

ORIGINAL

THE AMERICAN SOLUTION, INC. (TASI)



July 11, 2006

FEDERAL TRADE COMMISSION / OFFICE OF THE SECRETARY
Room H-135 (Annex W) --- 600 Pennsylvania Avenue, NW --- Washington, D.C. 20580

RE: COMMENTS ON PROPOSED RULE R511993 AND PATENT-PENDING PARTNERED NETWORKING (PN), A NEW FORM OF DIRCT SELLING

Direct Selling (DS) deserves its own Rule. A growing \$100 billion, global industry, DS distributors now exceed 13 million (U.S) and 54 million (worldwide). The Direct Selling Association (DSA), with nearly 200 mostly multilevel members, has stringent membership standards and is a leader against illegal schemes. Complaints show a 0.02% 9-Yr annual average (2,000 / 13,000,000).

DS's specialty is open-ended growth for direct selling companies (DSC) and distributors (ID) alike. In all 4 forms, DS differs markedly from other business opportunities. Differences considered, a DS Rule would avoid major negative consequences possible under the Proposed Rule. It would likely reduce complaints, lower administrative costs, and minimize fraud and misrepresentation.

Disclosure greater than required in the Proposed Rule is the key. That combined with traditional direct selling growth practices would likely simplify compliance, eliminate the need for waiting periods, references, etc., and generate fair treatment for all DSC, including startup and early stage (e.g., earnings representations and use of industry statistics).

Startup TASI: Internet-supported, TASI will be a franchiser and a multilevel DSC. Its patent-pending Partnered Networking (PN) is new, a hybrid form of direct selling created to:

- Give a DSC control over direct selling marketing plan implementation
- Establish retail selling as the leading part of effective sales organization growth
- Make distributor recruitment more selective and less frenzied
- Reduce corporate reliance on incestuous selling (distributor to distributor selling)
- Improve training, business and customer services, and merchandising
- Remove reasons for ID failure (lower turnover)
- Give ID the services they need to build business to levels they want

RE: General and specific comments on Proposed Rule R511993 are found on succeeding pages.

FYI: Commenter is a Connecticut-licensed, Georgetown attorney who is an entrepreneur with business experience in small-large retail, franchising, direct selling, and government. He received outstanding performance recognition from the Department of Justice and Sears, Roebuck and Co. Commenter would like to be advised of and participate in follow-up workshops. Also, at an appropriate time, he would like a Hearing to discuss Rule application to Partnered Networking.

Thank you in advance for your consideration and response.

Very sincerely,

Farell R. Shaftel, Esq. /
President and Founder

522418-70013

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GENERAL COMMENTS ON DIRECT SELLING

1. My experience as an ID prospect (Eagle Shield, Vaxa, Melaleuca, and TPN) showed that ID succeeded or failed mainly based mainly on personal effort. ID have also failed due to DSC's poor management, lack of capital, and inexperience. Fraud and misrepresentation were rarely intentional.
2. An individual DSC can add thousands of ID yearly. 90% of ID work under 30 hrs / week. ID time is spent about 50% selling and the rest on recruitment, meetings, training, and administration. Direct selling operates in a social, motivational, and low-key environment. ID, via meetings, teleconferences, and e-mail, quickly learn about product, business-building, and the DSC and its reputation. "Upline" ID-sponsors provide limited training and business services, usually focusing on recruitment. DSC provide little support. ID success depends on execution and personal commitment.
3. DSC and ID build on referral, word of mouth selling. Prospects enter a social environment of ID and other prospects. Information on product, company, marketing-selling, earnings, etc. flows openly. ID sometimes work together. Most ID don't recognize they are "in business." ID are usually unfocused, disorganized, and harried. DSC don't control ID. Additional administrative record keeping, and Rule compliance duties would be difficult, costly, and business-destroying.
4. DSC, like franchisers, are core businesses that provide product-services to independent businesses. Franchising is expensive for franchisees to enter, grows linearly, is geographically controlled, and provides many corporate services. Direct selling (DS) is inexpensive for ID to enter, grows geometrically, is geographically uncontrolled, and provides few corporate services. Failure to follow a franchise marketing plan is cause for termination. Failure to follow a direct selling marketing plan usually results in ID-personally caused failure. Extensive early disclosure is vital.
5. DS offers ID lifestyle control, extra income, social contact, product discounts, worldwide business-building, low entry costs, and high income potential. Most ID are inexperienced, work part-time, and don't realize what they need to do to do well. Disgruntlement and failures are by-products. ID need to know before they enroll how to build their businesses, what they can earn, what's required of them, how much time-effort it will take, and who will help. Extensive early disclosure is vital.
6. ID prospects need to calculate earnings from information provided prior to enrollment. DSC should concisely-accurately inform ID on compensation plan, costs, support, duties-responsibilities, time-effort needed, product, market, competition, geographic-seasonal data, customer accessibility, buying frequency, training, business support, and risks. Extensive early disclosure is vital.
7. Operationally, in traditional multilevel DS, DSC directly enroll ("sell") a few ID who directly enroll ("sell") other ID, who directly enroll ("sell") other ID, etc. in an unlimited manner. This geometric structure produces direct sales at the first level and indirect sales thereafter. As previously noted, DSC and ID don't control ID, and relationships with DSC and other ID are loose and informal. ID don't maintain staff, are not well-equipped, keep limited records, may need to inventory, warehouse, and deliver, and have inadequate time to sell. ID notify DSC of new enrollments. DSC track ID sales, earnings, and genealogy and periodically send reports to ID.
8. DS is entrepreneurial. ID role is to sell product and build salesforces. DSC role is to support. DS creates fast growth, selling efficiency, and quick sales. Obfuscating these objectives could financially ruin ID and DSC. A DS Rule sensitive to DS and the needs of its users is suggested.

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SPECIFIC COMMENTS ON R511993

Proposed Sec. 437.1 - Definitions

Suggestion: Definitions of terms “multilevel marketing” and “multilevel direct selling” should be added to distinguish them from terms like “Ponzi scheme”, “illegal pyramid.”

Suggestion re Sec. 437.1-q: To avoid confusion, the term “seller” (one who offers-sells a business opportunity) needs re-defining to properly reflect the multilevel growth process.

Insight: DSC and all ID are “sellers” in a multilevel ID environment. DSC are “sellers” only at the initial ID level. ID are “sellers” only at their own first levels. Rule compliance and enforcement could become a costly nightmare, e.g., disclosure documents, waiting times, updates, earnings, references, litigation, etc. See “General Comments”, Page 2 herein.

Proposed Sec. 437.2 – Obligation to Furnish Written Documents

Suggestion: (Waiting Period): Eliminate the waiting period in direct selling (DS).

Insight: The DS enrollment process subsumes the purpose of a waiting period. ID would get no material additional protection, but DSC and ID could be injured in several ways: costs, time, recruitment, business growth, and product sales. ID need to augment selling time, High entry cost and restricted selling time, e.g., compliance, would likely drive ID away and possibly decimate DSC existence (particularly, startup / early stage DSC). See “General Comments”, Page 2 herein.

Proposed Sec. 437.3 – The Basic Disclosure Document

Instructions for Preparing-Furnishing Disclosure Document: Clarify Sec. 437.3

The DSC seller should prepare the disclosure document and make it available to all ID. DSC seller or ID seller should furnish disclosure document to ID prospects pre-enrollment. “Seller” (Sec. 437.1-q) should be redefined and Sec. 473.3 should be clarified.

Appendix A (Disclosure Document Format)

Document should disclose and state clearly (i) DSC services and support, (ii) ID business duties-responsibilities and DSC expectations, (iii) associated risks, (iv) impact on ID of ID failure to perform, and (v) ID earnings depend on how well ID carry out the DSC direct selling plan and conduct business. See “General Comments”, Page 2 herein.

Insight: FYI: ID experience of this writer indicates the disclosure document should:

- Emphasize need for retail sales and avoidance of indiscriminate recruitment
- Describe time, effort, training, and understanding needed to build business
- State that earnings and achievability depend on ID efforts and proper execution
- Include DSC key resumes, financial statement, and operating history
- Present focus-extent of MDSC assistance and list risks ID assumes

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Sec. 437.3-a (2), Sec. 437.4 – Earnings

Suggestion: Provide ID with form based on the disclosure document that assists ID in calculating own earnings potential. See Sample Form attached.

Insight: All people going into business need the ability to calculate earnings from personal efforts before engaging in the business opportunity.

Sec. 437.3- a (3) – Legal Actions – Disclosure Document

Suggestions: Avoid arbitrary, unfair, and unwarranted inclusion of the following matters:

- Actions dropped or dismissed or innocence proved
- Ownership change that removes guilty owner(s) from control or influence
- Management that removes guilty management-affiliates from control-influence
- Acquisition, merger, or transactions that restore seller's integrity-financial standing

Limit litigation disclosure to matters about sale of the business opportunity and not to matters about unrelated business activities, e.g., vendors, service-providers, etc.

Reduce the disclosure period to 3 years from date of last guilty judgment.

Insight: Litigation disclosure should not penalize sellers unfairly, add to judgment awards, or help competitors. False, frivolous, and malicious allegations-claims create unwarranted stigma and damage to sellers that should not last beyond legitimate existence of such allegations-claims. Ten-year litigation disclosure seems unduly harsh and punitive. A company should somehow be able legitimately to live its past down.

Sec. 437.3-a (6) – References – Disclosure Document

Suggestions: Exempt DSC with 100% refund cancellation policies.
Exempt business opportunity companies with 100% refund cancellation policies.

Insight: ID prospects meet “references” at pre-enrollment meetings, over teleconference calls, and via e-mail. Answers to questions can be validated in a friendly, low-key environment, probably more thoroughly than this provision contemplates. Direct selling obviates the need for this provision. See “General Comments”, Page 2 herein.

Historically, many DSC have had a 100% registration fee refund cancellation policy. The merging of this policy with traditional DSC business development has provided ID prospects with protection from being uninformed when making enrollment decisions.

Other DSC difficulties exist, e.g., “seller” and ID tracking and record-keeping matters. Exemption or a DS Rule is suggested. See “General Comments, Page 2 herein.

The suggested exemptions would also give business opportunity companies a way to avoid right of privacy and customer list issues while still meeting FTC objectives.

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PART 2 – PARTNERED NETWORKING (PN)

PN innovatively turns TASI into a franchiser and business opportunity provider. It utilizes direct response to build a “permanent” customer base, the permanent customer base to establish its franchise system, franchisees to develop-guide the direct selling system, and Internet technology to support the entire PN System and expand growth. Patent approval is expected shortly.

PN solves multilevel direct selling deficiencies that often have caused ID disgruntlement and high turnover. It overcomes problems of indiscriminate recruiting, ill-guided field development, inadequate training, poor business-marketing assistance, and inattention to retail sales.

PN turns ID into virtual superstores that elevate customer convenience, service, and information. It features:

- Selective recruitment, mandatory laptop computers, and ID apprenticeship
- Mandatory monthly training leading to certification.
- Periodic e-submission of ID sales plans with DSC e-monitoring and e-mentoring
- Extensive business-building services (leads, customers, etc.)
- Primary emphasis on retail selling – Minimum retail customer quotas
- Real control over direct selling plan implementation.
- Surrounding ID with personal and e-assistance to build business and minimize failure

PN RELATIONSHIPS: Franchisees are “master” field merchants who (a) operate without territorial restriction, (b) participate in a franchisee performance plan, and (c) are responsible for developing, monitoring, and replicating the PN direct selling plan. Failure to meet minimal pre-set performance standards of (c) may result in franchise termination.

-- All merchants (master, non-master) build multi-tier sales organizations. All merchants are paid commissions on personal retail sales and on wholesale sales by “downline” merchants. All merchants get extensive business assistance, e.g., training, leads, customers, etc., and must meet direct selling plan minimums. They need not inventory, warehouse, or deliver.

-- Up to 100 franchisees will each pay a six-figure fee for a franchise that includes existing repeat-purchase customers. All merchants at their expense must be equipped with computer laptops that meet company specifications. Non-franchisee merchants will pay registration, business service, and renewal fees that will exceed \$500 annually.

Interaction of franchising, technology, core competencies, and merchants will help DSC penetrate markets rapidly and maximize sales production. PN is customer-centric and will be first applied to pet products. PN will generate geometric growth and sustainable customer access. TASI expects over 3 operating years to build a sales force of 35,000 distributors, a retail customer base of 2,000,000, and an ever-growing direct-to-consumer selling channel.

**DRAFT SAMPLE DSC EARNINGS FORM
BASED ON DSC RECOMMENDED PERFORMANCE GOALS**

**INDEPENDENT DISTRIBUTOR (ID) EARNINGS
12-Month Activities**

NOTES

**SELLING METHOD: MULTILEVEL DIRECT SELLING - REFERRAL, WORD OF MOUTH GEOMETRIC GROWTH
ID EARNINGS WILL BE MET IF ID AND ORGANIZATION MEET ASSUMPTIONS STATED HEREIN
ID EARNINGS WILL BE LOWER OR HIGHER DEPENDING ON ID PERFORMANCE
ASSUMPTIONS ARE BASED ON INFORMATION IN THE DISCLOSURE DOCUMENT**

PET MARKET STATISTICS AND CHARACTERISTICS

- U.S. Size: \$36 B - 62% (70+ M) of Households have 1 or more pets - 7% annual growth
- Recession resistant, average HH spends about \$500 annually
- Rivals: Fragmented - retail (superstores, specialty), catalog, Internet, clubs, grocery, pet professionals, etc.
- Products: Mostly consumable, short life - frequent purchase
- Products: food/nonfood items for dog, cats, birds, fish, small animals, horses
- Customers: Friendly, easy to access, well networked, served inadequately

SPECIAL ID REQUIREMENTS: Laptop computers, monthly training, retail customer quotas

COMPANY SUPPORT: Training, customers, leads, merchandising, fulfillment, service, events, web content, etc.

ID FEATURES: Virtual superstore, anywhere-anytime selling, customer-controlled service, new product intros

ID GROWTH AND EARNINGS ASSUMPTIONS

- Full-time ID to work 40 hours / wk. - Part-time ID to work 20 hrs / wk
- Better than 3 in 5 U.S. households have one or more pets
- Pay own way, retail, recruit, get leads, train, etc.
- Need not inventory, warehouse, or deliver
- DSC will periodically provide customers, leads, e-mentor, and other support services.
- ID Commissions
 - Retail Sales
 - Downline Sales

**25% of Retail Price
Level 1 - 5% of ID Wholesale Price
Levels 2-6: 1%, 1%, 1%, 1%, 4% of Wholesale**

Monthly Retail \$-Sales per Customer

Year 1: \$35; Year 2: \$37.50; Year 3: \$40

Individual Customer-ID Growth Assumptions - Template allows ID to calculate own projections

	Year 1	Year 2	Year 3
Initial ID			
Adds Downline ID Each Month	1	0.3	0.11
Adds Customers Each Month	12	7.2	4
Downline ID			
Adds Downline ID Each Month	0.5	0.15	0.055
Adds Customers Each Month	8	4.8	4
Revenues			
\$-Purchases Per Customer Per Month	\$35.0	\$37.5	\$40.0

12-month business period

ID Downline Growth	Year 1	Year 2	Year 3
Level 1	12	16	17
Level 2	33	58	68
Level 3	55	134	175
Level 4	62	219	320
Level 5	50	270	444
Level 6	29	260	487
Total ID Organization	240	956	1,510

Customers Growth	Year 1	Year 2	Year 3
Self	144	230	278
Level 1	528	1,314	2,092
Level 2	880	3,399	6,394
Level 3	990	6,027	13,323
Level 4	792	7,854	20,480
Level 5	462	7,849	24,377
Level 6	198	6,192	23,211
Total Customers	3,994	32,865	90,155
Initial ID -12-month income	\$13,622	\$113,823	\$433,922

Note: Direct Selling Association has reported: Average ID adds 5.5 downline ID / yr.