

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF JEFFERSON

PEOPLE OF THE STATE OF NEW YORK, by
BARBARA D. UNDERWOOD,
Attorney General of the State of New York,

Plaintiff,

SUMMONS

-against-

HARRIS ORIGINALS OF NY., INC.,
HARRIS ORIGINALS OF WATERTOWN NY INC.,
CONSUMER ADJUSTMENT CORP.,
CONSUMER ADJUSTMENT CORP., USA.,
HARRIS ORIGINALS OF CALIFORNIA, INC.,
HARRIS ORIGINALS OF CO, INC.,
HARRIS ORIGINALS OR COLONIAL HEIGHTS VA, INC.,
HARRIS ORIGINALS OF COLUMBIANA SC INC.,
HARRIS ORIGINALS OF EL PASO TX INC.,
HARRIS ORIGINALS OF FL., INC,
HARRIS ORIGINALS OF FREEDOM VILLAGE NC INC.,
HARRIS ORIGINALS OF GA., INC.,
HARRIS ORIGINALS OF IL., INC.,
HARRIS ORIGINALS OF JACKSONVILLE, N.C., INC.,
HARRIS ORIGINALS OF KILLEEN, TX, INC.,
HARRIS ORIGINALS OF KS INC.,
HARRIS ORIGINALS OF N. C., INC.,
HARRIS ORIGINALS OF NEWPORT NEWS, VA, INC.,
HARRIS ORIGINALS OF NO. ILLINOIS INC.,
HARRIS ORIGINALS OF NORFOLK, VA, INC.,
HARRIS ORIGINALS OF OCEANSIDE, CA., INC.,
HARRIS ORIGINALS OF PEARLRIDGE HI INC.,
HARRIS ORIGINALS OF SAN ANTONIO, TX., INC,
HARRIS ORIGINALS OF SAN DIEGO, INC.,
HARRIS ORIGINALS OF SAVANNAH GA INC.,
HARRIS ORIGINALS OF TEXAS, INC.,
HARRIS ORIGINALS OF TN., INC.,
HARRIS ORIGINALS OF VA., INC.,
HARRIS ORIGINALS OF WA INC.,
HARRIS DIAMOND COMPANY OF N.C., INC.,
HARRIS JEWELRY & ELECTRONICS,
OOMPH, INC., all collectively d/b/a
“HARRIS JEWELRY,” and

CONSUMER GROWTH PARTNERS LLC,
JOHN ZIMMERMAN, Individually and as Principal,
SUSAN HARRIS, Individually and as Principal
BEVERLY HARRIS, Individually and as Principal,
SANDI HARRIS-PLEETER, Individually and as Principal,
RICHARD BAUM, Individually and as Principal, and
DAVID MALANE, Individually and as Principal,

Defendants.

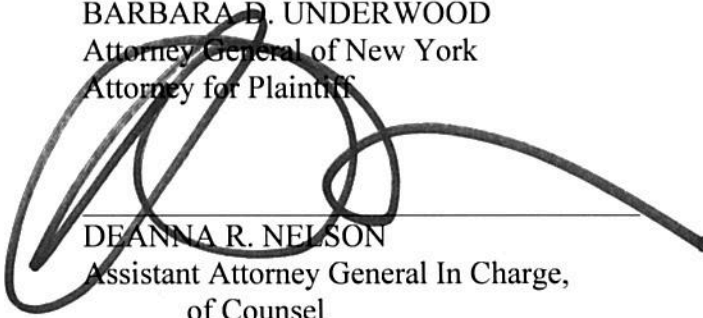
TO THE ABOVE-NAMED DEFENDANTS:

You are hereby summoned to answer the Verified Complaint in this action and to serve a copy of your Answer, or, if the Complaint is not served with this Summons, to serve a Notice of Appearance, on the Plaintiff's attorney within twenty (20) days after service of this summons, exclusive of the day of service (or within 30 days after the service is complete if this Summons is not personally delivered to you within the State of New York); and in case of your failure to appear or answer, judgment will be taken against you by default for the relief demanded in the Complaint.

The basis of the venue designated is the defendants' operation of a Harris Jewelry retail store Jefferson County, in the State of New York.

Dated: October 29, 2018

BARBARA D. UNDERWOOD
Attorney General of New York
Attorney for Plaintiff



DEANNA R. NELSON
Assistant Attorney General In Charge,
of Counsel
317 Washington Street, 10th Floor
Watertown, New York 13601
Telephone: (315) 523-6080

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF JEFFERSON

PEOPLE OF THE STATE OF NEW YORK, by
BARBARA D. UNDERWOOD,
Attorney General of the State of New York,

Plaintiff,

-against-

VERIFIED COMPLAINT

Index No.:

HARRIS ORIGINALS OF NY., INC.,
HARRIS ORIGINALS OF WATERTOWN NY INC.,
CONSUMER ADJUSTMENT CORP.,
CONSUMER ADJUSTMENT CORP., USA.,
HARRIS ORIGINALS OF CALIFORNIA, INC.,
HARRIS ORIGINALS OF CO, INC.,
HARRIS ORIGINALS OR COLONIAL HEIGHTS VA, INC.,
HARRIS ORIGINALS OF COLUMBIANA SC INC.,
HARRIS ORIGINALS OF EL PASO TX INC.,
HARRIS ORIGINALS OF FL., INC,
HARRIS ORIGINALS OF FREEDOM VILLAGE NC INC.,
HARRIS ORIGINALS OF GA., INC.,
HARRIS ORIGINALS OF IL., INC.,
HARRIS ORIGINALS OF JACKSONVILLE, N.C., INC.,
HARRIS ORIGINALS OF KILLEEN, TX, INC.,
HARRIS ORIGINALS OF KS INC.,
HARRIS ORIGINALS OF N. C., INC.,
HARRIS ORIGINALS OF NEWPORT NEWS, VA, INC.,
HARRIS ORIGINALS OF NO. ILLINOIS INC.,
HARRIS ORIGINALS OF NORFOLK, VA, INC.,
HARRIS ORIGINALS OF OCEANSIDE, CA., INC.,
HARRIS ORIGINALS OF PEARLRIDGE HI INC.,
HARRIS ORIGINALS OF SAN ANTONIO, TX., INC,
HARRIS ORIGINALS OF SAN DIEGO, INC.,
HARRIS ORIGINALS OF SAVANNAH GA INC.,
HARRIS ORIGINALS OF TEXAS, INC.,
HARRIS ORIGINALS OF TN., INC.,
HARRIS ORIGINALS OF VA., INC.,
HARRIS ORIGINALS OF WA INC.,
HARRIS DIAMOND COMPANY OF N.C., INC.,
HARRIS JEWELRY & ELECTRONICS,
OOMPH, INC., all collectively d/b/a
“HARRIS JEWELRY,” and
CONSUMER GROWTH PARTNERS LLC,
JOHN ZIMMERMAN, Individually and as Principal,
SUSAN HARRIS, Individually and as Principal

BEVERLY HARRIS, Individually and as Principal,
SANDI HARRIS-PLEETER, Individually and as Principal,
RICHARD BAUM, Individually and as Principal, and
DAVID MALANE, Individually and as Principal,

Defendants.

The People of the State of New York, by their attorney, Barbara D. Underwood, Attorney General of the State of New York, allege as follows:

PRELIMINARY STATEMENT

1. The People of the State of New York bring this verified complaint pursuant to Executive Law § 63(12) and General Business Law § 349 to enjoin the defendants' illegal, fraudulent, and deceptive conduct in connection with the illegal lending and deceptive retail sales of jewelry and other consumer goods to active duty servicemembers at the Salmon Run Mall, Watertown, New York. This complaint also addresses identical activities at out-of-state stores coordinated from the defendants' headquarters in the state of New York, between 2010 and present, to disgorge profits from all the described sales, recover restitution for those victimized by the defendants' practices, and to recover damages, penalties, and additional costs, as authorized by statute.

2. The allegations herein are based upon information and belief, pursuant to the investigation conducted to date, publicly available documents, and information contained within the investigative file in the plaintiff's office.

PARTIES AND JURISDICTION

3. Plaintiff Barbara D. Underwood, Attorney General of the State of New York, appears on behalf of the People of the State of New York. This Court has jurisdiction pursuant to New York Executive Law § 63(12) under which the Attorney General is empowered to seek

injunctive relief, restitution, disgorgement, damages, penalties, and costs when any person or entity has engaged in repeated fraudulent or illegal acts or has otherwise engaged in persistent fraud or illegality in the conduct of its business. This Court also has jurisdiction pursuant to § 349 of the New York General Business Law (“GBL”) which empowers the Attorney General to bring an action to restrain a corporation from engaging in misleading and deceptive business practices.

4. This action arises out of a more than two-year long multistate investigation conducted together with the states of Tennessee, Delaware, Georgia, Hawaii, Idaho, Illinois, Kansas, Louisiana, Maryland, Nevada, North Carolina, Pennsylvania, and Virginia (hereinafter referred collectively as “Multistate Group”). The states of New York and Tennessee have led this multistate investigation together with an executive committee that also includes the states of Nevada and North Carolina.

5. Defendants HARRIS ORIGINALS OF NY., INC. and HARRIS ORIGINALS OF WATERTOWN NY INC. are domestic corporations organized and doing business as one entity subject to the laws of the State of New York since 1958 and 2013, respectively, with a registered principal place of business at 800 Prime Place, Hauppauge, New York. Out of the Hauppauge office, Harris Originals of NY., Inc. directs and manages the operation of more than twenty (20) retail jewelry stores in states across the country. In New York State, Harris Originals of NY., Inc. and Harris Originals of Watertown NY Inc. operate a retail store located in Jefferson County at the Salmon Run Mall, 21182 Salmon Run Mall Loop West, Watertown, New York.

6. Defendants CONSUMER ADJUSTMENT CORP. and CONSUMER ADJUSTMENT CORP., USA are domestic corporations authorized to do business within the State of New York since 1960 and 2009, respectively, with a registered principal place of

business at 800 Prime Place, Hauppauge, New York. These two corporations are alter egos or successors of one another. Hereinafter, both entities are referred to collectively as “Consumer Adjustment.”

7. Defendants HARRIS ORIGINALS OF CALIFORNIA, INC., HARRIS ORIGINALS OF CO, INC., HARRIS ORIGINALS OR COLONIAL HEIGHTS VA, INC., HARRIS ORIGINALS OF COLUMBIANA SC INC., HARRIS ORIGINALS OF EL PASO TX INC., HARRIS ORIGINALS OF FL., INC, HARRIS ORIGINALS OF FREEDOM VILLAGE NC INC., HARRIS ORIGINALS OF GA., INC., HARRIS ORIGINALS OF IL., INC., HARRIS ORIGINALS OF JACKSONVILLE, N.C., INC., HARRIS ORIGINALS OF KILLEEN, TX, INC., HARRIS ORIGINALS OF KS INC., HARRIS ORIGINALS OF N. C., INC., HARRIS ORIGINALS OF NEWPORT NEWS, VA, INC., HARRIS ORIGINALS OF NO. ILLINOIS INC., HARRIS ORIGINALS OF NORFOLK, VA, INC., HARRIS ORIGINALS OF OCEANSIDE, CA., INC., HARRIS ORIGINALS OF PEARLRIDGE HI INC., HARRIS ORIGINALS OF SAN ANTONIO, TX., INC, HARRIS ORIGINALS OF SAN DIEGO, INC., HARRIS ORIGINALS OF SAVANNAH GA INC., HARRIS ORIGINALS OF TEXAS, INC., HARRIS ORIGINALS OF TN., INC., HARRIS ORIGINALS OF VA., INC., HARRIS ORIGINALS OF WA INC., HARRIS DIAMOND COMPANY OF N.C., INC., HARRIS JEWELERY & ELECTRONICS, and OOMPH, INC. are current or former foreign corporations and alter-egos of Defendant Harris Originals of NY., Inc., and operations are coordinated and directed from the business offices at 800 Prime Place, Hauppauge, NY. All of the Harris defendants, both domestic and foreign, are collectively referred to herein as “Harris.”

8. Harris conducts business online and by telephone throughout all the United States and territories, and has physical stores in the following states: Colorado, Florida, Georgia,

Hawaii, Illinois, Kansas, New York, North Carolina, Tennessee, Texas, Virginia, and Washington. All business is conducted under the assumed name of “Harris Jewelry.”

9. Harris and Consumer Adjustment have identical members of their boards of directors, and share officers, employees, office space, and resources. Board meetings for Harris and Consumer Adjustment are held simultaneously, approximately four times per year. Harris and Consumer Adjustment operate as one corporate entity for all purposes other than public facing or for tax purposes.

10. The ownership of these corporate defendants is substantially identical, and they are all alter egos of one another.

11. Defendant CONSUMER GROWTH PARTNERS LLC is a domestic limited liability company authorized to do business in the State of New York since 2018. The company’s primary place of business is 445 Hamilton Ave, Suite 1102, White Plains, New York, and it self-identifies as a “private equity investment and advisory firm with an exclusive focus on specialty retail and non-perishable branded consumer products companies.” Upon information and belief, Consumer Growth Partners has had an investment stake in the Harris and/or Consumer Adjustment defendants since at least October 2014. Defendant Richard Baum is the founder and managing partner of Consumer Growth Partners and the chairman of the boards of Harris and Consumer Adjustment. Consumer Growth Partners thereby has engaged in the carrying on, conducting, or transacting of business for all Harris and/or Consumer Adjustment entities.

12. Defendant JOHN ZIMMERMAN is a resident of the State of New York, and has been the chief executive officer (“CEO”) of Harris and Consumer Adjustment since approximately 2010, exercising management and control over the business operations of these

defendants. He maintains his principal executive office at 800 Prime Place, Hauppauge, New York.

13. Upon information and belief, Defendant SUSAN HARRIS is a resident of the State of New York, and at all relevant times has been a Principal and compensated board member of the named Harris and Consumer Adjustment defendants, and has had substantial involvement and control over the business operations of the defendants.

14. Upon information and belief, Defendant BEVERLY HARRIS, is resident of the states of New York and/or California, and at all relevant times has served in varying roles as a buyer for Harris, president, CEO, and Principal and compensated board member of the named Harris and Consumer Adjustment defendants, and has had substantial involvement and control over the business operations of the defendants.

15. Upon information and belief, Defendant SANDI HARRIS-PLEETER, is a resident of the State of New Jersey, and at all relevant times has been a Principal and compensated board member of the named Harris and Consumer Adjustment defendants, and has had substantial involvement and control over the business operations of the defendants.

16. Upon information and belief, Defendant RICHARD BAUM is a resident of the State of New York and at all relevant times has been the chairman and management liaison to the board, compensated board member of the named Harris and Consumer Adjustment defendants, and has substantial involvement and control over the business operations of the defendants. At all relevant times, Defendant Baum has also been the founder and/or managing partner of Defendant Consumer Growth Partners.

17. Upon information and belief, Defendant DAVID MALANE is a resident of the State of New York and at all relevant times has been a compensated board member of the named

Harris and Consumer Adjustment defendants, and has substantial involvement and control over the business operations of the defendants.

18. The named individuals are compensated board members with actual operational control, experience and awareness, with operational knowledge, control and oversight of the activities described herein.

19. This action is properly venued in the Supreme Court of Jefferson County, as Defendants operate their lone New York State retail store within the Town of Watertown, County of Jefferson.

20. This multistate investigation has been ongoing for more than two-years, including document production by Harris and Consumer Adjustment, testimony from Defendant Zimmerman, and previous litigation instituted by Harris in a failed attempt to use state courts to challenge the State of New York's investigatory subpoenas under cover of anonymity. During this period, Defendants have offered no justification for their business model, nor any reason the states should discontinue the investigation. On the contrary, Defendants have obfuscated and refused to provide necessary additional testimony and documents. For these reasons, the Attorney General has determined it was in the public interest to not provide further five-day notice prior to filing this action, as typically contemplated in General Business Law article 22-A. Defendants are well-aware of the investigation, the business practices at issue, and have been unable to provide any reasons to not institute this action. Furthermore, because the targeted consumers are a protected class based upon military status under New York's Human Rights Law, the public interest is better served by laying these claims bare.

FACTUAL ALLEGATIONS

21. The Harris Jewelry store in Watertown, New York, is one of approximately twenty-three store locations nationally, all falling under the corporate umbrella and operation of the New York State business entity, Harris Originals of NY., Inc. These stores are strategically located near or on military installations to target their usurious financing to active duty servicemembers under the guise of quality and affordable jewelry sales.

22. Although the ownership and operation of each storefront location are the same, they are each separately incorporated in their operating state while functioning as one unit headquartered in New York State.

23. The defendants' retail Harris Jewelry store in State of New York is located at the Salmon Run Mall, approximately ten miles from the main gate of Fort Drum, home of the United States Army's 10th Mountain Division—Light Infantry.

24. Upon information and belief, total revenue across all Harris stores for the fiscal year of 2016-2017 was over \$30-million dollars (\$30,000,000.00). Total revenue between 2010 and 2017 exceeded \$275-million dollars (\$275,000,000.00).

The Harris Business Model

25. For decades, it has been Harris's practice to set up a small storefront in a mall or shopping center in a "military town" or, more recently, in the commercial zone on military installations. Harris's business model is to finance the sale of jewelry to active-duty servicemembers.

26. Harris prominently advertises that the company's founder, Jerome Harris, was a World War II Marine veteran.

27. Harris carries a small and variable inventory of jewelry, including engagement rings, bridal sets, watches, necklaces, earrings, as well as lines of patriotic and military-themed jewelry and “special gifts,” such as the Mother’s Medal of Honor, a Token of Pride Coin, or the Forever-As-One ID tag necklace.



Token of Pride Gift Set¹

Forever As One ID Tag Necklace

28. Approximately ninety (90) to ninety-five (95) percent of all transactions at Harris are financed through Harris’s “proprietary” financing, which the company refers to as the “Harris Program.” The Harris Program is available exclusively to active-duty servicemembers, and is ostensibly provided by Consumer Adjustment, rather than Harris directly.

29. As stated above, Consumer Adjustment is merely an alter-ego of Harris.

30. At the stores, sales employees arm themselves at entrances with teddy bears dressed in the military uniform of the local branch to “prospect” for active-duty servicemembers and sell them on the “Harris Program.”

¹ All photographs depicted in this complaint were captured from either harrisjewelry.com or publicly displayed or presented materials.

31. With very few exceptions, every sale of jewelry is made with the “Harris Program” financing to active-duty military members.

32. Harris also sells in-house warranties or protection plans (hereinafter referred to as “protection plans”) on almost every item of jewelry it sells. The cost of the protection plans is also financed through the Harris Program and is included on the same financing contract as the underlying jewelry. In 2016, add-on protection plans were sold on over 90% of the products that were eligible for the protection plan.

33. As described in more detail below, active-duty servicemembers—Harris’s pool of targeted consumers—are generally attracted to a Harris store in response to an illegal charitable marketing scheme, and then sold on the Harris Program as a credit-repair or credit-establishing opportunity. Afterwards, Harris employees encourage the servicemember to select grossly overpriced jewelry to maximize the amount of credit available to the consumer, as determined by Harris based upon the servicemember’s branch of service and length of time remaining on active-duty. Protection plans, teddy bears, shipping costs, and taxes are added onto the Consumer Adjustment financing contracts, and the consumer authorizes an automatic ACH funds transfer for the twice-monthly contract payments. Thereafter, if a servicemember misses a payment or otherwise falls behind on payments, Harris has a number of in-house collections protocols and procedures used to collect on the amounts owed.

Operation: Teddy Bear

34. Since late 2011 or early 2012, Harris has operated a program it calls “Operation: Teddy Bear,” in which the company offers for sale military-themed teddy bears of various sizes and donates a portion of the money paid by the consumer to a military-affiliated charitable organization.



35. Generally, Harris stores have teddy bears with uniforms for the branch of service(s) present in that store’s local community on-hand for marketing and sale. At the Watertown, New York store location, the Harris store has teddy bears of multiple sizes available in different versions of the United States Army uniforms, coordinated with the store’s presence near Fort Drum.

36. Teddy bears are available in several sizes, and each size has a corresponding “portion” of its sale price that is purportedly donated to the charity.

37. The stated amount to be donated for each size bear is as follows:

Bear Size	Total Price	Amount Donated
Small—11”	\$15.00	\$5.00
Medium—18”	\$30.00	\$10.00
Extra Large—30”	\$80.00	\$20.00

38. Operation: Teddy Bear is featured prominently on the Harris website, and in large signage at store locations. In the fall of 2017, Harris launched the website www.operationteddybear.org, specifically for the sale of teddy bears and the promotion of Operation: Teddy Bear.

39. The website, www.operationteddybear.org, is outfitted with the .org suffix, but is not a registered charitable organization, nor is it exclusively charitable in nature.

40. On the ground, Harris store employees are instructed to stand at or near the shop entrances with a teddy bear in-hand as a tool to lure servicemembers into the store. Harris calls this practice “prospecting” customers. More than half of Harris’s sales are the result of prospecting.

41. The addition of the teddy bear program was a sales innovation by Defendant CEO John Zimmerman to lure in servicemembers, with a promise that a portion of the sales go to support military-inspired charity organization.

42. When a for-profit business partners with a charitable organization to sell products for the benefit of the charity, it is known as a “commercial co-venture.”

43. “Commercial co-venturing” can be utilized by the for-profit partner to lower the guard and cultivate goodwill with a consumer. Given this potential danger, partners to a

commercial co-venture are typically required to register with and report to the states within which they operate.

44. New York State requires parties to a commercial co-venture to have a written contract, to register with the State, to maintain accurate records and accountings of all activities undertaken as part of the co-venture, and that the charitable organization be provided periodic accountings by the commercial entity.

45. From Operation: Teddy Bear's inception until the end of December 2017, the program was a commercial co-venture with Operation Troop Aid Inc. ("OTA"), a small, veteran-run Tennessee not-for-profit corporation whose stated charitable purpose was to send care packages to deployed servicemembers.

46. Operation Troop Aid logos and information were prominently displayed on Harris's marketing materials and website throughout the commercial co-venture relationship.

47. Harris and OTA never had a written contract regarding the commercial co-venture. At no point during the relationship with OTA did Harris provide OTA with any accounting of bears sold, or any itemization related to money donated to OTA. Similarly, at no point during Harris and OTA's relationship did Harris request, or OTA provide, details on the care packages sent to military members.

48. The Multistate Group reached a settlement with Operation Troop Aid in July of 2018 wherein OTA admitted it and Harris violated commercial co-venturing laws in multiple states, and that OTA and Harris jointly failed to properly administer the co-venture. They further admitted that in exchange for operating revenue received from Harris (without any itemization or accounting), Operation Troop Aid effectively ceded its name and "brand" for unfettered use by Harris in its marketing activities.

49. All money related to Operation: Teddy Bear, including funds used to purchase the teddy bears from their wholesale supplier, came under Harris's marketing budget. The primary contacts between Harris and OTA were with Harris's marketing department, including Director of Marketing Greg Ackerman. Harris's logo was prominently displayed on OTA care packages sent to servicemembers, and a "Thank You" card from Harris was often included.



50. In stores, Harris has given varying and conflicting information to consumers with regard to the amount of the teddy bear cost that is donated to the charity. At times, consumers are told that "all proceeds" are donated; at other times, it is "a portion of the proceeds;" and at yet other times, consumers are told that for every bear sold, a care package is sent to a deployed servicemember.

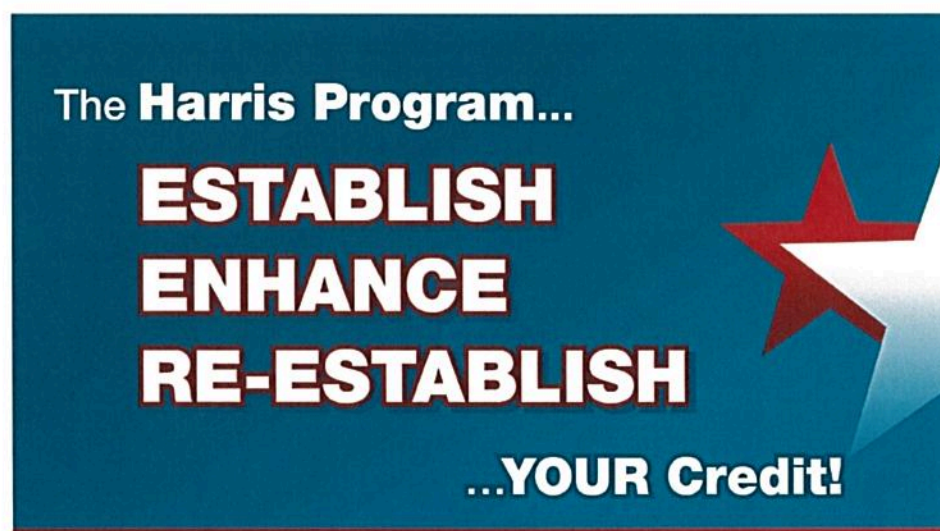
51. Since January 2018, Operation: Teddy Bear has continued as a commercial co-venture with Operation Homefront, a Texas-based charity which provides financial, housing, and other assistance to military families.

52. Prior to Defendant Zimmerman creating Operation: Teddy Bear, Harris conducted other commercial co-ventures with OTA, as well. At various times, Harris held promotional periods where money was purportedly donated to OTA for every sale of jewelry.

53. At all relevant times, none of the defendants have been registered in the State of New York as a charitable organization or to fundraise for charitable organizations.

The Harris Program and its Illegal Financing Contracts

54. Though Harris holds itself out as a jewelry store, the real profit-generating Harris product is the “Harris Program” financing contracts. The Harris Program, as described by Harris, will “establish, enhance, re-establish your credit.”



SERVING THOSE WHO SERVE®

www.HarrisJewelry.com

5

This publication is the exclusive property of Harris Jewelry and is for INTERNAL USE ONLY. The information contained herein is considered privileged. Distribution of any content outside of Harris Jewelry is prohibited.

55. Once a servicemember has stepped into the store and engaged in conversation with the Harris employee, employees are instructed to get to know the “prospect,” and are expected to use a “presentation book” to sell the benefits of Harris financing.

56. In the ten (10)-page presentation book, three (3) pages tout the company's connection to the military (including the commercial co-ventures), one (1) page states that all Harris locations are accredited by the Better Business Bureau, and five (5) pages promote the Harris Program, and advise the prospect that Harris can help them build their credit for future purchases of cars and other luxury items. Jewelry is mentioned only in passing in the presentation book with no pictures of any merchandise.

How Harris Helps YOU build your credit. 

-  **Instant Credit Approval up to \$2,500 for All Active Duty Military***
-  **Convenient and Reasonable Payment Terms**
-  **Easy Payment by Electronic Funds Transfer or Debit Card**
-  **Reported to ALL Major Credit Bureaus:**
EQUIFAX ***experian***  ***TransUnion.***
-  **GOOD CREDIT** - *As long as ALL payments are made on time!*

* Must have at least 9 months of Active Service remaining.



www.HarrisJewelry.com

©2015 HARRIS ORIGINALS OF NY, Inc. rev.JAN0015
This publication is the exclusive property of Harris Jewelry and is for INTERNAL USE ONLY. The information contained herein is considered privileged. Distribution of any content outside of Harris Jewelry is prohibited.

57. The beginning of the presentation is focused on Harris's connections with the military and its length of time in business. The presentation emphasizes that the Harris Program is beneficial specifically to servicemembers, as though it is a program or service they cannot get elsewhere. It is intended to instill trust in the company to the servicemember. In some instances, store personnel discuss their own military service with the consumer, and go as far as showing the consumer his or her military uniform, conveniently kept in the store.

58. Harris employees introduce the Harris Program to the servicemember before any jewelry is discussed or before the consumer expresses an interest in purchasing jewelry from Harris. The credit-enhancing aspects of the program are touted as a primary benefit of doing business with Harris.

59. The Harris Program is marketed to the active duty servicemembers as a way to build or improve their credit scores so that they may buy other things they want, like nice vehicles. Some servicemembers credibly believe that the Harris Program is the product they are investing in, and that the jewelry they subsequently pick out is just a gift from Harris. Defendants intentionally foster this false belief in the customer with persistent claims of a long-standing relationship with, and commitment to, the military community's easy access to credit.

What Good Credit can do for YOU!





'Good' Credit	'Bad' or No Credit
Auto Loan Amount \$20,000	Auto Loan Amount \$20,000
Auto Loan Term 5 yrs. (60 Months)	Auto Loan Term 5 yrs. (60 Months)
Interest Rate 6.0%*	Interest Rate 26.0%*
Monthly Payment \$387	Monthly Payment \$599
PAYMENT DIFFERENCE	
\$212	
TOTAL INTEREST \$3,199	TOTAL INTEREST \$15,929
INTEREST DIFFERENCE	
\$12,730	

*According to bankrate.com 12/14

©2015 HARRIS ORIGINALS of NY, Inc. REV JAN2015
This publication is the exclusive property of Harris Jewelry and is for INTERNAL USE ONLY. The information contained herein is considered privileged. Distribution of any content outside of Harris Jewelry is prohibited.

www.HarrisJewelry.com

60. In training documents, Harris explicitly informs its employees that they are, *inter alia*, meant to “sell the importance of establishing a credit profile.”

61. Once a servicemember has been introduced to the Harris Program and convinced to use it to improve or establish his or her credit, the salesperson shows them jewelry for themselves or their loved ones, and attempts to “sell” enough product to maximize the amount of credit Harris/Consumer Adjustment is willing to advance. Employees are instructed to build up the emotional connection of giving a gift to his or her mother, father, or the servicemember’s “girl.”

62. The amount of credit advanced to active duty servicemembers is not based upon a credit score, a consumer’s outstanding debts and obligations, or any potential income. Rather, it is exclusively based upon their branch of service and the amount of time they have remaining on the term of enlistment, and the “category” of merchandise purchased. Harris currently requires servicemembers to have at least nine (9) months remaining on their active-duty service commitment to finance a purchase from Harris.

63. The defendants only finance to active-duty servicemembers with a certain length of time left on their service to increase the likelihood the consumer will pay on the debt.

64. The loan is not secured by the value of the product. Though the contracts claim a security interest in the product, Harris does not repossess any jewelry or other items sold. Repossession is not currently contemplated by the business, and there are no practices or procedures that could effectuate repossession.

65. Moreover, many of Harris’s products are marketed and primarily sold as gifts to third parties, further demonstrating Harris’s inability to ever act upon the claimed security interest.

66. Even if Harris did take steps to repossess jewelry—which it does not—the value of the products sold would not be adequate collateral for the debt owed. As discussed at greater

length below, the “retail price” set for Harris’s merchandise is significantly higher than the actual market value of the products themselves.

67. Harris’s lack of concern with regard to the purported security interest in the jewelry is further evidenced by Harris’s protocol with regard to insuring its shipments. As part of regular course of business, Harris ships jewelry and gifts financed by servicemembers to their homes and family members. Defendants’ uniform policy is to insure all shipments for \$300.00, regardless of the contents of the shipment itself, despite the fact that the vast majority of Harris’s jewelry is priced in the thousands of dollars.

68. Harris’s “security interest” in the jewelry is illusory.

69. The defendants have no real interest in the merchandise as security for the debt. Rather, the defendants’ “security” in obtaining payments on the financing contracts is the duty status and continuing paychecks from the military. Under the Uniform Code of Military Justice, servicemembers are required to maintain financial solvency as a pre-requisite to many security clearances and job assignments. Poor credit is considered a security risk and at times can be grounds for demotion or discharge.

70. Therefore, Defendants expect a higher likelihood of repayment on the contract when the consumer is still on active-duty. Further, Harris uses different collections personnel and procedures based upon whether the consumer is still on active-duty or has separated and is then a civilian.

71. All Harris sales (save a few *de minimus* cash sales) are financed in-house by its alter-ego, Consumer Adjustment, without meaningful disclosure of the relationship between the two entities to consumers on the financing contracts themselves. This arrangement thereby gives

76. The fine print in the bottom left of the advertisement states, in relevant part:

Price shown is the retail price. It does not include sales tax (if required) or shipping/insurance/handling or finance charges. (Sales tax applicable to CA, CO, FL, GA, HI, IL, KS, MS, NC, NY, OK, SC, TN, TX, VA.) Twice monthly payments shown are based on terms of 18-months (prices up to \$2,200) or 21-months (\$2,201 and up); and a \$25 shipping/handling charge. Annual finance percentage rate is 14.99%. Minimum total twice monthly payment for all accounts is \$50.

77. According to those terms, payment on the retail installment contract for the above-identified "Dress Blues" pendant would be \$50 per payday, or twice monthly, for 18-months. This yields total payment over the life of the contract of \$1,800.00. Taking into account the addition of New York State sales tax, the financing fee on this contract would be approximately \$1,369.00, or an interest rate of over 211%. The addition of a protection plan or a shipping fee would yield an even higher effective interest rate.

78. Different disclosures, currently found on the Harris Jewelry website, contemplate monthly payment terms ranging from three (3) to twenty-one (21) months. The website further states that the "[e]stimated 'Per 'Payday' Payment (twice monthly) shown includes estimated Finance Charges (14.99% Annual Percentage Rate), estimated Sales Tax, a Jewelry & Watch Protection Plan, [and] Ground Shipping & Handling..." The disclosure continues to state

Your Monthly Payment will be calculated using your actual Total Purchase Amount plus applicable Finance Charges (14.99% Annual Percentage Rate) and Sales Tax. Your Total Purchase Amount will include your retail merchandise total (less any promotional discounts), additional non-product purchases (such as a Jewelry & Watch Protection Plans or Ring Sizing) and any Shipping & Handling charges.

The advertised "per payday" prices contemplates additional interest charged on the sale of a protection plan, sizing, and shipping and handling charges.

79. Taken together, these ever-evolving disclosures establish that Harris sets its interest rates and advertised payment terms with the assumption that additional charges will be added to the principal. Furthermore, it makes it virtually impossible for a consumer to calculate or understand the total cost of a transaction. The advertised “per payday” and “retail” prices bear little resemblance to the total amount paid by a consumer at the end of the financing contract.

80. Although Harris also professes to accept credit card or cash sales, sales are almost never made in this way. All but a few *de minimus* sales are financed through the Harris credit product running under the name of Consumer Adjustment Corp. No other finance mechanism is available to the consumers.

81. The true function of Harris is to funnel credit agreements internally to its alter-ego, Consumer Adjustment, thereby profiting from the inflated sale price and interest assessed thereon.

82. Money is collected from servicemembers on a per-paycheck basis via direct deduction from a bank account or credit card. Upon information and belief, Harris formerly collected payments by allotment—direct deduction from the servicemembers’ paycheck. Harris ceased this practice on new accounts after the Department of Defense prohibited servicemembers from setting up allotment payments for transactions of this type due to widespread abuses of the allotment system by predatory businesses.

83. Upon information and belief, at some points in time, servicemembers were also required to provide automatic withdrawal authorizations for an existing bank account, permitting Defendants to withdraw money should an allotment not be received for any reason, in violation of the Military Lending Act.

84. Now, servicemembers are required to sign authorizations for the automatic withdrawal of a monthly payment toward interest and principal to the defendants for the “loan.”

85. Though the financing contracts are styled as “retail installment contracts,” and therefore appear to be closed-end financed sales, Harris actually operates as if they are all accounts for open-end lines of credit for future Harris purchases.

86. For instance, Harris has sent out direct-mail advertisements to existing Harris customers regarding their “estimated Available Credit,” and notes that it could vary based upon “date of last purchase, credit account balance and payment history.” Other direct-mail materials tell servicemembers they can “Add on... to your account without changing your payment!”



87. The defendants do not make financed sales to non-military customers. A short attempt to extend this model to civilians failed and was discontinued.

88. The defendants are operating as in-State lenders, without appropriate licensure.

89. None of the defendants are licensed lenders in the state of New York or elsewhere.

Poor Quality Jewelry with Inflated Prices

90. The jewelry at Harris Jewelry is an afterthought. The company's sales procedures instruct employees to get a servicemember to commit to the Harris Program, determine his or her credit limit under the Program, and then pick out jewelry (almost always with accompanying in-house protection plans) to use as much of the available credit as possible.

91. Upon information and belief, widely-recognized jewelry industry standards typically allow for "keystone" pricing, in which a retailer doubles its wholesale cost in setting its retail price. At times, retail jewelers utilize "triple keystone," in which the wholesale cost is multiplied by three times. A retailer will often use "triple keystone" pricing when it intends to offer frequent discounts or sales, to accommodate the reduced profit from the discount.

92. Harris, on the other hand, inflates the retail price of its products dramatically more—generally by multiplying its wholesale cost by six or seven times, and in some cases 10-times the wholesale cost of the item. This increased profit-taking is accomplished *even before* tacking on additional protection plans or interest on the financing agreement.

93. For example, Harris sells a red, white, and blue infinity pendant purchased by Harris at wholesale for forty-five dollars (\$45.00). It is then listed for sale and financed for three hundred and ninety-nine dollars (\$399.00), an increase of almost nine (9) times the wholesale cost.

94. Other examples² of the price differences are as follows:

Item Description	Wholesale Cost	Harris Retail Price	Amount Increased
Mom Adjustable Bracelet-Sterling Silver	\$7.02	\$69.00	9.8 times
14K Yellow Gold Classic Cross Pendant	\$36.00	\$249.00	6.9 times
Forever as One Dog Tag Necklace	\$97.00	\$699.00	7.2 times
Black Onyx Crucifix Necklace	\$105.59	\$699.00	6.6 times
Red, White, & Blue Star Pendant Necklace	\$120.00	\$799.00	6.7 times
Mother's Medal of Honor	\$77.70	\$799.00	10.3 times
Men's Dress Blues Wedding Band with Blue Sapphires	\$117.68	\$799.00	6.8 times
10K White Gold Diamond Insert Band	\$145.50	\$999.00	6.9 times
Double Framed Diamond Crossover Bridal Set, 10K White Gold	\$277.00	\$1,799.00	6.5 times
Multi Diamond Bridal Set, 10K White Gold	\$300.00	\$1,999.00	6.7 times
10K White Gold Multi-diamond Engagement Ring	\$293.38	\$2,199.00	7.5 times
Dress Blues, Double Framed Diamond and Blue Sapphire Engagement Ring, 10K White Gold	\$385.00	\$2,599.00	6.8 times
10K Rose Gold Three-Stone with Princess Cut Quad Diamonds Bridal Set	\$373.85	\$2,699.00	7.2 times
Double Haloed Diamond Crossover Bridal Set, 10K White Gold	\$430.00	\$2,899.00	6.7 times

95. Notably, the Mother's Medal of Honor—one of the items with the highest price mark-up of any product sold by Harris—is also Defendants' best-selling product.

96. Because Harris and Consumer Adjustment are alter-egos, the defendants control all aspects of the transaction, including the purchase price and the interest assessed on the financing agreements.

97. Though Harris's marketing materials prominently claim to sell "quality" jewelry, salespeople are explicitly instructed to *not discuss* the quality—or lack thereof—of jewelry with

² These illustrative examples are based upon the Multistate Group's investigation to date, including documents demonstrating Harris's wholesale costs and the retail price advertised on harrisjewelry.com. At times Harris purchased distressed sale jewelry for re-sale. For example, Harris purchased the remaining jewelry inventory from the bankruptcy In re: USA DISCOUNTERS, LTD., et al., Debtors, Case No. 15-11755, Bankr. D. Del.

servicemembers. Rather, they are instructed to focus the servicemember's attention on the "feeling" he or she will have when giving a Harris product to their loved-one.

98. In assessing the quality of diamonds in the diamond jewelry Harris sells, common industry standards are not utilized. Unlike most diamond jewelry sold in the United States, Defendants' diamonds are not graded by what are commonly known as the "Four Cs" (cut, clarity, color, and carat weight). These globally-accepted diamond descriptors not only help consumers understand and compare the quality of the diamonds they are purchasing, but also aid in keeping prices competitive among jewelers.

99. Because Defendants provide consumers with only basic, generic descriptions of the diamonds they sell, they are able to hide the fact that their inventory is of generally poor quality. More importantly, prospective consumers are unable to compare the quality and price of Defendants' diamonds with those of its competitors, further disguising the inflated price.

100. Instead, Harris's quality-control primarily consists of inspecting its jewelry to ensure the diamond is facing in the right direction in the piece of jewelry and will not readily fall out.

101. Despite those protocols, Harris receives dozens of complaints from consumers regarding the poor quality of the jewelry. Most commonly, stones have fallen out, chains break easily, and the jewelry has turned the recipient's skin green. In some cases, consumers have had merchandise repaired multiples times—only to have the gem fall out again and again.

102. Additionally, consumers complain to Harris after having jewelry independently appraised, noting that the appraisal is for far less than the retail price financed.

103. On the Harris website, and in stores, details as to the specific attributes of the item, such as the size or clarity of a diamond are not displayed, preventing consumers from being

able to price-shop. For example, on the Harris website, three diamond rings, with retail prices of \$999.99, \$1,599.99, and \$2,999.99 have identical descriptions: “Classic diamond solitaire engagement ring [...] Round Diamond Solitaire! Beautiful alone or paired with one of our beautiful insert bands or wraps! [...] Metal: 10K White Gold.”

Products Comparison List - Harris Jewelry - Serving Those Who Serve Page 1 of 1

Compare Products

<p style="font-size: small;">Print This Page</p> <p style="font-size: x-small;">Remove This Item</p> <p>Classic diamond solitaire engagement ring \$50 per payday* <small>Retail Price: \$999.00</small> Add to Cart</p>	<p style="font-size: small;">Remove This Item</p> <p>Classic diamond solitaire engagement ring \$60 per payday* <small>Retail Price: \$1,599.00</small> Add to Cart</p>	<p style="font-size: small;">Remove This Item</p> <p>Classic diamond solitaire engagement ring \$95 per payday* <small>Retail Price: \$2,999.00</small> Add to Cart</p>
<p>Description Round Diamond Solitaire! Beautiful alone or paired with one of our beautiful insert bands or wraps!</p> <p>Item# RSDRW0446</p> <p>Metal 10K White Gold</p> <p>Availability In Stock</p>		
<p>\$50 per payday* <small>Retail Price: \$999.00</small> Add to Cart</p>	<p>\$60 per payday* <small>Retail Price: \$1,599.00</small> Add to Cart</p>	<p>\$95 per payday* <small>Retail Price: \$2,999.00</small> Add to Cart</p>

104. The inflated prices are also hidden from servicemembers by displaying pricing on jewelry in the stores as a “per payday” amount, without clear disclosure of the length of the financing contract or interest.

105. Further, Harris sells various add-on protection plans with each piece of jewelry sold. Ostensibly an “optional” product, an additional protection plan was sold on over ninety percent (90%) of eligible items sold in 2015 and 2016. The cost of these protection plans ranges from \$39.99 to \$349.99, depending on the retail price of the item for which the plan is purchased.

106. From 2010 through 2016, the percentage of eligible products sold with a protection plan increased from seventy-four (74%) to ninety-one (91%). Though the overall sale of eligible items decreased by more than fifty percent (50%) from 2010 to 2016, the net sales of protection plans more than doubled, and the average cost of the protection plans sold increased from \$29.96 to \$118.57.

107. In 2016, the net sales for protection plans across all Harris stores was \$3,793,553.00.

108. In some instances, the cost of the protection plan itself actually exceeds the wholesale cost Harris paid for the item from its supplier. For example:

Item	Wholesale Cost	Harris Retail Price	Cost of Protection Plan
Mom Adjustable Bracelet-Sterling Silver	\$7.02	\$69.00	\$39.99
14K Yellow Gold Classic Cross Pendant	\$36.00	\$249.00	\$49.99
Mother's Medal of Honor	\$77.70	\$799.00	\$79.99

109. At times, consumers do not know they have purchased a protection plan because they had not requested it. Rather, protection plans are added to a consumer's retail installment contract as a routine practice without disclosure to the consumer. The cost of the protection plan is part of the contract principal, and interest is then added to that cost, as well.

110. Moreover, because Harris bases the cost of the protection plan on the retail cost of the underlying piece of jewelry, the inflated retail price of the jewelry has the compounding effect of inflating the cost of the protection plan, hiding more disguised interest in the principal of the financing contracts.

111. When accounting for the excess purchase price, protection plans, taxes, shipping and handling fees, teddy bears, and other miscellaneous items—all of which are considered part

of the principal price on top of which the stated interest is added—the actual, effective interest rate paid by the servicemember is unconscionably higher.

112. Assuming, in a light most-favorable to the defendants, that an industry-acceptable retail price mark-up would be triple keystone, or three times the wholesale price, the following demonstrates the excess cost, or interest disguised and principal, charged to the consumer on these products:

Item Description	Hypothetical Triple Keystone Retail Price	Harris Retail Price	Amount of Hidden Interest
Mom Adjustable Bracelet-Sterling Silver	\$21.06	\$69.00	\$47.94
14K Yellow Gold Classic Cross Pendant	\$108.00	\$249.00	\$141.00
Forever as One Dog Tag Necklace	\$291.00	\$699.00	\$408.00
Black Onyx Crucifix Necklace	\$316.77	\$699.00	\$382.23
Red, White, & Blue Star Pendant Necklace	\$360.00	\$799.00	\$439.00
Mother's Medal of Honor	\$233.10	\$799.00	\$565.90
Men's Dress Blues Wedding Band with Blue Sapphires	\$353.04	\$799.00	\$445.96
10K White Gold Diamond Insert Band	\$436.50	\$999.00	\$562.50
Double Framed Diamond Crossover Bridal Set, 10K White Gold	\$831.00	\$1,799.00	\$968.00
Multi Diamond Bridal Set, 10K White Gold	\$900.00	\$1,999.00	\$1,099.00
10K White Gold Multi-diamond Engagement Ring	\$880.14	\$2,199.00	\$1,318.86
Dress Blues, Double Framed Diamond and Blue Sapphire Engagement Ring, 10K White Gold	\$1,155.00	\$2,599.00	\$1,444.00
10K Rose Gold Three-Stone with Princess Cut Quad Diamonds Bridal Set	\$1,121.55	\$2,699.00	\$1,577.45
Double Haloed Diamond Crossover Bridal Set, 10K White Gold	\$1,290.00	\$2,899.00	\$1,609.00

113. Once the excess mark up and the corresponding increase in the cost of the protection plan are properly classified as a financing fee, the effective interest rate charged by the defendants is at times over 300%.

114. For example, using Defendants' stated payment terms regarding the length of the term and the inclusion of the protection plan, sales tax, and shipping and handling, a servicemember will pay \$3,693.52 over the 21-month life of the loan for the 10K Rose Gold Three-Stone with Princess Cut Quad Diamonds Bridal set, above, which is advertised at \$85.00 per payday. As noted in the chart, Harris has inflated the price over industry standard pricing by at least \$1,577.45. Additionally, the cost of the protection plan to the consumer is increased from \$139.00 to \$279.00 with the inflated price. Accordingly, \$1,717.45 of hidden interest is added to the principal of the loan amount. Once the hidden interest is properly calculated as a financing fee, rather than part of the principal, the actual annual percentage rate for this item on the advertised terms is 123.99%.

115. On other products, the effective annual percentage rate is even higher. Using Defendants' advertised terms, the \$799.00 Mother's Medal of Honor, together with a \$79.99 protection plan, taxes, and shipping and handling would carry a principal cost of \$974.31 on the financing contract. At 14.99% interest over a 10-month term, the total amount paid by the servicemember would be \$1,039.26. However, once the inflated retail price and increase in the cost of the protection plan are properly categorized as financing fees, the actual annual percentage rate on a contract for the Medal of Honor is 316.28%.

116. Defendants claim to have a lower interest rate—14.99%—than their competitors who utilize interest rates of 28.99%. As demonstrated above, this is false.

117. Taken together, the grossly inflated purchase prices, add-on protection plans, and "per payday" advertised pricing serve the dual purpose of disguising the true cost from the consumer and illegally increasing the principal amount financed in the Harris financing agreements.

118. Servicemembers were further shielded from learning the true nature of Defendants' business practices. Financial Readiness Counselors on at least one installation attempted to caution servicemembers: "Don't feed the bear!" in reference to Harris's predatory practices and in recognition of the damage the counselors had seen to servicemembers' credit. Defendants attempted to actively interfere the military's efforts by directly contacting installation commanders urging the commanders to re-think that portion of the financial readiness training.

CAUSES OF ACTION AGAINST ALL DEFENDANTS

**FIRST CAUSE OF ACTION
PURSUANT TO EXEC. LAW § 63(12):
VIOLATION OF GENERAL OBLIGATIONS LAW § 5-501: CIVIL USUARY**

119. Plaintiff repeats and re-alleges paragraphs 1 through 118 and incorporates them by reference herein.

120. Executive Law § 63(12) prohibits repeated illegalities in the carrying on or conducting of business, and authorizes the NYAG to apply to the Supreme Court for relief from such illegal conduct, including injunctive relief, restitution, penalties and costs.

121. Pursuant to New York General Obligations Law ("GOL") § 5-501, it is unlawful to charge interest upon the loan or forbearance of any money, goods, or things in action, except as otherwise provided by law, at a rate exceeding that prescribed in section fourteen-a of the New York Banking Law.

122. New York Banking Law § 14-a, subd. 2, states that the maximum rate of interest to be charged, taken or received upon a loan or forbearance of any money, goods, or things in action is sixteen per centum per annum (16%).

123. The defendants profit from the disguised interest on the inflated financed prices.

124. The combination of payment without consideration—due to inflated retail prices and add-ons included in the “principal” amount of the loan—and interest creates an effective interest rate in excess of the State civil and criminal usury laws.

125. As set forth more fully above and incorporated herein with the same force and effect as if restated, in the course of financing sales to military customers, the defendants repeatedly charged interest in excess of 16% in violation of GOL § 5-501 and Banking Law § 14-a, subd. 2.

126. Defendants’ repeated violation of GOL § 5-501 and Banking Law § 14-a, subd. 2 constitutes repeated illegality in violation of Executive Law § 63(12).

127. Pursuant to Exec. Law § 63(12), the State seeks injunctive relief, restitution, damages, and additional costs.

**SECOND CAUSE OF ACTION
PURSUANT TO EXECUTIVE LAW § 63(12):
VIOLATION OF PENAL LAW § 190.40: CRIMINAL USURY**

128. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 127 as though fully set forth herein.

129. Pursuant to New York Penal Law § 190.40, it is unlawful to knowingly charge, take, or receive any money or other property as interest on the loan or forbearance of any money or other property at a rate exceeding twenty-five per annum (25%) or the equivalent rate for a longer or shorter period.

130. As set forth more fully above, in the course of selling financing, the defendants repeatedly and knowingly charged and received interest in excess of 25% in violation of § 190.40 of the Penal Law.

131. Defendants' repeated violation of Penal Law § 190.40 constitutes repeated illegality in violation of Executive Law § 63(12).

132. Pursuant to Exec. Law § 63(12), the State seeks injunctive relief, restitution, damages, and additional costs.

**THIRD CAUSE OF ACTION
PURSUANT TO EXECUTIVE LAW § 63(12):
VIOLATION OF GENERAL MILITARY LAW § 987: MILITARY LENDING ACT**

133. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 132 as though fully set forth herein.

134. Pursuant to General Military Law § 987, in identifying limitations to the extension of consumer credit to servicemembers and dependents, states that a creditor "may not impose an annual percentage rate of interest greater than 36 percent [...]."

135. As set forth more fully above, in the course of selling financing, the defendants repeatedly and knowingly charged and received interest in excess of 36% in violation of § 987 of the General Military Law.

136. Upon information and belief, Defendants further required payments by allotment, secured by a bank draft authorization, in further violation of § 987.

137. Defendants' repeated violation of General Military Law § 987 constitutes repeated illegality in violation of Executive Law § 63(12).

138. Pursuant to Exec. Law § 63(12), the State seeks injunctive relief, restitution, damages, and additional costs.

**FOURTH CAUSE OF ACTION
PURSUANT TO EXECUTIVE LAW § 63(12):
REPEATED FRAUD**

139. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 138 as though fully set forth herein.

140. Executive Law § 63(12) defines “fraud” or “fraudulent” to include any device, scheme or artifice to defraud and any deception, misrepresentation, concealment, suppression, false pretense or unconscionable contractual provisions. The judicial definition of fraud under the Executive Law is broader than that of common law fraud. It is whether the conduct has the capacity or tendency to deceive, or creates an atmosphere conducive to fraud. It does not require scienter or reliance.

141. As set forth above and detailed below, in the course of soliciting, originating, and promoting illegal loans, the defendants have engaged in repeated fraudulent conduct in violation of Executive Law § 63(12).

142. Defendants’ repeated fraudulent business conduct includes but is not limited to, the following:

- a. repeatedly conspiring to charge illegal, usurious, and unconscionable fees for loans;
- b. repeatedly charging and receiving unlawful, usurious, and unconscionable fees as consideration for making illegal loans and forbearances;
- c. repeatedly attempting to circumvent New York lending and consumer protection laws by deceptively doing business;
- d. interfering with third-party attempts to educate servicemembers regarding predatory financial transactions;
- e. misleading consumers into believing their transaction is financed by a third-party company, when in fact Consumer Adjustment is an alter-ego of Harris and it is essentially Harris extending their own credit to the servicemembers;

- f. consistently misleading servicemembers that they are eligible for “special military financing” as a method to enhance or establish good credit;
- g. falsely representing that it is a bona fide seller of quality jewelry, without providing any standard indicia of quality of its products;
- h. deceptively promoting its products as “affordable,” while marking up the retail price by six to ten times the wholesale cost, plus additional interest;
- i. failing to prominently post full cost pricing on products, instead stating an imprecise and misleading “per payday” payment, or non-financed pricing;
- j. consistently misleading consumers regarding the “Harris Program” and the purported credit-repair and/or credit-building features it provides;
- k. persistently placing consumers in financing contracts that are unconscionable at their inception due to deceptive sales tactics, inflated principal prices and other terms, and
- l. leading consumers to believe they are entering into a closed-end finance sale, when in fact they are establishing an open-end credit arrangement to purchase more overpriced Harris jewelry;
- m. promoting a co-venture relationship with a charitable organization without registering with the State or providing required accounting; and
- n. failing to register as a charitable fundraiser within the state of New York.

143. Pursuant to Exec. Law § 63(12), because of the defendants’ pervasive fraud, the State seeks injunctive relief, restitution, damages, and additional costs.

**FIFTH CAUSE OF ACTION
PURSUANT TO EXECUTIVE LAW § 63(12):
REPEATED ILLEGALITY: COMMON LAW FRAUD**

144. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 143 as though fully set forth herein.

145. At the common law, intentional fraudulent conduct in the carrying on of business is illegal.

146. Based upon all the acts described above, the defendants evidenced a clear intent to deceive servicemembers as to the value of the goods sold and the terms of and parties to the financing contracts. The degree of the deception is pervasive, leading servicemembers to believe they are being enrolled in credit-repair services through the Harris Program.

147. Defendants intentionally cultivate good will with the servicemembers by highlighting purported connections to the military in their efforts to defraud the consumers.

148. The active-duty military consumers relied upon the false and misleading statements made by the defendants' and their employees to their detriment.

149. Defendants' continued and persistent intentional fraud constitutes repeated illegality in violation of Executive Law § 63(12).

150. Pursuant to Exec. Law § 63(12), the State seeks injunctive relief, restitution and damages.

**SIXTH CAUSE OF ACTION
PURSUANT TO GENERAL BUSINESS LAW § 349
DECEPTIVE BUSINESS PRACTICES**

151. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 150 as though fully set forth herein.

152. Pursuant to GBL § 349, it is unlawful to engage in any deceptive acts or practices in the conduct of any business, trade, or commerce in this State.

153. As set forth more fully in the preceding paragraphs, Defendants engaged in deceptive business practices in violation of GBL § 349.

154. Defendants' deceptive acts and practices include, but are not limited to, the following:

- a. repeatedly conspiring to charge illegal, usurious, and unconscionable fees for loans;

- b. repeatedly charging and receiving unlawful, usurious, and unconscionable fees as consideration for making illegal loans and forbearances;
- c. repeatedly attempting to circumvent New York lending and consumer protection laws by deceptively doing business;
- d. interfering with third-party attempts to educate servicemembers regarding predatory financial transactions;
- e. misleading consumers into believing their transaction is financed by a third-party company, when in fact Consumer Adjustment is an alter-ego of Harris and it is essentially Harris extending their own credit to the servicemembers;
- f. consistently misleading servicemembers that they are eligible for “special military financing” as a method to enhance or establish good credit;
- g. falsely representing that it is a bona fide seller of quality jewelry, without providing any standard indicia of quality of its products;
- h. deceptively promoting its products as “affordable,” while marking up the retail price by six to ten times the wholesale cost, plus additional interest;
- i. failing to prominently post full cost pricing on products, instead stating an imprecise and misleading “per payday” payment, or non-financed pricing;
- j. consistently misleading consumers regarding the “Harris Program” and the purported credit-repair and/or credit-building features it provides;
- k. persistently placing consumers in financing contracts that are unconscionable at their inception due to deceptive sales tactics, inflated principal prices and other terms, and
- l. leading consumers to believe they are entering into a closed-end finance sale, when in fact they are establishing an open-end credit arrangement to purchase more overpriced Harris jewelry;
- m. promoting a co-venture relationship with a charitable organization without registering with the State or providing required accounting; and
- n. failing to register as a charitable fundraiser within the state of New York.

155. Pursuant to GBL §§ 349(b) and 350-d, the State seeks injunctive relief, restitution, and penalties.

**SEVENTH CAUSE OF ACTION
PURSUANT TO EXECUTIVE LAW § 63(12):
VIOLATION OF GENERAL BUSINESS LAW § 458-h:
DECEPTIVE ACTS BY A CREDIT SERVICES BUSINESS**

156. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 155 as though fully set forth herein.

157. Article 28-BB of the General Business Law regulates the conduct of credit services businesses. Pursuant to § 458-a(1) of the article, the legislature found that “some companies engaged in the business of credit services have worked a financial hardship upon the people of this state, often those who are of limited economic means and inexperienced in credit matters.”

158. A “credit services business,” pursuant to § 458-b(1) is

Any person who sells, provides, or performs, or represents that he can or will sell, provide or perform, a service for the express or implied purpose of improving a consumer’s credit record, history, or rating or providing advice or assistance to a consumer with regard to the consumer’s credit record history or rating in return for the payment of a fee.

159. Based upon the business practices, procedures, and marketing materials described above, Defendants are a “credit services business” within the meaning of the General Business Law.

160. Section 458-h(1) of the GBL declares it an unfair and deceptive trade practice for a credit services company to:

misrepresent directly or indirectly in its advertising, promotional materials, sales presentation, or in any manner: the nature of the services to be performed; the time within which services will be performed; the ability to improve a consumer’s credit report or credit rating; the amount or type of credit a consumer can expect to receive as a result off the performance of the services offered; [and] the qualifications, training or experience of its personnel.

161. As detailed and demonstrated at length above, Defendants' sales tactics, presentation, and marketing related to the "Harris Program" constitutes deceptive acts pursuant to GBL § 458-h by directly and indirectly misrepresenting the "Harris Program" to servicemembers.

162. Defendants' repeated violation of GBL § 458-h constitutes repeated illegality in violation of Executive Law § 63(12).

163. Pursuant to Exec. Law § 63(12) and GBL § 458-j, the State seeks injunctive relief, restitution, penalties, damages, and additional costs.

**EIGHTH CAUSE OF ACTION
PURSUANT TO EXECUTIVE LAW § 63(12):
VIOLATION OF EXECUTIVE LAW 7-A:
SOLICITATION AND COLLECTION OF FUNDS FOR CHARITABLE PURPOSES**

164. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 163 as though fully set forth herein.

165. Harris is a commercial co-venturer as defined by Executive Law § 171-a(6) and is regularly and primarily engaged in trade or commerce other than in connection with the raising of fund or any other thing of value for a charitable organization and who advertises that the purchase or use of goods, services, entertainment, or any other thing of value will benefit a charitable organization.

166. Section 172-d of the New York State Executive Law prohibits any person from entering into a contract or agreement to raise funds for any charitable organization required to be registered by the State unless said organization is registered with the State.

167. Section 172-d prohibits persons from failing to maintain books and records as required by law, or failing to produce said records to the Attorney General within 15 days of a request.

168. Section 172-d prohibits persons from failing to provide a charitable organization with an accurate accounting of a sale advertised for its benefit as prescribed by subdivision three of § 173-a.

169. Section 173 of the New York Executive Law requires commercial co-venturers to maintain accurate and current books and records of all activities conducted pursuant to contracts required under § 173-a of Article 7-A for examination and or audit by the charitable organization and/or the Attorney General or duly authorized representative. Willful violations of this section constitute a misdemeanor offense.

170. Section 173-a of the State Executive Law states that no commercial co-venturer may act as a co-venturer before there is a written contract with the charitable organization benefitting from the services. True and correct copies of such contracts must be kept on file by both parties during the term of the co-venture and for a period of three years after the co-venture is terminated.

171. Harris was in a commercial co-venture, as defined by the statute,
- a. without registering with the State,
 - b. without having a written contract,
 - c. without maintaining books and records and without producing same upon request,
 - d. without providing accurate accountings, and
 - e. without maintaining accurate and correct records.

172. Pursuant to Exec. Law § 63(12), the State seeks injunctive relief, restitution, damages, and additional costs.

PRAYER FOR RELIEF

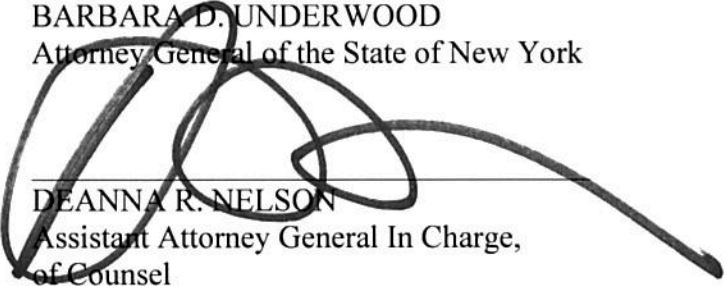
WHEREFORE, the People of the State of New York respectfully requests that the Court issue an order and judgment as follows:

- A. enjoining the defendants from conducting business in or from the State of New York until such time as the businesses and/or individuals involved are properly licensed and their business operations are reformed to comply with State law;
- B. permanently enjoining the defendants from engaging in the fraudulent, deceptive and illegal practices alleged in the complaint or otherwise violating Executive Law § 63(12) and General Business Law article 22-A;
- C. directing the defendants to disgorge moneys received from all consumers due to illegal financing arrangements and provide restitution for all affected consumers;
- D. declaring void and ordering rescissions of each and every financing contract entered into with the defendants' that was obtained by fraud, misrepresentations, or that contain material and unconscionable terms, or which violate the Military Lending Act;
- E. directing Defendants, pursuant to GBL § 350-d, to pay civil penalties of \$5,000 to the State of New York for each deceptive or unlawful action in violation of GBL article 22-A;
- F. directing Defendants, pursuant to GBL § 458-j, to pay civil penalties of \$1,000 to the State of New York for each deceptive act as a credit services business;
- G. directing Defendants to provide an accounting to the Attorney General of the names and last known addresses and phone numbers of each consumer from whom Defendants have collected monies in the last six years, together with the amount of monies received from each consumer, and the amount of debt purportedly outstanding for each consumer;
- H. awarding the State the costs of this proceeding, including \$2,000 from each Defendant in additional costs pursuant to CPLR § 8303(a)(6); and
- I. together with all such other relief as deemed appropriate.

Dated: October 29, 2018
Watertown, New York

BARBARA D. UNDERWOOD
Attorney General of the State of New York

By:


DEANNA R. NELSON
Assistant Attorney General In Charge,
of Counsel

317 Washington Street
Watertown, New York 13601
Telephone: (315) 523-6080

And by:


ALICIA M. LENDON
Assistant Attorney General, of Counsel
317 Washington Street
Watertown, New York 13601
Telephone: (315) 523-6080

VERIFICATION

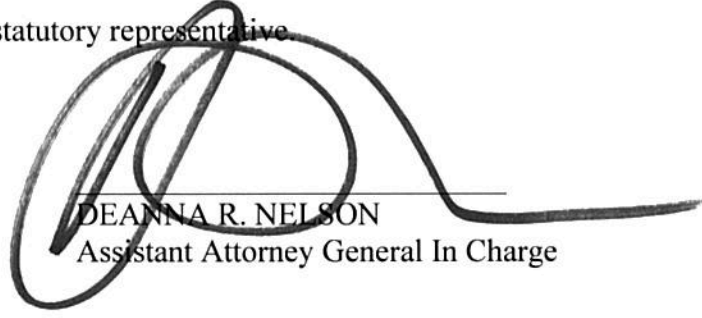
STATE OF NEW YORK)

COUNTY OF JEFFERSON) ss.:

DEANNA R. NELSON, being duly sworn, deposes and says: She is an Assistant Attorney General in the office of Barbara D. Underwood, Attorney General of the State of New York, and is duly authorized to make this verification.

She has read the foregoing complaint and knows the contents thereof, and the same is true to her own knowledge, except as to matters therein stated to be alleged on information and belief, and as to those matters she believes them to be true.

The reason this verification is not made by Plaintiff is that the plaintiff is a body politic. The Attorney General is their statutory representative.



DEANNA R. NELSON
Assistant Attorney General In Charge