

## Complaint

IN THE MATTER OF  
GROLIER, INCORPORATED, ET AL.ORDER, OPINION, ETC., IN REGARD TO ALLEGED VIOLATION OF  
THE FEDERAL TRADE COMMISSION ACT

*Docket 8879. Complaint, Mar. 9, 1972\* — Final Order, Mar. 13, 1978.*

This order, among other things, requires a New York City publisher and seller of encyclopedia and other educational materials and services, and its subsidiaries to cease misrepresenting, failing to make relevant disclosures, or using any other unfair or deceptive method to recruit door-to-door sales personnel, sell merchandise and services, and collect delinquent accounts.

*Appearances*

For the Commission: *Edward D. Steinman, David C. Fix and Robert D. Friedman.*

For the respondents: *Frederick P. Furth, Thomas R. Fahrner and Robert C. Cagen, Furth, Fahrner & Wong, San Francisco, Calif.*

## [2] COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, and by virtue of the authority vested in it by said Act, the Federal Trade Commission, having reason to believe that Grolier, Incorporated, American Peoples Press, Inc., Americana Corporation, Americana Interstate Corp., Career Institute, Inc., Federated Credit Corp., Grolier Enterprises, Inc., Grolier Interstate, Inc., Grolier New Era Corp., Grolier Reading Programs, Inc., Madison Enterprises, Inc., R.H. Hinkley Company, Spencer International Press, Inc., The Grolier Society, Inc., and The Richards Company, Inc., corporations, hereinafter referred to as respondents, have violated the provisions of said Act, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues its complaint stating its charges in that respect as follows:

PARAGRAPH 1. Respondent Grolier, Incorporated is a corporation organized, existing, and doing business under and by virtue of the laws of the State of Delaware, with its principal office and place of business located at 575 Lexington Ave., New York, New York.

Respondent Grolier, Incorporated dominates, controls, and furnishes the means, instrumentalities, services and facilities for, and condones and approves the acts and practices of the corporations hereinafter referred to below.

\* Complaint reported as amended by the administrative law judge's order of Jan. 10, 1973.

Respondent American Peoples Press, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Illinois, with its principal office and place of business located at Sherman Turnpike, Danbury, Connecticut. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated and sells and distributes books or other merchandise through advertising and mailings. Its volume of business has been, and is substantial. [3]

Respondent Americana Corporation is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its principal office and place of business located at 575 Lexington Ave., New York, New York. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated and recruits persons by means of various methods of advertising, as hereinafter set forth, and trains said persons to work as door-to-door sales personnel. It sells and otherwise distributes encyclopedias, yearbooks, and other publications, merchandise or services to the general public, through various methods, including door-to-door canvassing, as hereinafter set forth. Its volume of business has been, and is substantial.

Respondent Americana Interstate Corp. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Illinois, with its principal office and place of business located at 501 East Lange St., Mundelein, Illinois. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and sells and distributes books or other merchandise through advertising and mailings. Its volume of business has been, and is substantial.

Respondent Career Institute, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Illinois, with its principal office and place of business located at 555 East Lange St., Mundelein, Illinois. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and sells and distributes books or other merchandise through advertising and mailings. Its volume of business has been, and is substantial.

Respondent Federated Credit Corp. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its principal office and place of business located at 575 Lexington Ave., New York, New York. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and collects and induces payment of accounts for the subsidiary corporations of respondent Grolier, Incorporated by various meth-

ods, as hereinafter set forth. Its volume of business has been, and is substantial. [4]

Respondent Grolier Enterprises, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of New York, with its principal office and place of business located at Sherman Turnpike, Danbury, Connecticut. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated and sells and distributes books or other merchandise through advertising and mailings. Its volume of business has been, and is substantial.

Respondent Grolier Interstate, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its principal office and place of business located at 575 Lexington Ave., New York, New York. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated and recruits persons by means of various methods of advertising, as hereinafter set forth, and trains said persons to work as door-to-door sales personnel. It sells and otherwise distributes encyclopedias, yearbooks, and other publications, merchandise or services to the general public, through various methods, including door-to-door canvassing, as hereinafter set forth. Its volume of business has been and is substantial.

Respondent Grolier New Era Corp. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Illinois, with its principal office and place of business located at 575 Lexington Ave., New York, New York. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and recruits persons by means of various methods of advertising, as hereinafter set forth, and trains said persons to work as door-to-door sales personnel. It sells and otherwise distributes encyclopedias, yearbooks, and other publications, merchandise or services to the general public, through various methods, including door-to-door canvassing, as hereinafter set forth. Its volume of business has been, and is substantial. [5]

Respondent Grolier Reading Programs, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of New York, with its principal office and place of business located at Sherman Turnpike, Danbury, Connecticut. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and sells and distributes books or other merchandise through advertising and mailings. Its volume of business has been, and is substantial.

Respondent Madison Enterprises, Inc. is a corporation organized,

existing and doing business under and by virtue of the laws of the State of California, with its principal office and place of business located at 635 Madison Ave., New York, New York. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and recruits persons by means of various methods of advertising, as hereinafter set forth, and trains said persons to work as door-to-door sales personnel. It sells and otherwise distributes encyclopedias, yearbooks, and other publications, merchandise or services to the general public, through various methods, including door-to-door canvassing, as hereinafter set forth. Its volume of business has been, and is substantial.

Respondent R. H. Hinkley Company is a corporation organized, existing and doing business under and by virtue of the laws of the State of Maine, with its principal office and place of business located at 575 Lexington Ave., New York, New York. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and recruits persons by means of various methods of advertising, as hereinafter set forth, and trains said persons to work as door-to-door sales personnel. It sells and otherwise distributes encyclopedias, yearbooks, and other publications, merchandise or services to the general public, through various methods, including door-to-door canvassing, as hereinafter set forth. Its volume of business has been, and is substantial. [6]

Respondent Spencer International Press, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its principal office and place of business located at 575 Lexington Ave., New York, New York. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and recruits persons by means of various methods of advertising, as hereinafter set forth, and trains said persons to work as door-to-door sales personnel. It sells and otherwise distributes encyclopedias, yearbooks, and other publications, merchandise or services to the general public, through various methods, including door-to-door canvassing, as hereinafter set forth. Its volume of business has been, and is substantial.

Respondent The Grolier Society, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its principal office and place of business located at 575 Lexington Ave., New York, New York. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and recruits persons by means of various methods of advertising, as hereinafter set forth, and trains said persons to work as door-to-door sales personnel. It sells and otherwise distributes encyclopedias.

yearbooks, and other publications, merchandise or services to the general public through various methods, including door-to-door canvassing, as hereinafter set forth. Its volume of business has been, and is substantial.

Respondent The Richards Company, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its principal office and place of business located at 635 Madison Ave., New York, New York. It is a wholly-owned subsidiary corporation of respondent Grolier, Incorporated, and recruits persons by means of various methods of advertising, as hereinafter set forth, and trains said persons to work as door-to-door sales personnel. It sells and otherwise distributes encyclopedias, yearbooks, and other publications, merchandise or services to the general public, through various methods, including door-to-door canvassing, as hereinafter set forth. Its volume of business has been, and is substantial. [7]

PAR. 2. Respondent Grolier, Incorporated through its various organizational divisions and wholly-owned subsidiary corporations publishes, sells and otherwise distributes, throughout the world, textbooks, encyclopedias, reference or educational materials, training courses and teaching machines, or other publications, merchandise or services. It has established, acquired and operated a number of wholly-owned corporate subsidiaries as aforesaid, for the purpose of promoting, selling, or otherwise distributing, and collecting monies expended for said publications, merchandise or services from the trade or from the purchasing public. Its volume of business has been, and is substantial. In addition, respondent Grolier, Incorporated, directly and indirectly, profits and benefits by and through the acts and practices of its wholly-owned subsidiaries, including the acts and practices hereinafter set forth.

PAR. 3. In the course and conduct of their business, as aforesaid, respondents now cause, and for some time last past have caused, said publications, merchandise or services to be shipped and distributed from their places of business or from their sources of supply to purchasers and prospective purchasers thereof located in various States of the United States other than the state of origination, distribution or storage of said publications, merchandise or services. Respondents transmit and receive, and cause to be transmitted and received, invoices, checks, collection notices and various other commercial papers or documents in the course of advertising, selling, or otherwise distributing and collecting payment for said publications, merchandise or services among and between the several States of the United States. Respondents maintain, and at all times

mentioned herein have maintained, a substantial course of trade in such publications, merchandise or services in commerce, as "commerce" is defined in the Federal Trade Commission Act. [8]

## COUNT I

Alleging violation of Section 5 of the Federal Trade Commission Act, the allegations of Paragraphs One, Two and Three hereof are incorporated by reference in Count I with respect to respondents Grolier, Incorporated, and its wholly-owned subsidiaries Americana Corporation, Grolier Interstate, Inc., Grolier New Era Corp., Madison Enterprises, Inc., R. H. Hinkley Company, Spencer International Press, Inc., The Grolier Society, Inc., and The Richards Company, Inc., as if fully set forth verbatim:

PAR. 4. In the course and conduct of their business, and for the purpose of recruiting persons for door-to-door solicitations, respondents disseminate advertisements in various publications of general circulation which contain statements concerning the nature of the advertised positions. In addition, during subsequent interviews with persons responding to said advertisements, respondents and their representatives or agents provide further details concerning the type of positions and the method of payment of persons engaged in such positions. Through the use of the aforesaid advertisements and by oral statements of respondents and their representatives or agents, respondents have represented, directly or by implication that:

1. Respondents are offering positions in such fields as "market research analysis," "public relations" or other non-selling fields.
2. Respondents are offering to train persons as "management trainees," "junior executives" or other positions of responsibility concerned principally with administrative office functions. [9]
3. Respondents are offering persons a guaranteed weekly or monthly salary in excess of \$100 per week or in excess of \$350 to \$500 per month, or other similar salaries.
4. Persons engaged by respondents contact other persons in their homes or places of business primarily for the purposes of conducting surveys, advertising promotions or for other non-selling purposes.

PAR. 5. In truth and in fact:

1. Respondents are not offering positions in the fields represented. To the contrary, respondents are recruiting persons, in the main, as salesmen and saleswomen in the door-to-door sale of respondents' publications, merchandise or services.
2. Respondents will not train persons for the positions represented. Persons hired by respondents are sent out to sell and are not trained to conduct administrative functions in an office.

3. Respondents do not, in all instances, reimburse persons in the amounts or in the manner represented. Due to the conditions or limitations imposed upon such persons, few if any, receive the guaranteed salary. Furthermore, respondents, in some instances, refuse to permit persons to be engaged under any arrangement other than a pure commission basis.

4. Persons engaged by respondents do not contact prospects in their homes or places of business primarily for the purposes represented by respondents. Such persons, in most instances, canvass neighborhoods in an attempt to solicit orders for respondents' publications, merchandise or services. [10]

Therefore, the statements, representations, acts and practices set forth in Paragraphs Four and Five hereof were and are unfair, and false, misleading and deceptive.

PAR. 6. In the course and conduct of their business as aforesaid, and for the purpose of inducing members of the general public to purchase respondents' publications, merchandise or services, respondents through their sales representatives utilize various forms of promotional materials in conjunction with oral sales presentations containing statements concerning the purpose of the initial contact with the prospect, the identity of the solicitor, the nature of the offer and the terms of respondents' contracts or other agreements. In the foregoing manner, respondents and their sales representatives have represented, directly or by implication, that:

1. Respondents' sales representatives are contacting persons in their homes or places of business primarily for the purpose of conducting a survey, or a brand identification analysis relating to the marketing of respondents' publications, merchandise or services, or for purposes other than the sale of such merchandise.

2. Respondents' sales representatives will take only a few minutes to complete their presentations inside prospects' homes or places of business.

3. Persons contacted by respondents' sales representatives have been specially selected to receive respondents' offers.

4. Respondents are offering certain of their publications, merchandise or services without cost to persons agreeing to do any one or more of the following acts or similar acts:

a. Display the publications in a conspicuous location in their homes;

b. Write a letter evaluating the merits of the publications which may be used in advertising; [11]

c. Provide respondents with the names of persons interested in purchasing respondents' publications;

d. Keep the publications current by purchasing respondents' yearbooks for a 10-year period or by purchasing respondents' Fact Research Service for 10 years;

e. Complete all installment payments for publications, merchandise or services, other than the publications, merchandise or services provided without cost, in a period less than 10 years; and

f. Pay a membership fee in order to participate in the Consumer Buying Educational Service which provides an opportunity for participants to purchase merchandise at a savings from the general retail prices for such merchandise.

5. The encyclopedias being offered by respondents' sales representatives to prospects are new publications; are publications which have not been previously available to the general public; or are editions which contain substantial editorial revisions from prior editions of the same publications.

6. Persons who purchase respondents' publications, in combination with other publications will realize a significant savings from the stated higher prices at which such publications have been sold by respondents in substantial quantities to the general public.

7.\* The claimed retail prices of their publications are the prices at which such publications have been sold by respondents in substantial quantities to the general public. [12]

8. The various offers made available to prospects are of limited duration and prospects will not be given another opportunity to accept such offers.

9. Respondents' publications, merchandise or services have, in each instance when so represented, received bona fide endorsements or recommendations in the recent past from Better Business Bureaus, or from educational, religious, private or governmental institutions or from private persons.

10. Respondents provide financial terms to purchasers of their publications, merchandise or services such as annual payments for "10 years" or payments of "10¢ per day."

11. Persons subscribing to respondents' Fact Research Service receive answers to questions regarding any subject.

12. The answers provided by respondents' Fact Research Service are the product of detailed, exhaustive or original research generated by the specific questions asked by subscribers to said Service.

13. The answers provided by respondents' Fact Research Service can be used as suitable or acceptable substitutes for term papers, themes or other reports that may be required of students.

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\* Published as amended by the ALJ's order of Jan. 10, 1973.

14. All answers, supplied by respondents to subscribers to the Fact Research Service, will arrive within a few days after the date of submission of the subscribers' questions.

**PAR. 7. In truth and in fact:**

1. Respondents' sales representatives are not contacting persons in their homes or places of business primarily for the purpose of conducting a bona fide [13] survey, or a brand identification analysis relating to the marketing of respondents' publications, merchandise or services. To the contrary, the principal purpose for contacting such persons is to sell respondents' publications, merchandise or services.

2. Respondents' sales representatives do not ordinarily complete their presentations inside prospects' homes or places of business within only a few minutes. In actuality, a completed sales presentation frequently requires several hours.

3. Persons contacted by respondents' sales representatives have not been specially selected. Respondents, in fact, offer and sell their publications, merchandise or services to all members of the general public on a regular basis.

4. Respondents are not offering certain of their publications, merchandise or services without cost to any person who agrees to any one or more of the conditions set forth in Paragraph Six, subparagraph 4 herein. To the contrary, such conditions are not bona fide. Respondents, in many instances, do not require strict adherence to the agreed conditions. Furthermore, such conditions are used in an attempt to confuse persons into the erroneous belief that the amount of their monetary obligations to respondents does not include the cost of all the publications, merchandise or services obtained from respondents.

5. The encyclopedias being offered by respondents' sales representatives to prospects are not new publications. Such encyclopedias have been marketed to the general public for many years. Furthermore, in some instances, the only changes from earlier editions are minor editorial revisions. [14]

6. Persons who purchase respondents' publications in combination with other publications will not realize a significant savings from the stated higher prices at which such publications have been sold by respondents in substantial quantities to the general public. To the contrary, respondents have made only isolated or insignificant sales at the stated higher prices.

7.\* The claimed retail prices of respondents' publications are not

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\* Published as amended by the ALJ's order of Jan. 10, 1973.

the prices at which such publications have been sold by them in substantial quantities to the general public. Furthermore, respondents have made only isolated or insignificant sales at the represented retail prices.

8. The various offers made available to prospects are not of limited duration and prospects, in most instances, can receive other opportunities to accept such offers.

9. Respondents' publications, merchandise or services have not, in each instance when so represented, received bona fide endorsements or recommendations in the recent past from Better Business Bureaus, or from educational, religious, private or governmental institutions or from private persons.

10. Respondents do not provide financial terms to purchasers of their publications, merchandise or services as represented. To the contrary, respondents, in most instances, require monthly installment payments of amounts which are substantially greater than "10¢ per day" or require payments to be made within a time period less than "10 years." [15]

11. Persons subscribing to respondents' Fact Research Service do not receive answers to questions regarding all subjects. To the contrary, respondents do not, in most instances, provide answers to questions concerning such subjects as medical, legal or financial matters.

12. The answers provided by respondents' Fact Research Service are not the product of detailed, exhaustive or original research generated by the specific question asked by the subscriber to said Service. For the most part, such answers are form responses containing general information not related to the specific inquiry.

13. The answers provided by the Fact Research Service, in most instances, are not suitable or acceptable substitutes for term papers, themes or reports that may be required of students.

14. The answers, supplied by respondents to subscribers to the Fact Research Service, in many instances, do not arrive within the period of time represented.

Therefore, the statements, representations, acts and practices set forth in Paragraphs Six and Seven hereof were and are unfair, and false, misleading and deceptive.

PAR. 8. In the further course and conduct of their business, respondents have conducted various contests and utilized other promotional devices for the purpose of obtaining leads to persons who will allow respondents' sales representatives into said persons' homes or for the purpose of inducing said persons to attend meetings held by respondents. The inducements used to achieve the above

purposes are purportedly free merchandise, receipt of informational brochures obtained upon return of reply cards contained in promotional material, gift certificates entitling recipients to all expense paid vacations at resorts of their choice or other valuable considerations. [16]

Persons who enter any such contest, or who receive informational brochures, or who are told that they have been awarded a valuable gift are not informed by respondents of the material fact that as a result of entering the contest, receiving the informational brochures, or as a prerequisite to receiving a valuable gift or award, such persons will be subjected to a lengthy sales presentation for respondents' publications, merchandise or services. In many instances, such persons would not have accepted such inducements if respondents' actual purpose had been made known.

In addition, respondents have misrepresented the actual value of the aforesaid gift certificates. Persons are led into the erroneous belief that the certificates will enable such persons to have an all expense paid vacation at a resort of their choice. Respondents fail to advise such persons that the certificates do not include expenses such as transportation and meals. Such limitations and other restrictions imposed on the use of the certificates severely limit their actual value.

Therefore, the statements, representations, acts and practices, and the failure to disclose material facts as aforesaid were and are unfair and false, misleading and deceptive.

PAR. 9.\* In the further course and conduct of their business, and for the primary purpose of promoting the sale of their encyclopedias or similar publications or services, respondents, through their sales representatives have utilized programs or other promotional selling devices which appeal to the emotional concerns of individuals for their own educational or intellectual development or of parents for the proper educational development of their children.

Through the use of "The Child Development Program," the "New Era Young Mothers Club," and "Programmed Learning" or other similar programs, [17] respondents' sales representatives contact prospects with young children and falsely represent, directly or by implication, that said programs or devices will provide tangible or intangible educational benefits or services such as periodic teaching guides designed to meet each child's educational or academic needs, or periodic questionnaires evaluating the child's progress in the claimed educational program.

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\* Published as amended by the ALJ's order of Jan. 10, 1973.

By appealing to the emotional concerns of said persons through the use of false representations, as aforesaid, respondents persuade said persons to purchase respondents' publications, merchandise or services based on the aforesaid false representations of respondents, in some instances, confuse, confound or mislead such persons as to the purpose of said programs or devices which is to promote the sale of respondents' encyclopedias or similar publications or services in the regular course of respondents' business.

Therefore, the statements, representations, acts and practices as aforesaid, were and are false, misleading, deceptive and unfair.

#### COUNT II

Alleging violation of Section 5 of the Federal Trade Commission Act, the allegations of Paragraphs One, Two and Three hereof are incorporated by reference in Count II with respect to respondents Grolier, Incorporated and its wholly-owned subsidiaries Americana Peoples Press, Inc., Americana Corporation, Americana Interstate Corp., Career Institute, Inc., Federated Credit Corp., Grolier Interstate, Inc., Grolier New Era Corp., Madison Enterprises, Inc., R.H. Hinkley Company, Spencer International Press, Inc., The Grolier Society, Inc., and The Richards Company, Inc., as if fully set forth verbatim:

PAR. 10. In the further course and conduct of their business and for the purpose of collecting debts allegedly due and owing respondents pursuant to contracts or other agreements relating to the purchase of respondents' publications, merchandise or services, respondents and their representatives or agents, in numerous instances, have attempted to induce payment of accounts, either due or delinquent as the case may be, by the sending of dunning letters, [18] notices or similar instruments in the United States mail which contain statements and representations in the form of harassment or threats, including but not limited to the representations set forth below. Through such means, respondents have represented to the aforesaid members of the public, directly or indirectly, that:

(a) The respondent companies sending such instruments are divided into separate bona fide functional departments or divisions such as collection departments or legal departments.

(b) Employees of the federal government who fail to pay debts are subject to dismissal from federal service pursuant to the Civil Service Code of Federal Regulations.

(c) Purchasers of respondents' publications or services who utilize the United States mail to obtain such items and who fail to pay

respondents or become delinquent in paying respondents are subject to prosecution for mail fraud under federal law.

(d) The respondents utilize the services of collection agencies, credit reporting companies or attorneys who disseminate credit information in a manner which will adversely affect the public or general credit rating of persons who have become delinquent in paying debts owed respondents.

(e) Letters or notices on the letterheads of attorneys or credit reporting companies are prepared or mailed by those individuals or concerns. [19]

(f) Respondents regularly transfer accounts to attorneys with instructions to institute suit or to take other legal steps to collect an outstanding debt.

PAR. 11. In truth and in fact:

(a) The respondent companies sending such instruments do not in each instance when so represented, have separate bona fide functional departments or divisions such as collection departments or legal departments.

(b) The Civil Service Code of Federal Regulations does not provide that federal employees are subject to dismissal from federal service for failure to pay outstanding debts. To the contrary, federal employees will not ordinarily be subject to dismissal unless it is demonstrated that the debt is just and the employee, after repeated attempts to arrange a satisfactory method of payment of the debt, has failed to pay said debt.

(c) Persons who have become delinquent in paying debts to respondents for publications or services received or ordered through the mail are not ordinarily prosecuted for mail fraud under federal law.

(d) The respondents, in some instances, do not utilize the services of collection agencies, credit reporting companies or attorneys who disseminate credit information in a manner which will adversely affect the public or general credit rating of persons who have become delinquent in paying debts owed respondents. [20]

(e) The letters or notices on the letterheads of attorneys or credit reporting companies are not prepared or mailed by said individuals or concerns. Said letters or notices are prepared or mailed, in many instances, by respondents. Replies or responses to said such mailings are forwarded unopened to respondents.

(f) Respondents do not regularly transfer accounts to attorneys with instructions to institute suit or to take other legal steps to collect outstanding debts.

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Therefore, the statements and representations set forth in Paragraph Ten hereof were and are false, misleading and deceptive.

## COUNT III

Alleging violation of Section 5 of the Federal Trade Commission Act, the allegations of Paragraphs One, Two and Three hereof are incorporated by reference in Count III with respect to respondents Grolier, Incorporated and its wholly-owned subsidiaries, American Peoples Press, Inc., Americana Interstate Corp., Inc., Career Institute, Inc., Grolier Enterprises, Inc. and Grolier Reading Programs, Inc., as if fully set forth verbatim:

PAR. 12. In the course and conduct of their business, respondents have and are disseminating advertisements in various publications of general circulation or in promotional materials mailed to members of the general public. By and [21] through such advertisements, respondents attempt to induce persons to become subscribers to continuity book promotion programs. A continuity book promotion program is a procedure whereby persons receive a single book on an approval basis. The aforesaid advertisements place emphasis on shipment of books, singly at intervals, without containing the material disclosure that all but a few of the books are mailed to subscribers by means of a bulk shipment. Among and including the statements and representations set forth in said advertisements, but not all inclusive thereof, are the following:

*Step-Up Book Program*

Accept your free book today. There's no obligation! When the book arrives, turn it over to your child and watch his reaction. If he's as pleased as I think he'll be, fine and dandy. You'll then be entitled to receive as many (or as few) additional STEP-UP BOOKS as you please, for the modest price of \$1.65 each, plus delivery. Books will be sent to you on *approval*, and you'll have 10 days to decide whether to keep a book or return it at my expense.

*Companion Library*

As a subscriber to the Companion Library you are not obligated to take any minimum number of selections—take as many as you wish, or none at all, and cancel your membership whenever you like by mailing any invoice with the simple word "CANCEL" written across it.

*Dandelion Library*

Your free Twin Book edition of PETER PAN and ALICE IN WONDERLAND is your introduction to this delightful and important program. It is also the first in a series of exciting DANDELION LIBRARY Twin Books that you and your child will greet with

PAR. 13. Through the use of said statements or others of similar import and meaning but not specifically set forth herein, respondents have represented, and are continuing to represent, directly or by implication: [22]

(a) That subscribers to respondents' continuity programs are accorded the option of receiving a single book at a time, and thereby are afforded the opportunity to receive and review on approval each book separately, and to reject or accept same, until the expiration of the continuity program.

(b) That no further volumes of books will be received after said subscribers notify respondents to cancel their subscriptions to the programs.

(c) That persons who subscribe to respondents' continuity programs do so without risk or obligation.

PAR. 14. In truth and in fact:

(a) Subscribers to respondents' continuity programs are not accorded the option of receiving a single book at a time, and thereby are not afforded the opportunity to receive and review on approval each book separately, and to reject or accept same, until expiration of the continuity programs. Respondents do not advise subscribers of the material fact, when the subscribers initially receive promotional materials concerning the continuity programs, that all but the first several books are shipped in mass by means of single bulk shipments. Furthermore, respondents, in some instances, have refused to continue shipping a single volume at a time when so requested by subscribers.

(b) Subscribers to respondents' continuity programs, in many instances, continue to receive volumes of books after notifying respondents to cancel their subscriptions to the programs. [23]

(c) Subscribers to respondents' continuity programs are subject to risks or obligations. Once a person subscribes to the continuity programs, respondents impose the following duties or obligations on the subscribers: must notify respondents to prevent shipment of additional books; must return to respondents all books found unacceptable; must pay for all books not returned to respondents. Subscribers also incur the risk that due to delays in mail delivery or computer error they will receive unordered merchandise or incorrect billings in the manner set forth in Paragraph Fifteen hereinafter.

Therefore, respondents' statements, representations, acts and practices, and their failure to disclose material facts, as set forth in Paragraphs Twelve through Fourteen hereof, were and are, false, misleading, deceptive and unfair.

PAR. 15. In the further course and conduct of their business,

respondents have attempted to promote the sale of substantial quantities of their publications through the manner and form set forth in Paragraph Twelve hereof. Respondents' material alteration of the conditions and terms of the continuity programs, as initially represented, from shipment of a single book at intervals to shipment of all the books in mass, places an unfair and undue burden on subscribers to notify respondents affirmatively in order to prevent shipment of books not expressly authorized by said subscribers. Furthermore, respondents have, in numerous instances, shipped the books in mass after subscribers have notified respondents within a reasonable time that the altered method of distribution was unacceptable. As a result of the unwanted, unauthorized mass shipment of books, subscribers have expended their time or energies to dispose of the books sent to them.

In addition, such subscribers are subject to repeated and unrelenting mailings of bills, dunning letters and the like for unwanted, unordered [24] merchandise which, in many instances, has been previously returned to respondents. It is evident that respondents' bulk method of distribution, as aforesaid, attempts to or has the effect of causing the purchase of respondents' books in a manner and quantity not contemplated by subscribers when the continuity programs were first offered by respondents.

Therefore, the acts and practices as aforesaid, were and are, unfair and false, misleading and deceptive.

#### COUNT IV

Alleging violation of Section 5 of the Federal Trade Commission Act, the allegations of Paragraphs One through Fifteen hereof are incorporated by reference in Count IV with respect to respondents Grolier, Incorporated and its wholly-owned subsidiaries American Peoples Press, Inc., Americana Corporation, Americana Interstate Corp., Career Institute, Inc., Federated Credit Corp., Grolier Enterprises, Inc., Grolier Interstate, Inc., Grolier Reading Programs, Inc., Madison Enterprises, Inc., Grolier New Era Corp., R. H. Hinkley Company, Spencer International Press, Inc., The Grolier Society, Inc., and The Richards Company, Inc., as if fully set forth verbatim:

PAR. 16. In the course and conduct of their business, and at all times mentioned herein, respondents have been, and now are, in substantial competition, in commerce, with corporations, firms and individuals in the sale of publications, merchandise and services of the same general kind and nature as that sold by respondents.

misleading and deceptive statements, representations and practices, and their failure to disclose material facts, as [25] alleged in Counts I through III, has had, and now has, the capacity and tendency to mislead members of the public into the erroneous and mistaken belief that said statements and representations were, and are, true and complete, or into the purchase or retention of, and payment for substantial quantities of said publications, merchandise and services by reason of said erroneous and mistaken belief.

PAR. 18. The aforesaid acts and practices of respondents, as herein alleged, were and are all to the prejudice and injury of the public and of respondents' competitors and constituted, and now constitute, unfair methods of competition in commerce and unfair and deceptive acts and practices in commerce in violation of Section 5 of the Federal Trade Commission Act.

Chairman Kirkpatrick did not participate.

INITIAL DECISION BY THEODOR P. VON BRAND,  
ADMINISTRATIVE LAW JUDGE

OCTOBER 12, 1976

PRELIMINARY STATEMENT

The Commission issued a complaint on March 9, 1972, charging Grolier, Incorporated and 14 of its subsidiaries with violation of Section 5 of the Federal Trade Commission Act in connection with the sale of encyclopedias and other reference or educational materials, products or services. Respondents' answers denied the material allegations of the complaint.

Count I charges that Grolier, Incorporated and its wholly-owned direct selling subsidiaries have misrepresented: [2]

1. The nature of the positions and the compensation to be paid in connection therewith to prospective sales representatives;
2. The nature and purpose of consumer contacts;
3. The length of time a complete sales presentation will take in a prospective customer's home;
4. That prospective customers have been specially selected to receive respondents' offer;
5. That certain publications, merchandise or services are to be made available without cost if prospective customers agree to perform certain acts as, for example, to display the merchandise in a conspicuous place in their homes, write evaluation letters, furnish the names of other prospects or keep such publications current by

purchase of respondents' yearbooks or Fact Research Service for 10 years;

6. That the encyclopedias offered for sale are new or substantially revised editions;

7. That the claimed retail prices are the prices at which their publications have been sold in substantial quantities to the public;

8. That the offers made available to prospective customers are of limited duration;

9. That their merchandise had received certain bona fide endorsements;

10. The nature of the financial terms available;

11. The subject matter limitations on the Fact Research Service;

12. That the answers provided by the Fact Research Service are the product of detailed, exhaustive or original work generated by the subscriber's request; [3]

13. That Fact Research answers can be used as acceptable term papers, themes or other reports required of students; and

14. The time within which the Fact Research Service will respond to inquiries.

The complaint under this Count also charges as deceptive, respondents' use of contests or other promotional devices as a means of obtaining leads to prospective customers. It is alleged that there has been no disclosure that by participating therein, a customer will subject himself to a lengthy sales presentation.

Finally, Count I charges that, through the use and misrepresentation of programs such as "The Child Development Program," respondents have appealed to the emotional concerns of parents for their children and have misled customers as to the purpose of such programs, which is to promote the sale of encyclopedias or similar publications in the regular course of business.

Count II charges various unfair, deceptive and misleading acts and practices in connection with debt collection procedures.

Count III relates to the mail order operations. It alleges that respondents have misrepresented that subscribers to their continuity programs have the opportunity of receiving a single book at a time, with the option of receiving and reviewing each book separately until expiration of the continuity program; that no further volumes will be received after respondents have been notified by subscribers of their intention to cancel; and that persons who subscribe to the continuity program do so without risk or obligation. The complaint alleges in this connection that the subscribers are not initially advised of the material fact that all but

concludes with the allegation that "respondents' bulk method of distribution. . . attempts to or has the effect of causing the purchase of respondents' books in a manner and quantity not contemplated by subscribers when the continuity programs were first offered by respondents." [4]

The administrative law judge originally assigned to this proceeding supervised the pretrial hearings and presided over the evidentiary hearings up to his retirement in December 1974. His successor recused himself at respondents' request, and the case was assigned to the undersigned in February 1975. Much of the case was reheard in view of respondents' contention that the demeanor evidence of witnesses previously appearing had to be preserved. The record was closed on May 14, 1976.

This initial decision is based upon the entire record\* including proposed findings of fact and conclusions of law and briefs and supporting memoranda filed by the parties, as well as their responses. The undersigned has also taken into account his observation of the witnesses who appeared before him and their demeanor. Proposed findings not herein adopted, either in the form submitted or in substance, are rejected either as not supported by the evidence or as involving immaterial matters.

#### FINDINGS OF FACT

##### I. IDENTITY OF RESPONDENTS AND THE NATURE OF THEIR BUSINESS

1. Respondent Grolier, Incorporated (Grolier, Inc.) is a corporation organized, existing, and doing business under and by virtue of the laws of the State of Delaware, with its principal office and place of business located at 575 Lexington Ave., New York, New York (Complaint, ¶ One; ¶ Two, Ans. of Grolier, Inc.). Respondent Grolier, Inc. publishes, sells and otherwise distributes textbooks, encyclopedias, reference or educational materials, training courses, teaching machines, and other publications, merchandise, and services (Complaint, ¶ Two; ¶ 20, Ans. of Grolier, Inc.). Its volume of business has been, and is, substantial (¶ 22, Ans. of Grolier, Inc.).

2. Respondent American Peoples Press, Inc. (American Peoples Press) is a wholly-owned corporate subsidiary of Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of American Peoples Press). Respondent American Peoples Press is a corporation organized under the laws of the State of Illinois (Complaint, [5] ¶ One; ¶ 2, Ans. of American

\* Certain portions of the record were stricken where a witness ordered recalled did not appear or where the record of the recall hearings duplicated that compiled under the first administrative law judge.

Peoples Press). Its principal office and place of business was in Mundelein, Illinois (Tr. 16678-79). American Peoples Press sold and distributed books and other merchandise through advertising and mailings (Complaint, ¶ One; ¶ 2, Ans. of American Peoples Press). American Peoples Press ceased doing business by December 23, 1974 (Tr. 16679, 16711). Its volume of business has been substantial (¶ 2, Ans. of American Peoples Press).

3. Respondent Americana Interstate Corporation (Americana Interstate) is a wholly-owned corporate subsidiary of Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Americana Interstate). Respondent Americana Interstate is a corporation organized under the laws of the State of Illinois (Complaint, ¶ One; ¶ 2, Ans. of Americana Interstate). Its principal office and place of business was at 501 East Lange St., Mundelein, Illinois (Tr. 16678-79). Americana Interstate sold and distributed books and other merchandise through advertising and mailings (Complaint, ¶ One; ¶ 2, Ans. of Americana Interstate). Americana Interstate ceased doing business by December 23, 1974 (Tr. 16679, 16711). Its volume of business has been substantial (¶ 2, Ans. of Americana Interstate).

4. Respondent Career Institute, Inc. (Career Institute) is a wholly-owned corporate subsidiary of Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Career Institute). Respondent Career Institute is a corporation organized under the laws of the State of Illinois (Complaint, ¶ One; ¶ 2, Ans. of Career Institute). Its principal office and place of business was at 555 East Lange St., Mundelein, Illinois (Tr. 16678-79). Career Institute sold and distributed books through advertising and mailings (Complaint, ¶ One; ¶ 2, Ans. of Career Institute). Career Institute ceased doing business by December 23, 1974 (Tr. 16679, 16711). Its volume of business has been substantial (¶ 2, Ans. of Career Institute).

5. Respondent Grolier Enterprises, Inc. (Grolier Enterprises) is a wholly-owned corporate subsidiary of Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Grolier Enterprises). Respondent Grolier Enterprises is a corporation organized, existing and doing business under the laws of the State of New York (Complaint, ¶ One; ¶ 2, Ans. of Grolier Enterprises). Its principal office and place of business is at Sherman [6] Turnpike, Danbury, Connecticut (Complaint, ¶ One; ¶ 2, Ans. of Grolier Enterprises). Grolier Enterprises sells and distributes books through advertising and mailings (Complaint, ¶ One; ¶ 2, Ans. of Grolier Enterprises; Tr. 16661). Its volume of business has been, and is, substantial (¶ 2, Ans. of Grolier Enterprises).

6. Respondent Grolier Reading Programs, Inc. (Grolier Reading

(Complaint, ¶ One; ¶ 2, Ans. of Grolier Reading Programs). Grolier Reading Programs is a corporation organized under the laws of the State of New York (Complaint, ¶ One; ¶ 2, Ans. of Grolier Reading Programs). Its principal office and place of business was at Sherman Turnpike, Danbury, Connecticut (Complaint, ¶ One; ¶ 2, Ans. of Grolier Reading Programs). Until 1971, Grolier Reading Programs sold and distributed books through advertising and mailings (Complaint, ¶ One; ¶ 2, Ans. of Grolier Reading Programs; Tr. 16643). Grolier Reading Programs has made no mailings on continuity book programs since the late summer of 1971 (Tr. 16644). Its volume of business has been substantial (¶ 2, Ans. of Grolier Reading Programs).

7. Respondent Americana Corporation (Americana) is a wholly-owned corporate subsidiary of respondent Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Americana). Respondent Americana is a corporation organized under the laws of the State of Delaware (Complaint, ¶ One; ¶ 2, Ans. of Americana). Its principal office and place of business was at 575 Lexington Ave., New York, New York. Until 1972, Americana sold encyclopedias and other publications, merchandise, and services to the general public through various methods, including door-to-door canvassing (Complaint, ¶ One; ¶ 2, Ans. of Americana). After 1972, Americana ceased all business operations (RX 549). Its volume of business has been substantial (¶ 2, Ans. of Americana).

8. Respondent Spencer International Press, Inc. (Spencer) is a wholly-owned corporate subsidiary of respondent Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Spencer). Respondent Spencer is organized under the laws of the State of Delaware (Complaint, ¶ One; ¶ 2, Ans. of Spencer). Its principal office and place of business was at 575 Lexington Ave., New York, New York. Until 1972, Spencer sold encyclopedias and other publications, merchandise, and services to the general public through various methods, including door-to-door canvassing [7] (Complaint, ¶ One; ¶ 2, Ans. of Spencer; Tr. 15233). After 1972, Spencer ceased all business operations (RX 549). Its volume of business has been substantial (¶ 2, Ans. of Spencer).

9. Respondent The Grolier Society, Inc. (Grolier Society) is a wholly-owned corporate subsidiary of respondent Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Grolier Society). Respondent Grolier Society is organized under the laws of the State of Delaware (Complaint, ¶ One; ¶ 2, Ans. of Grolier Society). Its principal office and place of business was at 575 Lexington Ave., New York, New York. Until 1972, Grolier Society sold encyclopedias and other publications, merchandise, and services to the general public

through various methods, including door-to-door canvassing (Complaint, ¶ One; ¶ 2, Ans. of Grolier Society). After 1972, Grolier Society ceased all business operations (RX 549). Its volume of business has been substantial (¶ 2, Ans. of Grolier Society).

10. Respondent R. H. Hinkley Company (Hinkley) is a wholly-owned corporate subsidiary of respondent Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Hinkley). Respondent Hinkley is organized under the laws of the State of Maine (Complaint, ¶ One; ¶ 2, Ans. of Hinkley). Its principal office and place of business was at 575 Lexington Ave., New York, New York. Until 1972, Hinkley sold encyclopedias and other publications, merchandise, and services to the general public through various methods, including door-to-door canvassing (Complaint, ¶ One; ¶ 2, Ans. of Hinkley). After 1972, Hinkley ceased all business operations (RX 549). Its volume of business has been substantial (¶ 2, Ans. of Hinkley).

11. Respondent Grolier New Era Corporation (Grolier New Era) is a wholly-owned corporate subsidiary of respondent Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Grolier New Era). Respondent Grolier New Era is organized under the laws of the State of Illinois (Complaint, ¶ One; ¶ 2, Ans. of Grolier New Era). Its principal office and place of business was at 575 Lexington Ave., New York, New York. Until some time prior to January 1, 1971, Grolier New Era sold encyclopedias and other publications, merchandise, and services to the general public through various methods, including door-to-door canvassing (Complaint, ¶ One; Tr. 15234). While in business, Grolier New Era did business only in the northeast area of the United States (Tr. 5884-85). Prior to January 1, 1971, Grolier [8] New Era had ceased all business operations (Tr. 15233-34). Its volume of business has been substantial (¶ 2, Ans. of Grolier New Era).

12. Respondent The Richards Company, Inc. (Richards) is a wholly-owned corporate subsidiary of respondent Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Richards). Respondent Richards is organized under the laws of the State of Delaware (Complaint, ¶ One; ¶ 2, Ans. of Richards). Its principal office and place of business was at 635 Madison Ave., New York, New York. Until June 1972, Richards sold encyclopedias and other publications, merchandise, and services to the general public through various methods, including door-to-door canvassing (Complaint, ¶ One; ¶ 2, Ans. of Richards; Tr. 15998-99). Richards ceased direct sales in June 1972, with the exception of sales from the Dallas office, which ceased in August 1972 (Tr. 15998-99). Its volume of business has been substantial (¶ 2, Ans. of Richards).

13. Respondent Madison Enterprises, Inc. (Madison) is a wholly-

owned corporate subsidiary of respondent Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Madison). Respondent Madison is organized under the laws of the State of California (Complaint, ¶ One; ¶ 2, Ans. of Madison). Its principal office and place of business was at 635 Madison Ave., New York, New York. From May 1969 to December 1970, Madison engaged in direct sales of encyclopedias and other publications, merchandise and services to the general public, primarily within the State of California (Complaint, ¶ One; ¶ 2, Ans. of Madison; Tr. 5820, 6464). Madison ceased selling by the beginning of 1971 (Tr. 6464). Its volume of business has been substantial (¶ 2, Ans. of Madison).

14. Respondent Grolier Interstate, Inc. (Grolier Interstate) is a wholly-owned corporate subsidiary of respondent Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Grolier Interstate). Respondent Grolier Interstate is a corporation, organized, existing and doing business under the laws of the State of Delaware (Complaint, ¶ One; ¶ 2, Ans. of Grolier Interstate). Its principal office and place of business is at 575 Lexington Ave., New York, New York. Grolier Interstate sells encyclopedias and other publications, merchandise, and services to the general public through various methods, including door-to-door canvassing (Complaint, ¶ One; ¶ 2, Ans. of Grolier Interstate). Grolier Interstate is the sole [9] domestic subsidiary of Grolier, Inc. presently engaged in direct sales (Tr. 16211-12). Its volume of business has been, and is, substantial (¶ 2, Ans. of Grolier Interstate).

15. Respondent Federated Credit Corporation (Federated Credit) is a wholly-owned corporate subsidiary of respondent Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Federated Credit). Respondent Federated Credit is organized under the laws of the State of Delaware (Complaint, ¶ One; ¶ 2, Ans. of Federated Credit). Its principal office and place of business was at 575 Lexington Ave., New York, New York. Until early 1973, Federated Credit collected and induced payments on accounts for subsidiary corporations of Grolier, Inc. (Complaint, ¶ One; ¶ 2, Ans. of Federated Credit; Tr. 14726). At various times, Federated Credit has operated as a financing company for companies other than subsidiaries of Grolier, Inc. (Tr. 6436). In early 1973, Grolier Interstate assumed the previous functions and operations of Federated Credit (Tr. 14726). Its volume of business has been, and is, substantial (¶ 2, Ans. of Federated Credit).

16. The record shows that respondents' direct selling or subscription book subsidiaries had the following sales volume in the period 1968 to 1972:

## FEDERAL TRADE COMMISSION DECISIONS

	Initial Decision				91 F.T.C.
	1968	1969	1970	1971	1972
GROLIER SOCIETY, INC.	11,636,459	11,946,044	10,417,301	6,324,311	(1,250,418)
AMERICANA CORPORATION	14,538,083	16,348,360	16,192,541	14,277,336	459,525
R. H. HINKLEY COMPANY	5,886,812	7,178,210	8,030,933	5,007,165	(838,635)
THE RICHARDS COMPANY	17,621,778	17,112,754	13,384,215	10,378,015	4,925,591
SPENCER INTERNATIONAL PRESS, INC.	12,550,945	12,794,249	10,527,857	4,923,672	(816,882)
GROLIER NEW ERA CORP.	213,437	238,292	13,662	(1307)	---
GROLIER INTER-STATE, INC.	---	4,371,704	4,075,449	4,892,462	29,921,994
MADISON ENTERPRISES, INC.	---	57,633	715,796	40,629	(16,965)

(Respondents' Proposed Finding IV 10).

[10] 17. In terms of dollar volume, the record shows that certain of the respondent mail order subsidiaries had the following approximate gross sales for the periods indicated:

	<i>Americana Institute</i>	<i>Career Institute</i>	<i>Grolier Enterprises, Inc.</i>
1969	\$20 million	\$1 1/2 million	\$20 million
1970	\$22 million	\$2 million	\$25 million
1971	\$27 million	\$2 1/4 million	
1972	\$30 million	\$4 million	\$29 million
1973	\$27 million	\$5 million	\$34 million

(Green 1707-09)

18. In the course and conduct of their business, as aforesaid, respondents now cause, and for some time past have caused, said publications, merchandise or services to be shipped and distributed from their places of business or from their sources of supply to purchasers and prospective purchasers thereof located in various States of the United States other than the state of origination, distribution or storage of said publications, merchandise or services. Respondents transmit and receive, and cause to be transmitted and received, invoices, checks, collection notices and various other

commercial papers or documents in the course of advertising, selling, or otherwise distributing and collecting payment for said publications, merchandise or services among and between the several States of the United States. Respondents maintain, and at all times have maintained, a substantial course of trade in such publications, merchandise or services in commerce, as "commerce" is defined in the Federal Trade Commission Act (Ans. to Complaint submitted by respondents; CX 5, 8). [11]

## II. THE PARENT COMPANY AND ITS SUBSIDIARIES

### A. Organization

19. In mid-1960, Grolier, Inc., as parent company, assumed publishing and financing functions for a number of respondents' subsidiaries, both in the United States and abroad (Murphy 5709).

20. Respondents operate their business through their subscription book subsidiaries and mail order subsidiaries. The subscription book subsidiaries<sup>1</sup> are engaged in the sale of encyclopedias, and other reference works and services by the door-to-door, installment sales method. The Domestic Mail Order Subsidiaries are engaged in the sale of publications and merchandise through mail solicitations and have no retail sales except through mail presentations (McKean 6405). The stock of the mail order and home subscription companies, prior and subsequent to the 1971 reorganization, was owned by Grolier, Inc. (Murphy 5708, Veras 6190).

21. There has been an extensive overlap in the positions of the officers and directors of Grolier, Inc. and its subsidiaries (McCabe Deposition 13-20; CX 5A-5E, 6A-7S). This is demonstrated by the following tables showing the positions held by certain key officials in the parent company and its subsidiaries as of April 21, 1970:

#### *W. J. Murphy*

Director, President, Grolier, Inc.  
Director, Americana  
Director, Americana Interstate  
Director, Chairman of the Board, Federated Credit  
Director, Grolier Enterprises  
Director, President, Grolier Interstate  
Director, Hinkley  
Director, Chairman of the Board of Directors, Spencer  
Director, Grolier Society [12]

<sup>1</sup> The term "subscription" is historical. Originally, many publications were sold in advance of their publication date to customers who would subscribe to the publication when completed. Now the term refers to Reference Book sales on a door-to-door, installment basis (McKean 6393-94).

Initial Decision

91 F.T.C.

*G. W. McKean*

Director, Vice President and General Counsel, Grolier, Inc.  
Secretary, Americana  
Director, Secretary, American Peoples Press  
Director, Career Institute  
Director, Grolier Enterprises  
Secretary, Grolier Interstate  
Director, Secretary, Grolier Reading Programs  
Director, Secretary, Grolier Society

*H. G. Veras*

Vice President, Director of Accounting, Grolier, Inc.  
Treasurer, Secretary, Director, Federated Credit  
Director, Treasurer, Grolier Interstate  
Director, Vice President, Treasurer, Grolier New Era  
Director, Hinkley  
Director, Spencer

*S. S. Ball*

Director, Treasurer, Grolier, Inc.  
Treasurer, Americana  
Director, Americana Interstate  
Director, Career Institute  
Treasurer, Richards

*E. S. Howell*

Director, Vice President, Grolier, Inc.  
Director, Secretary, Americana Interstate  
Director, Secretary, Career Institute  
Director, Grolier Enterprises  
Director, Grolier Reading Programs

(CX 5A-E, 6A-S)

22. The parent company, Grolier, Inc., directs and controls the financial policy, the overall sales policies, and administrative and personnel policies of its subscription and mail order subsidiaries (CX 5H; Special Report in Response to Federal Trade Commission Order, dated March 13, 1970). Grolier, Inc. exercises control over its subsidiaries in the following manner: [13]

... Grolier directs and controls the overall financial, sales, administrative and personnel policies of each of its subsidiaries through directives, both written and oral, promulgated by the President of Grolier (with respect to the Subscription Book Companies); the Grolier Vice President, Director of Mail Order Divisions (with respect to the Mail Order Division); and the President of Grolier Educational Corporation (with respect to Grolier Educational Corporation). Company matters and policies affecting both Grolier and the subsidiaries are normally submitted by the President of

the subsidiary to one of the above described officers who, if he deems it appropriate, will submit the matter for the review and direction of the Executive Committee which in turn promulgates directives through such officer. . . In addition, both oral and written communications are promulgated by Grolier's Vice Presidents of Accounting, Personnel Programs, Marketing Services, Customer Relations and Insurance. In general, oral and written directives promulgated by Grolier are relayed to the Presidents of the subsidiaries who are responsible for relaying such directives to the appropriate department heads and branch offices, field offices and sales representatives

(CX 118B-C; see also, CX 5J).

23. Members of the Executive Committee were in charge of the operations of various of the subsidiaries. On April 21, 1970, the Executive Committee of Grolier, Inc. consisted of the following individuals: Fred P. Murphy, Elsworth S. Howell, E. J. McCabe, Jr., Gordon W. McKean, William J. Murphy and F. B. Taussig (CX 5J-K). In addition to being members of the Executive Committee and occupying key positions in Grolier, Inc., most of these individuals occupied top management positions in various subsidiaries of Grolier, Inc. (Finding 21, *supra*; CX 5b-e, 6a-s). The Executive Committee generally met at least once a month (McCabe Deposition 20). William J. Murphy was in charge of the operations of the domestic home subscription subsidiaries (McCabe Deposition 12-13). Elsworth Howell was charged with the supervision of the mail order subsidiaries until his retirement at the end of 1973. Since that period of time, the mail order companies have been under the jurisdiction of William J. Murphy (McCabe Deposition 21-23). [14]

*B. Parent Company Services and Support for its  
Subsidiaries*

24. Prior to the 1971 reorganization, Grolier, Inc. provided the following services to its mail order and book subscription subsidiaries, *viz.*, publication of certain of the products, financial assistance, and miscellaneous headquarters functions such as insurance, legal work and general accounting (Murphy 5716-17). Such services performed for the subsidiaries by Grolier, Inc. would be construed as a charge credited to the parent company (Murphy 5718).

25. The Vice President and Controller of Grolier, Inc. is the Chief Accounting Officer for the parent company and all its subsidiaries (Veras 6160). The Grolier, Inc. Accounting Department sets the procedures which the accounting offices in the subsidiaries are required to follow (Tr. 6163-64, 6167). The individual subsidiary companies send monthly reports to Grolier, including balance sheets and profit and loss statements. Such information is consolidated by Grolier, Inc. into the final figures (Tr. 6163).

