

FEDERAL TRADE COMMISSION
v.
STANDARD EDUCATION SOCIETY.

COMPLAINT, FINDINGS, AND ORDER IN THE MATTER OF THE ALLEGED VIOLATION OF SECTION 5 OF AN ACT OF CONGRESS APPROVED SEPTEMBER 26, 1914.

Docket 994—November 10, 1923.

SYLLABUS.

Where a corporation engaged in the production of a set of books which it called "The Standard Reference Work", and of a loose-leaf extension service intended to supplement said reference work, and in the sale of said work and service together for the sum of \$49;

- (a) Represented to customers and prospective customers that it would present to subscribers to its loose-leaf service for a period of 10 years, for the sum of \$49, its "Standard Reference Work" free of charge, falsely naming some figure greatly in excess of \$49 as representing its usual and customary price for such service;
- (b) Falsely represented to prospective customers that said work and service were being sold to a limited number of persons in a given community at a special reduced price of \$49, naming some sum far in excess of such figure as representing its usual selling price;
- (c) Falsely represented that various books at times sold by it in connection with such work and service were given "free", the fact being that the price charged sufficiently exceeded the usual selling price of such work and service as to constitute a full and fair price for said books;
- (d) Falsely represented that its publications were bound in "Rich Maroon Levant";
- (e) Offered to prospective customers, as an inducement to purchase its said publications, "Honorary Membership" in the "Standard Education Society", representing such membership as entitling the customer to certain emoluments and benefits, the fact being that said pretended membership was fictitious and no such thing was permissible under the terms of its corporate organization; and
- (f) Advertised and represented that its standard reference work had been "officially adopted by twenty-four states", the fact being that, while approved for use in public schools by various state departments, it had never been officially adopted by any state;

With the tendency and capacity to deceive the purchasing public and induce the purchase of its publications in reliance upon the truth of said representations:

Held, That such practices, under the circumstances set forth, constituted unfair methods of competition.

Mr. Alfred M. Craven for the Commission.

Mr. James McKeag of Langworthy, Stevens & McKeag of Chicago, Ill., for respondent.

COMPLAINT.¹

Acting in the public interest pursuant to the provisions of an Act of Congress approved September 26, 1914, entitled "An Act To create a Federal Trade Commission, to define its powers and duties, and for other purposes," the Federal Trade Commission charges that Standard Education Society, hereinafter referred to as respondent, has been and is using unfair methods of competition in interstate commerce in violation of the provisions of Section 5 of said Act, and states its charges in that respect as follows:

PARAGRAPH 1. Respondent, Standard Education Society, is a corporation organized, and existing under the laws of the State of Minnesota, with its principal office and place of business in the City of Chicago, State of Illinois, where it has been engaged for more than one year last past in the production and sale in interstate commerce of a certain set of books which it designates as "The Standard Reference Work." In the course and conduct of its said business respondent is in competition with various other persons, partnerships and corporations similarly engaged.

PAR. 2. Respondent employs various agents, upon a commission basis, in the various States of the United States and the cities thereof, to sell its said books by personal solicitation. The orders received by the said agents are transmitted to the said main office of respondent, and the said books are shipped in interstate commerce from the city of Chicago to the purchasers so ordering them, at their respective places of residence in the various States of the United States and in the District of Columbia.

PAR. 3. Respondent originally sold its said books in the manner set forth above, principally to school teachers and students who were preparing themselves to become teachers. Later respondent extended its said business and commenced selling, and now sells and offers for sale, its said books to business men through its agents as hereinbefore set out.

PAR. 4. In the course and conduct of its said business, respondent, by its agents, represents to various individuals throughout the different States of the United States that respondent will present free of charge, its said set of books designated as "The Standard Reference Work," upon the condition that such citizens will give prospective purchasers of said books in the community their opinion concerning the merit of said books. As a condition precedent to availing themselves of this free offer such individuals are required to

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subscribe for a so-called extension service which respondent designates as "The Standard Loose-Leaf Extension Service," accompanying "The Standard Reference Work," which Service respondent, by its agents, represents that it will thereafter furnish to the owners of the above-described sets of books sold by it, so that information concerning current events may be obtained twice each year as supplementary to said books. The price at which such extension service is to be furnished is represented by respondent, through its agents, to be the sum of \$49, which sum pays for the said service for a period of 10 years, all of which \$49 is to be paid within one year after the date of the transaction and to be paid in monthly installments. The representation by respondent that the sum of \$49 is for the so-called extension service is false and misleading, as such sum is greatly in excess to the price at which respondent can furnish such service to bona fide purchasers, and is sufficient to compensate the said respondent for the set of books so delivered to the above-described individuals together with the accompanying extension service. And in subscribing to the extension service in the manner set out above, the purchaser is in truth and in fact purchasing the said set of books and the said extension for \$49, under the mistaken belief that he is receiving the said set of books free of charge and is paying only for the Loose-Leaf Extension Service.

PAR. 5. Respondent, through its agents, represents to various persons in various communities that in said community a limited number of persons will be sold the said books of respondent at a special reduced price, and respondent, through its agents, represents that the true price of said books, as customarily sold by respondent together with the said extension service, is \$134, but that such limited number of persons can obtain the same at the specially reduced price of \$49, and further represents that the said price of \$49 is not available to the general public, whereas, in truth and in fact, respondent has never sold the above-described sets of books and the extension service for the sum of \$134, nor has it ever sold or offered for sale, such sets of books and extension service for a greater sum than \$49, which is the usual and customary price at which respondent has sold and now sells the sets of books and extension service to all persons who can be induced to purchase same.

PAR. 6. Respondent, through its agents, by means of various false representations, induces various individuals to accept the said books and Loose-Leaf Service upon approval, with the understanding that if said books are not found to be satisfactory by the person to whom they are so sent upon approval, the books

may be returned to respondent at respondent's expense. In all of such instances the purchasers are induced to sign an order which does not contain the provision that the books will be sent subject to approval, but which order contains an unconditional promise to pay the sum of \$49, the customary selling price of said books and Loose-Leaf Extension Service. In such instances the said orders so obtained are assigned by respondent to an alleged innocent purchaser for value, who proceeds to enforce collection of the amount of the selling price named in said orders, and in this way respondent prevents the purchasers from exercising their option of returning the books to respondent at its expense.

PAR. 7. Respondent in the course of its business represents and has represented that the books sold by it heretofore mentioned are bound in "Rich Maroon Levant," whereas in truth and in fact they are bound in a cheap imitation of leather.

PAR. 8. Respondent, in the course of its business and as an inducement to the purchase of its books, offers to its prospective customers and customers "Honorary Membership" in the "Standard Education Society" and accepts written applications therefor on printed forms prepared by respondent. In making such offers and in accepting such applications, respondent represents to its prospective customers and customers that such honorary memberships entitle the customer to certain emoluments and benefits and such representations have tendency to induce and do induce the customers to purchase respondent's books in the belief that some additional benefit is to accrue to them by reason of being an honorary member of the Standard Education Society. These representations are false and misleading in that there is no such thing as an honorary membership in the Standard Education Society and that by the terms and scheme of its corporate organization such memberships are not permissible.

PAR. 9. Respondent, in the course of its business, in some instances, sells its set of books designated as "The Standard Reference Work and Extension Service" in connection with other books and in such cases represents that the books other than the Standard Reference Work are given to the customer free and without charge, whereas in truth and in fact the price obtained by the respondent is so far in excess of the usual selling price of The Standard Reference Work and Extension Service as to constitute a full and fair price for all of the books delivered to the customer. Respondent's representations in this behalf are false and misleading and have the tendency to induce the purchase of its books by its customers in the belief that

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they are getting something free and without charge, when such is not the fact.

PAR. 10. Respondent, in the course of its business, advertises and has advertised that its set of books designated as "The Standard Reference Work" has been "officially adopted by twenty-four states," whereas in truth and in fact said publication has never been officially or otherwise adopted by any state.

PAR. 11. Respondent, in the course of its business, prints and circulates, in aid of the sale of its publication, commendations of its said publications, which commendations were prior to their printing and circulation by respondent, withdrawn and abrogated by the persons who signed same.

PAR. 12. The above alleged acts and things done by respondent are all to the prejudice of the public, and to the prejudice of the competitors of said respondent, Standard Education Society, and constitute unfair methods of competition in commerce within the intent and meaning of Section 5 of an Act of Congress entitled "An Act To create a Federal Trade Commission, to define its powers and duties, and for other purposes," approved September 26, 1914.

REPORT, FINDINGS AS TO THE FACTS, AND ORDER.

Pursuant to the provisions of an Act of Congress approved September 26, 1914, entitled, "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," the Federal Trade Commission issued and served its complaint upon the respondent, Standard Education Society, a corporation, charging it with unfair methods of competition in commerce in violation of the provisions of said act.

The respondent having entered its appearance and filed its answer, and an agreed statement as to the facts having been made and filed, in which it is stipulated that the facts therein recited may be taken as the facts in this procedure and in lieu of testimony, and upon such facts the Commission may proceed further to make its report in said proceeding. Stating its findings as to the facts and conclusion, and enter its order disposing of the proceeding,

Thereupon, this proceeding came on for final hearing, without oral argument; and

The Commission having duly considered the record, and having now been fully advised in the premises, makes this its findings as to the facts and conclusion:

FINDINGS AS TO THE FACTS.

PARAGRAPH 1. Respondent, Standard Education Society, is a corporation organized and existing under the laws of the State of Minnesota, with its principal office and place of business in the City of Chicago, State of Illinois, where it has been engaged for several years last past in the production and sale in interstate commerce of a certain set of books designated by it as "The Standard Reference Work," and certain loose leaves issued every six months, intended to supplement said set of books and to bring same down to date, designated by respondent as "The Standard Loose-Leaf Extension Service." In the course and conduct of its said business, respondent has been and is in competition with various other persons, partnerships and corporations similarly engaged.

PAR. 2. In the course and conduct of its business, respondent employs numerous agents upon a commission basis to sell its said publications by personal solicitation in various States of the United States. The orders given to the said agents by customers are transmitted to the said main office of respondent and the said publications are shipped in interstate commerce from the City of Chicago to the purchasers who order them, at their respective residences in the various States of the United States and in the District of Columbia.

PAR. 3. In the course and conduct of its said business, respondent, through its agents, has represented and represents to its prospective customers that it will present, free of charge, its said set of books designated as "The Standard Reference Work," upon the condition that the prospects will subscribe for and purchase "The Standard Loose-Leaf Extension Service" at the price of \$49, said sum to pay for the said service for a period of ten years, and to be paid within one year after the date of the transaction. In connection with said pretended free offer, the respondent represents that the price of \$49 is a special price and that the usual and customary price received for said Loose-Leaf Extension Service is greatly in excess of \$49. The respondent, in connection with said pretended free offer, has in many instances, through its agents, represented that the usual selling price for "The Standard Reference Work" is \$85, or some other amount greatly in excess of the usual selling price of both "The Standard Reference Work" and the "Extension Service." The aforesaid representations made by respondent are misleading, in that the price asked for the Extension Service is the usual and customary price obtained by the respondent for both the "Extension Service" and the "pretended gift," "The Standard Reference Work."

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PAR. 4. Respondent, through its agents, has represented to its prospective customers that a limited number of persons residing in a given community will be sold said "The Standard Reference Work," and the "Standard Loose-Leaf Extension Service" by respondent at a special reduced price, usually \$49, and that the usual selling price for both of said publications is \$134, or some other sum far in excess of the pretended special price, and has further represented that the said price of \$49 is not available to the general public, whereas, in truth and in fact, respondent's usual and customary price to all persons who can be induced to purchase same, for both of said publications when sold together, has been \$49.

PAR. 5. Respondent, in the course and conduct of its business, in some instances sells and offers to sell "The Standard Reference Work" and the "Extension Service" in connection with other books, and in such cases represents that the books other than "The Standard Reference Work" and the "Standard Loose-Leaf Extension Service," are given to the people without charge, whereas, in truth and in fact, the price is so far in excess of the usual selling price of "The Standard Reference Work" and the "Standard Loose-Leaf Extension Service" as to constitute a full and fair price for all the books sold or offered to be sold to the customer.

PAR. 6. Respondent, in the course of its business, has represented that the above-mentioned publications sold by it are bound in "Rich Maroon Levant." The word "Levant," as applicable to the binding of books, means, to the trade and the purchasing public, a leather prepared from the hides of goats or other animals. Respondent's publications are not bound in leather, but in a material made from cotton and other fabrics in imitation of leather.

PAR. 7. Respondent, in the course and conduct of its business, and as an inducement to the purchase of its publications, offers to its prospective customers "Honorary Membership" in the "Standard Education Society" and accepts written applications therefor on printed forms prepared by respondent. In making such offers, and accepting such applications, respondent represents to its prospective customers that such honorary membership entitles the customer to certain emoluments and benefits, and such representations have a tendency and capacity to induce prospective customers to purchase respondent's publications, in the belief that some additional benefit is to accrue to them by reason of being an honorary member of the Standard Education Society. These representations are misleading, in that there is no such thing as an honorary membership in the Standard Education Society, and that by the terms and scheme of its corporate organization, such memberships are not permissible.

PAR. 8. Respondent, in the course and conduct of its business, advertises and has advertised that its publication designated as "The Standard Reference Work" has been "officially adopted by twenty-four States," whereas, in truth and in fact, said publication has never been officially adopted by any State, but has been approved for use in public schools by various State Departments of Education.

PAR. 9. The representations set forth in paragraphs 3, 4, 5, 6, 7, and 8 were and are misleading, and each of them had and has the tendency and capacity to deceive the purchasing public and to induce them to purchase respondent's publications, in reliance upon the truth of such representations.

CONCLUSION.

The practices of the said respondent, under the conditions and circumstances described in the foregoing findings, are unfair methods of competition in interstate commerce, and constitute a violation of the Act of Congress approved September 26, 1914, entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes."

ORDER TO CEASE AND DESIST.

This proceeding having been heard by the Federal Trade Commission, upon the amended complaint of the Commission, the answer thereto, and the agreed statement as to the facts made and filed herein, in lieu of the testimony in evidence, and the Commission having made its findings as to the facts and its conclusions, that the respondent has violated the provisions of an Act of Congress, approved September 26, 1914, entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes,"

It is now ordered, That the respondent, Standard Education Society, a corporation, its officers, agents and employees cease and desist from:

(1) Representing to customers or prospective customers that the usual prices which it receives or has received for any book, set of books, or any publication, or any combination of books, sets of books, or publications, are greater than the price at which they are offered to such customers or prospective customers, when such is not the fact.

(2) Representing that any book or publication offered for sale by it is bound in "rich maroon levant," or other leather, when such is not the fact.

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(3) Offering to its prospective customers honorary memberships in the Standard Education Society.

(4) Advertising that the publication designated as "Standard Reference Work" has been officially adopted by twenty-four (24) States, or by any State.

It is further ordered, That respondent Standard Education Society, shall within sixty (60) days after the service upon him of a copy of this order, file with the Commission a report in writing setting forth in detail the manner and form in which he has complied with the order to cease and desist hereinbefore set forth.

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