

Federal Trade Commission a report setting forth in detail the manner and form in which it intends to comply, is complying, and/or has complied with this order. All compliance reports shall include, among other things that may be from time to time required, a summary of all contacts and negotiations with potential purchasers of the assets to be divested under this order, the identity of all such potential purchasers, and copies of all written communications to and from such potential purchasers.

## VI

*It is further ordered*, That Section IV of this order shall terminate if the Federal Trade Commission, through trade regulation rules or other like non-adjudicative industrywide proceedings, issues rules or guide lines covering the subject matter of this order.

## VII

*It is further ordered*, That the Initial Decision of the hearing examiner be, and it hereby is, vacated.

## VIII

The Federal Trade Commission may, from time to time and upon application by respondent, issue such further orders as it may deem appropriate or just.

Commissioners Reilly and Jones have dissented and have filed separate dissenting statements.

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IN THE MATTER OF

## ALLIED ENTERPRIZES, INC., ET AL.

ORDER, ETC., IN REGARD TO THE ALLEGED VIOLATION OF THE FEDERAL  
TRADE COMMISSION ACT

*Docket 8722. Complaint, Dec. 8, 1966—Decision, Apr. 11, 1967*

Order requiring a North Brentwood, Md., distributor of home intercom and fire detection or alarm systems to cease using deceptive referral and demonstration offers to obtain customer leads, misrepresenting that his prices are reduced or special or will result in savings to customer, neglecting to disclose that promissory notes will be sold to a finance company, and falsely representing that his products are new to the market.

## 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 Allied Enterprizes, Inc., a corporation, and William Marion, individually and as an officer of said corporation, 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 Allied Enterprizes, Inc., is a corporation organized, existing and doing business under and by virtue of the laws of the State of Maryland, with its principal office and place of business located at 4550 Rhode Island Avenue, North Brentwood, Maryland.

Respondent William Marion is now and has been an officer of the corporate respondent and formulates, directs and controls the acts and practices hereinafter set forth. His business address is the same as that of the corporate respondent.

PAR. 2. Respondents are now and for some time last past have been engaged in the offering for sale, sale and distribution of home intercom and fire detection systems to the public.

PAR. 3. In the course and conduct of their business, respondents now cause, and for some time last past have caused, their said products, when sold to be shipped from their place of business in the State of Maryland to purchasers thereof located in various other States of the United States and, in the District of Columbia, and maintain, and have maintained, a substantial course of trade in said products in commerce, as "commerce" is defined in the Federal Trade Commission Act.

PAR. 4. In the conduct of their business, at all times mentioned herein, respondents have been in substantial competition, in commerce, with corporations, firms and individuals in the sale of home intercom and fire detection systems of the same general kind and nature as those sold by respondents.

PAR. 5. Respondents in the course and conduct of their business, in offering for sale, selling and distributing their merchandise have engaged in and are engaging in the sale of said systems through a referral selling plan.

Said referral selling plan provides that purchasers will receive prizes in the amount of:

1. \$100 for each person referred who purchases the Nutone Intercom System and Fire Alarm and Panic Alarm Systems.

2. \$335 for the first (15) qualified demonstrations made through representatives.

3. \$335 for the second (15) qualified demonstrations made through representatives.

4. \$335 for the third (15) qualified demonstrations made through representatives.

In the event that the customer desires to participate in the plan and purchase the system from the respondents, he is presented with various documents including a contract, an application for a loan, a promissory note, a Customer's Commission Agreement, and Bonus Demonstration Guarantee.

The purchase of the said system from respondents and the execution of the proper instruments is a prerequisite consideration to participation in respondents' referral plan and any payments thereunder are based upon the chance that a referral named in the aforesaid instrument, in fact, will allow a demonstration of said products, and the chance that said referral's name has not been already given by a previous purchaser. Further payments thereunder are contingent upon the subsequent sale of the merchandise to such person.

PAR. 6. In the course and conduct of explaining their aforesaid referral plan, respondents and their salesmen have represented directly or indirectly to prospective purchasers:

1. That by their participation in respondents' program, purchasers will receive enough commissions from referrals to obtain their intercom systems at little or no cost.

2. That purchasers would receive from respondents sufficient money each month to take care of their monthly installments.

3. That the intercom system is a new product on the market and is being sold at a reduced price as an introductory or advertising plan, and that savings are thereby afforded to purchasers.

PAR. 7. In truth and in fact:

1. Few, if any participants in respondents' program receive enough referral commissions to obtain their intercom systems at little or no cost.

2. Few, if any participants receive sufficient money from respondents to take care of their monthly installments.

3. The intercom system is not a new product on the market, and is not being sold at a reduced price and savings are not thereby afforded to purchasers.

Therefore, the statements and representations referred to in

Paragraph Six above were and are false, misleading and deceptive.

PAR. 8. In the course and conduct of its business as aforesaid and for the purpose of inducing the sale of its said products, respondents or their salesmen fail to inform or to adequately disclose to prospective purchasers that their installment contracts or promissory notes will be discounted and sold to a third party, or that they are signing a deed of trust to secure the total payment of the purchase price of the intercom system, nor are customers or prospective purchasers adequately advised that they are held responsible for the total amount of the purchase contract regardless of any other agreements written or implied.

PAR. 9. The use by respondents of the aforesaid false, misleading and deceptive statements and representations and unfair or deceptive practices has had, and now has the capacity and tendency to mislead members of the purchasing public into the erroneous and mistaken belief that said statements and representations are true and into the purchase of substantial quantities of respondents' product by reason of said erroneous and mistaken belief and by reason of said unfair or deceptive practices.

PAR. 10. The aforesaid acts and practices of respondents as alleged were and are all to the prejudice and injury of the public and respondents' competitors, and constituted and now constitute unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce, in violation of Section 5 of the Federal Trade Commission Act.

*Mr. Sheldon Feldman* and *Mr. Robert E. Freer, Jr.*, supporting the complaint.

No appearance for respondents.

INITIAL DECISION BY ABNER E. LIPSCOMB, HEARING EXAMINER  
FEBRUARY 6, 1967

#### *I. The Complaint and Accompanying Notice*

The complaint in this proceeding was issued on December 8, 1966, charging the respondents named therein with engaging in unfair or deceptive acts or practices in violation of Section 5 of the Federal Trade Commission Act. The respondents were duly served with the complaint and the accompanying notice, which informed them that they were afforded 30 days, after service of the complaint upon them, within which to file an answer to the allegations of the complaint.

The respondents were also given notice that on the 30th day of January 1967, at 10:00 a.m., at the Federal Trade Commission offices, The 1101 Building, 11th Street and Pennsylvania Avenue, NW., Washington, D.C., a hearing would be held on the charges set forth in the complaint, at which time respondents would have the right, under the Federal Trade Commission Act, to appear and show cause why an order should not be entered requiring them to cease and desist from the violations of law charged in the complaint.

## II. *The Hearing and Default Judgment*

At the hearing held herein on January 30, 1967, the respondents failed to appear either in person or by counsel, and counsel supporting the complaint moved the hearing examiner to enter a default judgment against respondents. In support of their motion counsel showed that the respondents had not, within the 30-day period prescribed in the notice accompanying the complaint, submitted an answer to the complaint and that under the provisions of Section 3.5(c) of the Commission's Rules of Practice for Adjudicative Proceedings a default judgment should be entered. The motion was duly granted and the record closed against the further presentation of evidence.

## III. *Findings as to the Facts*

1. Respondent Allied Enterprizes, Inc., is a corporation organized, existing and doing business under and by virtue of the laws of the State of Maryland, with its principal office and place of business located at 4550 Rhode Island Avenue, North Brentwood, Maryland.

Respondent William Marion is now and has been an officer of the corporate respondent and formulates, directs and controls the acts and practices hereinafter set forth. His business address is the same as that of the corporate respondent.

2. Respondents are now and for some time last past have been engaged in the offering for sale, sale and distribution of home intercom and fire detection systems to the public.

3. In the course and conduct of their business, respondents now cause, and for some time last past have caused, their said products, when sold, to be shipped from their place of business in the State of Maryland to purchasers thereof located in various other States of the United States and in the District of Columbia, and maintain, and have maintained, a substantial course of trade in

said products in commerce, as "commerce" is defined in the Federal Trade Commission Act.

4. In the conduct of their business, at all times mentioned herein, respondents have been in substantial competition, in commerce, with corporations, firms and individuals in the sale of home intercom and fire detection systems of the same general kind and nature as those sold by respondents.

5. Respondents in the course and conduct of their business, in offering for sale, selling and distributing their merchandise have engaged in and are engaging in the sale of said systems through a referral selling plan.

Said referral selling plan provides that purchasers will receive prizes in the amount of:

a. \$100 for each person referred who purchases the Nutone Intercom System and Fire Alarm and Panic Alarm Systems.

b. \$335 for the first fifteen (15) qualified demonstrations made through representatives.

c. \$335 for the second fifteen (15) qualified demonstrations made through representatives.

d. \$335 for the third fifteen (15) qualified demonstrations made through representatives.

In the event that the customer desires to participate in the plan and purchase the system from the respondents, he is presented with various documents including a contract, an application for a loan, a promissory note, a Customer's Commission Agreement, and Bonus Demonstration Guarantee.

The purchase of the said system from respondents and the execution of the proper instruments is a prerequisite consideration to participation in respondents' referral plan and any payments thereunder are based upon the chance that a referral named in the aforesaid instrument, in fact, will allow a demonstration of said products, and the chance that said referral's name has not been already given by a previous purchaser. Further payments thereunder are contingent upon the subsequent sale of the merchandise to such person.

6. In the course and conduct of explaining their aforesaid referral plan, respondents and their salesmen have represented directly or indirectly to prospective purchasers:

a. That by their participation in respondents' program, purchasers will receive enough commissions from referrals to obtain their intercom systems at little or no cost.

b. That purchasers would receive from respondents sufficient money each month to take care of their monthly installments.

c. That the intercom system is a new product on the market and is being sold at a reduced price as an introductory or advertising plan, and that savings are thereby afforded to purchasers.

7. In truth and in fact:

a. Few, if any, participants in respondents' program receive enough referral commissions to obtain their intercom systems at little or no cost.

b. Few, if any, participants received sufficient money from respondents to take care of their monthly installments.

c. The intercom system is not a new product on the market, and is not being sold at a reduced price and savings are not thereby afforded to purchasers.

Therefore, the statements and representations referred to in Paragraph 6 above were, and are, false, misleading and deceptive.

8. In the course and conduct of its business as aforesaid and for the purpose of inducing the sale of its said products, respondents or their salesmen fail to inform or to adequately disclose to prospective purchasers that their installment contracts or promissory notes will be discounted and sold to a third party, or that they are signing a deed of trust to secure the total payment of the purchase price of the intercom system, nor are customers or prospective purchasers adequately advised that they are held responsible for the total amount of the purchase contract regardless of any other agreements written or implied.

#### IV. *Conclusions*

The use by respondents of the aforesaid false, misleading and deceptive statements and representations and unfair or deceptive practices has had, and now has, the capacity and tendency to mislead members of the purchasing public into the erroneous and mistaken belief that said statements and representations are true and into the purchase of substantial quantities of respondents' products by reason of said erroneous and mistaken belief and by reason of said unfair or deceptive practices.

The aforesaid acts and practices of respondents as herein found were, and are, all to the prejudice and injury of the public and respondents' competitors; they constituted, and now constitute unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce, in violation of Section 5 of the Federal Trade Commission Act; and this proceeding is in the public interest.

