

**UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION**

COMMISSIONERS: **Edith Ramirez, Chairwoman
Julie Brill
Maureen K. Ohlhausen
Joshua D. Wright**

In the Matter of

APPLE INC., a corporation.

DOCKET NO. C-4444

COMPLAINT

The Federal Trade Commission, having reason to believe that Apple Inc. (“Apple” or “Respondent”) has violated provisions of the Federal Trade Commission Act (“FTC Act”), and it appearing to the Commission that this proceeding is in the public interest, alleges:

1. Respondent is a California corporation with its principal place of business at 1 Infinite Loop, Cupertino, California 95014.

2. Respondent has billed for charges related to activity within software applications (“apps”) consumers download to their iPhone, iPod Touch, or iPad devices (“Apple mobile devices”) from Respondent’s app store.

3. The acts and practices of Respondent alleged in this complaint have been in or affecting commerce, as “commerce” is defined in Section 4 of the FTC Act.

RESPONDENT’S BUSINESS PRACTICES

4. Apple offers thousands of apps for free or a specific dollar amount, including games that children are likely to play. In many instances, after installation, children can obtain virtual items within a game, many of which cost money. Apple bills charges for items that cost money within an app—“in-app charges”—to the parent. In connection with billing for children’s in-app charges, Apple sometimes requests a parent’s iTunes password. In many instances, Apple “caches” (that is, stores) the iTunes password for fifteen minutes after it is entered. During this process, Apple in many instances does not inform account holders that password entry will approve a charge or initiate a fifteen-minute window during which children using the app can incur charges without further action by the account holder. Through these practices, Apple often

fails to obtain parents' informed consent to charges incurred by children. Since at least March 2011, tens of thousands of consumers have complained about unauthorized in-app charges by children, and many consumers have reported hundreds to thousands of dollars in such charges. Parents and other iTunes account holders therefore have suffered significant monetary injury.

Background on Apple's App Store

5. Apple offers apps through its App Store, a digital store preloaded on Apple mobile devices. Apps provide a wide variety of mobile computing functionality, allowing users to, for example, browse the Internet, check the weather, or play games.

6. According to Apple's app developer guidelines, before it agrees to offer any app designed by a third-party developer in the App Store, it reviews the app's functionality, content, and user experience. Apple generally assigns each app it sells to at least one topical category, such as "Games" or "News." Certain categories expand into subcategories. The "Games" category, for instance, includes subcategories like "Family," "Kids," and "Strategy." Apple also groups apps by price, including the top "Free" apps and top "Paid" apps.

7. Apple charges account holders for certain user activities within some apps. These in-app charges generally range from \$0.99 to \$99.99 and can be incurred in unlimited amounts. In many instances, the apps containing in-app charges are games that children are likely to play.

8. Before consumers can install any app, Apple requires that consumers link their Apple mobile device to an iTunes account, funded by a credit card, PayPal account, gift certificates, prepaid cards, or allowance credits. Apple bills consumers' iTunes accounts for App Store transactions and in-app charges, and retains thirty percent of all revenue. According to Apple's stated policy, all App Store transactions (including in-app charges) are final.

Installing an App from Apple's App Store

9. To install an app, a parent or other account holder must first locate it by searching for the app by keyword (*e.g.*, the name of the app) or by browsing the various categories and subcategories within the App Store. If an account holder searches for an app by keyword, the search results display as scrollable tiles (referred to herein as "Search Tiles"). If an account holder finds an app listed in a category or subcategory, he or she can click on the name of the app to access additional information (displayed on an "Info" page).

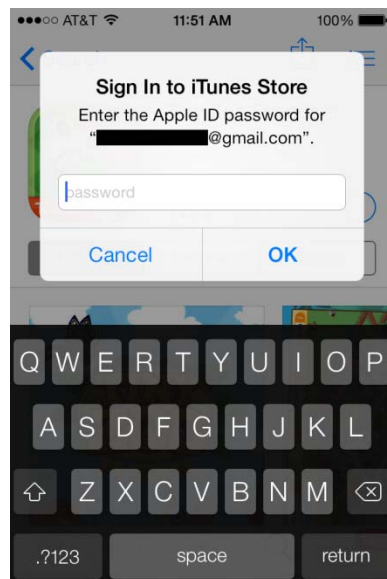
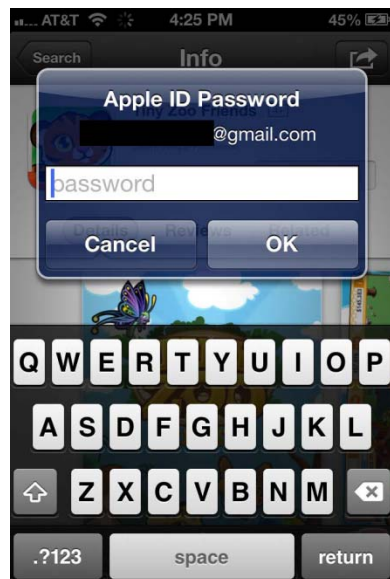
10. Each Search Tile and Info page contains a button (the "Price Button") labeled with the price of the app: either "FREE" or a specific dollar amount. Clicking on the Price Button—on either the Search Tile or the Info page—will begin the app installation process. A sample Search Tile (on the left) and Info page (on the right) appear below.



As pictured above, Apple displays the words “Offers In-App Purchases” in small print on the Info pages (not the Search Tiles) of apps with in-app charges. Prior to spring 2013, Apple did not display that language. Neither the Search Tile nor the Info Page explain what “In-App Purchases” are (including that they cost real money or how much) or that entering the iTunes password within the app will approve a charge and initiate a fifteen-minute window during which children can incur charges without further action by the account holder.

11. To initiate app installation, the account holder must press the Price Button on the app’s Search Tile or Info page. When pressed, the Price Button changes so that it displays the word “INSTALL” instead of the price. If pressed again, the app installation process begins.

12. Next, Apple prompts account holders for their iTunes account password before installation proceeds. This prompt (the “Password Prompt”) is the same or similar to the ones depicted below.



The Password Prompt does not contain any information about in-app charges. Once the account holder enters the iTunes account password and presses “OK,” the app is installed on the device.

13. As described in paragraph 4, Apple often caches the iTunes password for fifteen minutes after it is entered. During this fifteen-minute window, Apple does not display the Password Prompt again.

Incurring In-App Charges

14. After an account holder installs an app, a user can incur in-app charges. In many instances—particularly for apps that children are likely to play and that are, for example, rated as appropriate for four-year-olds—these users are children. In many instances, parents have complained that their children could not or did not understand that their activities while playing the app could result in charges that cost real money.

15. When a user engages in an activity associated with an in-app charge (*e.g.*, clicking on a button to acquire virtual treats for use in a game), Apple displays a popup containing information about the virtual item and the amount of the charge (the “Charge Popup”). A child, however, can clear the Charge Popup simply by pressing a “Buy” button.

16. In many instances, during the fifteen-minute window following installation of an app (as described in paragraph 13 above), Apple has not displayed a Password Prompt for any in-app charges. This has allowed children to incur in-app charges simply by pressing the “Buy” button on each Charge Popup displayed during that fifteen-minute period. Regardless of the number or amount of charges incurred during this period, Apple has not prompted for additional password entry in these instances.

17. In many other instances, Apple displays a Password Prompt—identical to the Password Prompt displayed prior to installation of the app—after a child clears the Charge Popup. A sample Password Prompt appearing within an app is below.



The Password Prompt does not contain any information about in-app charges. Once the account holder enters the iTunes account password and presses “OK,” Apple bills the in-app charge to the linked iTunes account. By default, entering the iTunes password and pressing “OK” triggers a fifteen-minute window during which Apple does not display the Password Prompt for

subsequent in-app charges, allowing children to incur charges without password entry for fifteen minutes.

18. In September 2013, on devices running Apple’s latest operating system, Apple reversed the order of the process described in paragraphs 15-17, displaying the Password Prompt before the Charge Popup. If the account holder enters the iTunes password and presses “OK,” Apple displays the Charge Popup. Once a user clicks “Buy” on the Charge Popup, Apple bills the in-app charge to the linked iTunes account. By default, Apple also initiates a fifteen-minute window during which it does not display the Password Prompt for subsequent in-app charges.

19. Neither the Password Prompt nor the Charge Popup explains that entering the iTunes password may approve the charge described on the Charge Popup and initiate a fifteen-minute window during which children can incur charges without further action by the account holder.

20. In many instances, Apple does not obtain an account holder’s informed consent before billing for in-app charges by children. In particular, nowhere during the processes described in paragraphs 9 through 19 does Apple inform account holders that password entry—whether at installation or before incurring a particular in-app charge—triggers a window during which users can incur unlimited charges without further action by the account holder.

Apple Bills Many Parents for Unauthorized In-App Charges Incurred by Children

21. Many of the apps that charge for in-app activities are apps that children are likely to use. Indeed, many such apps, according to age ratings Apple uses in the App Store (4+, 9+, and 12+), are expressly described as appropriate for children. In addition to the age ratings, many apps that charge for in-app activities are listed in the “Kids” or “Family” categories in the App Store, are described or marketed as suitable for children, or are widely used by children.

22. Many of these games invite children to obtain virtual items in contexts that blur the line between what costs virtual currency and what costs real money. The app “Dragon Story,” for example, is a game in which children hatch, raise, and breed virtual dragons. Children use “gold,” “coins,” and “food” to play the game. The game sometimes informs children that they are “low on food!” and that a dragon is “hungry,” and provides a link to a screen titled “Stock Up!” The “Stock Up!” screen sells “gold” (virtual currency that costs real money) alongside “coins” (virtual currency that can only be obtained with other virtual currency) and “food” (a virtual item that can only be obtained with virtual currency). Various quantities of gold cost various amounts of real money, with the largest amount (2900 gold) costing \$99.99. The App Store describes Dragon Story, which is rated 4+, as the “BEST looking FREE dragon game” for Apple mobile devices.

23. Similarly, the app “Tiny Zoo Friends” challenges children to build and maintain a zoo whose “Zoo Value” is described in terms of dollars. That figure, however, does not correspond to real money, and instead is a score that varies based on a child’s progress within the game. By contrast, the prices of the game’s virtual currency—“coins” and “bucks”—are also described in terms of dollars, but that currency costs real money to obtain. From a screen called

“Zoo Bucks,” for instance, a child may obtain various quantities of “bucks,” including “10 Bucks” for \$0.99 or “3,500 Bucks” (also called a “Mountain of Bucks”) for \$99.99. Apple lists Tiny Zoo Friends with a rating of 4+.

24. Since at least March 2011, Apple has received at least tens of thousands of complaints related to unauthorized in-app charges by children in these and other games.

25. Many consumers report that they and their children were unaware that in-app activities would result in real monetary loss. For example, one App Store reviewer complaining about \$534 in unauthorized charges incurred in two days described Dragon Story as “sucker[ing] young children into spending huge amounts of money” without their parents’ knowledge. A parent whose seven-year-old incurred \$500 in unauthorized charges playing Tiny Zoo Friends one afternoon commented that “children . . . cannot possibly understand” that they are spending real money.

26. In many games with in-app charges, consumers report that Apple billed for in-app activities without obtaining their consent. For example, one parent learned from her credit card company that her daughter had incurred \$2600 in charges in the 9+ app “Tap Pet Hotel.” Another consumer reported that her niece incurred \$113.46 in unauthorized charges while playing the 4+ app “Racing Penguin, Flying Free.” According to the consumer, her niece did not know the iTunes password, but was able to incur the charges inside the fifteen-minute window during which Apple does not prompt account holders for a password. Apple has continued to receive complaints about millions of dollars of unauthorized in-app charges by children.

27. Many children incur unauthorized in-app charges without their parents’ knowledge. Even parents who discover the charges and want to request a refund face a process that many consumers describe as cumbersome, involving steps that do not clearly explain whether and how a consumer can seek a refund for unauthorized in-app charges incurred by children. Indeed, as noted in paragraph 8 above, Apple’s stated policy is that all App Store transactions are final.

COUNT I

Unfair Billing of In-App Charges

28. In numerous instances, Respondent bills parents and other iTunes account holders for children’s activities in apps that are likely to be used by children without having obtained the account holders’ express informed consent.

29. Respondent’s practices as described in paragraph 28 cause or are likely to cause substantial injury to consumers that consumers themselves cannot reasonably avoid and that is not outweighed by countervailing benefits to consumers or competition.

30. Respondent's practices as described in paragraph 28 therefore constitute unfair acts or practices in or affecting commerce in violation of Section 5 of the FTC Act, 15 U.S.C. § 45(a) and (n).

THEREFORE, the Federal Trade Commission this twenty-fifth day of March, 2014, has issued this complaint against Respondent.

By the Commission, Commissioner Wright dissenting.

Donald S. Clark
Secretary

SEAL: