

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

4 IN THE MATTER OF DETERMINING ) Order No.: S-12-1084-12-SC01  
5 Whether there has been a violation of the )  
6 Franchise Investment Protection Act of ) STATEMENT OF CHARGES AND NOTICE OF INTENT  
7 Washington by: ) TO ENTER ORDER TO CEASE AND DESIST  
8 )  
9 SearchPath International, Inc.; Pathfinder Search )  
10 Partners of Cleveland, Inc. d/b/a SearchPath of )  
11 Cleveland Uptown, )  
12 )  
13 Respondents. )

14 **THE STATE OF WASHINGTON TO:** **SearchPath International, Inc.;**  
15 **Pathfinder Search Partners of Cleveland, Inc. d/b/a**  
16 **SearchPath of Cleveland Uptown**

17 **STATEMENT OF CHARGES**

18 Please take notice that the Securities Administrator for the state of Washington has reason to believe that  
19 Respondents, SearchPath International, Inc. and Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of  
20 Cleveland Uptown, has violated the Franchise Investment Protection Act of Washington, RCW 19.100, and that its  
21 violations justify the entry of an order of the Securities Administrator under RCW 19.100.248 against it to cease and  
22 desist from such violations. The Securities Administrator finds as follows:

23 **TENTATIVE FINDINGS OF FACT**

24 Respondents

25 1. SearchPath International Inc. (SPI) is a Delaware Corporation with its principal place of business at 526  
Superior Avenue E, Suite 230 Cleveland, OH 44114. SPI is a franchised business that recruits and places personnel in  
full-time and interim employment positions. SPI provides franchisees with the tools and training necessary to work in  
the job recruitment industry. SPI has registered or notice filed to sell its franchise in at least three states. SPI has not  
registered its franchise in Washington State.

2. Pathfinder Search Partners of Cleveland, Inc. is an Ohio Corporation doing business as SearchPath of  
Cleveland Uptown (SPCU). Its principal place of business is 526 Superior Avenue E, Suite 230 Cleveland, OH  
44114. SPCU is a franchise office and affiliate of SPI.

Initial Franchise Offer

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3. In May 2010, an SPI franchisee introduced a Washington State married couple (the Residents) to a franchise opportunity at SPI. SPI began discussing with the Residents the details of the SPI franchise offer. In or around July 2010, SPI gave the Residents a copy of SPI's Multi-State Franchise Disclosure Document (FDD) and franchise agreement. The FDD provided the Residents with details of the SPI franchise opportunity. According to the FDD, SPI was offering potential franchisees an SPI franchise for an initial franchise fee of \$45,000. The FDD also contained information regarding royalty fees that franchisees would be required to pay to SPI. In return for the initial franchise fee and payment of royalties, SPI franchisees would receive a series of benefits including a marketing plan, access to the SPI trademark, and invoicing and collection services. About three months after SPI first began discussions with the Residents, SPI contacted the Residents and told them that it could not sell a SPI franchise in Washington State until it properly registered its franchise in Washington State. Even after learning that it needed to register its franchise in Washington State, SPI continued to participate in franchise discussions with the Residents.

Sale of Franchise

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4. As SPI and the Residents continued to negotiate the purchase of a franchise, SPI and the Residents entered into a consultant agreement. On August 31, 2010, SPI, still not registered to sell a franchise in Washington State, entered into a consultant agreement with one of the Residents, Resident A, through one of its affiliates, SPCU. The consultant agreement was understood by both parties to be a stop-gap measure to allow Resident A to begin her working relationship with SPI while SPI worked to get its franchise registered in Washington State. Just as in the proposed SPI franchise agreement, the SPCU consultant agreement (a) charged Resident A a fee, (b) provided Resident A with the right to use the SPI service mark, and (c) granted Resident A access to SPI's marketing plan. SPI/SPCU failed to provide Resident A with an FDD pertaining to the consultant agreement.

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5. The consultant agreement did not require Resident A to pay the initial franchise fee of \$45,000 that SPI charged its franchisees; rather, SPCU charged a fee of 27% of the total net cash brought in by Resident A. This 27% is 20% higher than the amount SPI franchisees are required to pay SPI in royalty fees. The consultant agreement granted Resident A the option to convert from an SPCU consultant to an SPI franchisee. According to the consultant

1 agreement, if Resident A chose to convert from a consultant to a franchisee, the \$45,000 franchise fee would be  
2 reduced by 20% of the net fees paid to SPCU. This reduction in Resident A's franchise fee would function as a type  
3 of financing for Resident A to afford the \$45,000 franchise fee. Once Resident A converted into an SPI franchise, she  
4 would be charged the same 7% rate that other SPI franchisees are charged. If Resident A never converted to a  
5 franchise, she would be required to pay the 27% rate indefinitely. Prior to the signing of the consultant agreement, SPI  
6 assured Resident A that the SPI franchise would be properly registered in Washington State by the end of 2010. SPI  
7 failed to disclose to Resident A the risk that her option to convert to a franchise was contingent on SPI getting  
8 properly registered in Washington. Resident A paid at least \$5,500 to SPI/SPCU in fees.

9 6. Pursuant to the consultant agreement, SPCU granted Resident A the right to use the SPI logo and trademark.  
10 SPI/SPCU also promoted Resident A on the SPI corporate website under the SPCU contact page. This webpage listed  
11 the location of Resident A in Cleveland, Ohio even though she operated her business out of Washington State. SPI  
12 and Resident A agreed to call Resident A's office "SearchPath of Seattle Metro/Pacific Northwest."

13 7. SPI provided Resident A with the same training, field support, and administrative resources that are provided  
14 to SPI franchisees. Resident A attended SPI franchisee trainings both in person and online. When Resident A went to  
15 training seminars, SPI instructed her not to speak to SPI franchisees about her consultancy relationship with SPCU.  
16 SPI/SPCU told Resident A that as far as the franchisees are concerned, Resident A was one of the newest SPI  
17 franchisees. SPI provided Resident A with training materials and manuals including an SPI Operations Manual. SPCU  
18 provided Resident A with ongoing training through its online SearchPath International University (SPIU). SPIU  
19 provided Resident A with access to SPI manuals, proposals/forms, and marketing materials. SPCU also provided  
20 invoicing and collection services for Resident A. Resident A was required to follow all policies and procedures  
21 outlined in the SearchPath International Employee Handbook.

22 Washington Franchise Registration

23 8. SPI filed a franchise registration application to the Washington State Department of Financial Institutions  
24 (DFI) on June 13, 2011.

1 9. On or about July 14, 2011, the DFI told SPI that audited financial information was required for the past two  
2 years.

3 10. On August 31, 2012, the DFI cancelled SPI's franchise application due to inactivity in the registration  
4 process. SPI never provided the DFI with the financials required for franchise registration.

5 11. In September 2012, after becoming frustrated with SPI's failed effort to get registered in WA, Resident A  
6 elected to end her relationship with SPI and SPCU.

7 Misrepresentations and Omissions

8 12. SPI/SPCU assured Resident A that the SPI franchise would be registered in Washington State by the end of  
9 2010. SPI/SPCU failed to disclose to Resident A the risk that it might not register its franchise in Washington State  
10 and, therefore, Resident A might not be able to exercise her option to convert to a franchise.

11 Registration Status

12 13. Respondent, SearchPath International, Inc., is not currently registered to sell its franchises in the state of  
13 Washington and has not previously been so registered. There is no notification of exemption on file with the state of  
14 Washington.

15 14. Respondent, Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, is not  
16 currently registered to sell its franchises in the state of Washington and has not previously been so registered. There is  
17 no notification of exemption on file with the state of Washington.

18 **CONCLUSIONS OF LAW**

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

20 **I.**

21 The offer and/or sale of an SPI franchise agreement, consultant agreement, and option to convert from a  
22 consultant to an SPI franchisee, as described above, constitutes the offer and/or sale of a franchise as defined in RCW  
23 19.100.010(6), RCW 19.100.010(12), and RCW 19.100.010(17).  
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**II.**

The offer of an SPI franchise was in violation of RCW 19.100.020 because no registration for such offer and/or sale by SPI was on file with the Securities Administrator, state of Washington.

**III.**

The offer and/or sale of the consultant agreement and option to convert from a consultant to an SPI franchisee was in violation of RCW 19.100.020 because no registration for such offer by Respondents was on file with the Securities Administrator, State of Washington.

**IV.**

The offer and/or sale of the consultant agreement was in violation of RCW 19.100.080 because Respondents failed to provide the franchisee with a disclosure document or offering circular as required by RCW 19.100.040 prior to the sale of the franchise.

**V.**

The sale of said franchise was made in violation of RCW 19.100.170(2), as described above, because Respondents made untrue statements of material facts and/or omitted material facts necessary in order to make the statements made in light of the circumstances under which they were made not misleading.

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

Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that SearchPath International, Inc., Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, their agents and employees each shall cease and desist from violations of RCW 19.100.020, RCW 19.100.080, and 19.100.170.

**AUTHORITY AND PROCEDURE**

This Order is entered pursuant to the provisions of RCW 19.100.248 and RCW 19.100.130 and is subject to the provisions of Chapter 34.05 RCW. SearchPath International, Inc. and Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, may each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order. If a

1 respondent does not request a hearing within the allowed time, the Securities Administrator intends to adopt the above  
2 Tentative Findings of Fact and Conclusions of Law as final and enter an order to cease and desist permanent as to that  
3 respondent.  
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5 Signed and Entered this 15th day of March 2013.

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9 William M. Beatty  
Securities Administrator

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11 Approved by:

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14 Suzanne Sarason  
Chief of Enforcement

11 Presented by:

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14 Brian J. Guerard  
Financial Legal Examiner

15 Reviewed by:

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18 Jack McClellan  
Financial Legal Examiner Supervisor