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Superior Court Of California
County Of Los Angeles

OCT 07 2014

Sherril R. Carter, Executive Officer/Clerk
By: Judi Lara, Deputy

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF LOS ANGELES

BC 559774

THE PEOPLE OF THE STATE OF
CALIFORNIA,

Plaintiff,

v.

AARON'S, INC., a Georgia Corporation,

Defendant.

Case No. _____

**COMPLAINT FOR PERMANENT
INJUNCTION, CIVIL PENALTIES,
RESTITUTION, AND OTHER
EQUITABLE RELIEF**

(BUS. & PROF. CODE, § 17200 et seq.)

1 Plaintiff, the People of the State of California, by and through Kamala D. Harris, Attorney
2 General of the State of California, alleges the following on information and belief:

3 INTRODUCTION

4 1. For years, Defendant Aaron's, Inc. ("Aaron's"), one of the two largest rent-to-own
5 companies in the United States, has denied its California customers the protections afforded by
6 the nation's strongest state rent-to-own law: California's Karnette Rental-Purchase Act, Civil
7 Code section 1812.620 et seq. ("Karnette Act"). Aaron's believes that through artful contract
8 drafting it has found a loophole that exempts its conduct from the California law specifically
9 designed to regulate it. Aaron's is wrong. There is no loophole; companies that engage in rent-
10 to-own transactions in the State of California must comply with the Karnette Act without
11 exception. By failing to provide the critical consumer protections embodied in the Karnette Act,
12 Aaron's has caused serious harm to its customers, while profiting at their expense.

13 2. Aaron's also turned a blind eye as its franchisees installed spyware on computers rented to
14 unsuspecting customers. The spyware program allowed a remote user to log keystrokes, take
15 screenshots, and even operate the computer's webcam. Accordingly, these franchisees had the
16 ability to secretly capture sensitive and personal information about their customers.

17 DEFENDANT AND VENUE

18 3. Defendant Aaron's is a Georgia corporation, with its principal place of business in
19 Atlanta, Georgia.

20 4. At all relevant times, Aaron's has transacted business in the County of Los Angeles and
21 elsewhere within the State of California. The violations of law described herein occurred in the
22 County of Los Angeles and elsewhere in the State of California.

23 DEFENDANT'S BUSINESS PRACTICES

24 5. Aaron's is engaged in the rent-to-own business, operating through a network of company-
25 owned stores and independently owned franchised stores. In total, Aaron's and its franchisees
26 operate approximately 75 stores in California.

27 6. The rent-to-own industry (also known as the rental-purchase industry) consists of dealers
28 that rent household merchandise, such as furniture, appliances, and home electronics, to

1 consumers for a recurring weekly or monthly payment.

2 7. For as long as the consumer chooses to keep the merchandise, the rent-to-own agreement
3 automatically renews with each payment. Upon fulfillment of the rental contract – usually one to
4 two years of periodic payments – title passes from the rent-to-own dealer to the consumer for no
5 additional consideration. The consumer also has the option to purchase the merchandise before
6 the end of the rental agreement for some proportion of the remaining balance. Ultimately, in
7 order to complete the purchase, the consumer pays far more than the retail value of the
8 merchandise.

9 8. The consumer may also elect to terminate the rent-to-own agreement without completing
10 a purchase by returning the merchandise. Typically, the consumer may terminate the agreement
11 at any time so there is no long-term obligation.

12 9. Because rent-to-own agreements require no down payment or credit check, they appeal to
13 consumers who cannot afford to make an up-front cash purchase as well as those with poor access
14 to traditional forms of credit.

15 10. In California, rent-to-own transactions and rent-to-own dealers are subject to the
16 provisions of the Karnette Act, the most comprehensive state rent-to-own law in the country. The
17 law protects California consumers through a series of requirements and prohibitions about both
18 the form and substance of rent-to-own agreements executed in this state. For example, the
19 Karnette Act prohibits exorbitant pricing, limits customers' liability for damage or theft, requires
20 a grace period for late payments, and regulates the amount rent-to-own dealers can charge when a
21 customer purchases the merchandise by paying off the agreement early.

22 11. In rent-to-own contracts executed at its California stores, Aaron's includes a provision
23 obligating the customer to continue renting the merchandise for a minimum period of time that
24 exceeds four months – in some cases Aaron's sets the minimum period at four months and one
25 day. The consumer may not terminate the agreement during this minimum term without incurring
26 a significant penalty, unlike the typical rent-to-own agreement which may be cancelled at any
27 time without further obligation.

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1 12. Aaron's believes – wrongly – that the inclusion of this minimum rental term means its
2 agreements no longer qualify as rent-to-own contracts as defined in the Karnette Act and are thus
3 exempt from the Act's robust regulation. Because Aaron's incorrectly believes that its rent-to-
4 own agreements are not subject to the Karnette Act, Aaron's ignores the provisions of the Act and
5 therefore violates the law in myriad ways.

6 13. Aaron's also fails to adequately disclose its mandatory "Service Plus" fee, which is an
7 additional 10 percent added to the rental price that it advertises to consumers. The Service Plus
8 program purports to provide benefits, such as free delivery and the right to reactivate a cancelled
9 rental agreement at a later time. Aaron's requires that all of its California rent-to-own customers
10 sign up for this Service Plus program but fails to adequately disclose the existence and amount of
11 the mandatory charge in its advertisements. For example, Aaron's will advertise a product on a
12 rent-to-own basis for "\$99.99/month*". The fine print associated with the asterisk will then state
13 "Just add tax & Aaron's Service Plus," making the true cost to the consumer \$109.99/month plus
14 tax. Moreover, Aaron's Service Plus program itself is largely illusory because the Karnette Act
15 mandates that many of the benefits purportedly included in the program be provided at no charge
16 in connection with all rent-to-own transactions.

17 14. In addition, Aaron's has misled consumers about its purported sweepstakes offerings.
18 During the relevant time period, Aaron's used a document entitled "Sweepstakes Entry Form" to
19 solicit personal information from prospective customers, including the prospective customer's
20 name, mailing address, and phone number. Aaron's, however, did not enter individuals who
21 completed the form into any sweepstakes. Instead, Aaron's used this form to collect sales leads
22 and to get potential customers comfortable with providing their personal information.

23 15. Since 2009 or earlier and continuing through 2012, Aaron's also permitted and even
24 facilitated the use of spyware by its California franchisees.

25 16. Nearly all of Aaron's franchisees in California licensed a software program named PC
26 Rental Agent from DesignerWare, LLC and installed that program on computers that they then
27 rented to California customers. PC Rental Agent included an add-on feature known as "Detective
28 Mode," which allowed the user of the software to remotely log keystrokes, capture screenshots,

1 and operate the computer's webcam. Consequently, Aaron's California franchisees had the
2 ability to surreptitiously monitor the activity of any individual using the rented computers.
3 Aaron's franchisees could also use the software to track the physical location of rented computers
4 and to gather personal information from consumers through the use of fake registration windows.

5 17. Aaron's California franchisees installed PC Rental Agent on rented computers without
6 their customers' knowledge or consent and did not disclose to their customers that PC Rental
7 Agent could be used to remotely spy on the computer users' activities.

8 18. Aaron's knew its franchisees were using the PC Rental Agent software and even provided
9 technical instructions, troubleshooting, and server space in connection with its use.

10 FIRST CAUSE OF ACTION

11 VIOLATIONS OF BUSINESS AND PROFESSIONS CODE

12 SECTION 17500 ET SEQ.

13 (False or Misleading Statements)

14 19. The People reallege and incorporate by reference each of the paragraphs above as though
15 fully set forth herein.

16 20. Aaron's has violated, and continues to violate, Business and Professions Code section
17 17500 et seq. by making or disseminating, or causing to be made or disseminated, false or
18 misleading statements with the intent to induce members of the public to rent or purchase Aaron's
19 products when Aaron's knew, or by the exercise of reasonable care should have known, that the
20 statements were false or misleading. The false or misleading statements include, but are not
21 limited to, the following:

22 a. In Aaron's print and televised advertisements, Aaron's advertises a periodic rental
23 payment amount that does not clearly and conspicuously disclose the mandatory 10 percent
24 Service Plus fee that Aaron's adds to each rental payment; and

25 b. In Aaron's stores, Aaron's has solicited consumers' personal information under the
26 false pretense that it would use the personal information to enter those consumers into some
27 kind of sweepstakes.

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1 SECOND CAUSE OF ACTION

2 VIOLATIONS OF BUSINESS AND PROFESSIONS CODE

3 SECTION 17200 ET SEQ.

4 (Unfair Business Practices)

5 21. The People reallege and incorporate by reference each of the paragraphs above as though
6 fully set forth herein.

7 22. Aaron's has engaged, and continues to engage, in unlawful, fraudulent or unfair acts or
8 practices, which constitute unfair competition within the meaning of Section 17200 of the
9 Business and Professions Code. Aaron's acts or practices include, but are not limited to, the
10 following:

11 a. Aaron's has violated Business and Professions Code section 17500 et seq., as
12 alleged above in the First Cause of Action.

13 b. Aaron's has violated the Karnette Act by:

14 (i.) Charging late fees on monthly payments that are fewer than seven days
15 late, in violation of Civil Code section 1812.626, subdivision (c);

16 (ii.) Imposing liability for theft without limitation and imposing liability for
17 loss or damage that does not result from negligent, reckless, or intentional acts by the
18 consumer, in violation of Civil Code section 1812.627, subdivision (b);

19 (iii.) Failing to adhere to the Karnette Act's prescribed formula for calculating
20 the discounted price that a consumer must pay to acquire ownership of the merchandise
21 during the course of the rental agreement, in violation of Civil Code section 1812.632,
22 subdivision (b);

23 (iv.) Reporting late payments, defaults, or repossessions to a consumer credit
24 reporting agency, in violation of Civil Code section 1812.640; and

25 (v.) Failing to clearly and conspicuously provide the Karnette Act's mandated
26 contract disclosures, in violation of Civil Code section 1812.623.

27 c. Aaron's has violated California consumers' right to privacy as established in
28 article I, section 1 of the California Constitution, by permitting and facilitating its franchisees'

1 installation of a spyware program on rented computers that had the capability of secretly
2 collecting personal information from authorized users of those rented computers.

3 **PRAYER FOR RELIEF**

4 WHEREFORE, Plaintiff prays for judgment as follows:

5 1. Pursuant to Business and Professions Code section 17535, that Aaron's, its successors,
6 agents, representatives, employees, and all persons who act in concert with Aaron's, be
7 permanently enjoined from making any false or misleading statements in violation of Business
8 and Professions Code section 17500 as alleged in this complaint;

9 2. Pursuant to Business and Professions Code section 17203, that Aaron's, its successors,
10 agents, representatives, employees, and all persons who act in concert with Aaron's, be
11 permanently enjoined from committing any acts of unfair competition in violation of Business
12 and Professions Code section 17200 as alleged in this complaint;

13 3. Pursuant to Business and Professions Code section 17536, that the Court assess a civil
14 penalty of \$2,500 for each violation of Business and Professions Code section 17500, as proved at
15 trial;

16 4. Pursuant to Business and Professions Code section 17206, that the Court assess a civil
17 penalty of \$2,500 for each violation of Business and Professions Code section 17200, as proved at
18 trial;

19 5. That Aaron's be ordered to make restitution of any money or other property that may have
20 been acquired by its violations of Business and Professions Code section 17200, as proved at
21 trial;

22 6. That Plaintiff recover its costs of suit, including costs of investigation; and

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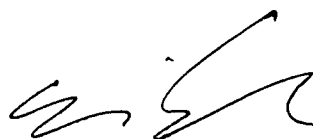
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7. For such other and further relief that the Court deems just and proper.

Dated: October 6, 2014

Respectfully Submitted,

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