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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING
Whether there has been a violation of the
Franchise Investment Protection Act of
Washington by:

Chicago Doughnut Franchise Company, LLC
d.b.a. "The Dapper Doughnut,"
Brian Pappas, and
Jeff Pappas,
Respondents.

Order No. S-18-2406-20-SC01

**STATEMENT OF CHARGES AND
NOTICE OF INTENT TO
ENTER ORDER TO CEASE AND DESIST**

THE STATE OF WASHINGTON TO:

**Chicago Doughnut Franchise Company, LLC and
Brian Pappas, and Jeff Pappas**

Please take notice that the Securities Administrator for the state of Washington has reason to believe that Respondents Chicago Doughnut Franchise Company, LLC d.b.a. "The Dapper Doughnut," Brian Pappas, and Jeff Pappas have violated the Franchise Investment Protection Act of Washington ("the Franchise Act"), RCW 19.100, and that their violations justify the entry of an order of the Securities Administrator under RCW 19.100.248 to cease and desist from such violations. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. Chicago Doughnut Franchise Company, LLC ("CDFC") d.b.a. "The Dapper Doughnut" is a Florida limited liability company formed on November 9, 2015 with its principal place of business in Las Vegas, Nevada. CDFC is in the business of offering The Dapper Doughnut franchises that sell mini doughnuts in various retail locations.
2. Brian Pappas is one of the founders and a former Managing Director of CDFC.

**STATEMENT OF CHARGES AND
NOTICE OF INTENT TO ENTER
ORDER TO CEASE AND DESIST**

**DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760**

1 3. Jeff Pappas is a former Managing Director of CFDC.

2 **Nature of Conduct**

3 4. On March 4, 2018, CFDC filed a franchise registration application with the Securities Division,
4 file number 70016450. The application was signed by then CFDC Managing Director Jeff Pappas, who
5 certified that the application's and the attached exhibits' contents were true and correct.

6 5. CFDC attached to its application an exhibit titled "Franchise Disclosure Document" ("FDD")
7 that contained material disclosures regarding its proposed franchise offering.

8 **Affiliates Disclosures**

9 6. CFDC disclosed in Item 2 of its FDD that it had no predecessors and the following three
10 affiliates:

- 11 a. Diversified Franchise Group, Inc. ("DFG"), a Delaware corporation formed on January 13,
12 2016, that owned a majority interest in CFDC and is its parent;
- 13 b. Las Vegas Donut LLC, a Nevada limited liability company formed on March 9, 2016; and
- 14 c. TDD Supply Company LLC, a Florida limited liability company formed on May 7, 2016.

15 7. CFDC failed to disclose in Item 2 of its 2018 Washington FDD the following three additional
16 affiliates:

- 17 a. TDD Fulton Center LLC, a Florida limited liability company formed on May 12, 2017;
- 18 b. TDD Holding Company, LLC, a Florida limited liability company formed on May 17,
19 2016; and
- 20 c. Vegas Donut Company, LLC, a Nevada limited liability company formed on May 4, 2016.

21 **Litigation History**

22 8. CFDC stated in its Washington FDD Item 3 disclosure that it had no litigation that was required
23 to be disclosed. FDD Item 3 requires that a franchisor disclose the following for any individual who will have

1 management responsibility relating to the sale or operation of its franchises: an administrative, criminal, or
2 material civil action alleging a violation of a franchise, antitrust, or securities law, or alleging fraud, unfair or
3 deceptive practices, or comparable allegations.

4 9. CFDC failed to disclose, in its Washington FDD Item 3, any litigation and administrative
5 enforcement actions for Brian Pappas, CFDC’s founder and former Managing Director. Brian Pappas was
6 also a former DFG manager and director. Brian Pappas was still acting as a general manager for CFDC. Brian
7 Pappas was a “consulting general manager” for DFG. Brian Pappas was a general manager of DFG Payroll
8 Company LLC, a subsidiary of DFG. Brian Pappas was managing the CFDC franchise marketing web portal,
9 was directing leads to its independent franchise brokers and otherwise involved in the marketing and operation
10 of The Dapper Doughnut franchises.

11 10. Brian Pappas was named as a respondent in multiple civil lawsuits involving the sale of
12 franchises in which fraud was alleged. He was connected with state franchise enforcement actions by Virginia
13 and Washington in which restrictive orders were issued. These actions should have been disclosed in Item 3
14 of the CFDC Washington FDD.

15 Based upon the above Findings of Fact, the following Conclusions of Law are made:

16 **CONCLUSIONS OF LAW**

17 1. The misrepresentation or omission of material facts regarding the FDD affiliate and litigation
18 disclosures made in the franchise registration application of Chicago Doughnut Franchise Company, LLC is
19 a violation of RCW 19.100.170.

20 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

21 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities
22 Administrator intends to order that Respondents Chicago Doughnut Franchise Company, LLC d.b.a. “The
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1 Dapper Doughnut,” Brian Pappas, and Jeff Pappas and their agents and employees, each shall cease and
2 desist from violations of RCW 19.100.170.

3 **AUTHORITY AND PROCEDURE**

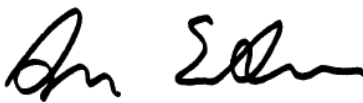
4 This Order is entered pursuant to the provisions of RCW 19.100.248 and is subject to the provisions
5 of Chapter 34.05 RCW. Each Respondent may make a written request for a hearing as set forth in the
6 NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this
7 order. If a Respondent does not request a hearing within the allowed time, the Securities Administrator
8 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and enter an order to
9 cease and desist permanent as to that Respondent.

10 SIGNED and ENTERED this 6th day of April, 2020

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13 _____
14 William M. Beatty
15 Securities Administrator

16 Approved by:

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19 _____
20 Suzanne Sarason
21 Chief of Enforcement

Presented by:

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23 _____
24 Martin Cordell
25 Financial Legal Examiner

Reviewed by:

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27 _____
28 Jack McClellan

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Financial Legal Examiner Supervisor