

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

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

1476257 Alberta Ltd.;
Tao Yang;

Respondents

Order No.: S-19-2701-19-SC01

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

8 THE STATE OF WASHINGTON TO:

1476257 Alberta Ltd.
Tao Yang (a/k/a Yang Tao)

9 **STATEMENT OF CHARGES**

10 Please take notice that the Securities Administrator for the state of Washington has reason to believe
11 that Respondents 1476257 Alberta Ltd. and Tao Yang have each violated the Franchise Investment Protection
12 Act of Washington, RCW 19.100, and that their violations justify the entry of an order of the Securities
13 Administrator under RCW 19.100.248 against each to cease and desist from such violations. The Securities
14 Administrator finds as follows:

15 **TENTATIVE FINDINGS OF FACT**

16 **Respondents**

17 1. 1476257 Alberta Ltd. is a numbered Alberta corporation incorporated on or about June 23,
18 2009. 1476257 Alberta Ltd. used a business address in Edmonton, Alberta.

19 2. Tao Yang (a/k/a Yang Tao) is the owner of 1476257 Alberta Ltd. and used a business address
20 in Edmonton, Alberta.

21 **Other Relevant Party**

22 3. Chatime USA, LLC (“Chatime USA”) is a Delaware limited liability company formed on or
23

1 about January 2, 2014. Chatime USA has a principal place of business in Zhubei City, Taiwan. Chatime
2 USA offers franchises that sell gourmet coffees and tea, bubble tea, and other food products and beverages in
3 retail outlets. On September 16, 2019, the Securities Division entered into a Consent Order with Chatime
4 USA. Chatime USA agreed to cease and desist from violating the registration and disclosure document
5 portions of the Franchise Investment Protection Act and paid investigative costs of \$2,500.

6 **Nature of the Conduct**

7 4. On August 4, 2016, Chatime USA entered into a five-year Regional Master Franchise
8 Agreement with Respondents 1476257 Alberta Ltd. and Tao Yang. A master franchise is a franchising
9 contract in which the master franchisor (the owner of the brand) turns over the control of the franchising
10 activities in a specified territory to a master franchisee, who is sometimes referred to as a subfranchisor. The
11 master franchisee has the right to develop, manage, operate, and sub-franchise restaurants in a specified
12 territory.

13 5. As part of the Regional Master Franchise Agreement, the Respondents paid a \$200,000 fee to
14 Chatime for the territory of Washington state. Under the Regional Master Franchise Agreement, the
15 Respondents were also required to pay a \$12,000 license fee for each new restaurant, a royalty fee of 3.5% of
16 gross monthly sales, and 2% of gross monthly sales for a marketing fund, which was not yet established at
17 the time of the agreement.

18 6. Between 2016 and 2017, the Respondents received more than \$120,000 from the sale of three
19 Chatime franchises to Washington residents. The Respondents paid a \$12,000 license fee to Chatime USA
20 for one of the franchises that it sold. The Respondents did not provide a Franchise Disclosure Document
21 (FDD) to at least two of the Washington franchisees.

22 7. Beginning around September 2016, Tao Yang exchanged emails with a Seattle resident who
23 had earlier contacted Chatime regarding franchise opportunities. Tao Yang stated that he was responsible for

1 Chatime business in Washington, and he later emailed a franchise agreement to the Seattle resident. In
2 October 2016, the Seattle resident met Tao Yang at a bank in Seattle and paid him \$62,000 as a franchise fee
3 for a Chatime franchise that later opened in Seattle.

4 8. In October 2016, Tao Yang sold a second Chatime franchise for \$62,000 to a resident of
5 Kirkland, Washington. The Kirkland resident later opened a Chatime business in the University District of
6 Seattle.

7 9. On July 24, 2017, Tao Yang sold a third Chatime franchise to a Bellevue resident, who later
8 opened a Chatime business in Bellevue, Washington. Under the franchise agreement, the Bellevue resident
9 paid a \$28,000 development fee and a \$12,000 licensing fee.

10 10. In April 2018, Chatime USA terminated its Master Franchise Agreement with 1476257 Alberta
11 Ltd. and Tao Yang.

12 11. In July 2019, the Securities Division sent a letter to 1476257 Alberta Ltd. and Tao Yang and
13 directed them to provide the Securities Division with certain documents and information relating to the sale
14 of franchise in the state of Washington. The Respondents failed to provide to respond or provide any
15 documents or information to the Securities Division.

16 **Registration Status**

17 12. 1476257 Alberta Ltd. and Tao Yang are not currently registered to sell franchises in the state
18 of Washington and have not previously been so registered. There is no notification of exemption on file with
19 the state of Washington.

20 13. On or about December 12, 2018, Chatime USA filed an initial application to register a master
21 franchise offering in Washington (Franchise Registration Application File No. 70016653) pursuant to
22 Washington's Franchise Investment Protection Act. A master franchisee has the right to operate multiple
23 outlets in a specific area and the right to grant third parties the right to own and operate outlets in that territory.

1 On or about December 17, 2018, Chatime USA filed an initial application to register an offering of individual
2 franchise units in Washington (Franchise Registration Application File No. 70016657). To date, those
3 franchise registration applications have not yet been approved.

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

5 **CONCLUSIONS OF LAW**

6 1. The offer or sale of franchises as described above constitutes the offer or sale of a franchise
7 as defined in RCW 19.100.010(6), RCW 19.100.010(12), and RCW 19.100.010(17).

8 2. The offer or sale of said franchises was in violation of RCW 19.100.020 because no
9 registration for such offer or sale is on file with the Securities Administrator.

10 3. The offer or sale of said franchises was in violation of RCW 19.100.080 because the
11 Respondents failed to provide the franchisees with a franchise disclosure document prior to the sale of the
12 franchises.

13 **NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST**

14 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator
15 intends to order that Respondents 1476257 Alberta Ltd and Tao Yang, their agents and employees each shall
16 cease and desist from violations of RCW 19.100.020 and RCW 19.100.080.

17 **AUTHORITY AND PROCEDURE**

18 This Order is entered pursuant to the provisions of RCW 19.100.248 and is subject to the provisions
19 of Chapter 34.05 RCW. The Respondents may each make a written request for a hearing as set forth in the
20 NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this
21 order. If a respondent does not request a hearing within the allowed time, the Securities Administrator intends
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1 to adopt the above Tentative Findings of Fact and Conclusions of Law as final and enter an order to cease and
2 desist permanent as to that respondent.

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SIGNED and ENTERED this 25th day of September 2019.



William M. Beatty
Securities Administrator

Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Robert Kondrat
Financial Legal Examiner