

with distribute a copy of this order to each of its operating divisions.
It is further ordered, That respondents herein shall, within sixty (60) days after service upon them of this order, file with the Commission a report, in writing, setting forth in detail the manner and form in which they have complied with this order.

IN THE MATTER OF

KEY LEARNING SYSTEMS, INC., ET AL.

CONSENT ORDER, ETC., IN REGARD TO THE ALLEGED VIOLATION OF THE
FEDERAL TRADE COMMISSION AND THE TRUTH IN LENDING ACTS

Docket C-2275. Complaint, August 29, 1972—Decision, August 29, 1972.

Consent order requiring a Riviera Beach, Florida, franchisor of home instruction courses, among other things, to cease representing that respondents' business is connected with any branch or agency of the United States Government; misrepresenting the qualifications of respondents' personnel or staff; misrepresenting the availability of civil service jobs; misrepresenting the nature and legal characteristics of any enrollment or other contract; misrepresenting the action to be taken or the results thereof, to effect payment of alleged indebtedness; neglecting to inform prospective customers of their right to a three-day cooling-off period in which they may cancel the contract and receive all monies paid. Respondent is further required to make all disclosures to customers required by Regulation Z of the Truth in Lending Act.

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act and of the Truth in Lending Act and the regulation promulgated thereunder, and by virtue of the authority vested in it by said Acts, the Federal Trade Commission, having reason to believe that Key Learning Systems, Inc., Key Training Service, Inc., and Automobile-Household-Education Credit and Finance Corporation, corporations, and George

Lewson, S. Wyman Rolph and Theodosia W. LaBarbera, individually and as officers of said corporations, hereinafter referred to as respondents, have violated the provisions of said Acts and of the regulation promulgated under the Truth in Lending 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 Key Learning Systems, Inc. (hereinafter referred to as Key Learning), 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 301 Broadway, Riviera Beach, Florida.

Respondents Key Training Service, Inc. (hereinafter referred to as Key Training) and Automobile-Household-Education Credit and Finance Corporation (hereinafter referred to as Automobile-Household-Education) are corporations organized, existing and doing business under and by virtue of the laws of the State of Florida with their principal offices and places of business located at 301 Broadway, Riviera Beach, Florida. Key Training is a wholly-owned subsidiary of respondent Key Learning. Automobile-Household-Education is a wholly-owned subsidiary of respondent Key Training.

Respondents George Lewson, S. Wyman Rolph and Theodosia W. LaBarbera are officers of the corporate respondents. They formulate, direct and control the acts and practices of corporate respondents, including the acts and practices hereinafter set forth. Respondent George Lewson's address is 345 Park Avenue, New York, New York. Respondent S. Wyman Rolph's address is 292 Madison Avenue, New York, New York. Respondent Theodosia W. LaBarbera's address is the same as that of the corporate respondents.

PAR. 2. Respondent Key Learning, through its own operations and through its wholly-owned subsidiary corporation Key Training, is now, and for some time last past has been, engaged in the granting of licenses or franchises to corporations, partnerships and individuals located in various States of the United States and in the District of Columbia, to operate businesses specializing in the sale of respondents' courses of instruction which allegedly prepare purchasers thereof for civil service examinations. Respondents also engage directly in the sale of their courses of instruction which allegedly prepare purchasers thereof for civil service examinations. Respondents Key Training and Automobile-Household-Education are also engaged in the collection of alleged delinquent accounts arising from the sale of courses of instruction as aforesaid.

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In connection with the granting of said licenses or franchises to sell Key Learning courses of instruction, respondents require their franchisees-licensees (hereinafter identified as franchisees) to enter into agreements which require said franchisees to pay an initial sum of money for the license or franchise and a percentage of the total monies received by the franchisees for the sale of respondents' courses of instruction. Said franchisees are required to adhere to respondents advertising, sales and merchandising practices. Respondents exercise, and at all times mentioned herein have exercised, a continuing supervision and control over the acts and practices of their franchisees.

The manner in which respondents engage in the sale of courses of instruction at outlets which are directly owned or controlled by respondents is similar in all material respects to the manner of operation required of respondents' franchisees.

COUNT I

Alleging violations of Section 5 of the Federal Trade Commission Act, the allegations of numbered Paragraphs One and Two hereof are incorporated by reference in Count I as if fully set forth verbatim.

PAR. 3. In the course and conduct of their business, as aforesaid, respondents now cause, and for some time last past have caused, said courses of study and instruction to be transported from their place of business in the State of Florida to purchasers thereof located in various other States of the United States and in the District of Columbia. In the further course and conduct of their business as aforesaid, respondents transmit to and receive from their franchisees throughout the United States and in the District of Columbia, checks, contracts and other instruments of a commercial nature. Respondents maintain, and at all times mentioned herein have maintained, a course of trade in said courses of study in commerce as "commerce" is defined in the Federal Trade Commission Act.

PAR. 4. In the course and conduct of their business, as aforesaid, and for the purpose of inducing enrollment in their courses of study and instruction, respondents and their representatives have made many statements and representations in their advertising and other written material and through oral statements made by their representatives in regard to said courses.

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Typical and illustrative of statements in respondents' newspaper advertisements, but not all inclusive thereof, are the following:

MEN-WOMEN 18-40

TRAIN NOW FOR

Civil Service Exams

No Experience—No High School

POSTAL CLERKS

Starting Pay is

\$3.50 HOUR

U.S. Clerks File Clerks

100 of other type jobs

Keep your present job while training

KEY TRAINING

111 N.E. 2nd Avenue, Rm. 301

WALK IN TODAY

or call now—9 AM to 8 PM

373-3101

Applications being accepted now!

MEN AND WOMEN NEEDED IN GOVERNMENT WORK

High pay and secure jobs may be yours in Civil Service. Grammar school sufficient for many jobs. Send for list of typical jobs and salaries and how you can prepare at home for government entrance exams * * *

PAR. 5. By and through the use of the aforesaid statements and representations and others of similar import and meaning not specifically set forth herein, and through oral statements made by their salesmen or representatives, respondents have represented directly or by implication that:

1. Respondents and their agents, representatives and employees are connected with the United States Civil Service Commission, or some other branch or agency of the United States Government.

2. Respondents are engaged in soliciting applications and in the selection and training of persons for employment with the United States Government in specific civil service positions, and that respondents' sales representatives possess the necessary qualifications and special knowledge which would enable them to determine the qualifications of enrollees or prospective enrollees for such positions.

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3. Respondents possess specialized information and knowledge concerning openings in various civil service positions and the availability of such positions in various areas.

4. Respondents provide purchasers with specific courses of instruction for all civil service positions.

5. The completion of respondents' courses of study makes persons eligible for appointment to, or assures them of, or guarantees United States Civil Service positions.

PAR. 6. In truth and in fact:

1. Respondents and their representatives and employees are not connected with the United States Civil Service Commission or any other branch or agency of the United States Government.

2. Respondents are not engaged in soliciting applications or in the selection or training of persons for employment with the United States Civil Service, and respondents' sales representatives do not possess the necessary qualifications and special knowledge which would enable them to determine a person's qualifications for the various civil service positions listed in their advertising.

3. Respondents possess no specialized information or knowledge concerning civil service job openings or concerning the availability of such positions in any specific area of the United States.

4. Respondents do not provide specific courses of instruction for all Civil Service positions. Rather, their courses of instruction relate only to clerical filing and postal clerk positions.

5. The completion of respondents' courses of study does not make persons eligible for appointment to, or assure them of, or guarantee United States Civil Service positions.

PAR. 7. In the further course and conduct of their business, and in furtherance of their purpose of inducing the purchase of said courses of study by the general public, respondents directly or indirectly through oral representations in a substantial number of instances have induced customers to sign contracts by falsely and deceptively representing that they will not become effective or binding until all monies required for the downpayment are received. In truth and in fact, the contracts are forwarded to their home office for acceptance, and accepted, without further monies being received as a downpayment.

Therefore, respondents' statements, representations, acts and practices, as set forth in Paragraphs Four, Five and Seven, were, and are, unfair, false, misleading and deceptive.

PAR. 8. In the course and conduct of their business, as aforesaid, respondents transmitted and mailed, to alleged delinquent debtors, various forms and other printed materials.

Typical and illustrative of such forms and materials, but not all inclusive thereof, are the following:

* * * Key reluctantly has been forced to reassign this obligation to us for collection.

AUTOMOBILE-HOUSEHOLD-EDUCATION
CREDIT AND FINANCE CORPORATION.

* * * avoid more late charges, plus the embarrassment of being served with a summons and having to pay the total balance due plus all court costs and charges. Reply immediately, or notice of your delinquency will also be sent to your local credit bureau. This will always appear on your credit record. Avoid this costly mistake!

KEY TRAINING SERVICE, INC.

PAR. 9. By and through the use of the aforesaid statements and representations listed in Paragraph Eight, and others of similar import and meaning not specifically set forth herein, respondents represent, directly or by implication that:

1. Respondent Automobile-Household-Education is a bona fide independent collection agency which has purchased or been assigned the delinquent accounts of Key Learning and Key Training.
2. Failure of an alleged delinquent debtor to remit money to respondent will result in the immediate institution of legal action to effect payment.
3. Failure of an alleged delinquent debtor to remit money to respondent will result in a judgment being taken by respondent without permitting the alleged delinquent debtor to assert any real or personal defenses to the course of action.
4. The general or public credit rating or standing of any alleged delinquent debtor will be adversely affected unless payment is made.

PAR. 10. In truth and in fact:

1. Respondent Automobile-Household-Education is simply a corporate device used by respondents Key Learning and Key Training to collect their delinquent accounts and is not an independent collection agency which has purchased or been assigned said delinquent accounts.
2. The failure of an alleged delinquent debtor to remit money to respondents does not always result in the immediate institution of legal action. On the contrary, legal proceedings are not generally used as a collection device.
3. The failure of an alleged delinquent debtor to remit money to respondents seldom, if ever, results in a judgment being taken against him without being afforded the opportunity to assert any real or personal defenses he may have.

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4. Respondents seldom, if ever, take any action which adversely affects the general or public credit rating of an alleged delinquent debtor.

Therefore, respondents' statements, representations, acts and practices, and their failure to reveal material facts as set forth in Paragraphs Nine and Ten hereof were, and are, unfair, false, misleading and deceptive.

PAR. 11. Through the granting of licenses or franchises to engage in the sale of respondents' courses of study to corporations, partnerships and individuals using respondents' materials and Key Learning's plan or method of doing business, respondents placed in the hands of others the means and instrumentalities by and through which they mislead and deceived the public in the manner and as to the things hereinabove set forth.

PAR. 12. In the conduct of their aforesaid business, at all times mentioned herein, respondents have been in substantial competition, in commerce, with corporations, firms and individuals in the sale of home study courses of the same general kind and nature as that sold by respondents.

PAR. 13. The use by respondents of the aforesaid false, misleading and deceptive statements, representations and 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 were and are true and to induce a substantial number thereof to purchase said courses of study and instruction.

PAR. 14. 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 deceptive acts and practices in commerce, in violation of Section 5 of the Federal Trade Commission Act.

COUNT II

Alleging violations of the Truth in Lending Act and the implementing regulation promulgated thereunder, and of the Federal Trade Commission Act, the allegations of Paragraphs One and Two hereof are incorporated by reference in Count II as if fully set forth verbatim.

PAR. 15. In the ordinary course and conduct of their business, as aforesaid, respondents regularly extend consumer credit, as "consumer credit" is defined in Regulation Z, the implementing regulation of the Truth in Lending Act, duly promulgated by the Board of Governors of the Federal Reserve System.

PAR. 16. Subsequent to July 1, 1969, respondent in the ordinary course and conduct of their business and in connection with their extension of consumer credit, prepare enrollment agreements containing consumer credit cost disclosures required by Section 226.8 of Regulation Z and obtain from customers written acknowledgment of receipt of these disclosures. In the enrollment agreement, respondents fail to disclose the amount, or method of computing the amount, of any delinquency or similar charges payable in the event of late payment as required by Section 226.8(b)(4) of Regulation Z. Respondents do not furnish customers with any other consumer credit cost disclosures.

PAR. 17. Pursuant to Section 103(q) of the Truth in Lending Act, respondents' aforesaid failures to comply with the provisions of Regulation Z constitute violations of that Act and, pursuant to Section 108(c) thereof, respondents have thereby violated the Federal Trade Commission Act.

DECISION AND ORDER

The Federal Trade Commission having initiated an investigation of certain acts and practices of the respondents named in the caption hereof, and the respondents having been furnished thereafter with a copy of a draft of complaint which the Atlanta Regional Office proposed to present to the Commission for its consideration and which, if issued by the Commission, would charge respondents with violation of the Federal Trade Commission Act and of the Truth in Lending Act and the regulation promulgated thereunder; and

The respondents and counsel for the Commission having thereafter executed an agreement containing a consent order, an admission by the respondents of all the jurisdictional facts set forth in the aforesaid draft of complaint, a statement that the signing of said agreement is for settlement purposes only and does not constitute an admission by respondents that the law has been violated as alleged in such complaint, and waivers and other provisions as required by the Commission's rules; and

The Commission having thereafter considered the matter and having determined that it had reason to believe that respondents have violated the said Acts, and that complaint should issue stating its charges in that respect, and having thereupon accepted the executed consent agreement and placed such agreement on the public record for a period of thirty (30) days, now in further conformity with the procedure prescribed in Section 2.34(b) of its rules, the Commission hereby issues its complaint, makes the following jurisdictional findings, and enters the following order:

1. Respondent Key Learning Systems, Inc., (hereinafter referred to as Key Learning) 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 301 Broadway, Riviera Beach, Florida.

Respondents Key Training Service, Inc., (hereinafter referred to as Key Training) and Automobile-Household-Education Credit and Finance Corporation (hereinafter referred to as Automobile-Household-Education) are corporations organized, existing and doing business under and by virtue of the laws of the State of Florida with their principal offices and places of business located at 301 Broadway, Riviera Beach, Florida. Key Training is a wholly-owned subsidiary of respondent Key Learning. Automobile-Household-Education is a wholly-owned subsidiary of respondent Key Training.

Respondents George Lewson, S. Wyman Rolph and Theodosia W. LaBarbera are officers of said corporations. They formulate, direct and control the policies, acts and practices of said corporations. Respondent George Lewson's address is 345 Park Avenue, New York, New York. Respondent S. Wyman Rolph's address is 292 Madison Avenue, New York, New York. Respondent Theodosia W. LaBarbera's address is the same as that of said corporations.

2. The Federal Trade Commission has jurisdiction of the subject matter of this proceeding and of respondents, and the proceeding is in the public interest.

ORDER

COUNT I

It is ordered, That respondents Key Learning Systems, Inc., Key Training Service, Inc., and Automobile-Household-Education Credit and Finance Corporation, corporations, their successors and assigns, their officers, and George Lewson, S. Wyman Rolph and Theodosia W. LaBarbera, individually and as officers of said corporations, and respondents' agents, representatives and employees, directly or through any corporation, subsidiary, division, licensee, franchisee, or other device in connection with advertising, offering for sale, sale or distribution of courses of study or instruction or any other services or products, in commerce, as "commerce" is defined in the Federal Trade Commission Act, do forthwith cease and desist from:

1. Representing, directly or by implication, that respondents' business is connected with any branch or agency of the United States Government or with any state or local governmental agency.

2. Representing, directly or by implication, that respondents and their franchisees are engaged in soliciting applications for the purpose of selecting or training persons for civil service employment with the United States Government, or that respondents' representatives possess the necessary qualifications and special

knowledge which would enable them to determine the qualifications of persons for such employment, or that respondents are engaged in any business other than that in which they are actually engaged.

3. Representing, directly or by implication, that respondents' and their franchisees have any specialized knowledge or information concerning civil service job openings or the availability of civil service positions in any area, or misrepresenting in any manner the availability of civil service jobs.

4. Representing, directly or by implication, that respondents have available, and can provide, specialized training courses of study to their purchasers for every position within the civil service.

5. Representing, directly or by implication, that persons completing any course of study are assured of or will obtain civil service positions.

6. Representing, directly or by implication, that contracts executed by the purchasers of respondents' courses of instruction will not be effective, binding or accepted by them until all monies required for the "downpayment" or similar preliminary payments, are received; or misrepresenting in any manner the nature and legal characteristics of any enrollment or other contract.

7. Failing to clearly and conspicuously disclose in all advertising, orally prior to the time of the sale and in writing on any enrollment agreement or contract, that respondents are a private business enterprise engaged in the solicitation and sale of a course of study and instruction; that respondents have no connection with any branch or agency of the United States Government, or with any state or local governmental agency, and that the purpose of such contact is to sell a course of study.

8. Misrepresenting, in any manner, the nature of respondents' business or the purpose of respondents' initial contact with prospective customers.

9. Representing, directly or by implication, that Automobile-Household-Education, or any other similar corporate division, subsidiary, licensee, franchisee, or device is an independent or separate organization from the said business enterprise operated by respondents. That any collection agency is an independent separate organization, or a bona fide assignee or purchaser of accounts receivable when it is owned, operated and controlled by respondents.

10. Representing, directly or by implication, that legal action may be instituted unless it is intended in good faith that such legal action may be instituted; or misrepresenting in any manner the

action to be taken or results of any action which may be taken to effect payment of any such account or alleged debt.

11. Representing, directly or by implication, that in the event of nonpayment or delinquency or any account or alleged debt arising from any enrollment contract or other purchase agreement, the general or public credit rating or standing of any person may be adversely affected, unless respondents refer the information concerning such delinquency to a bona fide credit reporting agency.

12. Contracting for any sale whether in the form of an enrollment contract or other purchase agreement which shall become binding on the purchaser prior to midnight of the third day, excluding Sundays and legal holidays, after the date of execution.

13. Failing to disclose, orally prior to the time of sale and in writing on any enrollment contract or other purchase agreement signed by the purchaser with such conspicuousness and clarity as is likely to be observed and read by such purchaser, that the purchaser may rescind or cancel the sale by directing or mailing a notice of cancellation to respondents' address prior to midnight of the third day, excluding Sundays and legal holidays, after the date upon which the purchaser signed such enrollment contract or purchase agreement.

14. Failing to provide a separate and clearly understandable form showing the respondents' name and address and which the buyer may use as a notice of cancellation.

15. Failing to refund immediately all monies to (1) purchasers who have requested contract cancellation in writing within three business days from the sale thereof, and (2) purchasers showing that respondents' solicitations or performances were attended by or involved violation of any of the provisions of this order.

16. Failing to:

(a) Deliver by ordinary mail a copy of this order to each present and every future licensee or franchisee; and failing to obtain an agreement in writing from each present and every future licensee or franchisee to abide by the terms of this order. *Provided, however,* That as to any licensee or franchisee whose franchise agreement is in effect as of the effective date of this order, respondents' failure to obtain said agreement to abide by the terms of the order shall not be deemed a violation of this provision if, after having made a diligent effort to obtain said agreement from any such licensee or franchisee and such licensee or franchisee having failed or refused to execute such agreement, respondents inform the Commission of the identity of such licensee or franchisee.

(b) Institute a program of continuing surveillance adequate to reveal whether the business of each licensee and franchisee so described in Paragraph (a) above conforms to the requirements of this order.

COUNT II

It is further ordered, That respondents Key Learning Systems, Inc., Key Training Service, Inc., and Automobile-Household-Education Credit and Finance Corporation, corporations, their successors and assigns, their officers, and George Lewson, S. Wyman Rolph and Theodosia W. LaBarbera, individually and as officers of said corporations, and respondents' agents, representatives and employees directly or through any corporation, subsidiary, division, licensee, franchisee, or other device in connection with any extension of consumer credit, or any advertisement to aid, promote or assist directly or indirectly any extension of consumer credit, as "consumer credit" and "advertisement" are defined in Regulation Z (12 C.F.R. § 226) of the Truth in Lending Act (Pub. L. 90-321, 15 U.S.C. 1601, *et seq.*), do forthwith cease and desist from:

1. Failing to disclose the amount, or method of computing the amount, of any default, delinquency, or similar charges payable in the event of late payments as required by Section 226.8(b)(4) of Regulation Z.
2. Failing, in any consumer credit transaction or advertisement, to make all disclosures, determined in accordance with Sections 226.4 and 226.5 of Regulation Z, in the manner, form and amount required by Sections 226.6, 226.8 and 226.10 of Regulation Z.

It is further ordered, That respondent corporations shall forthwith distribute a copy of this order to each of their operating divisions or departments.

It is further ordered, That respondents and their franchisees deliver a copy of this order to cease and desist to all present and future personnel engaged in the offering for sale, or sale of any product or service, and in the consummation of any extension of consumer credit, or in any aspect of preparation, creation, or placing of advertising, and that respondents and their franchisees secure a signed statement acknowledging receipt of said order from each such person.

It is further ordered, That respondents notify the Commission at least thirty (30) days after any change in the corporate respondents such as dissolution, assignment or sale resulting in the emergence of a successor corporation, the creation or dissolution of subsidiaries or any other change in the corporations which may affect compliance obligations arising out of the order.

