR. SCHWARTZ: This is government information on  
10 the government side, but we're starting to see a lot  
11 more of that discussion, because of the information  
12 that's being used, kind of incidental information, I'm  
13 calling it transactional information between an  
14 individual.

15 MR. ARLEN: One person this morning talked about  
16 synthetic individuals. Are you familiar with that whole  
17 process? Help us understand that a little better.

18 MS. LESEMANN: It sounds like kind of a game  
19 world -- it's not a game world question?

20 MR. SCHWARTZ: So instead of a -- ID theft  
21 usually comes in a lot of different ways. You have  
22 account takeover where people will go in and there's  
23 identity over where you take over someone's identity.  
24 In this case synthetic identity is you create a new  
25 person that then builds up their own credit, and you use

1 that to take in money and that person disappears.

2 MR. ARLEN: It isn't taken from someone else's  
3 data?

4 MS. LESEMANN: No.

5 MR. SCHWARTZ: It's creating a new person,  
6 someone that doesn't exist.

7 MR. ARLEN: Is it common yet?

8 MR. SCHWARTZ: I think in certain circumstances,  
9 in the auction world you have people that create  
10 identities in order to build up auctions and rip people  
11 off in that way, and it's becoming more common in the  
12 identity theft cases as well, but I think still the  
13 biggest threats is still on account takeover.

14 I think that there have been two articles  
15 viewing the future which has completely frightened me in  
16 the past few months, the first one being this Etrade  
17 case, and I'm sure Dave knows about this too, where they  
18 are basically using penny stocks and using spyware to go  
19 into people's accounts, infiltrate their accounts, and  
20 taking over accounts and buying paper accounts, selling  
21 off their own stock, transferring it into enough banks,  
22 and then leaving the person with the Etrade account with  
23 worthless stock.

24 Supposedly in eastern Europe, the criminals were  
25 in eastern Europe and in Thailand, and they made over

1     \$20 million doing this infiltrating brokerages, that's  
2     number 1.

3             And the scary thing -- number 2 scary thing is  
4     the ID theft cases that are tied to crystal meth and  
5     using actually people's mail. They have bills, taking  
6     them out of the mailbox, taking that information and  
7     committing identify theft through war driving, which was  
8     today talked about, finding a hot spot and then they  
9     can't be traced back.

10            MR. ARLEN: You're from a technology company.  
11     Will technology find solutions as you said to resolve  
12     some of these issues? There's a lot of new tools coming  
13     along, and is it tough to get into the market? The  
14     advertisers have certain goals, for example, they would  
15     like to accomplish, and some of your tools sort of put a  
16     limit on how they can -- sometimes put a limit on how  
17     they get their messages out.

18            MR. COLE: It's certainly a lot different than  
19     it used to be. When they're saying they're finding  
20     malware, or Trojans or viruses, they guy who created  
21     them, the worm, doesn't call you up and say, It's not  
22     really a worm, it's a Trojan horse actually. It just  
23     doesn't happen, but certainly in the world where I am  
24     now, a lot of where it shifts now -- as I mentioned a  
25     lot of the attacks are more psychologically based. A

1 lot of world shifts to helping people make good  
2 decisions.

3 MR. ARLEN: Helping consumers or vendors who  
4 want to get a legitimate message out?

5 MR. COLE: Primarily consumers. That's the  
6 target. However, having said that, we end up doing a  
7 little bit of both, so organizations that approach us  
8 and say, well you're calling us adware, you're calling  
9 us spyware, why are you calling us that, it's our  
10 obligation to say that, Look, we analyzed the program on  
11 this thing and we analyzed everyone else's, we look at  
12 these five or ten criteria, and we rated you objectively  
13 using these things, and it's not too hard to connect the  
14 dots and say, okay, if I want to be lower risk, if I  
15 don't want to be this, then I can go and change my  
16 program and offer a better user experience and improve  
17 what I am doing.

18 So we sort of implicitly by doing this, by  
19 helping consumers sort of implicitly help these folks  
20 along, but our first intention is protect customers and  
21 give them a choice.

22 MS. LESEMANN: I want to bring up something you  
23 said about, you're all talking about Instant Messaging  
24 and everybody has this. I think we all agree that  
25 Instant Messaging is going to be a wave of the future.

1           MR. ARLEN: And the results are very  
2 vulnerable?

3           MS. LESEMANN: Very vulnerable in some ways but  
4 not in terms of an attack, but a lot of people think  
5 that Instant Messaging is a way to get around law  
6 enforcement because it can't be tapped in a conventional  
7 sense. Mark Foley, notwithstanding, because somewhere  
8 sat there and decided to record that conversation, but  
9 I'm not going to get into the details of Mark Foley for  
10 a bunch of different reasons most people -- for a bunch  
11 of different reasons. Okay.

12          MR. ARLEN: Please.

13          MS. LESEMANN: Please, so in Google, the  
14 foremost value is that the conversation is going to be  
15 recorded. In every other medium, in AOL Instant  
16 Messaging and all the others, the default is not to  
17 record the message. That's the basic concept, but even  
18 if you're using AIM, most of what's called the  
19 unallocated space of the computer, you can find  
20 fragments of a conversation.

21           In my firm and in our computer clients firms, we  
22 do that routinely, and one of our forensic examiners  
23 testified in a case involving Lamare Owens, who some of  
24 you are probably familiar with, a star quarterback from  
25 Annapolis who was charged with sexual assault. The

1 complainant and he had had this ongoing Instant  
2 Messaging conversation, and she said that -- he said  
3 that she invited him up. He said that he didn't, and we  
4 didn't find that actual conversation, but we found  
5 fragments of conversations in what's called the  
6 unallocated space which is saved to memory.

7           So one of the things that as we go forward, even  
8 if people use Instant Messaging and even if someone does  
9 not record it because we can set your computer to record  
10 AOL Instant Messaging, although the default isn't there,  
11 there are forensic tools that allow forensic examiners  
12 to go forth and find fragments of messages in the  
13 unallocated space.

14           So even with people, it's like previous tools  
15 where people who were -- the criminals would go, Ah-Ha,  
16 they can't use this, they don't know how to do this.  
17 I'll use this, so it's not that simple.

18           MR. ARLEN: I have lots more questions to ask  
19 you, but I know we're running out of time, so I'm going  
20 to turn it back to Katie and ask the audience to join me  
21 in thanking the panel for a really great discussion.

22           (Applause.)

23           MS. HARRINGTON-MCBRIDE: Thank you, Gary, and  
24 all of you panelists. We thank the millennia too if  
25 they're still here in the audience.

1           We thought we would take a minute while we're  
2           changing sessions. We've asked now the millennials to  
3           tell us how they think we'll communicate in the next  
4           decade, and we've asked these experts, and now we're  
5           going to take a minute and ask you with this polling  
6           question.

7           (Pause in the proceedings.)

8           MS. HARRINGTON MCBRIDE: The audience has spoken  
9           thank. Thank you all very much. We're going to take a  
10          15 minute break and avail yourself. I think there was a  
11          long line at lunchtime, but go over to the Tech  
12          Pavilion. We have some additional refreshments there.  
13          Thanks.

14          (A brief recess was taken.)

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1 PANEL 4: SOCIAL NETWORKING, TRENDS AND IMPLICATIONS FOR  
2 THE FUTURE:

3 OPENING REMARKS: COMMISSIONER PAMELA JONES HARBOUR

4 MODERATOR: TIM LORDAN, Executive Director and Counsel,  
5 Internet Education Foundation

6 PRESENTERS:

7 BENJAMIN SUN, President and Chief Executive Officer,  
8 Community Connect

9 CHRIS KELLY, Vice President of Corporate Development and  
10 Chief Privacy Officer, Facebook

11 HEMANSHU NIGAM, Chief Security officer, Fox Interactive  
12 Media

13 ANDREW WEINREICH, Chief Executive Officer, MeetMoi, LLC

14 DISCUSSANTS:

15 ANNE COLLIER, President and Editor, Net Family News

16 DANA BOYD, School of Information, University of  
17 California, Berkeley

18

19 MR. LORDAN: We'll get started in a few seconds.  
20 Take your seats please. Welcome, and if we could close  
21 those doors in the back, that would be great. We have a  
22 lot to move through in this particular panel so, if I  
23 can ask you to take your seats.

24 This is the three o'clock panel on social  
25 networking, trends and implications for the future.

1 This topic has received an enormous amount of attention  
2 over the past 12 to 16 months in the city of Washington,  
3 and I'm really pleased that it's been incorporated into  
4 this particular panel.

5 As you've seen throughout the day, a lot of the  
6 conversation with regard to the future is coming back to  
7 this concept of community and social networking, so we  
8 have a fantastic panel here for you today, and I will  
9 introduce them in turn in just one moment, but before we  
10 do, we're going to hear from Commissioner Pamela Jones  
11 Harbour who has been a Commissioner at the Federal Trade  
12 Commission since August of 2003.

13 The Commissioner joined the Federal Trade  
14 Commission from Kaye Scholer, LLP, where she handled  
15 antitrust and other ECommerce issues and consumer  
16 protection issue. Before that, the Commissioner was the  
17 State Deputy Attorney General and chief of the public  
18 advocacy division in New York. She received her law  
19 degree from Indiana University of school of law, and  
20 interestingly, she has a B.M., from Indiana School of  
21 Music, so Commissioner Harbour?

22 (Applause.)

23 COMMISSIONER HARBOUR: Thank you very much, Tim.  
24 I've been sitting here all morning, and I hope you're  
25 finding these hearings as fascinating, as interesting

1 and as informative as I am.

2 Now, during the public hearings on technology  
3 and consumer protection, we have heard and we will hear  
4 from many of the leaders in this high tech area, and I  
5 am really delighted to be a part of this important  
6 discussion.

7 Today, I am pleased to offer my thoughts and  
8 suggestions on social networking, trends and  
9 implications for the future, and before I begin, let me  
10 issue the usual disclaimer that my views and my video at  
11 the end are my own and do not necessarily reflect those  
12 of the Federal Trade Commission or any individual  
13 Commissioner.

14 Now, the theme running through these hearings is  
15 that as technology evolves, it constantly changes how  
16 industry communicates with consumers and how consumers  
17 communicate with each other, and this is certainly true  
18 for social networking.

19 For most of the last century, the telephone, of  
20 course, was the primary technology consumers used to  
21 communicate with each other. In the '80s and '90s this  
22 trend began to shift. The Internet vastly has expanded  
23 options for advertisers, for marketing and  
24 communicating, including as we know Email, personal web  
25 pages, chat rooms and Instant Messaging, and as we all

1 now there are the social networking sites. These sites  
2 provide templates for multifaceted and interactive  
3 online communications.

4 Typically a user's web page serves as a multi  
5 media profile and personal E-journal, with opportunities  
6 for other users to interact, and some of us from the pre  
7 Internet age may find this evolution somewhat daunting,  
8 but for our children, the Internet and particularly  
9 social networking sites are second nature.

10 In fact, nine of the ten most popular sites  
11 among 12 to 17 year olds this past August were social  
12 networking sites or sites that provided related tools or  
13 content. Social networking sites have a lot to offer  
14 our teens and tweens, from building online  
15 communications and social relationships to providing a  
16 means for self expression and exposure to new ideas.  
17 Social networking offers teens and tweens a desired  
18 means of communication and a sense of community, but  
19 like other online activities, it can pose at times  
20 serious risks.

21 As an FTC Commissioner and as a parent of three  
22 daughters, I appreciate the risks on many levels, and  
23 I've given a lot of thought to what we, and when I say  
24 "we", I mean parents, industry, government, and even the  
25 children themselves, what we can do to reduce online

1 risks.

2 At the Federal Trade Commission we are committed  
3 to helping create a safer online experience for  
4 children, and for the remaining of my time up here, I  
5 want to talk about our efforts to help protect children  
6 through consumer education and through targeted law  
7 enforcement, and I would like to discuss the need for  
8 parents, children and industry to take appropriate steps  
9 as well. If we are all vigilant, I believe our  
10 involvement will go a long way toward making the  
11 Internet a safer place for our children.

12 I also believe that part of the responsibility  
13 for protecting children, teens and tweens lies with the  
14 children themselves, and with their parents, and Anne  
15 Collier, one of our speakers today, has aptly written  
16 that children are the social networking commuter, and  
17 that parents are the tourists.

18 If this is true, then parents should ask their  
19 children to give them a tour of the sites that interest  
20 them, and I also believe parents must become conversant,  
21 if not fluent, with the online activities popular with  
22 their children, and then parents can help their children  
23 learn healthy online behaviors. As in the offline  
24 world, we can lessen online risks by learning how to  
25 protect ourselves.

1           Now, two good starting pointing for parents and  
2 their children are the FTC brochures. The first is  
3 "Social Networking Sites, a Parents's Guide," and the  
4 second is "Safety Tips For Tweens and Teens."

5           They describe, in user friendly terms, what  
6 social networking sites are, their risks and how to  
7 learn more, and I want to note that the tips, while  
8 nominally directed to youths, can also contain some  
9 common sense advice that apply to all of us. The tips  
10 counsel social network users to think about how a site  
11 works before joining or posting personal information.

12           For example, some sites contain closed  
13 communities of users based on perhaps a school or an  
14 employer, and it has been reported that fewer teens make  
15 contact with strangers on these closed community sites.  
16 Other sites let all or every viewer users use  
17 information. For example, these sites, our tips remind  
18 us to activate the site's privacy settings. The  
19 Commission tips also highlight the many consequences of  
20 sharing information with the wrong people.

21           Some information can be used to locate users  
22 offline or facilitate identify theft, and schools and  
23 employers may even search online for compromising  
24 information about their applicants, and once any of this  
25 information is online, it may be impossible to remove

1 it, and finally, the tips drive home that flirting with  
2 or agreeing to meet online friends appointments its own  
3 set of risks.

4 Consumers can obtain the Commission's parents's  
5 guide and safety tips on our FTC.gov web site, I'll put  
6 in a plug for that, or by calling our toll-free number,  
7 and we also feature these materials at our  
8 onbuyeronline.gov. That is an interactive site for  
9 consumers to learn more about high technology issues.  
10 In addition, I am encouraged that many social networking  
11 sites popular with teens now link to our Federal Trade  
12 Commission materials.

13 Along with consumer education, the FTC uses  
14 targeted law enforcement to achieve our objectives. The  
15 Children's Online Privacy Protection Act, or COPPA,  
16 applies to web sites directed to children under the age  
17 of 13. It also applies to other sites with actual  
18 knowledge that they are collecting personal information  
19 from children under 13, and a social networking site can  
20 fall into either category.

21 COPPA requires operators to take certain steps  
22 when collecting, using or disclosing personal  
23 information from children. They must be provide notice  
24 of their information practices on their site and to  
25 parents. They must obtain verifiable consent from

1 parents before collecting the information, and they must  
2 protect the information that they collect.

3 On September 7 of this year we filed our most  
4 recent COPPA case against the social networking site  
5 Zanga.com, not to be confused with Zango that  
6 Commissioner Leibowitz spoke about earlier, and in our  
7 complaint, we allege that Zanga collected and disclosed  
8 personal information from more than one million  
9 children, and to settle our charges, Zanga is paying  
10 civil penalties to the tune of \$1-million.

11 Looking ahead, as several Congressional hearings  
12 have made clear, parents, children, industry and  
13 government have a shared interest and a shared  
14 responsibility in creating a safe and secure online  
15 environment.

16 One possible solution that has been raised would  
17 be for sites to verify the age of their users and  
18 provide age appropriate protections for minors.  
19 Although some members of industry have claimed that age  
20 verification mechanisms from minors are impractical or  
21 even impossible, I am heartened to learn that some  
22 groups already are developing these mechanisms.

23 Another possibility though might be for sites to  
24 provide users with an easy means to, for example, report  
25 sexual exploitation or other online abuse. Some sites

1 now offer a link to users for them to report such abuse,  
2 but the links all look different on different sites, and  
3 this could lead to different results.

4 Perhaps sites could agree to use a common  
5 recognizable icon such as the one being used by the  
6 Virtual Global Task Force. The icon could link to the  
7 task force or another central resource such as the  
8 National Center For Missing and Exploited Children.

9 Whether by these means or by other means, I hope  
10 that the momentum continues to build so that industry  
11 develops and implements best practices as quickly as  
12 possible, and at this time, before I close, I would like  
13 to share with you a very powerful public service  
14 announcement produced by the Virtual Global Task Force,  
15 which is a worldwide partnership of law enforcement  
16 agencies that fights online child abuse.

17 I believe this PSA brings home the importance of  
18 there issue.

19 (Whereupon, the video was shown to the audience  
20 but not transcribed.)

21 COMMISSIONER HARBOUR: As you can see, we all  
22 have a clear incentive to make the Internet a safe place  
23 for young people to learn, connect and express  
24 themselves. The FTC is committed to continuing this  
25 important work. Thank you.

1 (Applause.)

2 MR. LORDAN: Thank you very much, Commissioner.  
3 We have a lot to get through so we want to move very  
4 quickly, and thank you to the Commissioner for setting  
5 up some of the issues that we're going to be looking at  
6 today, not all of them but certainly most of them.

7 With regard to that, before I get going, let me  
8 introduce myself. My name is Tim Lordan. I'm the  
9 executive director of the Internet Education Foundation.  
10 We do policy making and public education on Internet  
11 policy and technology, and I'm happy to be here.

12 My views on this particular panel are  
13 immaterial. I will kind of ask a few questions as  
14 devil's advocate. Please don't interfere that I have  
15 any axes to grind or I'm trying to express my own  
16 personal views because I really am not, but before we go  
17 into the rest of the panel, I'm going to cue up another  
18 video, people on the street type video, Jay Leno type  
19 street walking video, so if we can show that real  
20 quickly.

21 (Whereupon, the video was played for the  
22 audience, but not transcribed.)

23 MR. LORDAN: Interesting. Well, let me just go  
24 through the first panelists, and we have two discussants  
25 as well. Let me introduce the panelists all at once.

1 Ben Sun is the CEO of Community Connect. Actually one  
2 of the sites, Black Planet, was mentioned in one of the  
3 user interviews. You may want to explore the  
4 revolutionary reenactment of social networking sites.  
5 In addition to Blackplanet.com, Community Connect also  
6 has Asianavenue.com and Magenti, which is actually one  
7 of the most popular Hispanic web sites out there.  
8 Before Community Connect, Mr. Sun worked for Merrill  
9 Lynch.

10 Then to my left is Chris Kelly, who is the chief  
11 privacy officer for Facebook. Chris was the founder of  
12 the Berkeley Center at Howard University.

13 Next to Chris is Heman Nigam from Fox  
14 Interactive Media, which is the parent company of  
15 MySpace. Heman has been around a lot of different  
16 places, just recently at Microsoft's security and safety  
17 division, and also before that with the Department of  
18 Justice and the Motion Picture Association.

19 Then Andrew Weinrich, he's CEO of a mobile  
20 dating company, MeetMoi, if I pronounced that correctly,  
21 which I hope I did. The interesting thing with Andrew  
22 is that he's in many ways maybe one of the fathers of  
23 the social networking phenomena, having created back in  
24 1996 Sixdegrees.com.

25 So if I can just go to Ben for five minutes, and

1 then the other folks have a quick PowerPoint so you can  
2 see what those sites are like. Ben, can you tell us a  
3 little bit about the site, and the most important thing  
4 of social networking coming up in the next three to ten  
5 years?

6 MR. SUN: Sure, absolutely. It's been king of a  
7 long history, as Andrew and I have been in this business  
8 for awhile. I started Community Connect about ten years  
9 ago. In my prior life, I was an investment banker for  
10 Merrill Lynch and was working on a deal with a company  
11 that had an online comment for a people with a shared  
12 kind of music and music interests, and this is back in  
13 1995, 1996 when I was working with this company. I  
14 created a profiling site and put that, like U2 as a  
15 band, and then suddenly all these other users from  
16 around the country started contacting me about, What's  
17 your favorite album or favorite song, are you going to  
18 see the concert?

19 And so kind of to go back in time a little bit,  
20 this is like ten years ago when I just probably started  
21 using Email, so the fact that these complete strangers  
22 with a common interested contacted me trying to build  
23 relationships I thought was just an amazing, amazing  
24 experience, and as part of working with that company, I  
25 was completely blown away by the concept of online

1 community, both being someone that's Asian American that  
2 grew up in New York, it kind of puzzled me that no one  
3 was taking such a powerful application and really  
4 targeting what I considered the most powerful of real  
5 world communities.

6 So we started Community Connect out of my  
7 apartment, launched AsianAvenue back in 1997, which is a  
8 site targeted towards Asian Americans like myself, and  
9 completely bootstrapped it, and the site just started  
10 just kind of growing and growing and all through word of  
11 mouth, and we were doing more traffic than what at that  
12 time what companies that did \$10 million to \$15 million  
13 would do.

14 And it was interesting kind of experience in the  
15 early days where I was out there as a former investment  
16 banker trying to raise money and constantly battled this  
17 opportunity to raise money back in the early days, and  
18 really the issue was people were excited about the  
19 Internet. Some people sort of understood online  
20 community, but the bigger issue back then happened to be  
21 that when we talked about our business model of actually  
22 launching a site targeting African Americans and  
23 Latinos, the constant question was, Black people online,  
24 and they were completely puzzled. They were like, Black  
25 people aren't online, that's crazy.

1           And they used to me and say, You left your  
2 moonboots back in the space ship, when we used to tell  
3 them that we did think African Americans and Latinos  
4 were going to be online as well as the masses, and an  
5 online community was going to be a very, very big factor  
6 in that.

7           And it wasn't really until about a year and a  
8 half later after we launched AsianAvenue that we raised  
9 money as a company, and it was through an introduction  
10 to a person by the name of Robert Goldhammer, who ws  
11 vice chairman of Kidder, Peabody, an investment bank  
12 back in the '80s and '90s, and Bob came to our corporate  
13 headquarters, being my apartment, and sat down with me  
14 for four hours, and kind of sat down, heard this story,  
15 and at the end of the meeting he said, Ben, I'm going to  
16 invest and I'm going to get some of my friends to invest  
17 in the company.

18           And this was kind an interesting story for me  
19 because Bob was at that point in his early 70s, never  
20 invested in the Internet or a technology company in the  
21 past. Yet he wanted to invest in us, and so after the  
22 check cleared, I actually asked Bob, I said, Bob, why  
23 did you invest in us? And Bob said something really  
24 interesting to me. He said, Hey, Ben, I grew up in the  
25 Bronx, I started my career as a broker at Kidder, I

1 worked there for 40 years until I became vice chairman,  
2 and I base my success on being a good people person,  
3 like I feel like I really understand people, and he said  
4 what you're doing is really easy, your just taking what  
5 happens in the real world and transposing it online, and  
6 basically he distilled our whole business down to that  
7 one sentence.

8 MR. LORDAN: Ben, with the remaining minute,  
9 where do you see this going in three to ten years?

10 MR. ARLEN: I think what we've seen in terms of  
11 AsianAvenue and BlackPlanet, without getting into  
12 another, is where the communities have evolved and how  
13 it affects people's real lives is where I consider that  
14 this business is going to do.

15 Kind of our core purpose of the company, our  
16 mission statement is improving lives through the power  
17 of online community, and if you talk to members that use  
18 these sites, their testimony as to why they use it, as  
19 we see from the video, would be, I met my best friend  
20 because of you, I found my husband or wife because of  
21 you.

22 Even for our sites they've said, Hey, I found my  
23 job because of you, I expanded my professional network,  
24 and that's what you're going to see is we really are at  
25 the kind of primarily loose phase social networking in

1 terms of its evolution sites, and you're going to see  
2 sites like us, Facebook and MySpace go after these  
3 audiences, segment them, target their needs as  
4 individual real world communities and provide an  
5 experience that's going to improve their lives.

6 MR. LORDAN: While Chris Kelly gets to the  
7 microphone, we're going to take one second. You have  
8 all your handsets. The polling thing is right to your  
9 left or your right, on the floor. We're going to do a  
10 quick poll while Chris gets ready, and we have a poll  
11 today for you, and before you answer, let me just  
12 explain the poll I think is displayed on the screen  
13 here, and it's "how many social networking sites have  
14 you participated in?"

15 And when we say -- you know I can't throw a  
16 brick into this audience without hitting a lawyer, so  
17 I'll define the term. By social networking sites, we  
18 don't mean the definition that's in the DOPA legislation  
19 which is chat, IM, Instant Messaging, everything. We  
20 also I think -- let's just not worry about linked in and  
21 some of those professional networking sites that LinkedIn.  
22 Don't include that, but just likes the social networking  
23 sites represented up here and the ones you've heard  
24 maybe even from the revolutionary reenactment social  
25 networking sites, that would be great.

1           So if you can press the number. I guess the  
2 first one is more than 3. The second one is 1 to 3 and  
3 the third one is none. We'll just wait six, five, no  
4 pressure, three, two, one, and so that looks like almost  
5 60 percent don't. That's telling. 35 percent, 1 to 3,  
6 which is really encouraging, and there's a very small  
7 class of users that actually use three or more social  
8 networking sites which could be users on steroids.

9           MR. KELLY: That looks like a fertile  
10 marketplace.

11          MR. LORDAN: Chris?

12          MR. KELLY: So with that, if we could bring up  
13 the slides, but before I get into the slides, I want to  
14 sort of take a minute to echo Benjamin's view that this  
15 is ultimately about connecting people in real world  
16 communities, and there are a variety of key insights  
17 that have helped drive Facebook to where it is with over  
18 11 millin members with sort of well on the way to a  
19 billion photographs connected to an underlying social  
20 network. We're now the busiest photo site on the web.

21           But there's also a key insight that drives our  
22 business that differentiates us from most other networks  
23 and that's in the access to information the, average  
24 user on Facebook only has access to about half a percent  
25 of the profiles on Facebook. It's not a site where you

1 go to broadcast reviews on everything, on yourself, et  
2 cetera are, everybody on the Internet.

3 We will pursue a number of different strategies  
4 that allow people to connect in the communities that  
5 they're already in, and on mas you saw in the video, a  
6 lot of concerns about whether people are providing  
7 accurate information and usually providing accurate  
8 information. We found by limiting and by basing things  
9 on trust and on communities that people are already in,  
10 we foster that sense of trust and it leads to more  
11 accurate information over time.

12 Let's talk about what's important to Facebook.  
13 We see ourselves as a social utility that allows people  
14 to share information within their real world community,  
15 and I say community there, but I should really say  
16 communities. You can be members of multiple communities  
17 on Facebook. That's important to us.

18 So the keys are user control. People should  
19 have control over their information. When you put  
20 something up there, you shouldn't lose control of it, so  
21 we don't allow, for instance, several engine filing of  
22 the profiles on the site. If we do allow search engine  
23 access, it would be on a very limited basis, and users  
24 will have complete control over that.

25 There's authenticity. We want people to act as

1 themselves, and we want' accessibility. We want to be  
2 available anywhere that people are, to know about what's  
3 going in the world around them so the mission that we  
4 have is to provide people with the information with the  
5 matters to them the most about the communities that  
6 they're in, about their friends.

7           So we offer four levels of protection for users  
8 on our network. We have authentication. We want to  
9 really promote -- even though we're now allowing  
10 regional registration, there are a variety of  
11 protections in place, whether it's authentication  
12 through mobile phones or through use of what we call  
13 capture that allows you only to message people after you  
14 enter in a string of characters that are displayed in  
15 graphics so that you can't be a bot, spamming people on  
16 our site for instance. We think that that's very  
17 important to have valid profiles and to push people into  
18 networks where they are authenticated by others.

19           This retains social norms. It avoids the  
20 problems of anonymity that you see on many sites and as  
21 you've seen for years on the chatrooms on the Internet,  
22 for instance. We have segmented communities, and this  
23 validation, if you don't -- if you aren't a member of a  
24 community, in a high school or a college, et cetera, you  
25 don't get access to the profiles in that community

1 unless somebody confirms you as a friend.

2 That authentication model is a critical part of  
3 making Facebook the way that it is, and 60 percent of  
4 our user base comes back to the site daily now, and they  
5 do that, and they have that sort of dedication precisely  
6 because there is this validation, authentication and its  
7 access to information in the world around them.

8 We want to offer users innovative privacy  
9 controls and technical protections, so you can choose  
10 who you display what piece of information to. That's  
11 key, and then on the back end, if systems fail we have  
12 these three levels in place, if those systems don't  
13 quite work. We want to make sure we have experts ready  
14 to deal with those problems and to work with law  
15 enforcement if something goes wrong.

16 So Mark Zuckerberg is the right person to give  
17 the full vision of where we're going, but I'll talk a  
18 little bit about what we're doing right now and why  
19 we're doing it. You heard from Chairman Majoras this  
20 morning about the feed controversy and how we had quick  
21 user reaction. We definitely want to listen to our  
22 users. Feed was all about providing updates within your  
23 community. You don't get feed stories on people you  
24 don't know. You get feed stories on your friends, and  
25 if they make changes to their profiles, if they upload

1 photos, et cetera, we want' people to know about it.

2 So we're trying to make the information flow  
3 more efficient but still based on the network. We have  
4 a new tool that we launched called Shared that allows  
5 you to send media around to sites other than Facebook,  
6 to your Facebook friends. That's designed to improve  
7 the information flow in your community. We always want  
8 to be improving our tools, making them more safe.

9 We have a variety of behind the scenes measures  
10 that also anomalous use or a potential anomalous use of  
11 the site so that we can highlight if there's a potential  
12 problem, while protecting user privacy and security, and  
13 the safety of our users online, particularly for our  
14 younger users, and overall, though, we want to use the  
15 power of technology to improve human interaction.

16 We want to provide the information that matters  
17 most to you about your friends and the people in the  
18 world around you, and that's what's animating the  
19 changes that we make on the Facebook site, so if there's  
20 one thing that you take away, it's the access and  
21 control features that Facebook offers that we think have  
22 made it a dedicated and growing -- has given us a  
23 dedicated and growing user base.

24 MR. LORDAN: Thanks, Chris. Heman from Fox  
25 Interactive Media, which again is the parent of

1 MySpace.com who was mentioned just a few times I think  
2 in the user videos.

3 MR. NIGAM: Good answer, everyone. I brought my  
4 own slides because I frankly can't see that thing up  
5 there. I thought I could see so I got lucky today. I'm  
6 going to talk really fast. I was sitting here watching  
7 the four, three to one minute holder with the  
8 handwritten sign at a tech-ade conference, which is very  
9 interesting, and so therefore it's also very interesting  
10 to see that we're using a quote from a long, long, long  
11 time ago to really talk about the next ten years.

12 But the thing that we should think about here is  
13 that if I had put that quote up there without William  
14 Shakespeare written under it, everybody in here would be  
15 saying to me at sometime or thinking to themselves,  
16 Don't you want to give credit to the person who said  
17 that. It's just something to think about because that  
18 came up during the day quite a bit.

19 Let's take a look at Fox Interactive Media very  
20 quickly. Fox Interactive Media is an organization, a  
21 division of News Corp that owns different properties,  
22 MySpace being one of them, but I think a lot of people  
23 may not be aware of that, so I did people want to be  
24 aware of that including Scott.com which isn't listed up  
25 there.

1           And I think Danah and Anne are going to be  
2 talking more about this, but one of the things that  
3 people wonders is, Why is everybody going on this social  
4 networking sites; why are people so excited about it?  
5 And I think the simple way to look at it is the circular  
6 formulation that we have on the screen. People like to  
7 self express themselves or express themselves like you  
8 said in the video just a second ago. They also like to  
9 discover how others are expressing themselves.

10           And then they like to talk about it, and if you  
11 do that, if you express yourself to others and you begin  
12 talking about it, well after you talk about it, you're  
13 going to want to express yourself again, and if you look  
14 at that, it's going to continue to grow and grow and  
15 grow.

16           And in that sense our site has again in less  
17 than two years from somewhere in the neighborhood of 5  
18 million user profiles to just recently over 125 million.  
19 That's how quickly these things are growing, and our  
20 site is growing. I think I'm not pointing at the right  
21 something, technology somewhere.

22           These are different features in our site. This  
23 is more -- this PowerPoint is available to everyone in  
24 the audience. I think that's where to get it. But  
25 there are different things that people do on our site.

1 I wanted to highlight that there is classified. There's  
2 games. There's movies. There's independent films.  
3 There's comedy. There's things that you do in the  
4 physical world all occurring in the online world, and if  
5 you look at this diagram, the typical user in our site  
6 will do many of those things that they do in the  
7 physical world.

8 They will talk to people. They will want to  
9 know of events or parties that are going on. They will  
10 communicate through the mobile site of it. They will  
11 look at blogging and groups and things like that, and as  
12 they do it amongst their own world, they will also  
13 connect it with others who are doing it online as well.

14 So where are we headed with that? I guess I can  
15 click again. This I already talked about. Here's where  
16 MySpace was before it was acquired by Fox Interactive  
17 Media. It was a site for friends and for bands. Then  
18 second stage came in. News Corp Corporation through Fox  
19 Interactive Media acquired it, and then as you can see,  
20 more things were being added to it and are continuing  
21 being added to, and finally I actually left the rest of  
22 it blank.

23 I left it blank because as you can see from just  
24 the two years, the changes have been so dramatic and so  
25 huge, if you want to put it as simply as that, that in

1 a way, is it fair to predict exactly where it is going  
2 to be?

3           There is one thing we can say. You heard about  
4 technology convergence from a lot of people today. You  
5 heard about media convergence today, and I think what  
6 you should be seeing in this social networking and what  
7 MySpace's vision here is the life-style convergence  
8 that's going on between the physical world and the  
9 online world. All those things you do in the physical  
10 world, you are going to do seamlessly in the online  
11 world, and in essence your life-style is converging in  
12 the physical and online realm.

13           Now with that becomes issues that arise any time  
14 you build a world online. We are one-third the size of  
15 the population, if you want to look at it that way.  
16 There will be issues. There will be bad actors who will  
17 show up, and from our perspective, any time you build  
18 anything, whether it's our MySpace house or the other  
19 properties that we own at Fox Interactive Media, you  
20 must build it on a foundation and a solid foundation of  
21 safety and security, and for us that means these  
22 different components that I have up here on the house.

23           Technology is number 1. After all, we built the  
24 technology. We're focusing heavily on providing safety  
25 features into MySpace and MySpace -- or safety into

1 MySpace features. We're doing this in many different  
2 fashions, from privacy settings. We're not allowing  
3 adults to talk to under 16 people that they don't know.  
4 Linking to the FTC site that the Commissioner talked  
5 about this morning, also meeting with the FEOP and the  
6 Gercher (phonetics) Global Task Force next week to see  
7 if we can create some sort of more uniformed linking  
8 system for abuse issues.

9 From the guidance and education perspective I  
10 wanted to show you slides, but I'm going to show you  
11 different things that we have recently created because  
12 we think education is key. A lot of people have talked  
13 about it. We have a parent's guide and a school guide  
14 that we are reaching a quarter million people with, and  
15 the and the parents' guide 2,000 parents downloaded from  
16 our site, which in itself is telling us that it is  
17 reaching people.

18 I'm going to focus on a minute -- actually I'm  
19 going to leave that, and instead of going to this slide,  
20 I got the one minute remaining now, which means I have  
21 45 seconds.

22 MR. LORDAN: He's about to say your time is up.

23 MR. NIGAM: So let me say where are we going to  
24 be in a -- what is our vision of safety in the future?  
25 There's four important things. One, safety will become

1 I think a part of every single business plan that  
2 anybody develops when they're talking about putting some  
3 bills online. That has to be, and will become a core  
4 part of every business plan out there.

5 Consumers are educated so they will know  
6 innately how to be safer online. That is something I  
7 think we envision. We're seeing it happening today, but  
8 I think as our kids and our 25 and 30 and over go online  
9 more, you're going to see that consumers will have  
10 expectations of safety and security from the businesses  
11 they interact with that are much more clearly defined  
12 than, I'm not quite sure what it is, I'm a little scared  
13 of it. It will be, Have you done, one, two, three and  
14 four and therefore I will do business with you.

15 And finally, industry will have created a much  
16 more uniform, much more uniform definition of what  
17 safety and security is, so that is industry working  
18 together with lawmakers and policy makers. We're not  
19 having discussions on what, Well, what does it mean, how  
20 do you do that. We'll more be aligned on what it  
21 actually does mean and our focus will be more just  
22 moving forward on the business world as opposed to the  
23 foundation of the safety and security which will just be  
24 the core way we all operate in business thanks.

25 MR. ARLEN: Thanks, Heman, and I'm sorry we have

1 to be so militant about the time. It's just we want to  
2 get to all the speakers and have a bit of a discussion.

3 Andrew, it's great that Andrew has some  
4 PowerPoint slides because his mobile dating service has  
5 kind of -- you have to kind of see it to believe it.

6 MR. WEINRICH: Excuse me. How many of you were  
7 members of Sixdegrees.com? I've got like one person to  
8 thank. And one up here, a few up here. Terrific?  
9 Hopefully what I can do in five minutes is share with  
10 you my perspective on social networking over the past  
11 ten years.

12 It was interesting listening to Ben because I  
13 had a very similar experience in '95. I went out  
14 looking for money for a company called Sixdegrees.com,  
15 and the idea was that if I could get people to upload  
16 their Rolodexes and to identify who they knew, you could  
17 identify the people you didn't know through the people  
18 you did know, and I approached some 200 angels in New  
19 York, and the responses varied from no, I don't want to  
20 invest, to this is the dumbest idea I've ever heard, to  
21 you're the dumbest person I've ever heard.

22 But eventually we did get funded, and we did  
23 build a site called Sixdegrees.com. In fact one of our  
24 backers was News Corp, and over the course of five  
25 years, we raised a little over \$125 million and built a

1 3 and a half million member community, and one of the  
2 things that was -- what was so fascinating, which I  
3 think is relevant here, and I talked about this recently  
4 in another talk, was what changed so much between social  
5 networking today and social networking then because I  
6 can tell you when we launched, I remember we had our  
7 launch scheduled for '96, and we were six months late,  
8 and I remember the core team was devastated that by the  
9 time we launched, social networking would have launched  
10 and been done with. And look where we are today.

11 One of the things that changed was when we had a  
12 3 and a half million member community, we had our board  
13 together, and we talked about the possibility of  
14 offering photos for every single member of the  
15 community, but there was a big problem with offering  
16 photos for every single member of the community. People  
17 didn't have digital cameras in the late '90s, not like  
18 they do today, and I remember we had a meeting where we  
19 literally calculated if 3 million people mailed in  
20 photographs and we ripped into the envelope -- up the  
21 envelope, how long it would take to scan in photos.

22 So fast forward to today. The biggest change in  
23 social networking is the fact that everyone has a  
24 digital camera, and in large part what is driving a lot  
25 of this is not the written word but it's the photograph,

1 and you've heard about that in the Facebook talk.

2           Where's the future? I sold Six Degrees in 2000,  
3 was involved in a wireless company and then a technology  
4 company that sold technology solutions to put up  
5 campaigns for nonprofits, and my entire slide show has  
6 just this one slide.

7           Then I started a company called MeetMoi, so  
8 here's where I think the future of social networking is,  
9 and it's quite clear I think in the mobile arena. I  
10 remember when we launched Six Degrees, we made the  
11 preposterous claim that people would be spending hours  
12 at night in front of the computer. People thought that  
13 will never happen, and now people are saying people were  
14 going to import that time from the computer to the  
15 mobile device, and I think you'll see that, and I think  
16 you'll see that not just from social networking  
17 applications, but for every type of application.

18           So what's allowing social networking to go  
19 mobile? Interoperability of network carriers, adoption  
20 of SMS, micro payments, and worldwide adoption of  
21 location based services.

22           My time is limited, but these things are really  
23 key, and I wish we had more time to talk about the idea  
24 that just recently there's the ability to charge micro  
25 payments on a mobile platform, and that's because the

1 network operators have extended their billing platform  
2 to companies, and just recently, relatively recently are  
3 the carriers interoperable, and when I say recently, my  
4 time frame is much broader because I'm thinking in terms  
5 of the ten-year time frame.

6 I'm going to skip through some of this stuff and  
7 cut right to MeetMoi, which our goal is to have the  
8 largest global community, and that means a paradigm  
9 shift in space and time. We can talk about why it  
10 hasn't gone mobile sooner, if we had the time.

11 Let me tell you the way MeetMoi works is you  
12 register for MeetMoi. You can register either on the  
13 web or you can register over your phone, and when you're  
14 done registering -- and by the way, we do require that  
15 you're over 18, we validate that in fact you're the  
16 owner of your phone and that provides us some additional  
17 security because we can validate -- if we validate you  
18 own the phone, you can't create a fictitious based  
19 Email.

20 And really what happens is you have the  
21 ability, if you want to date, to text us where you are,  
22 and we have an algorithm of maps where other people are  
23 that are around you, and we will broadcast your profile  
24 to them, theirs back to you, and we allow you to chat  
25 over the infrastructure of MeetMoi maintaining the

1 confidentiality, maintaining the identity of each  
2 individual. Their phone number, Email address, we  
3 maintain that apart from them so that's anonymous to  
4 them, but it's known us until they choose to reveal it  
5 to each other.

6 And I think this is fairly interesting too. One  
7 of the things that we spent a great deal of time on  
8 in '96 with Six Degrees was making sure we weren't  
9 invents new social behaviors, so the idea was study it  
10 before doing offline and replicate it online, and today  
11 in the mobile world, the challenge is really the same.  
12 Studying what people did offline, study what they're  
13 doing online and figure out how to replicate that in the  
14 mobile world.

15 So that's the end of my time but thank you.

16 MR. LORDAN: Thanks, Andrew. We're fortunate  
17 today to have the two discussants for us who are Danah  
18 Boyd from the University of California Berkeley. Danah  
19 is a researcher at the University of Southern  
20 California, Annenberg Center, and she's also a social  
21 mediator researcher at Yahoo.

22 We're thrilled to have Danah here as well as  
23 Anne Collier here who is, probably over the past ten  
24 years, the most prolific, engaged, responsible child  
25 safety and parental advocate out there that I've seen.

1 She writes a news column called NetFamily-News, which  
2 everybody should subscribe to. It comes out every  
3 Friday afternoon, so you can read it over the weekend.

4 And also her and Larry Magid, who is also a  
5 giant in the filed of parental empowerment and kid  
6 safety have launched BlogSafety.com, which is  
7 essentially a social networking for parents to help  
8 empower them with regard to keeping their kids on this  
9 new 2.0 media, so Danah?

10 MS. BOYD: Good afternoon. Anne and I are kind  
11 of supporting our responses to this, and I want to focus  
12 more on what people are doing and why, and in particular  
13 I want to sort of split some of what's going on into two  
14 big clusters in America. First you have the young  
15 people, those that from the moment they can actually get  
16 online and get on these sites and how they're engaged  
17 with it, and then you have the late 20s and 30s  
18 something, who are engaging in these sites in an  
19 entirely different ways.

20 This older population is a lot easier to  
21 explain. In many ways they're looking to meet  
22 strangers. They're looking to meet people either for  
23 professional reasons, for friendship reasons, to help  
24 with different health crises or frankly to date and to  
25 potentially marry someone. They're very deeply invested

1 in strangers.

2 And so, for example, a lot of what Andrew was  
3 talking about is very, very important because if you  
4 want to date people you don't know, the mobile world is  
5 fantastic for that. The elder population is engaging in  
6 an entirely different way, although it's often read with  
7 the same terms.

8 Most of the teens and kids in particular go on  
9 these sites to hang out with their friends. They do so  
10 because this is a type of public life that they have.  
11 There's been a lot of changes in the United States in  
12 the last hundred years about what kind access to public  
13 life young people have. By and large they don't  
14 actually get to go wander around, hang out in malls and  
15 hang out in parks like many of us did when we were  
16 younger.

17 Their primary sociality with their friends is  
18 through schools or after-school activities or at their  
19 friends' homes, but there are a lot of reasons why young  
20 people want to hang out with a broader public of peers.  
21 A lot of it has to do with status. One of the hardest  
22 things people have to work through in their high school  
23 years is who is cooler than who, what are the  
24 hierarchies, what are the norms, how might you fit into  
25 the culture and society, all those sticky issues that

1 none of us like to remember from our middle and high  
2 school years being about.

3           That's the daily life of high school teens, so  
4 what happens is that they go onto MySpace because their  
5 generation is there or they go on to Facebook because  
6 all of their school is there, and they create a profile,  
7 and then in that profile, they actually craft a  
8 representation of self. That representation may or may  
9 not be accurate. What it is though is an attempt for  
10 them to put forward what they think they are and who  
11 they want to be in order to get reactions from other  
12 people. Sometimes that representation is not exactly  
13 what you want to be seeing, but it's a way of them  
14 trying to be seen as cool amongst their peers.

15           So then they're going and jaunting a lot of  
16 become and forth, might be sharing photos, might be  
17 sharing music. Music is a cultural glue. It's one of  
18 the reasons that MySpace was so popular with the young  
19 people is that you went int. You were able to pick your  
20 favorite song, put it up on your profile and use it as a  
21 way of saying something about yourself, very key.

22           You go back and forth, sort of work through  
23 social issues. You start to collect friends, most of  
24 the people you know. This isn't just about social  
25 network theory. This is about people that might let you

1 look cool, whether it's being a really cool rock  
2 musician or the older person that makes you look like  
3 your part of a society that you want to be a part of,  
4 and for young people, that can mean a variety of  
5 different things.

6           They don't even have a desire to meet those  
7 9,000 friends out their. They want to use those people  
8 to make themselves look cool at school because there's a  
9 water cooler effect. Everything that they do on MySpace  
10 after school plays out the next day. It's not actually  
11 any of the sociality that's changing. It's the same  
12 deep desires, the same main goals.

13           What's changing is the actual architecture in  
14 which they can interact, and there are four properties  
15 in particular that are unique to mediated societies that  
16 are not part of every day live. Persistence, what you  
17 say on these sites may stick around. It's great for  
18 being able to catch up with someone later. It's a lot  
19 harder when they stick around 15 years from now.

20           Searchability. My mother wouldn't have dreamed  
21 of having the idea of screaming into the ether find, and  
22 me magically appearing out of where I might have hidden.  
23 She didn't have that. Now a lot of parents, they do,  
24 and so do a lot of other people who are looking for  
25 younger people, whether it be marketers or predators.

1 They have the ability to just search and find them  
2 wherever they are.

3 Replicability or copy-ability. You can actually  
4 take a conversation from IM, and you can duplicate it on  
5 to your Zanga, and how can you tell whether or not it's  
6 the same as -- it's a real conversation or not? You  
7 can't. There's no way of telling those differences, and  
8 it's a good way of bullying to come into being.

9 And finally the invisible audiences. I have a  
10 sense of who I'm speaking to right now. I have a  
11 general idea of how old you are roughly. You're all in  
12 D.C. There's all of these assumptions that I have. You  
13 gave me nice little data that proves that Compscore.  
14 MySpace is not graying, most of you aren't actually on  
15 there. Thank you.

16 But I have a sense of that I know your reaction.  
17 If you're staring at me glassy eyed thinking, Okay, why  
18 are we listening to you? Great, I know that I can  
19 respond to that.

20 Young people, when they're online, they don't  
21 know who they're responding to, so what they're doing is  
22 they're making a context that they can work with,  
23 something that they can make sense of, and frankly  
24 that's a world of just my peers, and that's creating a  
25 presentation that will be to fit into that audience.

1           The problem is that it's not possible to speak  
2 to multiple audiences simultaneously. Your kids don't  
3 talk to you the same way that they talk to their friends  
4 when they're hanging out at each others homes, and they  
5 don't talk the same way that they talk to their  
6 teachers. This of course is not new. We've known this  
7 for a long time, but it's new for young people.

8           So the example I like to go back to is Stokely  
9 Carmichael. In the 1960s, he would go and speak before  
10 people in D.C. using a very posh way of speaking. Then  
11 he would go and speak to southern black congregations  
12 using a rolling pastoral style, and in 1968 he was  
13 forced to go on television and radio, and he had to  
14 choose which kind of speaking style would he stick with.

15           He stuck with a style that to this day we see,  
16 to this black power is anxiety white. Teenagers are  
17 doing the same thing. They're acting out the way they  
18 want to be seen by their peers, and it may not be the  
19 way that adults want to see them. Thank you.

20           (Applause.)

21           MR. LORDAN: Thank you. Anne?

22           MS. COLLIER: What Tim didn't say about Danah is  
23 that she is the high priestess of social networking.  
24 The Financial Times of London just came out with that  
25 juicy headline, and it's big take out on social

1 networking phenomena, and it lead with Danah, so that's  
2 a tough act to follows.

3 But just very briefly looking out ten years,  
4 maybe two actually, I think the two venues that online  
5 safety kind of is going to hit next are mobile, social  
6 networking as we just heard described one example.  
7 There's also dodge ball, loops, slam. There are many  
8 other examples, sort of start ups that are just  
9 launching right now and being acquired by very large  
10 companies.

11 And the other one is the virtual worlds where  
12 multi player online role playing games or alternate  
13 realities, like the way Xbox Live with Microsoft  
14 community turns all video games into community. Second,  
15 live World of War Craft, et cetera. We're all going to  
16 be thinking about these phases very soon.

17 One suggestion is that we panelists look at the  
18 top three things that people need to know about social  
19 networking, but I thought I would take the top three  
20 things that we need to know about child safety on the  
21 social web.

22 One is it's ensured less and less by tech tools,  
23 like filtering, monitoring and classic online safety  
24 education, and then because of the freedom, the social  
25 web affords, free accounts at countless sites. There

1 are hundreds of social networking needs, and they're  
2 nitchifying as we also saw it today. There's many  
3 different interest groups including revolutionary war  
4 reenactment, and then in kid's knowledge of work arounds  
5 also means extraordinary freedom.

6 The third thing we need to know about online  
7 safety going forward is education and problem solving  
8 need to be as interactive and collaborative as young  
9 people's experience of the social web where it's not  
10 authentic or relevant to them, so the two main aspects  
11 of this for online safety is that, first of all, social  
12 networking is wherever and whenever anybody wants it to  
13 be and whatever anybody wants it to be, right? We heard  
14 about that a lot this morning.

15 So it's at friend's houses, school, library,  
16 cyber cafes, local hot spots, everywhere, and it means  
17 that we have less control and so we need to focus more  
18 on influencing and managing the experience with our  
19 children and incorporating them, bringing them into the  
20 discussion. They're the experts.

21 As we said in our book, picture yourself at  
22 Grand Central Station or Penn Station at rush hour, and  
23 you're a tourist, and everybody is rushing around, a  
24 huge population of people, giant space, totally  
25 bewildering, you want to look for the nearest exit, so

1 the commuter just goes to his platform, gets on his  
2 train and goes home, no big deal.

3 That is what social networking is to the digital  
4 natives. We're the tourists, and the entire public  
5 discussion is dominated by the tourist right now and  
6 that needs to change.

7 Then there's the part of how the social web is  
8 whatever you want it to be so if you just look at one of  
9 the social sites, MySpace, depending on who you are,  
10 it's for designing and decorating a web page,  
11 socializing with friends, learning about writing  
12 software codes, discussing religion or politics, keeping  
13 a journal acting out, impersonating a teacher, being  
14 commentator, getting, validation producing, editing and  
15 sharing videos, finding new bands and music, you name  
16 it.

17 So implication number 1 for online safety, as  
18 we've known it, it's becoming obsolete. Given all the  
19 avenues for social self expression on the web, it's only  
20 logical to see that classic web 1.0 online safeties  
21 designated danger aren't very relevant to teen online  
22 socializing. Yes, there's porn and sexuality but no  
23 more than in their immediate environment as a whole, and  
24 yes, they're contacted by strangers but unless they're  
25 actively seeking out risky sexual experiences, strangers

1 simply aren't a part of their peer groups, day-to-day  
2 creative networking or social producing.

3           So implication number 2 is that the freedom the  
4 user driven web gives young people means that those most  
5 at risk are online as those who are already at risk  
6 offline, so we need to incorporate experts in risky  
7 behavior, like self mutilation, substance abuse, sexual  
8 exploration. All the things that risk assessment in  
9 teen behavior is about, needs to be brought into the  
10 discussion, not just law enforcement and legal issues.

11           And safety tips are getting less and less  
12 relevant too. Safety tips and rules reach the  
13 compliant, people who follow the rules. There are a lot  
14 of kids out there who don't and whose parents aren't as  
15 engaged, so my time is up.

16           Let me give you a couple more implications.  
17 Spin control, we need to help our kids learn how to  
18 present themselves online. They don't make a  
19 distinction between online and offline. Their  
20 information is going out, so we need to be being about  
21 how we're presenting ourselves and working on our kids  
22 on that.

23           And as it goes forward, online safety is  
24 actually going retro. It needs to be more like good  
25 parenting, collaborating, dynamic, child empowering and

1 personal. This kind of education ideally doesn't come  
2 from outside the school or the family. At school it's  
3 at best a highly collaborative inside job, incorporating  
4 in-house expertise and technologies, counseling, school  
5 safety as well as the expertise of student web users.  
6 What a concept.

7 MR. LORDAN: Anne, we can continue on this  
8 conversation essentially with our first question, and  
9 I'm sorry because we have so little time for the rest of  
10 the panel. We have four questions we need to get at.  
11 We have six panelists, and we have ten minutes.

12 MR. COLE: Okay. Thank you very much.

13 (Applause.)

14 MR. LORDAN: Thank you, and also we'll thank  
15 everyone from the Federal Trade Commission who has the  
16 unenviable job of holding up the time-out sign. Cutting  
17 off the high priestess of social networking is always a  
18 dangerous endeavor.

19 So the first question that we really want to get  
20 to, and forgive me for the lack of time for this  
21 particular panel, but we've talked a lot, everybody has  
22 clearly talked about the social networking phenomena as  
23 building communities for social and political reasons.

24 I guess that's one of the things that would  
25 speak to the fact that this is not a trend. This is not

1 something that's just going to die. This is something  
2 going forward because people tend to group together  
3 usually because of their interest. I would ask that  
4 some of the panelists, particularly Anne and Danah, how  
5 do you see the way or predict how these sites will be  
6 used in the future, and give us some examples of know  
7 how people are using very positive ways.

8 MS. BOYD: First off, social networking, the  
9 concept has always existed. Your mobile phone is filled  
10 with it. Your Email is filled with it. We've used it  
11 in all different forms. What we're see now is an  
12 articulation of social networks out into the public and  
13 use it amongst all of our friends.

14 This has been used for a lot of good things.  
15 For example you have young teenagers living in rural  
16 areas, going to their libraries and schools, looking up  
17 colleges that they want to go to and contacting friends  
18 of friends of friends at those colleges to find out  
19 about the colleges.

20 Now, another group of people that put up a  
21 post -- very upset with some of the immigration policies  
22 that are going on and rallied 50,000 fellow teenagers to  
23 make a political statement about immigration.

24 Regardless of how you feel about issue, the fact that  
25 50,000 kids, teenagers, high school kids are actually

1 making a statement politically is really powerful.

2 MR. LORDAN: And, Anne, can you speak to that?

3 MS. COLLIER: One of the I things I just read  
4 about is how a young woman in her 20s was really  
5 concerned about the situation in the Sudan and went to  
6 Washington, came here to March for Darfur, and then went  
7 back to her employer at MySpace and asked if they could  
8 do something about that, and now there's a social  
9 activist profile on MySpace for Darfur, so there's a  
10 really interesting venue here for new social activism  
11 that's just blossoming.

12 MR. LORDAN: Chris?

13 MR. KELLY: Let me jump in on that. Two of the  
14 largest groups on Facebook that are focused on the  
15 Darfur controversy, not the controversy, just the fact  
16 that we need to do something.

17 MS. COLLIER: And they're going to get out the  
18 vote drive on a number of these local sites.

19 MR. NIGAM: Just statistically, we did a search  
20 on our site. We found over 88,000 different political  
21 and social causes, just homegrown on the site itself.  
22 And Darfur was more of an officially designated one,  
23 voting was more official by the company itself, but  
24 88,000 organizations either raising funds, raising  
25 awareness, getting people connected to deal with issues

1 that they need to have other support groups help them  
2 deal with and things like that.

3 MR. KELLY: Once you have the underlying social  
4 network set up, and we have somewhere between by various  
5 estimates between 70 and 90 percent college students on  
6 Facebook, so it was very important for us to set up  
7 profiles for each of the candidates for federal office  
8 this year, and as we set up for election day tomorrow,  
9 there's been a very deep engagement around, more than 2  
10 million of are users have interacted either with an  
11 issue group or a profile of one of those candidates, and  
12 they've been able to effectively befriend those, support  
13 those users in their profile.

14 They have also joined the Rock to Vote Group  
15 around turn out, and we've been extremely excited about  
16 the connection of our user base. We found out most  
17 about it in the news feed controversy and how activist  
18 they could be, with over 750,000 users joined that group  
19 in two days. We've seen quite a bit of interaction  
20 around Darfur crisis, around electing, around quite a  
21 number of number of great social activism issues.

22 MR. LORDAN: Ben these are massive sites,  
23 Facebook and MySpace. For the more ethnic sites, what  
24 types of things are you saying erupting on the sites?

25 MR. SUN: Well, getting to this issue, one of

1 the most important kind of things that I think we've  
2 seen evolved on our site is actually the voice of these  
3 audiences or these communities actually being heard, so  
4 for us being -- whether it be Asian American, African  
5 American or Latino, getting the opinion of that  
6 community, kind of exposed to the kind of mass market or  
7 mass press has been a challenge.

8           Something that we ever seen is we don't have to  
9 control that kind of edit. Instead the members  
10 themselves will drive that, so one good example was in  
11 an ad that was posted on our site from Sibaca (phonetic)  
12 that showed a woman dressed up in geisha serving a glass  
13 of vodka to a Caucasian woman, and members kind of  
14 posted the ad up on the site, and from there you saw the  
15 kind of the opinions of Asian Americans kind of bubble  
16 to the top, whether it be a 16 year old girl that grew  
17 up and was from Dallas, Texas or it was a tenured  
18 process at Harvard.

19           That kind of collective voice at what actually  
20 we allowed New York Times to come in, look at what was  
21 being said and hearing the opinions and then covering it  
22 in the Times, and where Sibaca formally detracted the ad  
23 and apologized to the community, so that's one of the  
24 most important things that we've seen from the power of  
25 social networking.

1           MR. LORDAN: To the next question very quickly,  
2 advertising. Obviously many of these largest sites with  
3 the bells and whistles would not be in existence unless  
4 there was a huge base to advertise to them. Can you  
5 quickly, very quickly, the representatives speak about  
6 advertising, how the user to the sites feel about it,  
7 and is this different from just traditional missing that  
8 the fellow from ABC was showing earlier today where it  
9 was sponsored by Visa? What type of advertising  
10 marketing are we talking about very quickly?

11           MR. KELLY: Well, I mean, advertising make these  
12 sites free, and that's very important to do it, but if  
13 you look at the great success in the advertising world  
14 over the past ten years, it's been Google. It's  
15 presenting non intrusive advertising that's linked to  
16 something relevant that people are looking at, and all  
17 of these sites need to be intelligently looking for ways  
18 to do that.

19           We're working on a variety of different ways,  
20 everything from our sponsored groups to sponsored  
21 stories that show up in news feed but are relevant to  
22 users and in targeting that group in an effective manner  
23 that doesn't sell out the user in any way. It doesn't  
24 sell their data. It doesn't move it along to the  
25 market.

1           MR. LORDAN: Andrew, we're going to end here.  
2           Is your service subscription based or is it advertising  
3           based?

4           MR. WEINREICH: It's subscription based. Our  
5           service is really just launching, but I would take issue  
6           with something you said. It's not advertising that's  
7           enabled all these services to take off. It's venture  
8           capital. It's the belief that if you can build  
9           community, somehow, some way you're going to be able to  
10          monetize that community. Whether it takes ten years to  
11          do it or a year to do it, that's what has really enabled  
12          the growth of these communities.

13          MR. ARLEN: Venture capital?

14          MR. WEINRICH: Venture capital. Only recently,  
15          the past couple years, has advertising begin to really  
16          mature in the online world, as people had predicted in  
17          the '90s.

18          MR. LORDAN: Let me ask a specific question  
19          because the Federal Trade Commission is basking in the  
20          afterglow of the Zango settlement. Your site allows for  
21          individual customer optimization, and that's really put  
22          your growth at such a hockey stick growth level. How do  
23          you prevent malware from being incorporated?

24          MR. NIGAM: Well, I think one of the things that  
25          advertisers understand very clearly is -- and we

1 understand it because the revenue comes from  
2 advertising. You can have 120 million units or  
3 individual profiles on our set. If there's nobody to  
4 talk to them that's just overhead costs. That doesn't  
5 make any sense.

6 So from an FTC or a safety perspective,  
7 advertisers do not want to align their brand with an  
8 organization they feel is going to be unsafe in engaging  
9 in practices they don't care for. Given that, we're  
10 doing a lot by communicating with our advertisers and  
11 setting certain ground rules that they have to follow  
12 in order to even advertise on our site.

13 MR. LORDAN: Sorry. Time is up. The harsh task  
14 master has told us our time is up. In one closing  
15 comment, can everyone just say, if you had to say one  
16 inside the Beltway, policymakers, it looks like 60  
17 percent of whom, at least representative of this  
18 audience, have never been on a social networking, what  
19 would you say in 30 words or less? Anne?

20 MS. COLLIER: Let's broaden the discussion and  
21 fold more types of expertise into it.

22 MS. BOYD: Realizing what we're doing is talking  
23 American and things are really changing globally, and  
24 mobile is the main place, and there's going to be a lot  
25 more questions before there are answers.

1           MR. SUN: This market is going to continue to  
2 evolve and grow and explode with a ton more social  
3 networking sites that are going to start differentiating  
4 themselves and supervising our audiences.

5           MR. KELLY: Technology around access to personal  
6 information could be deployed effectively to protect  
7 kids on line.

8           MR. NIGAM: I want to say two things. One is a  
9 combination of what everybody just said, but secondly  
10 for inside the Beltway, there's discussion today about  
11 do you have a profile on a social networking, especially  
12 in the political season? I think when we come back here  
13 in five years ten years, that will just be a given that  
14 every politician thinks about without even thinking  
15 about it.

16          MR. LORDAN: Andrew?

17          MR. WEINRICH: Over the next couple years the  
18 carriers, the network carriers, the mobile carriers will  
19 hold tremendous power and influence over the issues that  
20 we're talking about: Privacy, security, and how much  
21 attention and detail that they pay to these issues will  
22 in large part impact what the future will look like.

23          MR. LORDAN: Thank you everybody for the panel,  
24 and thank you Federal Trade Commission for putting  
25 together this panel. Thank you very much.

1 PANEL 5: USER-GENERATED CONTENT, WHAT DOES IT MEAN FOR  
2 CONSUMER AND MARKETERS?

3 MODERATOR: Esther Dyson, Editor-at-Large, CNET Networks

4 PRESENTERS:

5 AMANDA LENHART, Senior Research Specialist, Pew Internet  
6 and Life Project

7 VIDEO

8 ANDY CHEN, Co-Founder and Chief Executive Officer,  
9 PowerReviews.com

10 DR. MICHAEL GEIST, Canada Search Chair of Internet and  
11 E-commerce Law, University of Ottawa

12 MACK TILLING, Chairman and Chief Executive Officer, Vizu

13 JANE KAUFMAN WINN, Charles I. Stone Professor of Law and  
14 Director, Shidler Center for Law, Commerce and  
15 Technology, University of Washington School of Law

16

17 MS. DYSON: Good afternoon. I'm Esther Dyson,  
18 and I'm going to be moderating this next session. I  
19 just want to apologize in advance. I'm leaving promptly  
20 at 5:15 to catch a flight, so the very last part of the  
21 session is going to be run by Katie Harrington-McBride  
22 from the FTC

23 What we're going to do is begin with Amanda  
24 Lenhart from Pew in a moment, who is going to set the  
25 scene for user generated content, and then we're going

1 to see the famous Mentos user generated commercial or  
2 user generated commercial. Then we have a panelist of  
3 three user generated experts talking similarly about  
4 their companies and products, what their users actually  
5 do

6 Michael Geist is a lawyer, and at that point we  
7 are going to have some real user generated questions.  
8 There's a woman in the audience with a mike. At the  
9 appropriate time, you can raise your hand and wave  
10 wildly, and somebody with a mike will come to you. We  
11 want to make this -- we want to make this a nice example  
12 of user generated content here.

13 Then when 5:15 comes, wherever we are in the  
14 schedule, I'm going to running off, and Jane Winn is  
15 going to finish with some remarks on the changing role  
16 of consumers becoming producers, but before we start  
17 I've been asked by my panelists, and I would be curious  
18 myself, how many of you are staff? How many of you are  
19 lawyers? Of course you may be FTC staff and lawyers.

20 How many of you are in the business, work for  
21 one of these companies that sell user generated content  
22 tools whatever? How many press? Anybody we didn't  
23 cover? Consumer advocates, okay? How about users?  
24 Aren't most of you users as well? How many of you have  
25 generated content online, other than a brief?

1           Let's start out with Amanda Lenhart from Pew.

2           MS. LENHART: Thanks, Esther. All right. Let  
3 me see if I can get this to work. I've got some slides.  
4 There we go. So as Esther said, I'm just going to set  
5 the scene here for us today. For those of you who don't  
6 know, I work for the Pew Internet and American Life  
7 Project, which is a non profit, non partisan research  
8 company based here in the District of Columbia, and we  
9 study the social impact of the Internet and Americans.

10           I'm going to leap right in. I have exactly ten  
11 minutes before Esther cuts me off, so I want to set the  
12 scene initially with some basic stats, how many  
13 Americans are actually online. Well, 73 percent of  
14 Americans go online currently. 87 percent of teenagers  
15 12 to 17 use the Internet. Interestingly 80 percent of  
16 parents go online. Their children tend to pull them  
17 online more than the average American adult, and 60  
18 percent of home Internet users have broadband.

19           That actually comes to about 42 percent of the  
20 adult American population, so that I think plays a big  
21 part in what we're going to talk about here today, and  
22 all of the data that I'm going to share today come from  
23 the Pew Internet and American Life Project telephone  
24 surveys.

25           Okay. So what is user generated content? What

1 are we actually talking about here? Well, it can be  
2 anything that is produced by the user, which sounds  
3 pretty basic, but I think it really does cover what  
4 we're talking about. That can be text. It can be  
5 audio. It can be video. It can be things like category  
6 or rankings. It can also be networks that the user  
7 creates. It can be things that can be used in online  
8 worlds. It can be programs. It can be actually an  
9 enormous variety of things.

10           Initially at the Pew Internet and American Life  
11 Project we had sort of a relatively limited definition  
12 of content creation. Under that definition we had 35  
13 percent of online adults who said they created content.  
14 As a part of that definition we had the 8 percent of  
15 Internet users who create blogs. We had the 14 percent  
16 of Internet users who work on their own web page. 13  
17 percent of Internet users create a web page for others,  
18 including businesses or family members, and then 26  
19 percent that share content that they created online,  
20 things like artwork, photos, stories or videos, again  
21 all of the kinds of things that I named earlier.

22           But we realized recently that we really just  
23 need to expand the definition of what user generated  
24 content is. So it's more things. And we don't have  
25 stats about every kind of way of creating user generated

1 content at this point, but we have a few others that we  
2 think are relevant to the discussion today. 34 percent,  
3 a third, have used the Internet to share and develop  
4 photos or get photos developed online. 30 percent have  
5 rated a product online or a service or a person, think  
6 am I hot or not. 18 percent have taken material found  
7 online and remixed it into something new, into a new  
8 creative creation, so think match ups, political ads.  
9 11 percent of adults 18 and older have used online  
10 social or professional networking sites. Now, I would  
11 like to say that particular stat focuses more on the  
12 professional side. I think it under represents what's  
13 going on.

14 So where can we find user generated content?  
15 Well, it occurs in many places online, so it occurs on  
16 blogs and vlogs, pretty obvious places, and that  
17 includes material like posts, photos, videos but also  
18 comments by other users, track backs. Podcasts also  
19 fall under that heading, photo sharing sites like  
20 Flickr, video sites like YouTube and Goggle, some  
21 networking sites like MySpace, Friendster and Facebook,  
22 and on those sites, it's not only the profile content,  
23 but it's also the network that you create that become  
24 part of this whole universe of content creation.

25 WIKIS, for those who don't know what a WICKI, it

1 is a web page where users can modify all the content on  
2 the page, including content added by others, the most  
3 famous of which is Wikipedia, the online encyclopedia,  
4 dating sites, another sites with content creation, sites  
5 where users tag, categorize digg or range items, places  
6 like blogs, del.icio.us, where you can mark and  
7 categorize various links and share them with others.

8 Classified ad sites like the auction sites,  
9 massive multi player online games and places like Second  
10 Life where users can created avatars, can create  
11 characters, can build things, and then even sell them or  
12 share them with others.

13 So you can see a poor representation here. As a  
14 piece of integrated content that we did in my office  
15 earlier, there was a office pumpkin carving contest, and  
16 we did pumpkin 2.0 at the Pew Internet Project, and this  
17 is the pumpkin's MySpace page. It's also a prototype.  
18 The eventual MySpace has a video of the carving. It  
19 also has a slide show. It has a song that plays in the  
20 background as well as a whole number of photos, friends,  
21 wall postings. The pumpkin was quite popular. Sadly we  
22 did not win the contest.

23 So who is creating content? What's the  
24 demographic of your average content creator? Well, it's  
25 broadband users. Given how many people have broadband

1 at home, it's not surprising that 73 percent of content  
2 creators have broadband. It's a little more likely to  
3 be men than woman although the difference is outside the  
4 margin of error but not that significant.

5 Young people are massive creators of content,  
6 and that's within the adult cohort. We'll get to teens  
7 in a moment. 43 percent of people under 30 create  
8 content. 18 percent of those over 65 create content.  
9 Also that younger are a much larger part of the whole  
10 online cohort than people over the age of 65.

11 Income is less determinative than whether or not  
12 you have broadband or dial up. For instance, when you  
13 look at broadband users with incomes under \$50,000, 46  
14 percent of them post versus 41 percent of those with  
15 incomes over \$50,000.

16 And finally teens are major creators of content.  
17 57 percent of teens, online teens create content or half  
18 of all teens in this country have created some kind of  
19 content to put on the Internet, so using similar  
20 definitions as we do adults, 33 percent have shared  
21 their other content online. 32 percent have created a  
22 web page for others, including school. 22 percent have  
23 created a personal web site. 19 percent have remixed  
24 content. 19 percent have their own blog.

25 The thing to remember about blogs, and I think

1 this helps us to understand and think about all kinds of  
2 user created content, is that with teenagers as well  
3 with adults you blog, it's not actually not that bad of  
4 a deal in a lot of their lives. It's something they  
5 update once or twice a week. It's generally seen as a  
6 hobby, and actual we're not going to go on to the next  
7 slide because we're short on time.

8 We actually asked a blogging survey of adults  
9 that we did quite recent, Why do you blog, why are you  
10 creating all this content and putting it on the  
11 Internet, and while this data is specific to blogging, I  
12 think it does have relevance to you talking about and  
13 thinking about why people actually create content and  
14 put it online.

15 As I said, the main reasons for creating content  
16 and for creating a blog is created expression. I want  
17 to express myself and share it with people. I want to  
18 share my personal experiences with others. It's a way  
19 of reaching out, of connecting with others. It's a  
20 hobby. It's not a serious thing. Thank you.

21 For most people it is a first foray into  
22 authorship. Most of the people who are blogging haven't  
23 had anything published before. They may never have had  
24 any recognition for photographs they've taken of art.  
25 That doesn't necessarily mean they're doing it with the

1 intent of creating great kinds of art, but they are  
2 doing it to reach. Out while two-thirds say they do it  
3 for themselves, one-third say they're doing it to engage  
4 an audience.

5 The audience that most people imagine when they  
6 blog is friends and family. They're not thinking about  
7 -- and I think this echoes some of the things we heard  
8 in the previous panel, about who keeps a social network  
9 and who they expect to be on the social network, and  
10 these folks are creating the content for people that  
11 they know, and they haven't a vision of an audience that  
12 is engaged with this content.

13 They also do it for conversation, to interact  
14 with those people that they know or that they think they  
15 know, so 87 percent of bloggers allow comments on their  
16 blog.

17 I just want to finish up with a couple questions  
18 that I want to pose, and that I hope we'll think about  
19 as a part of this panel. Who owns the content created  
20 by the user? We heard in a previous panel that in  
21 Second Life you actually own your content. But then  
22 that starts to bring up questions about what kind of  
23 liability does Second Life have if suddenly content that  
24 you own and have been monetized disappears in a server  
25 crash? What are the users's expectations of the use of

1 their content?

2           What about privacy, who gets to determine what's  
3 private and how content data gets used? And then I just  
4 want to bring up one last thing. There's a relatively  
5 new piece of blogging software called VOX, which was  
6 recently released, and I wonder -- I want to throw out  
7 there, it might be a sign of things to come in that it  
8 has incredible integration with different multi media  
9 applications that reside on different web sites as well  
10 as with your own multi media elements that you want to  
11 add into the site, all for free, and it also has much  
12 more nuanced privacy controls that we've seen in a lot  
13 of other pieces of blogging software.

14           With that I'm going to stop and turn it back  
15 over to the panel. Thanks very much.

16           (Applause.)

17           MS. DYSON: Thanks. That was a wonderful  
18 introduction. Now we have the famous Mentos video, I  
19 hope.

20           (Applause.)

21           MS. DYSON: Okay. We're really sorry we don't  
22 have them here to ask them some tough questions like  
23 where they got the music from and all the things that  
24 happened between them and the Coca-Cola Company and so  
25 forth, but I don't know, maybe Michael has some thoughts

1 on that later.

2 What I would like to do now is start with Andy  
3 Chen and with Mack Tilling. Andy is cofounder and CEO  
4 of PowerReviews, which as you can imagine does user  
5 generated views. Mack is cofounder and CEO of Vizu.com.  
6 Disclosure, I'm an investor in Vizu, and they do user  
7 generated poles. Both of these are off perhaps the  
8 mainstream, but I think are really great examples of  
9 user generated content, not just blogs.

10 It's also stuff that may have commercial  
11 implications. It's stuff that you might sell to  
12 marketers. There's all the questions Amanda raised  
13 about ownership, and the other questions I would like to  
14 address also are things like quality control, role of  
15 the users' identity and so forth, and, Andy, why don't  
16 you start and in two to three minutes, introduce  
17 yourself.

18 I ask each of the panelists to make one or two  
19 points that they wanted to make sure that got into the  
20 conversation and that you would ask questions about. As  
21 I mentioned, there's somebody in the audience to bring  
22 you around a mike after the introductions. Andy?

23 MR. CHEN: What we do at PowerReviews is we  
24 actually work with manufacturers and retailers and help  
25 them facilitate their customers to read reviews and

1 write reviews, very similar to how you can do that on  
2 Amazon.com, and one of the frequent questions we get  
3 from our customers is as they start to take a little bit  
4 more control over this consent of a product review, how  
5 does their risk and liability change and what are the  
6 processes they need to put in place to make sure that  
7 they can control the experience, to the extent that a  
8 retailer manufacturer needs to, but still make it an  
9 open environment.

10 It's actually pretty complicated, but it's  
11 something that we deal with all the time, and what we  
12 think of when we think about product reviews is we think  
13 that's the ultimate and almost the first form of user  
14 generated content. If you think of when people started  
15 reading reviews online, it was way in the beginning when  
16 ECommerce started, and on Amazon's web site, and of  
17 course I think there was a pole on this on the  
18 percentage of people that had actually posted a review.

19 So it's a common activity to read reviews and  
20 write reviews. We're just helping companies take it  
21 into their web sites, so they can make that content  
22 available to their customers without having to leave to  
23 go to another site.

24 MS. DYSON: So you're sort of an OEM supplier of  
25 review content almost?

1           MR. CHEN: Yes, and beyond the whole concept of  
2 liability and to what extent can they control the  
3 contents and moderate, the next question where we see  
4 reviews evolving is starting to connect an individual  
5 review to that person, so it's very helpful to know what  
6 other products one particular customer likes so you can  
7 judge whether that person's preference matches your own.

8           It's very helpful, but at the same time it  
9 starts to reveal some information about that customer  
10 that was normally not available, and as we start to  
11 evolve that and create a kind of social network within a  
12 shopping environment, we're just not sure where that's  
13 going to go and what risks that entails.

14          MS. DYSON: So if I want to read something on  
15 one of the sites that you power, I need to have a  
16 persistent identity; is that correct?

17          MR. CHEN: Well, often because it's tied to your  
18 registration with that site, your identity follows you  
19 through your shipping history with that particular site.

20          MS. DYSON: So I end up getting a reputation  
21 myself to being overly critical or family friendly or  
22 too critical?

23          MR. CHEN: Yeah, but it varies from a little bit  
24 more of a serious aspect to when you're taking a review  
25 on a drug retailer site, for instance. Now you start to

1 see what other products you purchased, which are often  
2 more sensitive than whether you like to ski or you like  
3 to play baseball. It becomes a different sort of  
4 animal.

5 MS. DYSON: That's not visible to another end  
6 user.

7 MR. CHEN: It's something that a lot of  
8 retailers are thinking about, replicating that type of  
9 functionality that you already find today on MySpace.  
10 These are my friends, these are the things that I like.

11 MS. DYSON: And these are my products.

12 MR. CHEN: So there's the kind of neutral web  
13 site where people post reviews today where you can  
14 connect a user to the five products they like. They're  
15 trying to bring that same functionality into their own  
16 web site, and since it's linked to very specific  
17 products, to a very specific event, then the whole  
18 privacy questions start to come into place.

19 MS. DYSON: So how many employees do you have?

20 MR. CHEN: We have about 20 employees.

21 MS. DYSON: How many lawyers?

22 MR. CHEN: We actually out source the lawyer  
23 part.

24 MS. DYSON: Probably not for long. How many  
25 people do you have doing editing, quality control,

1 something, presuming you don't just let stuff go up  
2 randomly?

3 MR. CHEN: So we have -- it depends on the  
4 volume from day-to-day, but between the and five people,  
5 and really we moderate more to objective standards, like  
6 eliminating spam, making sure we're focused on the  
7 product and not the retailer, et cetera, so it's not  
8 product specific knowledge, and that's the condition of  
9 our business is that we can't hire people or experts in  
10 every single product category, so we have to make the  
11 moderations vary general.

12 MS. DYSON: How concerned are you that some  
13 vendor is going to get thousands of people who are paid  
14 off to post positive reviews or to post negative reviews  
15 of the competition?

16 MR. CHEN: That's another frequent question.  
17 What we do in general is we flag so we work with our  
18 vendors. We have -- we manage different levels of  
19 credibility, from an anonymous user who's not registered  
20 who comes in to post to someone we know actually  
21 purchased the product to someone who is a staff member  
22 of that company.

23 So if you're a retailer and you have your staff  
24 members write a review, they'll be flagged as an  
25 employee all the way to an expert reviewer, someone that

1 is an expert tester who comes into write a really very  
2 thorough review, so we flag that person and give that  
3 information back to the consumer so when they read the  
4 review, they know who to trust, or who to take with a  
5 grain of salt.

6 MS. DYSON: For extra credit, would you like the  
7 FTC to regulate the kinds of things you do so that these  
8 sleazy companies who didn't do them so carefully would  
9 have a tough time competing with you?

10 MR. CHEN: I would say no, definitely not. I  
11 think that the whole idea of competitive sleaze is not  
12 as big of a problem as most people think it is. I think  
13 from our company and the manufacturers and retailers we  
14 work with, I think that they really are looking for  
15 clarity. There are a few set of laws that apply to this  
16 user generated content bulletin board system that are  
17 just not as clear as they could be so that everyone  
18 feels a high sense of risk and fear.

19 But there's a really huge benefit to actually  
20 bringing this technology into their umbrella, so I think  
21 we're playing with it and we'll just see how it fleshes  
22 out, and there isn't much clarity in terms of where that  
23 risk profile lies.

24 MS. DYSON: Mack, since you're an attorney, I'll  
25 probably ask you the same question.

1           MR. TILLING: I think we do have a lot of the  
2 same issues whether it's are user generated content  
3 sites or some that are more well known blogs, the blogs  
4 like YouTubes, et cetera.

5           Vizu.com has about -- we have two parts of our  
6 business that were started about a year ago. The  
7 community site, which is Vizu.com, was generated to  
8 bring people in, essentially to understand what the  
9 world thinks about any issue, whether it's silly or  
10 serious, whether it's public or private. We encourage  
11 people at the site to look for poles on any issue that  
12 they're interested in.

13           They can do a search on steroids in baseball,  
14 for example, and see any news generated poles, and they  
15 can then vote on those poles, look at the results of  
16 those poles, comment on those poles, and do some  
17 analysis of those which is one of our issues and then  
18 share those poles.

19           They can cut the -- take a code for the pole and  
20 actually put that same pole on their blog or their web  
21 site. They can Email it to friends if they want to see  
22 what a subset of population they know feel about an  
23 issue. Private poles, you can create a pole for your  
24 own use. It's free of charge, and you could send it to  
25 your friends, where should we have the reunion for the

1 class.

2 I did one when I was married about a year ago  
3 and I created a pole, actually made this one public,  
4 what should Mack wear to his wedding, and the answers  
5 were Elvis in white rhinestone, a gorilla costume,  
6 traditional tux, suit, and Saturday Night Live or  
7 Saturday Night Fever white outfit, and I encouraged  
8 everybody to vote on it, 150 some votes in a couple  
9 days. Some very funny comments. You can imagine what  
10 mothers and folks who recently wed or soon to be wed --  
11 how they felt about this horrible thing I was doing.

12 But in any case I got some very funny results,  
13 and actually lived by those results and started to  
14 generate a community off of these. We have some serious  
15 issues. People post questions about response to  
16 Hurricane Katrina, for example, and then there's a lot  
17 of the, am I hot, which somebody might take and put on  
18 MySpace or encourage people to come to.

19 So it's a vast array of things. When somebody  
20 signs up at our site, we only ask, you can vote  
21 anonymously, you don't have to be a member. If you want  
22 to create a pole or comment on a pole, there's reasons  
23 we want some level of accountability. Through that we  
24 ask that you supply your gender, your age and an Email  
25 address. We don't enforce the Email address to date,

1 and we're trusting that people are generally pretty  
2 honest about their gender and their age, and we've done  
3 some matching against the Internet population to see  
4 that we're fairly close on this.

5 Over time, the analysis part of this, you can  
6 take a look at results, and actually if you want to ask  
7 the question, Show me how male versus female voted on  
8 this or more show my how different geographies, show me  
9 how household income or educational level, then at that  
10 point we'll ask if you haven't provided that information  
11 in your profile, to share that with us.

12 We don't -- because it's free we never ask for  
13 any personal identifiable information, no credit card  
14 information, no addresses, et cetera, and we really  
15 don't want that. We are -- it's really helpful to us  
16 and ultimately to marketers to understand that the vote  
17 behind this was from a male in his 40s living in North  
18 California whose interested in a certain sports and has  
19 this sort of education, background, et cetera. Any  
20 market researcher would be interested in that  
21 information.

22 The thing that's really tricky for us is what to  
23 do with this information. We've got a new service which  
24 is a network where we're going off of our site and we're  
25 allowing market researchers to create questions and then

1 distribute them across a number of web sites that we  
2 have in our network, and they can target sites, options  
3 traders. They can do something more diverse, but the  
4 problem, whether we like it or not and frankly our  
5 business is built on it, we can learn a lot by somebody  
6 by the content that they create and by the vote, per the  
7 micro content that they have on it, and you ask the  
8 right 20 questions, and even though you know nothing  
9 exploitive about this person, you never had to ask them  
10 their gender or age, their politics, et cetera, you can  
11 start to put together an implicit profile on this  
12 person.

13           And if you track this person over time, that can  
14 be something that if it's not dealt with carefully can  
15 be a real nasty problem. We think if it's dealt with  
16 correctly and typically through full disclosure of the  
17 user, it can actually be of benefit, not just to the  
18 user in terms of their own season experience which I  
19 think is sort of a common argument given by many sites  
20 that have user generated content, a benefit to the user  
21 in terms of their experience, but then also obviously a  
22 benefit to the marketer in terms of getting information  
23 that's useful to them.

24           MS. DYSON: Okay, I think actually we'll come  
25 back with some more questions later. Michael, your

1 turn.

2 MR. GEIST: Great, thanks. I'm Michael Geist.  
3 I'm a law professor at the University of Ottawa. Just  
4 quickly to answer your question, the music in that  
5 video, and it's mentioned in the video comes from Auto  
6 Body, and if you click through, you can then buy that  
7 song on iTunes, and they did exceptionally well, as did  
8 of course the creators of this video through an ad clip  
9 model using revere, so it was successful for both the  
10 video makers and the music.

11 So I've been sitting out there all day looking  
12 at the nice logo "protecting consumers in the next  
13 tech-ade" and I want to use my the minutes to try to  
14 convince you that protecting consumers in the next  
15 decade or tech-ade involves in part at least ensuring  
16 that they have the ability to speak out and the ability  
17 to be heard. It seems to me that consumers today, and  
18 this is what user generated consent is all, about do far  
19 more than just consume.

20 They are an active participants in this, and  
21 there is a danger I think there are danger that the law  
22 and policies can really curtail the ability for people  
23 to speak out as well as the ability to be heard.

24 Now, part of that I think is rhetorical.  
25 Frankly I think describing user generated content as

1 sewage. We're talking about the need to professionalize  
2 user generated projects which holds the danger of  
3 somehow treating it substandard to the so-called  
4 professional content, and thus perhaps less worthy of  
5 the kind of policy protection that we might otherwise  
6 devise which I think is simply wrong, as that video that  
7 we just saw would illustrate.

8 But more than that, I think there are real  
9 policy considerations here too, and I'll focus on two.  
10 One is the ability to speak out. I think that when you  
11 collect things like digital rights management systems,  
12 anti circumvention legislation and even contractual  
13 restrictions, there can be some real serious impediments  
14 for the ability for people to speak out, whether that's  
15 a media critique that they want to engage, yet find that  
16 the content itself is locked down through DRM, the tools  
17 that might be made available to them to engage in that  
18 critique are unavailable in the fact they don't want  
19 unlawful to be distributed under DMC like legislation or  
20 they want to engage in a review of software, let's say,  
21 and some of the terms and conditions would restrict them  
22 from literally publishing a critical review.

23 I think they're al really in danger that the  
24 kind legal framework that has been established, and it  
25 seems like you may continue to establish when you think

1 about things like the right to broadcasting or broadcast  
2 flag type initiatives can have a significant impact on  
3 the ability for people to engage in the kind of things  
4 that I think we all ought to be celebrating and that we  
5 will envision will be an important part of consumers and  
6 consumer's activity in the next tech-ade.

7           Just as the ability to speak out is important,  
8 the ability to be heard is also essential, and there  
9 have been some policy choices in this country in  
10 particular that have helped that if you think back ten  
11 years, the communication is DCC Act, section 230 which  
12 provides protection for sites for third-party content  
13 that they host, but don't have any editorial control or  
14 editorial input over have had a significant impact on  
15 who people who might speak critically, and then there  
16 was an incentive for some sites to take that down.

17           But I think there are still other users that we  
18 ought to be thinking about. There's the net neutrality  
19 debate which I think has the -- holds the danger for  
20 those that create the kind of content that we saw and  
21 other kinds of content to be relegated to the so-called  
22 slow lane so that we leave the professional lane for the  
23 fast stuff for the people that have the ability to pay.  
24 Yet for so much of what consumers have to say, whether  
25 about products or any number of other kinds of things,

1       somehow find themselves on the slow lane which is why  
2       the net neutrality debate is so essential.

3               There are other areas as well. ICANN, the  
4       Internet Corporation For Assigned Names and Numbers,  
5       which administers the domain name system has had in  
6       place for a number of years now a domain named dispute  
7       resolution system which seeks to try to ensure that  
8       those that engage in bad faith domain names registration  
9       may find their domain names transferred over.

10              In my view over the last number of years it's  
11       dealt with thousands of cases, and in a number of knows  
12       cases there are people who have been engaged in critical  
13       web sites. Name your company's suck.com, and that for  
14       many people is an important way to ensure that their  
15       message is being heard. They create communities of  
16       people who are frustrated with the retailer, have had  
17       bad experiences with a product, use that domain name to  
18       ensure that they can find an audience, and yet the UBR  
19       pool has been misused I think repeatedly to transfer  
20       those domains name, although I think are very serious  
21       doubts about bad faith and trademark.

22              So there are some real policy issues here that I  
23       think we ought to be thinking about if we're going to  
24       ensure that consumers, as we think about it over the  
25       next ten years, do more than just consume but become

1 active participants in what happens.

2 MS. DYSON: Do you see the FTC as playing a role  
3 in ensuring these consumer rights?

4 MR. GEIST: Absolutely, absolutely. We heard  
5 earlier that there's discussion on net neutrality and I  
6 think the response was how could they do anything but --  
7 how could they not look into net neutrality issues, so I  
8 think that's one area and I think that increase while  
9 copyright isn't something that anyone really wants to  
10 wade into. I think that in many respects you can't  
11 think about this or from both a fair practices  
12 competition perspective, much less a consumer  
13 perspective without recognizing that some of these  
14 copyright policies have a huge impact on what consumers  
15 can do. We're facing the exact same issues in Canada  
16 right now, so unquestionably in my view there's a roll  
17 to play.

18 MS. DYSON: There's definitely a role to play.  
19 I'm not sure that -- it would be interesting to see what  
20 the FTC thinks it can do. I would like to open this up  
21 to audience questions. I have a few more, but I really  
22 would like you guys to have a chance to speak, anybody  
23 just raise your hand or you can also just shout the  
24 question. I'll repeat it for the mikes. Okay. No  
25 questions? Come on. You guys wouldn't get anywhere on

1 the net.

2 Mack, let me ask you first, do you feel that  
3 your consumers are at risk of being squashed by bigger  
4 forces?

5 MR. TILLING: Well, a couple of issues for us,  
6 and one of them I think Michael said this, one is with  
7 the content is a copyright issue, and then there's  
8 another issue that is similar to what Andy has in terms  
9 of how do we police this. It's really the nature of the  
10 content. Copyright I think is fairly well taken care of  
11 in take down provisions, their fair use and frankly for  
12 our site, it's not likely someone is going to post  
13 someone else's video.

14 MS. DYSON: Well, they might . They might post  
15 the song and say, Do you like this.

16 MR. TILLING: We had a couple of U2 videos which  
17 a man mentioned match up. Someone took two videos from  
18 U2 and threw them on our site and said which do you like  
19 the best, and more and more of these user generated  
20 sites are becoming completely open and interoperable and  
21 you're going to see them all borrowing from other pieces  
22 from other sites, so here's a case where two different  
23 user generated contents are developed.

24 So I do think that that -- people GO to our site  
25 we think and participate, one, because it's self

1 expression, and that's one out of a hundred people that  
2 create poles. Ten out of a hundred people will actually  
3 do something beyond creating, voting commerce, et  
4 cetera, so about nine out of the ten do nothing but look  
5 at the results, so they're the ones that come and  
6 express themselves, and if they're just self expression,  
7 self assessment, if they want to see how they rank with  
8 other people, so not only this is what I think, but am I  
9 normal, where am I normal compared to other males, et  
10 cetera?

11 And I think that you do put too many constraints  
12 on them in terms of the types of questions they can  
13 throw out there, moderating, for example, we don't allow  
14 people -- we took a stance and said, No, we're going to  
15 get involved, and we're going to put the spears down on  
16 someone that is creating hateful content, probably  
17 someone like high schoolers who created, Is Johnny a  
18 geek, et cetera.

19 That's pretty tame compared, but are we going to  
20 allow something that's a little bit more upfront and a  
21 little more threatening? If we do do that, are some of  
22 the laws out there and some of the legal system going to  
23 expose us rather than being completely at risk and let  
24 our use users do whatever they want?

25 But frankly theft at MySpace show is probably

1 the best for the MySpace show, probably best for the  
2 whole business in my site, MySpace of course, an example  
3 of, for instance -- it is a great example of sort of  
4 what a little bit of tweaking and control in a system.  
5 There were technical issues also, but what that can do  
6 for the rapidly growth in adopting these sites.

7 So on the one hand I say, Stay out of it  
8 completely and let it go. On the other hand without  
9 professionalizing it and putting it only in the hands of  
10 those that have the best tools, have the best education  
11 with those tools, I would say that some amount of  
12 control and professionalizing is okay.

13 MS. DYSON: With that user generated content  
14 quality control, like on Flickr, you can flag things  
15 from being -- that's where we think actually -- that  
16 that's where we think the right balance should be most.

17 There's a new report on the best practices, and  
18 I think that any social content, social network user  
19 generated content site, probably the best examples are  
20 the ones that let the community do their own policing,  
21 and we see it happening relatively quickly on our site.  
22 Somebody picks up something, picks up a comment in  
23 response to one of the poles, and it's offensive or way  
24 out in outer space. Pretty soon that just invites  
25 others to come in, and it leads to an uneven balance, so

1 I think substance is really about this. Again somebody  
2 wants great content, but yet you give this gentleman a  
3 knife, would you want to include registering and giving  
4 us your Email address?

5 MR. GEIST: I would want to say, the survey of  
6 the Mentos diet Coca-Cola video.

7 MS. DYSON: You said you keep hateful videos  
8 away, but some videos are very positive video. Matt  
9 Cole here came on there, it's the best cola there is.  
10 In other words, it's clearly commercial ventures. Do  
11 you do anything -- that may be ads as well, too. Do you  
12 do anything to restrict that, maybe add a the view as  
13 well, strictly commercial messages.

14 MR. TILLING: No, and again this comes down to  
15 the users vote by their actions, and we have ways to  
16 rate poles as a part of the resign, and you would  
17 actually use one to five stars, for the number of those,  
18 et cetera, and if it something that was purely  
19 commercial where it was just so off on the deep end,  
20 there's no -- when you don't control it, there's really  
21 nothing that says that this is a statistically a robust  
22 or mutually exclusive antecedent, so some of these are  
23 more about somebody making a statement than asking a  
24 question.

25 Those don't to get a lot of votes unless they're

1 claims, and we have a payment work that we actually  
2 encourage. If someone wants to ask a question, what's  
3 your favorite cola, or what's your favorite brand of  
4 soft drink, they can actually put this out on the web  
5 and get more meaningful data that than they could on a  
6 site, and I think that basically if it's on our web,  
7 it's free.

8 People are there for entertainment. They're  
9 there for useful information. Now, if somebody was  
10 using our site to try to spam where to make commercial  
11 statements, they're doing to drop to the bottom of the  
12 list very quickly where nobody would want to see them  
13 because nobody votes on them.

14 MS. DYSON: What if Coca-Cola sponsored this  
15 whole commercial?

16 MR. TILLING: Yeah, if someone sponsors it.  
17 Right now we don't have sponsored poles on our sites but  
18 we do have poles that are taken off site. They have a  
19 radio station that runs a daily pole on their home page,  
20 and essentially uses us as a technology base. They sold  
21 branded on that, and it's a company that sponsors that  
22 and it's got that right on there.

23 I think it's one of the -- along with having the  
24 community police, I think one of the more important  
25 things that I think can be more efficient than some of

1 the legislation is really having industry backed  
2 disclosure standards, so that there are things that are  
3 kind of considered best practices. Essentially we've  
4 done some branding from our sites.

5 We abide by these rules and these standards  
6 where something.

7 MS. DYSON: Let me ask one question, and then  
8 I'll -- if you can bring the mike down to this gentleman  
9 near the front. Oh, there's also one in back. Let me  
10 ask you one question and we'll take two questions, and  
11 I'll probably have to go.

12 It seems to me that pretty soon it's going to be  
13 more and more requirements for people to register to do  
14 most of these things for a variety of reasons, marketers  
15 want more demographic information, users don't want more  
16 quality control, whose review should I test, where does  
17 the pole come from.

18 Do you agree, and I would love for you guys as  
19 well to -- do you agree with that proposition where do  
20 you think it's good where bad? There's a difference  
21 between persistent identity registering and having your  
22 name and address and everything visible, but where do  
23 you think this it is? Why don't you start, and then  
24 we'll at the two questions.

25 MR. CHEN: I think that that selection in

1 general is the beginning of ECommerce. And it's up to  
2 the marketer to provide a value for the registration, so  
3 in ECommerce, there's also register purchaser versus the  
4 non use purchaser, and basically they said, Hey, there's  
5 high value to registering because you don't have to type  
6 in your credit card and address information every time,  
7 and the customer has to opt-in.

8 I think that's very much like all user generated  
9 content in terms of registration where the marketer has  
10 to provide a lot of value for registering, so it's a one  
11 time deal where you -- they're opting to log-in and you  
12 don't get anything out of it. Most consumers won't  
13 register. They're smart enough to think about where  
14 they're going to share their information, including not  
15 their Email address, so I think that it's really up to  
16 the consumer to make that decision and up the marketer  
17 to provide value to that information.

18 MR. TILLING: I think it comes down to the  
19 difference between salesperson and marketing. A  
20 salesperson wants your Email address and wants to be  
21 able to send you stuff, and once you're on an affiliate  
22 site, a site that you're buying information from or on  
23 your site, and your Email, when you sign up a lot of  
24 sites, they'll ask you do you want marketing information  
25 sent to you from us. Do you want it from our trusted

1 third parties, which can be a huge group.

2 Again there is really very little standards and  
3 much of us don't tend to read through the sites' privacy  
4 statements and et cetera, because they're so unreal,  
5 that it would be really nice to know, okay, this site  
6 plays by these rules, I understand what the rules want,  
7 I don't need to read it all the time.

8 A marketing person want that's information but  
9 they don't them -- it can very are very valuable to them  
10 without having an Email address as long as they have  
11 demographic I can and psycho graphic information which  
12 mate not ever be tied to an individual.

13 MS. DYSON: Michael?

14 MR. GEIST: I don't think it's so much from what  
15 the site wants but more from what the consumer wants and  
16 I think for many of the consumers, the currency here is  
17 the reputational currency, so if it works out -- a lot  
18 of the high volume book reviewers on Amazon are doing it  
19 because they get an reputation being a high volume book  
20 reviewer or people who do a lot of digging on Digg do  
21 that because they have a good reputation out of that.  
22 That's why they do it, so of course they're going to run  
23 a register because they want that reputation to accrue.

24 But I think you have to be careful because there  
25 are many instances where I think they are not going to

1 want to be identified, so let's say they're a win/win.  
2 Let's say they're gauging in the critique that in their  
3 particular community might be seen as being offsidés.  
4 Et they want to be able to put that out. They're going  
5 to work very hard to make sure that they aren't  
6 associated with that at all.

7 The veil of anonymity will actually be a crucial  
8 component with them because the only way they will speak  
9 out is take them all in.

10 MS. DYSON: Again there's a difference between  
11 having a persistent identity and identified identity,  
12 not in the FBI terms.

13 MR. GEIST: Of course we've seen a number of  
14 bloggers lately that have come up and been blogging in  
15 an anonymous fashion, and part of the game becomes to  
16 try to outdo whatever that particular blogger happens to  
17 be, so I don't let anybody feel safe when you don't  
18 really know who I am because eventually you can begin to  
19 put the pieces together.

20 MS. DYSON: Fair enough.

21 MR. GEIST: AOL?

22 MS. DYSON: That was astonishing.

23 MS. LENHART: I think I was just going to say I  
24 think one thing that's important to echo what Michael  
25 said sort of build on there is what is the user's

1 expectation for privacy? There's not -- the majority of  
2 people who are doing all of this content creation aren't  
3 thinking, oh, I'm going to get online and use this data,  
4 and I think actually if ask you them, they might object,  
5 and I'm thinking more along the lines of profile  
6 creation, on social networking site, so are users really  
7 thinking oh, I think they're going to sell the fact that  
8 I like Coca-Cola because this is how they're going to  
9 make money, and I sort of wonder what the given  
10 expectations are and if you suspect they're probably not  
11 aligned with what marketers are thinking about or not  
12 necessarily where the regulatory stuff is coming in.

13 MS. DYSON: All right.

14 MR. GEIST: I think disclosure rules and some  
15 sort of certification or rating whether it's reputation,  
16 comes into play, because then those that are playing by  
17 the rules and doing well I think are going to set  
18 themselves apart. At least the ones that are concerned  
19 about privacy will be out there, and the ones that can't  
20 get that sort of certification, that reputation the  
21 trust, they will hopefully not get the attention they  
22 want.

23 MS. DYSON: We'll hear now from Jen.

24 MS. LENHART: I was going to say I think that  
25 Andy's response that basic calculus was worked out in

1 the early days of ECommerce doesn't correspond to my  
2 experience at all because it's like the two separate  
3 trains going down two separate tracks. Of course I know  
4 the whole policy for identity has exploded in recent  
5 years and it's intensely controversial and we're talking  
6 technologically how you build a system that supports  
7 interoperability and is user sensitive demands an ID.

8 I'm asking a lot of hard questions to people,  
9 and I can't see quite how that interplay with commerce.  
10 I mean, Microsoft recently has a new white paper about  
11 how they're new user sensitive ID system is going to  
12 comply with the ID law, and I've been reading this  
13 document trying to figure out how you form a contract,  
14 and I couldn't -- the question, couldn't users be in  
15 charge of their identity, technology sophisticated in  
16 terms of the modeling, the expectations of giving people  
17 control so that they can they have it made, have a  
18 disclosure made, so for you to stay that it's easy to  
19 understand that there's a calculus, the problem is the  
20 complete lack of transparency.

21 That was the problem back in the '70s with  
22 Amazon.com and that was the company that was going to  
23 make different use of the policy collected or the first  
24 privacy policy? You'll have are profound difficult  
25 systems.

1 MS. DYSON: Users fight back online. They fight  
2 back by having multiple IDs. I think part of the  
3 challenge here is user's expectation is very wide.  
4 They're end users who are uniquely sophisticated, and I  
5 understand exactly what's going on when you say you're a  
6 friend of a friend, and then there's people that don't  
7 realize that when they publish a blog maybe their mother  
8 is going to read.

9 I unfortunately have to take off, but let's hear  
10 the last two questions, and depending on what's going  
11 on --

12 UNIDENTIFIED SPEAKER: I'm just curious to hear  
13 about how the copyright issues in the next five to ten  
14 years will play out. We think sites will go away  
15 (inaudible). There will be legislative changes or  
16 something else.

17 MS. DYSON: And the second question? Is Katie  
18 Harrington-McBride ready to come and take over?

19 MR. FOX: Jeff fox, Consumer Reports. This is  
20 for Andy. I heard you say that your clients have you  
21 teach their customers how to write product reviews? No?

22 MR. CHENG: We don't. Do we teach consumers how  
23 to write reviews?

24 MR. FOX: No, do you teach them how to write  
25 reviews?

1           MR. CHEN: No, no, we manage the product review,  
2 so we facilitate the process. The customer can click on  
3 a button to what do we do, but we don't coach the  
4 consumers on how to write a review.

5           MR. FOX: If they write a negative review about  
6 one of their client's product, that's their review.

7           MR. CHEN: Yes, and what we do in the moderation  
8 process is we focus on constructive reviews. To go back  
9 to the previous question, we focus on product reviews  
10 that are commercial, so obviously if someone is thinking  
11 about buying a product or not by, then we'll focus on  
12 constructive necessary, will this comment help another  
13 consumer make a good decision about a product.

14           MS. DYSON: I want to thank everybody. I hope  
15 you have a wonderful discussion. Thanks a lot. I have  
16 to go. Katie?

17           (Applause.)

18           MR. GEIST: The question was where copyright is  
19 in the next five years? I think in many ways it's  
20 wasteful. I think we look at that internationally and  
21 nationally in this country. International, it's almost  
22 at a standstill because you have many developing  
23 countries and others that come up and say that they're  
24 very frustrated and concerned with the maximum agenda  
25 which is making it very difficult to move forward on

1 things like broadcast Trio.

2 I don't expect to see an elimination in this  
3 country, but what we will see I think is the continued  
4 negative impact on the people who want to be good,  
5 right. For people who want to engage in sort of pure  
6 networks or engagement, DVDs and the like, I'm not  
7 saying that that's not bad between that product, but  
8 people that are going to want to do that stuff are going  
9 to do it whether it's against the law or not.

10 The problem is in schools and in a range of  
11 places where people who want a feature that they act on  
12 a tribunal law. Take a look at what the legislation  
13 says, and feel that they're restricted in their ability  
14 to engage in some of the kinds of things that we're  
15 talking about.

16 Eventually I think we will come to the  
17 recognition that this doesn't make any sense, that here  
18 we do the work, and then it's a legislation competitive  
19 issue, except an farm full, and this doesn't solve any  
20 of the supposed problems that people keep touting.

21 But for awhile I think we're a ways off of  
22 reaching that point.

23 MR. CATE: Thank you. I think now we're going  
24 to hear from Professor Jane Winn at the Shidler Center  
25 at the University of Washington about how consumers'

1 role is changing. Now they're actually becoming the  
2 producers of content, and talk what that may be going  
3 forward in terms of how consumer protection law  
4 officials think about their work.

5 MS. WINN: Okay. Hello. I'm thrilled to be  
6 here and I'm amazed there's this many people because  
7 it's the very end of the day, so my perspective is that  
8 of a commercial law professor so I will try and follow  
9 what's happening in the world, but of course I'm  
10 confined to my ivory tower.

11 This is an overview of the points I'm going to  
12 make. And in preparing for my thoughts today, I went  
13 out and did some research about how many different ways  
14 consumers produce themselves socially, so I don't know  
15 if social media is the appropriate material, but after I  
16 have read loads and loads and loads of analyses of web  
17 2.30 and user generated content, that happens to be the  
18 one I like best.

19 So the next question is we have the whole  
20 problem of discussing the issues that you can no longer  
21 talk about consumers. The focus of the program today is  
22 the impact of technology on consumer protection, so  
23 we're going to let go of the concept of consumers, think  
24 about institutional framework. It seems to me reviewing  
25 was three different forms of production and distribution

1 of social media that you could identify a continuum of  
2 different institutional outcomes, and there's a strong  
3 ilk which has been obviously most of the presentations  
4 today towards commercialization.

5           So I think Professor Geist and I are  
6 representatives of the nonprofit world here, which say  
7 maybe there's a lot of non commercial dimensions to this  
8 process that need to be emphasized, and that's part of  
9 the answer to the question what can the 20th Century  
10 regulatory agency do to reinvent itself in the 21st  
11 Century when this or is the consumer's point?

12           So in my very informal unscientific survey of  
13 media that I have access to, which includes that I can  
14 search Lexis-Nexis and Westlaw as well as the Internet,  
15 the most important decision it seems to me is just to go  
16 back and think about what is meant to say that someone  
17 was a consumer, and the rise of the whole notion of  
18 consumer is very distinctly 19th Century, and it's part  
19 of the industrial revolution and in the 20th Century, it  
20 became pride for progressive agenda about finding ways  
21 to counterbalance the weak or passive position of those  
22 who consume the output of mass production or mass  
23 communication.

24           And so it's that very passivity need of someone  
25 like a regulatory agency to put a thumb on the scale and

1 even up the balance, which is being called into question  
2 by the mass participatory movements that are mediated by  
3 technology, so some of the terms that I bumped into were  
4 user, blogger, contributor, collaborator, producer,  
5 distributor, and then there was a whole -- started to be  
6 a whole spectrum of things like citizen journalist or  
7 creator.

8           So those are the sort of activities that this  
9 challenge facilitates that I think some of the end users  
10 don't clearly distinguish between market oriented  
11 behavior and these more social and political dimensions.  
12 So what outcomes do these produce, what social network,  
13 blog peer production? And I think some of the most  
14 significant peer production activities are in the open  
15 source software.

16           The idea of moving the hierarchical definition  
17 of meaning and having sort of populous user generated  
18 interpretations that gain momentum, user generated  
19 content, peer review, feedback, user generated  
20 advertising, and user generated content paid for with  
21 advertising as profess certificate gist pointed out.  
22 The one that we saw was specific to revenue, right, so  
23 they had a for profit model.

24           So this is important. Looking at all those  
25 things, putting them out on the table, thinking what

1 does this mean if we have to abandon the idea that  
2 there's a clear institutional frame work for futures on  
3 one side of the equation and package consumers on the  
4 other, and package consumers that have a regulatory  
5 agency to come and fight their fights for them.

6           It seemed like on the far side there are the  
7 most commercial possible applications of this  
8 technology, and on the side close to me are the most  
9 political or social dimensions, the most removed from  
10 market, and I discovered searching Lexis-Nexis and  
11 Westlaw and not on the Internet that there's turmoil and  
12 interest in the advertising industry about losing  
13 control of the development of advertising.

14           I'm not an advertisement person so I'm probably  
15 going to use the wrong vocabulary, but I think most  
16 people know about how Chevrolet tries to invite users to  
17 participate in a case, only to discover that there's an  
18 undercurrent of hostility toward Chevrolet that they  
19 have never gotten in touch with before.

20           So if you have a product that generally blogs on  
21 a huge wealth stream of enthusiasm and devotion among  
22 your continued public, then opening up the question of  
23 how to define methods can be incredibly productive, but  
24 I think there's a question. For those of us who are not  
25 in the advertising agency, we've never really been

1 satisfied by the economists's explanation of why  
2 advertising is in fact productive, and so the idea that  
3 you can use this new technology to improve sort of  
4 conversations about what really is happening seems like  
5 the most superficial and nose commercial possible  
6 application of them.

7 As a commercial law professor, I personally  
8 think the idea of getting much broader feedback, much  
9 broader and more diverse feedback in how products and  
10 services are designed, that seems to me to be  
11 tremendously exciting. One of the things I said is that  
12 globalization and ability of Americans to compete in  
13 global markets is opening up, and learning more about  
14 how people interact with your products seems to me like  
15 you're going to actually get better product as opposed  
16 to better messages about the same products.

17 So that's a very commercial application. And  
18 then in the middle we come to the kind of institutions  
19 that FTC represents, which is in the event of market  
20 failure, regulatory agencies will intervene to maintain  
21 the transparency and accountability for markets to  
22 function. So that's a clear mandate that the FTC  
23 currently enjoys, to exercise public authority to help  
24 consumers.

25 But then if we keep going, as we get into more

1 environments such as Wikipedia or open source software,  
2 there's an actual non commercial dimension to the some  
3 interactions, and that seems to have been little  
4 emphasized today, and perhaps I'm not the right person  
5 to be thinking about it, but in my review of what people  
6 were saying, and discussing projects just seems to be  
7 really important when you really open up sites and you  
8 don't have attitudes or people with proprietary stuff  
9 and maintaining the cohesion of the discussion, there is  
10 a problem about maintaining a civil community.

11           And so I think this is something that when you  
12 look at Wikipedia or the free open source software  
13 movement, they've had to really struggle with developing  
14 government mechanisms that can sustain antisocial and  
15 political environments.

16           And then finally at the other end, I'm truly not  
17 qualified to talk about this, about using technology as  
18 a form of direct to market, but you could get sort of  
19 more and more an artistic as you go along. In fact the  
20 Federal Trade Commission doesn't have much to contribute  
21 to that.

22           So the next question I had was: Is  
23 commercialization inevitable? If it's one of the  
24 advantages that markets have with the government  
25 mechanism, are there clear lines of accountability and a

1 clear message to determining whether people are  
2 functioning the way they're supposed to, and once that  
3 triggers for FTC intervention, there's the question of:  
4 Is there evidence of a market failure? If you set up  
5 the government's problem, in a sense you've pre judged  
6 it.

7           The social and political dimension has become  
8 relatively invisible, and then there's another question,  
9 this again is a question of globalization, and too bad  
10 the earlier speaker, Danah, has gone away, because she  
11 talked to people outside the United States about social  
12 interactions involving this technology. But I would  
13 think the American embrace of ads on blogs and embedded  
14 advertising in the kind of video that we saw that that  
15 might not be universal, that that might be a hallmark of  
16 American culture that people are happy to commercialize  
17 their social relationships and don't think there's any  
18 particular content there, but I think even in America,  
19 people kind of wonder about whether that sort of end  
20 user really would like to see.

21           So the problem is that market institutes can  
22 raise capital. They have management structures that are  
23 recognizable, and the more social and political or yen  
24 faces have to resolve fundamental government problems  
25 and determine where they're going to get the technology

1 from it.

2           So this final question then is: What is a  
3 person to do? And I think I would say the presentations  
4 have mentioned quite a few enforcement efforts. The  
5 Federal Trade Commission is making tremendous strides in  
6 the area of information security and working to  
7 combative ways in the background of this, because I'm  
8 one of the 60 percent that doesn't use social networking  
9 sites, but one of my students said, Some people go on  
10 the site to ask people questions like what's your pet's  
11 name, and it's a -- haven't they thought that that's in  
12 fact a password, that that's a way that you can  
13 impersonate, a way that can lead to infrastructure, the  
14 seriousness of people sharing information on these  
15 things?

16           So here there's a lot of misconduct out there,  
17 and the Federal Trade Commission can be vigilant and  
18 look for the bad guys and take steps to sensitize people  
19 to predators. The traditional mandate of the Federal  
20 Trade Commission to prevent deceptive marketing can give  
21 them the authority to oversee bogus feedback, but I  
22 think there are more challenging and 21st Century kind  
23 of roles that FTC might play.

24           And one of them we saw emerging at the end of  
25 the 20th Century in the COPPA regulations, so it's

1 industry legislation to be approved as a means of  
2 compliance with COPPA, and that would be an example of  
3 reaching out and validating government structures, and  
4 what I'm projecting is there's no way that that can be  
5 generalized. It's not just about compliance with a  
6 group of statutes like COPPA that maybe the FTC could  
7 begin to put its reputational ways behind more defective  
8 transparent accountable social and political  
9 implications. I'm asking the question. I have no  
10 answer.

11 Finally there is the question about mandating  
12 disclosures. That has come up several times. A  
13 gentleman here mentioned that there is some industry  
14 best practices that might work their way into some kind  
15 of industry guidelines of clear evidence of this  
16 conduct, and finally to get the technology for it and to  
17 have a framework around which the technology continues  
18 to evolve in ways that meet end user expectations,  
19 there's a question of collaborating the development of  
20 standards themselves and promoting technological  
21 standards that facilitate constructive enactment.

22 That's it.

23 MS. HARRINGTON-MCBRIDE: That was a very nice  
24 presentation, thank you. Jane. I've read some of your  
25 work. As with all your panelists, I think we're

1 relatively short on time, and I have one quick question  
2 if you could give short responses to this. Amanda  
3 something you had mentioned, looking at the idea of data  
4 monitoring, and social networking sites are a place  
5 where people make a great show of friends and the  
6 families and put out information.

7 To what extent today is that happening or  
8 somebody is doing it, and to what extent by 2016 do you  
9 think they will be doing it and what if anything should  
10 we be doing about it? So a short response. I'll start  
11 with you, Andy.

12 MR. CHEN: I think that almost every company out  
13 there thinks about it as a great opportunity to sell  
14 more. I'm not sure how many companies actually do it  
15 very well. And then I think this or knowledge isn't as  
16 widespread as we think, although I think every company  
17 is trying to figure out to do it well.

18 MS. HARRINGTON-MCBRIDE: Do you think the  
19 technology is going to be changing? That's another  
20 component of this. Is something going to happen  
21 technologically to make it more feasible?

22 MR. CHEN: It's definitely been happening. You  
23 control more data. You can select it multiple different  
24 ways. You talked about RIFV and the different ways to  
25 track consumers online versus offline, et cetera, et

1 cetera.

2 So I think the data is there and the technology  
3 has been there. I think it really is more social in  
4 terms of what you decide is send able for your customers  
5 to do, so that's probably the biggest area, but still a  
6 technological hurdle but it's mostly social.

7 MS. HARRINGTON-MCBRIDE: Mack?

8 MR. TILLING: I think it's an example of how  
9 things can be done on a grand scale and also about how  
10 either we're complacent to it to an extent or for  
11 certain types of -- one is Googlemail Email. They mind  
12 the data, if you will. They scrape that within each  
13 Email. You're willing to let them put ads in your  
14 Email, and something like ten million or more users  
15 basically said, That's okay with us, we're willing to  
16 have this very useful, very efficient and free service  
17 in order to let you read what's in my Emails and  
18 advertise in my current Email based on that.

19 I think technological is there. The actual just  
20 processing power, and saving all the terabytes, the data  
21 that you need to attach it, in a sense that's there. I  
22 think what's going to be interesting and going to enable  
23 us to have this more quickly is consumer acceptance or  
24 consumer complacency. An interesting site, an idea of  
25 Root.net, if you haven't seen it, sort of puts the whole

1 thinking out there that a marketer has created a site  
2 for people to take the pole of their own information,  
3 and basically what they're trying to do is put something  
4 on your browser that will track everything you do, every  
5 place you go but the idea is that you can then see what  
6 people can see about you and you can control what they  
7 see about you.

8 Now, the question is going to be whether or not  
9 you really have ultimate control of that, and it's a  
10 great notion, but also a really sort of interesting turn  
11 about on the same idea.

12 MR. GEIST: It seems to be a consumer is  
13 accessing any particular site. A professor at  
14 Carnegie-Mellon described it. There's lots of pools of  
15 data and in a sense each of these site, every place  
16 where we have little bit representing a pool of data,  
17 such as the AOL search engine illustrates, and a number  
18 of other examples, the ability to pull these little bits  
19 of data together to develop very real profiles, even  
20 when you think we solved -- you heard today we don't  
21 take personally identifiable information or we  
22 deidentify personal information.

23 The fact that Professor Sweeney talked about,  
24 she was an expert witness in a case in Chicago where the  
25 newspaper was seeking to disclose the fact that there

1 were several children who had contracted illness due to  
2 an environmental incident in the area.

3 Dr. Sweeney was there to say, You give me the  
4 afternoon, I'll be able to identify each of those  
5 children, and the Judge said you're wrong, and there was  
6 nothing to stay who the kids were. It was just the  
7 normal part of what was happening. Several hours later  
8 she started she was able to identify every single one of  
9 those kids, a mix of support groups online and a range  
10 of different sources, also bits of data, hospital  
11 records, all sorts of different things.

12 And so whether you have this instant data and  
13 you have this data about me, the reality is there are  
14 lots of little bits of data about me, and the ability to  
15 begin to aggregate, that even when we are telling people  
16 don't worry, we're not collecting anything that's  
17 personally identifiable, I think the practicality is  
18 that technological today lets you go that stuff.

19 MS. LENHART: I think that's a case where you  
20 have to tread really lightly. Other people have said  
21 I'm sure the marketers and organizations are considering  
22 it or are doing it already, but I think the incidence of  
23 the feed is really instructive, where users got really  
24 upset when their personal information was suddenly sent  
25 out and showed to the network in a new way, and the

1 users mostly acknowledge when you ask them, Oh, yeah we  
2 knew it was public.

3 It was never really public in the same deal.  
4 We're certainly dealing to the user exactly how the data  
5 available to others. It is a lot more horrifying a lot  
6 more quickly so I think that's the real hurdle to  
7 actually making an effective use of it. If doing it in  
8 a way that's transparent and fair to the user but in a  
9 way it.

10 MS. HARRINGTON-MCBRIDE: Jane?

11 MS. WINN: I was going to say while this one of  
12 those things that separates the United States from  
13 Europe for example because in Europe, they have  
14 prohibitions on doing the kind of aggregating that  
15 ultimately reveals something sensitive, and they have  
16 real standards for when people have consented to  
17 secondary uses, and so the fact that you're having this  
18 discussion reveals once again the fundamental characters  
19 of U.S. law, which is everybody has submitted and tells  
20 us it's explicitly forbidden, so I have a factual  
21 question.

22 If you look at the old Ebay case about the box  
23 going on EBay and EBay was unhappy about that and  
24 ultimately they won, because at the time they couldn't  
25 block the active box, so I have a question for these

1 gentlemen. Do you think you have boxes on your site  
2 because the fact that you are constrained by your own  
3 privacy policy is good news, but what Professor Geist is  
4 pointing out it, we need to be worried about the  
5 followers.

6 MR. CHEN: Absolutely. It's a little better or  
7 different in the context of a retail site because the  
8 retailer has to want the box on the site because they  
9 want to get traffic coming in from those customer  
10 comments. We actually don't support profiles right now  
11 so we don't connect them together because we want to  
12 understand it more thoroughly, but we do know boxes are  
13 coming in and they'll always be able to be one step  
14 ahead in terms of blocking the technology.

15 MS. WINN: But the box profile you, as the  
16 business manager, have chosen not to pick it?

17 MR. CHEN: It's probably theoretically possible,  
18 but we don't actually disclose anything except for a  
19 nickname or a location so it's very very limited  
20 information that's given about a consumer, but we're not  
21 willing to necessarily have boxes and being able to pull  
22 that together, but in connection with that is what the  
23 retailer already has in-house, and of course then it  
24 becomes a little bit more identifiable.

25 MS. HARRINGTON-MCBRIDE: Mack, do you want the

1 last word?

2 MR. TILLING: That's one reason we don't want  
3 any personally identifiable information, but I think the  
4 point that was brought up before, somebody that's very  
5 clever and has maybe a lot of technology resources could  
6 go in and start piecing things together, so where we may  
7 not know anything but an Email address, that is sort of  
8 key then to opening up some other information. It would  
9 probably be pretty difficult to do, but is it  
10 unconceivable?

11 No, and I know if we're all playing by the same  
12 rules, then we could take all the information and put it  
13 together and still not be able to figure out who that  
14 person is, but as soon as somebody steps outside that,  
15 they have opened the door.

16 MR. CHEN: I also just in general don't think we  
17 can underestimate the intelligence of the consumers  
18 because what happens like Yahoo, they maintain their  
19 privacy pool and probably looking at it today, I get a  
20 Email from five of my friends saying, Hey, you can  
21 change it, you should opt-out or unsubscribe. Same  
22 thing happened with Facebook, so there's this talk about  
23 disclosure, but if you have clear disclosure, consumers  
24 are pretty smart, at least some of them, and because  
25 we've been social networking, it gets out pretty quickly

1 so obviously there's a balance.

2 You can regulate and you can impose a lot of  
3 fear on the marketers and the other people who are  
4 running a company, or you can impose a requirement for  
5 disclosure and let the consumer regulate and police  
6 those companies. And I think it's a really fine balance  
7 but I'm really on the side of letting consumers be the  
8 judge.

9 I think there's a good analogy in terms of  
10 product reviews, because a lot of retailers, they  
11 understand that if they filter all the negative reviews  
12 that customers won't cut them, and therefore they want  
13 trust the company as a place to shop, so they're very  
14 adamant that the reviews are positive and negative, and  
15 they're constructive but not biased, and really it's  
16 because the retailers know that the consumers are smart.

17 MS. HARRINGTON-MCBRIDE: Mack, I offered you the  
18 last word, Andy tried to have it. I'm actually going to  
19 have it. We are going to close out today's first day of  
20 the tech-ade hearings.

21 I'm very appreciative to all of you that have  
22 come. I hope that many of you will join us again  
23 tomorrow either here live or on the web cast. Hopefully  
24 you'll also visit our tech site which is across the  
25 street in the Marvin Center, Abrahams Hall.

1           Before we close, I think probably better than me  
2           having the last word is having another couple of minutes  
3           of our consumer video, so we're going to hear a little  
4           bit from consumers on what they feel about blogging, and  
5           I think it may wrap into some of the things that we  
6           talked about. Thank you all.

7           (Applause.)

8           (Whereupon, a video was shown to the audience  
9           but was not transcribed.)

10          (Whereupon, at 5:40 the workshop was adjourned.)

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CERTIFICATE OF REPORTER

DOCKET/FILE NUMBER: P064101  
CASE TITLE: TECH ADE WORKSHOP  
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I HEREBY CERTIFY that the transcript contained herein is a full and accurate transcript of the steno notes transcribed by me on the above cause before the FEDERAL TRADE COMMISSION to the best of my knowledge and belief.

DATED: NOVEMBER 17, 2006

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DEBRA L. MAHEUX

CERTIFICATION OF PROOFREADER

I HEREBY CERTIFY that I proofread the transcript for accuracy in spelling, hyphenation, punctuation and format.

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DIANE QUADE