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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:

OYO Hotels, Inc.

Respondent

Order No.: S-19-2703-19-CO01

CONSENT ORDER

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Pursuant to the Franchise Investment Protection Act of Washington, chapter 19.100 RCW (the “Act”), the Securities Division and Respondent OYO Hotels, Inc. do hereby enter into this CONSENT ORDER in settlement of the matters alleged herein. Respondent OYO Hotels, Inc. neither admits nor denies the Findings of Fact and Conclusions of Law as stated below.

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FINDINGS OF FACT

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Respondent

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1. OYO Hotels, Inc. (“OYO”) is a Delaware corporation that was originally formed as a limited liability company in November 2018, and was converted into a corporation in May 2019. OYO maintains a principal place of business in Dallas, Texas. OYO is in the business of operating hotels in the United States, and is part of OYO Rooms, a hotel chain based in Gurgaon, India.

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Related Entity

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2. OYO Franchising, LLC (“OYO Franchising”) is a Delaware limited liability company organized on May 30, 2019.

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3. OYO Franchising is an affiliate of OYO.

CONSENT ORDER

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

1 **Nature of the Conduct**

2 *Background*

3 4. Between May and June 2019, OYO entered into five-year agreements entitled “Marketing,
4 Consulting and Revenue Management Agreement” (the “Agreement”) with two Washington limited liability
5 companies through which a Washington resident owned hotels in Kalama and Centralia. In the Agreements,
6 OYO addressed how these hotels would operate as OYO-branded hotels by providing for changes in the
7 hotels’ appearance, by providing a marketing plan that gave OYO substantial control over how the hotels
8 would promote themselves, and by requiring the hotels’ owner to pay OYO monthly fees based upon each
9 hotel’s monthly revenue.

10 *OYO Granted the Hotel Owner the Right to Use its Trademarks and Trade Name*

11 5. OYO entered into supplemental agreements with the hotel owner entitled “Third Party Terms
12 of Engagement” (the “Third Party Agreements”) that provided a marketing plan for the hotels to operate
13 under the OYO brand. In the Third Party Agreements, OYO had the hotel owner acknowledge the
14 advantages of OYO’s “strong brand recall and popularity.”

15 6. OYO also provided funds to the hotel owners for “building transformations” at the hotels, in
16 part to upgrade the infrastructure and service offerings of the hotels.

17 *OYO Provided the Hotel Owner with a Marketing Plan*

18 7. OYO had substantial control over the hotels’ marketing activities under the Third Party
19 Agreements. OYO made new listings for the hotels on websites that aggregate prices of travel-related
20 services. OYO required that the hotel owner provide all necessary log-in information for social media
21 accounts and for accounts with any other media that the owner had used to advertise the hotels. OYO would
22 then manage those accounts as it saw fit.

1 *OYO Obligated the Hotel Owner to Pay Franchise Fees*

2 8. OYO retained a monthly “Revenue Management Fee,” from revenues it collected on behalf of
3 the hotel owner. The Revenue Management Fee that OYO retained was a percentage of the hotels’ revenue,
4 and therefore varied with the hotels’ performance. OYO retained the Revenue Management Fee regardless
5 of whether the hotels were profitable in a given month.

6 *OYO Did Not Provide a Disclosure Document*

7 9. OYO did not provide the hotel owner with a disclosure document that contained all material
8 information about the potential arrangement with OYO before he entered into the Agreements with OYO.

9 *OYO Offered the Agreements to other Washington Residents*

10 10. In June 2019, OYO representatives sent emails in which they offered to enter into the
11 Agreements with more than thirty Washington residents. A number of the recipients are owners or managers
12 of hotels. In these emails, OYO referred to earlier in-person meetings between an OYO representative and
13 the recipient at which the parties discussed OYO. In other emails, the OYO representatives requested initial
14 meetings with hotel personnel.

15 *Offers and Sales during the Division’s Investigation*

16 11. On June 14, 2019, the Securities Division sent a letter to OYO at its headquarters in Dallas,
17 Texas. The letter advised OYO that the Agreements might create franchises under the Act that would be
18 subject to the Act’s registration and franchise disclosure document provisions. The Division’s letter
19 requested that OYO provide documents related to its activity in Washington. The Division received OYO’s
20 response on July 24, 2019. OYO identified the Centralia and Kalama hotels as the only hotels in
21 Washington for which it had entered into Agreements. On August 29, 2019, OYO Franchising filed an
22 application for franchise registration. In its comment letter regarding the registration application, the
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1 Division stated that it would not declare the offering effective until the enforcement unit had concluded its
2 investigation of OYO.

3 12. In December 2019, OYO listed a Spokane location on its website. In January 2020, OYO
4 responded to a Division inquiry about the OYO hotel in Spokane. OYO stated that it had entered into an
5 Agreement similar to those it had entered into for the Kalama and Centralia hotels for the Spokane hotel.
6 OYO further stated that it had entered into six other Agreements after its response to the Division on July
7 24, 2019. OYO entered into one of these Agreements one day after its response to the Division. OYO did
8 not update its response to the Division to include these seven Agreements.

9 **Registration Status**

10 13. Respondent OYO Hotels, Inc. is not currently registered to sell franchises in the State of
11 Washington and has not previously been so registered. There is no notification of exemption on file with the
12 State of Washington.

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

14 **CONCLUSIONS OF LAW**

15 1. The offer and sale of the arrangement between the hotel owner and OYO Hotels, Inc., as
16 described in the Agreement and the Third Party Agreements, constitutes the offer or sale of a franchise, as
17 defined in RCW 19.100.010(6), RCW 19.100.010(12), and RCW 19.100.010(17).

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

20 3. The offer or sale of said franchises was in violation of RCW 19.100.080 because OYO
21 Hotels, Inc. failed to provide the hotel owner with a franchise disclosure document prior to the sale of the
22 franchises.
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CONSENT ORDER

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

1 **CONSENT ORDER**

2 Based upon the foregoing and finding it in the public interest:

3 IT IS AGREED AND ORDERED that Respondent OYO Hotels, Inc. and its agents and employees
4 shall each cease and desist from offering franchises in violation of RCW 19.100.020, the Act’s franchise
5 registration section.

6 IT IS FURTHER AGREED AND ORDERED that Respondent OYO Hotels, Inc., and its agents and
7 employees, shall each cease and desist from violations of RCW 19.100.080, the Act’s franchise disclosure
8 document requirement section.

9 IT IS FURTHER AGREED that Respondent OYO Hotels, Inc. shall pay investigative costs of
10 \$2,500 prior to entry of this Consent Order.

11 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

12 IT IS FURTHER AGREED that Respondent OYO Hotels, Inc. enters into this Consent Order freely
13 and voluntarily and with a full understanding of its terms and significance.

14 IT IS FURTHER AGREED that this Consent Order is entered into solely for the purpose of
15 resolving an investigation undertaken by the Division, and it is not intended to be used, and it shall not be
16 admissible as evidence in any legal action or proceeding, except in an action by the Division to enforce the
17 obligations created by the Consent Order.

18 IT IS FURTHER AGREED that in consideration of the foregoing, Respondent OYO Hotels, Inc.
19 waives its right to a hearing and to judicial review of this matter.

20 SIGNED this 11th day of March, 2020.

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Signed by:

s/

Name: Christopher Nowak

Title: Vice President-Legal

DATED and ENTERED this 20th day of March, 2020.



William M. Beatty
Securities Administrator

Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Edward R. Thunen
Financial Legal Examiner

Reviewed by:



Jack McClellan
Financial Legal Examiner Supervisor

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