

IN THE MATTER OF

GRIFFIN SYSTEMS, INC., ET AL.

FINAL ORDER, OPINION, ETC., IN REGARD TO ALLEGED VIOLATION OF
SEC. 5 OF THE FEDERAL TRADE COMMISSION ACT

Docket 9249. Complaint, Oct. 8, 1991--Final Order, April 29, 1994

This final order prohibits the respondents from making misrepresentations about any material terms or conditions of any automobile service contract, from canceling service contracts when they have not disclosed that they have a right to do so before selling the contract, from substantially hindering customers from performing a condition on obtaining a benefit, from denying valid claims, and from refusing to comply promptly with any term or condition of any service contract they sell. In addition, the order requires the respondents to disclose to potential buyers whether the contracts cover the full cost of repairs, whether they include a rental car allowance, and the number and total dollar value of claims that may be submitted.

Appearances

For the Commission: *Lawrence M. Hodapp.*

For the respondents: *Philip Z. Vogel, Cleveland, OH.*

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, as amended, 15 U.S.C. 45 *et seq.*, and by virtue of the authority vested in it by said Act, the Federal Trade Commission, having reason to believe that Griffin Systems, Inc. ("Griffin"), a corporation; and Gennaro J. Orrico, Robert W. Boughton and Alfonso S. Giordano, individually and as officers of said corporation (hereinafter collectively referred to as "respondents"), have violated certain provisions of said Act in states where their practices are not "regulated by State law" as the "business of insurance" within the meaning of 15 U.S.C. 1012(b), 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 as follows:

PARAGRAPH 1. Respondent Griffin is an Ohio corporation with its office and principal place of business located at 4019 and

4101 Prospect Avenue, Cleveland, Ohio. Respondent Griffin also does business from offices located at 741 and 745 U.S. Highway 1, North Palm Beach, Florida.

Respondent Gennaro J. Orrico is the current president of Griffin. Respondent Robert W. Boughton was the president of Griffin from the date of Griffin's incorporation through an undetermined time in 1988 or 1989, when Mr. Orrico became president. Respondent Alfonso S. Giordano is the executive vice president and treasurer of Griffin.

Individual respondents Gennaro J. Orrico and Alfonso S. Giordano have their offices and principal places of business at 741 and 745 U.S. Highway 1, North Palm Beach, Florida. Said individual respondents also do business from the Cleveland office of respondent Griffin. Individual respondent Robert W. Boughton currently resides in Hato Rey, Puerto Rico.

At all times relevant to this complaint, the individual respondents have formulated, directed and controlled the acts and practices of respondent Griffin, including the acts and practices hereinafter set forth. The individual respondents cooperate and act together in carrying out the acts and practices hereinafter set forth.

PAR. 2. Respondents for some time in the past have been engaged in the promotion, marketing and sale of vehicle service contracts to new and used vehicle buyers. Respondents also are now and for some time in the past have been engaged in the administration and payment of claims submitted by consumers pursuant to those service contracts.

PAR. 3. At all times relevant to this complaint, respondents have maintained a substantial course of business, including the acts and practices set forth herein, in or affecting commerce, as "commerce" is defined by the Federal Trade Commission Act.

PAR. 4. During the course and conduct of their business, respondents have disseminated and caused the dissemination of promotional materials for their service contracts by various means in and affecting commerce, including direct solicitations distributed by the mail and across state lines, for the purpose of inducing and which were likely to induce, directly or indirectly, the purchase of said service contracts. Among these promotional materials are the documents attached as Exhibit A.

PAR. 5. Through the promotional materials discussed in paragraph four, respondents have represented, directly or by

implication, that respondents' service contracts fully protect consumers against repair costs and that respondents reimburse purchasers of their service contracts for the full cost of repairing or replacing the enumerated "covered parts" of the consumers' vehicles.

PAR. 6. In truth and in fact, respondents' service contracts do not fully protect consumers against repair costs, and respondents do not reimburse purchasers of their service contracts for the full cost of repairing or replacing the enumerated "covered parts" of the consumers' vehicles. Instead, in numerous instances respondents pay for only a portion of said repair or replacement costs. Therefore, the representations set forth in paragraph five were, and are, false and misleading.

PAR. 7. Through the promotional materials discussed in paragraph four, respondents have represented, directly or by implication, that purchasers of respondents' service contracts are paid a rental car allowance if, due to a mechanical breakdown of a covered part eligible for payment, the consumer's vehicle has to be kept overnight at a repair facility.

PAR. 8. In truth and in fact, respondents' service contracts impose significant limitations on the rental car allowance, including, but not limited to, limiting said allowance to the actual working time on the repair of the vehicle, excluding all time in which the repair facility waits for parts or for any other delays beyond the control of the repair facility, and only paying such allowance if the total repair time on the vehicle is eight hours or more. In light of the representations set forth in paragraph seven, the respondents' failure to disclose these significant limitations on the rental car allowance is misleading and deceptive.

PAR. 9. Through the promotional materials discussed in paragraph four, respondents have represented, directly or by implication, that purchasers of respondents' service contracts may submit an unlimited number of claims pursuant to those contracts.

PAR. 10. In truth and in fact, purchasers of respondents' service contracts may not submit an unlimited number of claims pursuant to those contracts. In fact, in numerous instances respondents deny claims and/or unilaterally cancel the service contracts of consumers who file multiple claims. Therefore, the representation set forth in paragraph nine was, and is, false and misleading.

PAR. 11. During the course and conduct of their business, respondents have entered into valid service contracts with consumers. Among those service contracts is the one attached as Exhibit B.

PAR. 12. During the course of administering claims submitted by the purchasers of respondents' service contracts, respondents have engaged in a pattern or practice of breaching their promise to reimburse claims under the terms of these contracts by:

1. Unilaterally canceling consumers' contracts, even though the terms and conditions of these contracts do not reserve to or create in the respondents a right to engage in such unilateral cancellation; and
2. Refusing to pay valid repair claims on the asserted ground that consumers had failed to obtain prior authorization from respondents. In fact, respondents routinely hindered consumers' ability to obtain prior authorization for repairs by, for example, failing to answer the toll free number that consumers are required to call in order to obtain such authorization.

Respondents' conduct as set forth above has caused substantial injury to consumers that is not outweighed by any countervailing benefits to consumers or competition and is not reasonably avoidable by consumers. This conduct was, and is, an unfair practice.

PAR. 13. The acts and practices of respondents alleged in this complaint have constituted and now constitute deceptive or unfair acts or practices in or affecting commerce in violation of Section 5(a) of the Federal Trade Commission Act. The acts and practices of respondents, as herein alleged, are continuing and will continue in the absence of the relief herein requested.

EXHIBIT A



GRIFFIN SYSTEMS, INC.

Local (216) 881-8787
 Toll Free National 1-800-442-2886
 Toll Free Ohio 1-800-821-4204
 Toll Free Canadian 1-800-458-2277

Protect your new car
 from the ...

GENERAL MOTORS' FACTORY EXTENDED
 WARRANTY FOR YOUR NEW CAR
 SOUNDS GREAT —

BUT IT ISN'T!

IT LEAVES A COSTLY GAP BETWEEN
 THE REGULAR 12/12 NEW CAR
 WARRANTY AND THE "FACTORY
 EXTENDED WARRANTY"

— THE AUTOGAP!



Dear New General Motors Owner:

It is true that your General Motors Factory Extended Warranty covers the drive train on your car for 60,000 miles. It is also true that those parts are designed to last more than 100,000 miles — and usually do!

What General Motors hasn't told you is that the Extended Warranty leaves an AutoGap — a wide crevice you don't want your car to fall into. In that crevice are your water pump, fuel pump, electrical system, cooling system, brakes, high tech options — and more.

Yes, most of the parts that sooner or later break down are not covered!

And that's where the Griffin VPP — Vehicle Protection Plan — steps in. It insures against the AutoGap, gives you added protection against the thousands of dollars of repairs your General Motors vehicle could need after the 12 month/12,000 mile warranty expires. Protection your General Motors Extended Warranty doesn't give you.

Check the chart on the reverse of this letter. Then take a minute to read the brochure. You'll see why Griffin VPP is one of the most comprehensive warranty programs on the market today to protect you against the costly AutoGap.

With Griffin VPP coverage you'll drive your new General Motors vehicle worry-free, safe in the knowledge that you are fully protected against high repair costs.

Fill out and mail the registration form today and be sure you're protected against having to pay thousands of dollars in repair bills.

Sincerely yours,

GRIFFIN SYSTEMS, INC.

Christine A. Knowles

Christine A. Knowles
 Business Manager

P.S. Best of all, with Griffin VPP most claims are handled with one toll-free call for authorization.

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EXHIBIT A


**AUTOGAP
GENERAL MOTORS COMPARISON CHART**

Item Covered	New Car Warranty 1 Year or 12,000 Miles	Factory Established Warranty 4 Years or 80,000 Miles	Getfin VPP AutoGap Coverage
DRIVE TRAIN: Engine	Yes	Yes	Yes
Transmission	Yes	Yes	Yes
Differential	Yes	Yes	Yes
COOLING/ FUEL SYSTEMS: Radiator	Yes	No	Yes
Fan and Clutch	Yes	No	Yes
Engine Fan Motor	Yes	No	Yes
Fuel Tank	Yes	No	Yes
Fuel Pump	Yes	No	Yes
Water Pump	Yes	No	Yes
Fuel Lines	Yes	No	Yes
FRONT/ REAR WHEEL DRIVE: Drive Housing/Parts	Yes	Yes	Yes
Axle Shafts	Yes	Yes	Yes
Hub Bearings	Yes	Yes	Yes
Prop Shafts	Yes	Yes	Yes
Seals & Gaskets	Yes	Yes	Yes
Universal Joints	Yes	Yes	Yes
STEERING: Gear Housing & Parts	Yes	No	Yes
Power Steering Pump	Yes	No	Yes
Main Shaft	Yes	No	Yes
Intermediate Shaft	Yes	No	Yes
Couplings	Yes	No	Yes
Seals and Gaskets	Yes	No	Yes
FRONT SUSPENSION: MacPherson Struts	Yes	No	Yes
Control Arms	Yes	No	Yes
Shafts and Bushings	Yes	No	Yes
Ball Joints	Yes	No	Yes
Steering Knuckles	Yes	No	Yes
Bearings and Seals	Yes	No	Yes
Stabilizer Shaft	Yes	No	Yes
Stabilizer Linkage	Yes	No	Yes
HEATING AND AIR COND.: Heater Core	Yes	No	Yes
Compressor	Yes	No	Yes
Clutch & Pulley	Yes	No	Yes
Condenser	Yes	No	Yes
Evaporator	Yes	No	Yes
Accumulator	Yes	No	Yes
Temp. Control	Yes	No	Yes
Gaskets & Seals	Yes	No	Yes
BRAKES: Master Cylinder	Yes	No	Yes
Assist Boosters	Yes	No	Yes
Wheel Cylinders	Yes	No	Yes
Combination Valve	Yes	No	Yes
Hydraulic Lines	Yes	No	Yes
Disc Calipers	Yes	No	Yes
Seals & Gaskets	Yes	No	Yes
ELECTRICAL: Starter Motor	Yes	No	Yes
Starter Solenoid	Yes	No	Yes
Generator	Yes	No	Yes
Alternator	Yes	No	Yes
Voltage Regulator	Yes	No	Yes
Distributor	Yes	No	Yes
Wiring Harness on Covered Parts	Yes	No	Yes
Windshield Wiper Motors	Yes	No	Yes
Electronic Parts	Yes	No	Yes
Heater Blower Motor	Yes	No	Yes
HIGH TECHNOLOGY FEATURES: Power Window Motors	Yes	No	Yes
Power Seat Motors	Yes	No	Yes
Door Lock Motors	Yes	No	Yes
Cruise Control	Yes	No	Yes
Sun Roof Motor	Yes	No	Yes
ADDITIONAL BENEFITS: Rental Car Allowance	Yes	No	Yes
Towing Allowance	Yes	No	Yes
Transfer	Yes	Yes	Yes
DEDUCTIBLE:	No	\$100 each claim	\$25 each claim

Note: This chart is for comparison purposes only and is not meant to be a definitive listing of benefits which are thoroughly explained in your service agreement.

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EXHIBIT A

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FULL REFUND WITHIN 60 DAYS IF NOT COMPLETELY SATISFIED

During the first 60 days of Plan ownership, you have the option of no claim or have a claim. If you have filed a claim or have owned the plan for more than 60 days, cancellation returns will be based on the Rule of 75's provision of time or mileage, whichever is the lesser.

TO PARTICIPATE IN THIS PROGRAM
 Simply request the program from your dealer. The dealer will provide you with the required agreement, registration and returning it with your dealer, credit card number, or any postage paid return address envelope.

GRIFFIN SYSTEMS, INC.
 10000 W. 10th Ave.
 P.O. Box 3190
 Cleveland, Ohio 44101-0980

CLEVELAND AREA (216) 861-8782
OHIO, WAIS (800) 442-2885
COLUMBIAN WAIS (800) 458-2277

The coverage discussed in this brochure is for informational purposes only. The Service Agreement details all conditions and terms.

1-800-458-2277

MR. FIXIT recommends

VEHICLE PROTECTION PLAN

WHAT IS THE VEHICLE PROTECTION PLAN?



Exhibit Page 3 of 7

Q. What is the Vehicle Protection Plan?
 A. A Mechanical Services Contract which pays for parts on the major mechanical areas of your vehicle. (See COVERED COMPONENTS). The plan also provides alternate expenses for car rental as well as towing expenses. (See ADDITIONAL BENEFITS).

Q. Is there a maximum number of claims I may file?
 A. No. You may use your plan as often as necessary. There is no limit on the number of claims you may submit.

Q. What must I do?
 A. The vehicle must be operated and maintained in accordance with the manufacturer's Owner's Guide.

Q. Why do I need the Vehicle Protection Plan?
 A. Because most major repairs occur after the manufacturer's warranty expires, as the most common repair of a vehicle is to repair parts of time, you will have protection when you most need it.

Q. What do I do if my vehicle breaks down?
 A. You may choose to have it repaired at any reputable dealer or service center. Your Service Agreement lists help and instructions.

BACKING BY A MAJOR INSURANCE PROGRAM

The Griffin Systems Vehicle Protection Plan is fully insured by a major insurance company. This is not an individual insurance program.

EXHIBIT A

our law cost of a car's value

The Vehicle Protection Plan

Send anywhere in the United States and Canada. Covers parts and labor.

COVERED COMPONENTS

1. A HEDGE AGAINST INFLATION BY PROTECTING YOU FROM RAPIDLY RISING AUTOMOBILE REPAIR COSTS.

2. LESS WORRY AND EXPENSE FROM MOST MAJOR MECHANICAL REPAIRS!

This important protection means you should never have to dig down deep to repair or replace a long list of your (just see the chart at right) most important mechanical parts.

THE VEHICLE PROTECTION PLAN will give you more miles of top performance a common sense solution to one of today's big problems for drivers.

MR. FIXIT recommends **The Vehicle Protection Plan**

Engine: Stroke engine - Cylinder block, heads, all piston-rod-axle parts, main shaft, timing belt, timing chain, harmonic balancer, valve cover, oil pan, oil pump, vacuum pump, engine mounts, water and fuel pumps. Also covered are turbo-charger bearings, internal parts, valves, seals and gaskets.

Drive Shafts: All of the above listed parts, plus drive shaft, ignition pump, lines and couplers.

Transmissions: Case, all internal lubricated parts, torque converter, vacuum modulator, seals, gaskets and transmission mounts. Includes transfer case on 4 wheel drive vehicles, all internal parts, seals and gaskets.

Front & Rear Wheel Drive: Front - Front drive housing and all internal parts, front hub bearings, seals and gaskets. Rear - Axle housing and all internal lubricated parts, propeller shafts, "U" joints, axle shafts, bearings, supports, seals and gaskets.

Cooling and Fuel: Radiator, fan and clutch, engine fan motor, fan belt and fan links.

Steering: Gear housing and all internal parts, power steering pump, steering rack and intermediate shafts, couplings, seals and gaskets.

Front Suspension: MacPherson strut, upper and lower control arms, control arm shafts and bushings, upper and lower ball joints, shock absorbers, coil springs, stabilizer shaft, stabilizer linkage and bushings.

Heating & Factory Approved Air Conditioning: Heater core, compressor, clutch and pump, condenser, evaporator, accumulator, expansion control program.

Brakes: Master cylinder, assist boosters, wheel cylinders, combination valve, hydraulic lines and fittings, disc calipers, seals and gaskets.

Electrical: Starter motor and solenoid, generator, alternator, battery, engine and distributor, wiring harness, electrical equipment, control parts, manually operated switches on covered component parts, wiper control compressor, its sensors and electrical connections, electronic control module, electronic module, electronic control module, electronic spark control, distributor sensor and controller, heater blower motor.

High Technology Features: Power window motor, power seat motor, door lock motor, factory installed anti-lock brakes, air pollution monitor and sun roof motor.

Rental Car Allowance: If due to the mechanical breakdown of a covered vehicle has to be repaired overnight at the repair facility, the Vehicle Protection Plan will reimburse you for the rental fee - to a maximum of \$75 per day. There is a maximum of \$35 per day for a rental car (maximum is given).

Towing Allowance: If due to the mechanical breakdown of a covered part (engine for example) and you are unable to get your vehicle to the repair facility, the Vehicle Protection Plan will reimburse you for the towing charge - to a maximum of \$35 per occurrence.

Free Transfer Provision: If you should decide to sell your vehicle before your plan expires, you may transfer the remaining term of your plan to the new owner at no charge.

ANNOUNCING FOR THE FIRST TIME EVER! A one time deductible. Griffin Systems now has a one time deductible of \$25.00. You pay the deductible only one time during the lifetime of your plan.

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EXHIBIT A

I – COVERAGE ELIGIBILITY

If the answer to any of the following four (4) questions is "YES," the vehicle described on the reverse of this form is not eligible for registration under the Vehicle Protection Plan. —

- | | YES | NO |
|---|--------------------------|--------------------------|
| 1. If you have not had a trailer tow package installed by the factory, or your dealer — will you be pulling a trailer weighing more than 2500 pounds? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. If your vehicle is a truck, is its gross vehicle weight rating (GVWR) more than 10,000 pounds? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Will your vehicle be used as a police car, ambulance, or other emergency vehicle? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Will your vehicle be used for daily rental, livery or taxi? | <input type="checkbox"/> | <input type="checkbox"/> |

If your vehicle does not have a Manufacturer's Warranty enforceable in the U.S. or Canada, it is not eligible for coverage.

II – FOR STATISTICAL PURPOSES

Your answer to the questions listed below will enable us to complete our records on your vehicle

- A. Are you the vehicle's
- First owner?
 - Second owner?
 - Third owner?
- B. Was your vehicle
- Purchased?
 - Leased?
- C. Was your vehicle a Dealer Demonstrator? Yes No
- D. Does your vehicle have:
- | | |
|---|---|
| <input type="checkbox"/> Standard Transmission | <input type="checkbox"/> Factory or Dealer Installed Air Conditioning |
| <input type="checkbox"/> Automatic Transmission | <input type="checkbox"/> Electric Power Seats |
| <input type="checkbox"/> Diesel Engine | <input type="checkbox"/> Electric Power Windows |
| <input type="checkbox"/> Turbo Charged Engine | <input type="checkbox"/> Electric Power Door Locks |
| <input type="checkbox"/> Four Wheel Drive | <input type="checkbox"/> Electric Power Antenna |
| <input type="checkbox"/> Cruise Control | <input type="checkbox"/> Electric Power Sun Roof |

Upon our receipt and approval of this Registration, we will prepare and mail to you a Service Agreement which details the Conditions and Terms of the Plan you selected

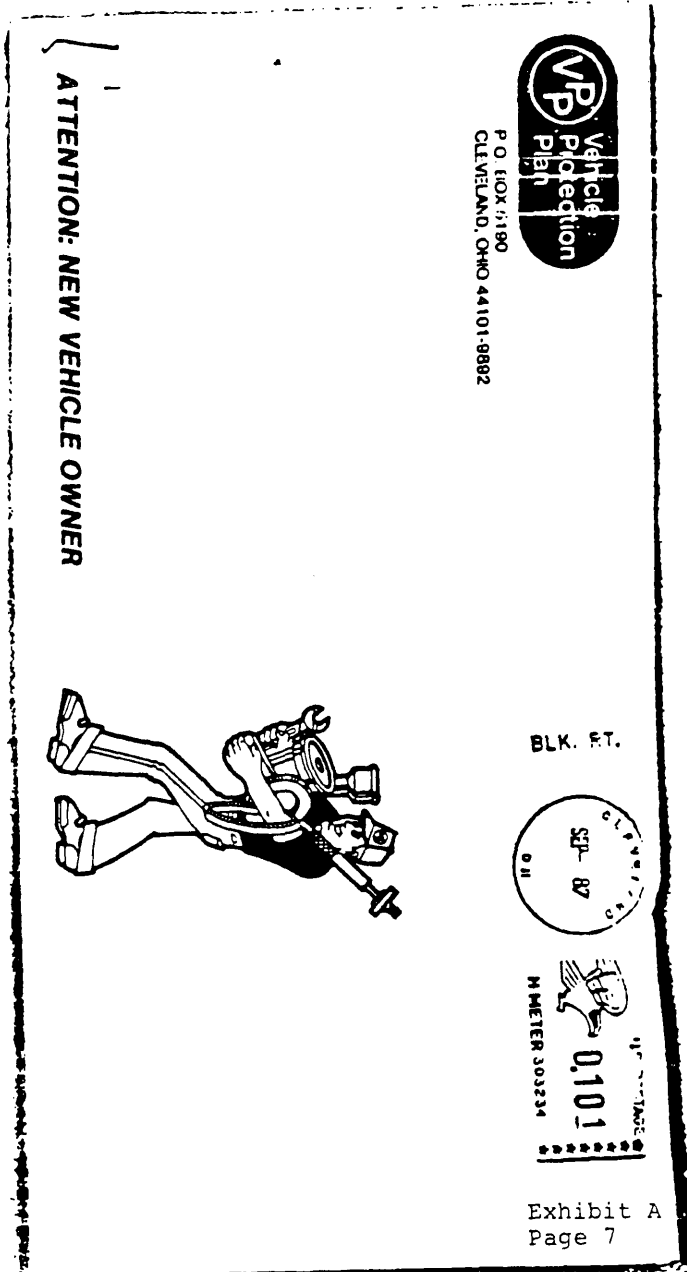
THANK YOU FOR YOUR PATRONAGE!



The Vehicle Protection Plan

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EXHIBIT A



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EXHIBIT B

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VEHICLE PROTECTION PLAN

SERVICE AGREEMENT

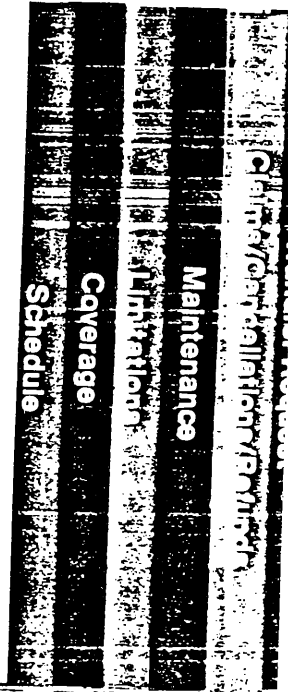


Exhibit B

EXHIBIT B



Your protection against costly
mechanical breakdown.

I. Service Agreement

Please read this agreement carefully to become familiar with all its contents.

This Service Agreement (agreement) is between the purchaser (you) named in the Schedule and Griffin Systems, Inc. (we, us). This agreement is transferable. This agreement begins on the effective date shown in the Schedule and remains in effect for the term or mileage also shown in the Schedule (whichever occurs first).

Statements contained in your Agreement Registration are incorporated herein by reference.

EXHIBIT B

I. Schedule

PURCHASER NAME AND ADDRESS

AGREEMENT NUMBER

PLAN COST

VEHICLE INFORMATION

Year

Make

Model

Vehicle Identification Number

Class

Effective date of this Agreement (1)

Term (months)

Issue date of this Agreement

Odometer reading at registration date (2)

Agreement expires when odometer reads

1. The "Effective date of this Agreement" is the original "Delivery Date" of your vehicle as indicated by you on the Agreement Registration
2. The "Odometer reading at registration date" is the number of miles registered by your odometer as indicated by you on the Agreement Registration

II. What is Covered

A. Mechanical Breakdown

We agree to pay for the reasonable cost of repair or replacement of parts/units within the components covered by this agreement. Such repair or replacement must have arisen from the failure of defective parts/units, which failure may occur during the normal use of your vehicle.



EXHIBIT B

II. What is Covered (cont'd)

In no event will our liability exceed the actual cash value of your vehicle prior to the time of the mechanical breakdown. This actual cash value will be determined by the published wholesale value of the vehicle. Replacement may be made with like kind and quality and depreciation or betterment applied.

B. Covered Components:

Only the components/units/parts listed below are covered.



1. Engine

Gasoline Engine

Cylinder block, heads, all internal lubricated parts, manifolds, timing gears, timing gear chain or belt and cover, flywheel, harmonic balancer, valve covers, oil pan, oil pump, vacuum pump, engine mounts, water and fuel pumps, turbocharger housings and internal parts, valves, seals and gaskets.

Diesel Engine

All of the above listed parts, plus diesel fuel injection pump, lines and nozzles.



2. Transmission

Case, all internal lubricated parts, torque converter, vacuum modulator, seals, gaskets and transmission mounts. Includes transfer case on four wheel drive vehicles, all internal parts, seals and gaskets.



3. Front Wheel Drive

Final drive housing and all internal parts, axle shafts, constant velocity joints, front hub bearings, rear axle hub bearings, seals and gaskets.

4. Rear Wheel Drive

Axle housing and all internal lubricated parts, propeller shafts, "U" joints, axle shafts, bearings, supports, seals and gaskets.

EXHIBIT B

**5. Cooling and Fuel**

Radiator, fan and clutch, engine fan motor, fuel tank and fuel lines.

**6. Steering**

Gear housing and all internal parts, power steering pump, steering main and intermediate shafts, couplings, seals and gaskets.

**7. Front Suspension**

MacPherson struts, upper and lower control arms, control arm shafts and bushings, upper and lower ball joints, steering knuckle, wheel bearings and seals, stabilizer shaft, stabilizer linkage and bushings.

**8. Heating and Factory Approved Air Conditioning**

Heater core, compressor, clutch and pulley, condenser, evaporator, accumulator, temperature control programmer and seals.

**9. Brakes**

Master cylinder, assist boosters, wheel cylinders, combination valve, hydraulic lines and fittings, disc calipers, seals and gaskets.

**10. Electrical**

Starter motor and/or solenoid, generator, alternator, voltage regulator, distributor, wiring harness for covered component parts, manually operated switches for covered component parts, windshield wiper motors, electronic level control compressor, its sensor and limiter valve, Electronic fuel injection sensors, control module and injectors, electronic module, Electronic spark control detonation sensor and controller, Heater blower motor.

**11. High Tech Features**

Power window motor, power seat motor, door lock motors, factory installed cruise control, power antenna motor and sun roof motor.

EXHIBIT B

II. What is Covered (Cont'd) – Additional Benefits



C. Rental Reimbursement

In the event of a mechanical breakdown caused by parts or units within the components covered by this agreement, we agree to pay for the cost of substitute transportation. The payment will be for the rental fee, to a maximum of \$20.00 per day, for a maximum of 5 days or \$100.00 per occurrence. In computing the rental amount due you, we will consider only the actual working time on the repair of your vehicle, as follows: One day's transportation expense will be due for each 8 hours of flat rate time, provided that your vehicle must be retained overnight for the repair of covered parts eligible for payment.

This provision excludes:

1. Down time waiting for parts or any other delays beyond the control of the repair facility.
2. Down time for routine maintenance repairs.

The deductible amount of \$25.00 does not apply to this provision.



D. Towing Reimbursement

In the event that your vehicle becomes disabled due to the mechanical breakdown of a covered part, or unit eligible for payment, we will pay for the cost of towing your vehicle to a repair facility. We will pay for the actual towing charge to a maximum of \$35.00 per occurrence. The deductible amount of \$25.00 does not apply to this provision.



E. Free Transfer Provision

If you should decide to sell your vehicle before your plan expires, you may transfer the remaining term of your plan to the new owner at no charge. A "Transfer Request" is included at the back of this Agreement.

EXHIBIT B

III. What is Not Covered

If your vehicle becomes disabled due to any of the circumstances listed below, we will not pay for the cost of repair or replacement of any part/unit, towing charges and/or rental charges.

Exclusions

1. Any part/unit not listed in part II-"B. Covered Components" of this agreement.
2. Any part/unit which is damaged, in any way, due to your vehicle having been used to pull a trailer weighing more than 2500 pounds, unless manufacturers authorized "Trailer Tow Package" is installed.
3. Any part/unit covered by a warranty issued by the vehicle's manufacturer.
4. Any part/unit damaged by fire, water, freezing, riot, windstorm, hail, lightning, earthquake, theft, nuclear contamination, collision, upset, malicious mischief or vandalism.
5. Any part/unit damaged because of your negligence, misuse or failure to have your vehicle maintained as suggested in your Manufacturer's Owner Manual.
6. Any part/unit damaged because of alterations made to your vehicle, when said alterations were not recommended by the manufacturer of your vehicle.
7. Any part/unit of your vehicle's odometer if it has been altered so that actual mileage of your vehicle is not shown.
8. Any part/unit, mechanically defective, for which the vehicle's manufacturer has publicly announced responsibility to recall the vehicle for correction of the defective part/unit.
9. Any part/unit which is damaged after the repossession of your vehicle.
10. Any part/unit if your vehicle is used for commercial livery, delivery purposes, racing or competitive speed.
11. Any loss of your time caused by delays in the repair or maintenance of your vehicle.
12. Any loss of any kind that occurs to your vehicle while your vehicle is out of your care and custody or rented to others.
13. Any loss, expenses or charges resulting from the length of time necessary to repair your vehicle, such as hotel accommodations, meals, telephone charges, loss of goods of any kind, loss of salaries, loss of life or loss due to accident or bodily injury.
14. Any fluids, lubricants, shop supplies and taxes.

EXHIBIT B

IV. Maintenance Procedure

Your Vehicle Protection Plan requires you to maintain your vehicle according to the minimum required maintenance intervals as specified in your owners manual which came with your vehicle at the time of delivery. Maintenance need not be performed by a dealership or service facility. If you elect to perform your own maintenance retain the receipts for parts and fluid you buy for maintenance.

We have provided a Maintenance Register for you to record the required maintenance of your vehicle.

Maintenance Register

Date	Mileage	Services Performed	Services Performed by
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			

EXHIBIT B

Maintenance Register

Date	Mileage	Services Performed	Services Performed by
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			

Maintenance

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EXHIBIT B

Maintenance Register

Date	Mileage	Services Performed	Services Performed by
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
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43			
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Maintenance Register

Date	Mileage	Services Performed	Services Performed by
47			
48			
49			
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63			

Complaint

EXHIBIT B

V. Claims**1. To Report a Claim**

In the event of a mechanical breakdown of your vehicle, please call one of the following number(s) for instructions

1-800-228-9096

Great Plains Insurance Company, Inc
4019 Prospect Ave
P.O. Box 6298
Cleveland, Ohio 44101

Whenever possible return your motor vehicle to the dealership where you bought it or the most convenient repair facility of your choice anywhere within the continental United States and Canada. Request that the Service Manager call the appropriate number listed above. Our Claims Manager will authorize the repair by phone.

2. Deductible

When your first claim occurs, we will deduct \$25.00 from the amount due you. This \$25.00 is a one-time deductible amount. Any claims you submit after the first one will have no deductible amount.

3. Conditions

- a. Once a loss occurs, you must protect the vehicle from further damage.
- b. No claim will be paid unless the amount to be paid has been previously authorized by telephone or in writing.
- c. We reserve the right to examine, adjust, inspect or investigate any claims.
- d. Claims must be submitted within sixty (60) days of the date of loss.

END PAGE

EXHIBIT B

VI. Cancellation and Refunds**A. Cancellation**

This Service Agreement may be cancelled by you at any time during its term by completing the "Cancellation Request" included on the reverse side of this page. Upon completion of the "Cancellation Request", please mail this entire agreement back to us.

GRIFFIN SYSTEMS, INC.
Administrators
4101 Prospect Avenue
P.O. Box 5190
Cleveland, Ohio 44101-0190

B. Refunds**1. Within the first 60 days**

Within 60 days of its Issue Date, we will refund 100% of the amount paid. PLEASE NOTE that if you chose our Finance Plan, the \$30.00 is NON-REFUNDABLE.

2. After the first 60 days

After the first 60 days of its Issue Date, we will refund the lesser of two sums based upon the Rule of 78ths calculation of elapsed time and mileage. If you have an unlimited mileage plan, calculated refunds will be based on elapsed time or a total of 60,000 miles.

Complaint

EXHIBIT B

Cancellation Request

To cancel this Agreement, please complete the following information

1 Agreement number (as it appears on page 2 "SCHEDULE") _____

2 Current Odometer reading on the vehicle IMPORTANT - DO NOT enter a figure in tenths-of-mile box

3 Reason for cancellation _____

4 Do you wish to apply the refund (if any) towards the cost of a new Agreement for your new vehicle? YES NO

If "yes" please indicate YEAR _____ MAKE _____ MODEL _____ of your new vehicle. Upon our receipt of this information, we will promptly mail you an Agreement Registration and details of the transaction. If "no", the the refund amount (if any) will be sent to you.

5 Your signature _____ Date Signed _____

Please mail this Agreement to:

If you have any questions, please call us at:

GRIFFIN SYSTEMS, INC
Administrators
4101 Prospect Avenue
P.O. Box 5190
Cleveland, Ohio 44101-0190

Cleveland area 216-881-8787
In Ohio 1-800-821-4204
National WATS 1-800-442-2886
Canadian WATS 1-800-458-2277

Complaint

117 F.T.C.

EXHIBIT B

Transfer Request

To transfer this Agreement, please complete the following information

1 Agreement number (as it appears on page 2 "SCHEDULE") _____

2 Effective date of the transfer _____

3 Odometer reading at date of transfer **IMPORTANT - DO NOT enter**
a figure in tenths-of-mile box

4 Vehicle transferred to _____

Name of purchaser _____

Address _____

City _____ State _____ Zip _____

SIGNATURE of Vehicle Purchaser _____ Date Signed _____

SIGNATURE of Vehicle Seller _____ Date Signed _____

Please mail this Agreement to:

If you have any questions, please call us at:

GRIFFIN SYSTEMS, INC
Administrators
4101 Prospect Avenue
P.O. Box 5190
Cleveland, Ohio 44101-0190

Cleveland area 216-881-8787
In Ohio 1-800-821-4204
National WATS 1-800-442-2886
Canadian WATS 1-800-458-2277

INITIAL DECISION

BY JAMES P. TIMONY, ADMINISTRATIVE LAW JUDGE
JUNE 30, 1993

On this date, I granted the renewed motion for sanctions, the motion for default judgment, and the motion for summary decision filed by counsel supporting the complaint. Those orders shall be the Initial Decision in this case by Rule 3.38(b), Rule 3.12 (c), and by Rule 3.24 (a)(2).

ORDER GRANTING DEFAULT JUDGMENT
AGAINST ROBERT W. BOUGHTON

By motion filed October 5, 1992, complaint counsel seek default judgment, pursuant to Rule 3.12(c), against individual Robert W. Boughton. For the reasons stated therein, and in the supporting papers, the motion is hereby granted.

ORDER GRANTING COMPLAINT COUNSEL'S RENEWED
MOTION FOR SANCTIONS

By motions dated August 11, 1992 and January 29, 1993, complaint counsel moved, pursuant to Section 3.38(b) of the Commission's Rules of Practice, for sanctions against respondents Griffin Systems, Inc., Gennaro J. Orrico and Alfonso S. Giordano ("the named respondents") for their failure to comply with outstanding discovery requests of complaint counsel. Based on the reasons set forth in those motions and supporting memorandum, said motion is granted.

It is therefore ordered that the following sanctions are imposed on the named respondents:

(1) Pursuant to Section 3.38(b)(1), for the purpose of this proceeding it shall be inferred that all evidence withheld by the named respondents would have been adverse to them;

(2) Pursuant to Section 3.38(b)(2), for the purpose of this proceeding the following facts are established:

(a) In numerous instances the named respondents denied claims and/or unilaterally canceled the service contracts of consumers who filed multiple claims;

(b) The named respondents have, in a substantial number of instances, engaged in a pattern or practice of breaching their promise to reimburse claims under the terms of the contracts by unilaterally canceling consumers' contracts; and

(c) The named respondents have, in a substantial number of instances, engaged in a pattern or practice of refusing to pay valid repair claims on the asserted ground that consumers have failed to obtain prior authorization from the named respondents;

(3) Pursuant to Section 3.38(b)(3), the named respondents cannot introduce into evidence or otherwise rely upon, in support of any claim or defense, the requested service contract records; and

(4) Pursuant to Section 3.38(b)(4), the named respondents may not be heard to object to the use of secondary evidence to show what the withheld evidence would have shown.

SUMMARY DECISION

INTRODUCTION

This case involves the sale of vehicle service contracts throughout the United States. Respondents allegedly misrepresent the terms of their Vehicle Protection Plan which promised automobile purchasers protection against high repair costs on over 100 parts of the car. The complaint describes several broken promises to consumers: respondents promise to protect fully consumers against repair costs but pay only a portion of those costs; respondents promise to pay a rental car allowance while their car is being repaired but deceptively limit payments under that promise; respondents promise consumers may submit an unlimited number of claims but many times deny claims and cancel the contracts of consumers who file multiple claims; respondents refuse to pay repair claims for failure to obtain prior authorization and hinder consumers' ability to obtain prior authorization by failing to answer the telephone.

Complaint counsel filed a motion for summary decision. Respondents opposed. The parties stipulated that there is no genuine issue as to the following material facts:

I. STIPULATED MATERIAL FACTS

1. Complaint counsel has submitted exhibits to its trial brief, filed October 5, 1992, including deposition transcript excerpts. Throughout this stipulation of facts, the abbreviation "CX" refers to Commission Exhibit number, and the abbreviation "(Name) Dep." refers to the deposition of the person identified. The following table lists the numbers for these disposition transcript excerpts, as well as a brief description of the deponent.

Orrico CX 1	Gennaro J. Orrico, named respondent.
Giordano CX 2	Alfonso S. Giordano, named respondent.
Canitia CX 3	Al Canitia, Great Plains and Griffin claims manager, employed from 1987 through 1992.
Stoudmire CX 4	Colleen Stoudmire, Griffin claims supervisor, employed from 1987 through 1990.
Molzan CX 5	David Molzan, Griffin claims supervisor, employed for approximately two years from either 1987 or 1988.
Cassidy CX 6	Kathleen Cassidy, Griffin claims supervisor, employed from November 1986 through 1988 or 1989.
Knowles CX 7	Christine Knowles, Griffin office manager, employed from October 1986 through March 1988.
Sender CX 8	Kathy Janko-Sender, Griffin customer service representative, employed prior to 1982 through August 1, 1991.
Biederman CX	Judith Biederman, Griffin customer service representative, employed for three or four years ending approximately in 1986.

A. The Respondents

1. Griffin Systems, Inc.

2. Griffin Systems, Inc. ("Griffin"), incorporated on April 2, 1984, is an Ohio corporation with its office and principal place of business located at 4101 Prospect Avenue, Cleveland, Ohio. Respondents' Answer to Complaint at paragraph 1(a); Commission Exhibit ("CX") 12-1; CX 30; Orrico Dep. at 13.

3. From the time of its incorporation through at least 1988, Griffin engaged in the promotion, marketing and sale of vehicle service contracts, called the "Vehicle Protection Plan" or "VPP," to new and used vehicle buyers. Respondents' Answer to Complaint at paragraph 2; Respondents' Answers to Interrogatories, CX 10, at paragraphs 4(a) and (b).

4. From the time of its incorporation through at least November 1991, Griffin also administered and paid claims submitted by consumers pursuant to those service contracts. Respondents' Answer to Complaint at paragraph 2.

5. The average retail price of Griffin service contracts was \$315. CX 10 at paragraph 4(e).

6. Throughout its history, Griffin sold over 96,000 service contracts, with total gross sales of approximately \$29 million. CX 10 at paragraph 4(f); Griffin's answer to Commission staff access letter, CX 12, at paragraph 5(b). Consumers asserted more than 43,000 claims during that period of time. CX 10 at paragraph 4(g). Of those claims asserted, Griffin paid between \$6.8 million and \$10 million on over 32,000 claims, and denied over 8,000 claims. CX 10 at paragraph 4(k); CX 12 at 41, 45.

7. Griffin paid various insurance companies an underwriting fee on each service contract sold. In April 1985, that premium was \$190 per plan for unlimited mileage plans, and \$130 per plan for all others. In return for this fee, the insurance companies agreed to pay all claims that were submitted pursuant to the service contracts. The remainder was left for Griffin to administer the program, which included claims administration and answering plan holders' questions. Giordano Dep. at 72-74; CX 39.

8. Great Plains Insurance Company ("Great Plains"), headquartered in Nebraska, was one insurance company that underwrote Griffin service contracts. Orrico Dep. at 94-101. Great Plains also

