

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

IN THE MATTER OF DETERMINING) Order No.: S-12-1084-13-CO01
whether there has been a violation of the)
Franchise Investment Protection Act of) CONSENT ORDER
Washington by:)
)
SearchPath International, Inc.; Pathfinder Search)
Partners of Cleveland, Inc. d/b/a SearchPath of)
Cleveland Uptown,)
)
Respondents.)

INTRODUCTION

On March 15, 2013, The Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, S-12-1084-SC01, against Respondents SearchPath International, Inc. and Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown. Pursuant to the Franchise Investment Protection Act of Washington, RCW 19.100, the Securities Division and Respondents, SearchPath International, Inc. and Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, do hereby enter into this CONSENT ORDER in settlement of the matters alleged herein. Respondents, SearchPath International, Inc. and Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, neither admit nor deny the Findings of Fact or Conclusions of Law as stated below.

FINDINGS OF FACT

Respondents

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

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

1 agreement. The FDD provided the Residents with details of the SPI franchise opportunity. According to the FDD, SPI
2 was offering potential franchisees an SPI franchise for an initial franchise fee of \$45,000. The FDD also contained
3 information regarding royalty fees that franchisees would be required to pay to SPI. In return for the initial franchise
4 fee and payment of royalties, SPI franchisees would receive a series of benefits including a marketing plan, access to
5 the SPI trademark, and invoicing and collection services. About three months after SPI first began discussions with
6 the Residents, SPI contacted the Residents and told them that it could not sell a SPI franchise in Washington State
7 until it properly registered its franchise in Washington State. Even after learning that it needed to register its franchise
8 in Washington State, SPI continued to participate in franchise discussions with the Residents.

7 Sale of Franchise

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

16 5. The consultant agreement did not require Resident A to pay the initial franchise fee of \$45,000 that SPI
17 charged its franchisees; rather, SPCU charged a fee of 27% of the total net cash brought in by Resident A. This 27% is
18 20% higher than the amount SPI franchisees are required to pay SPI in royalty fees. The consultant agreement granted
19 Resident A the option to convert from an SPCU consultant to an SPI franchisee. According to the consultant
20 agreement, if Resident A chose to convert from a consultant to a franchisee, the \$45,000 franchise fee would be
21 reduced by 20% of the net fees paid to SPCU. This reduction in Resident A's franchise fee would function as a type
22 of financing for Resident A to afford the \$45,000 franchise fee. Once Resident A converted into an SPI franchise, she
23 would be charged the same 7% rate that other SPI franchisees are charged. If Resident A never converted to a
24 franchise, she would be required to pay the 27% rate indefinitely. Prior to the signing of the consultant agreement, SPI
25 assured Resident A that the SPI franchise would be properly registered in Washington State by the end of 2010. SPI
failed to disclose to Resident A the risk that her option to convert to a franchise was contingent on SPI getting
properly registered in Washington. Resident A paid at least \$5,500 to SPI/SPCU in fees.

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

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CONCLUSIONS OF LAW

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

I.

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

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.

CONSENT ORDER

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

IT IS AGREED AND ORDERED that Respondents, SearchPath International, Inc. and Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, and its agents and employees shall each cease and desist from offering or selling franchises in violation of RCW 19.100.020, the registration section of the Franchise Investment Protection Act of the state of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondents, SearchPath International, Inc. and Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, and its agents and employees shall each cease and desist from violating RCW 19.100.80, the franchise disclosure document section of the Franchise Investment Protection Act of the state of Washington.

1 IT IS FURTHER AGREED AND ORDERED that Respondents, SearchPath International, Inc. and
2 Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, and its agents and employees
3 shall each cease and desist from violating RCW 19.100.170, the anti-fraud section of the Franchise Investment
Protection Act of the state of Washington.

4 IT IS FURTHER AGREED that Respondents, SearchPath International, Inc. and Pathfinder Search Partners
5 of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, shall reimburse the Securities Division \$1,500 for its
investigative costs.

6 IT IS FURTHER AGREED that the payment of the investigative costs described above shall be made as
7 follows: Respondents, SearchPath International, Inc. and Pathfinder Search Partners of Cleveland, Inc. d/b/a
8 SearchPath of Cleveland Uptown, shall pay \$300 on or before the entry of this Consent Order. Respondents,
9 SearchPath International, Inc. and Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland
10 Uptown, shall then pay the remaining investigative costs in monthly payments for the following four consecutive
11 months, with each monthly payment in the amount of \$300. Each payment shall be due on the first day of the month,
unless the first day of the month falls on a weekend or holiday, in which case payment shall be due on the first
12 business day following the first day of the month.

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

14 IT IS FURTHER AGREED that Respondents, SearchPath International, Inc. and Pathfinder Search Partners
15 of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, enter into this Consent Order freely and voluntarily and
with full understanding of its terms and significance.

16 IT IS FURTHER AGREED that in consideration of the foregoing, SearchPath International, Inc. and
17 Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown, waive its right to a hearing and
to judicial review of this matter.

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19 Signed this 22nd day of July 2013.

20
21 Signed by:

22 SearchPath International, Inc.

23 By /s/ Thomas K. Johnston
24 Thomas K. Johnston
25 CEO

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Signed by:

Pathfinder Search Partners of Cleveland, Inc. d/b/a SearchPath of Cleveland Uptown

By ___/s/ Thomas K. Johnston_____
Thomas K. Johnston
Managing Director

SIGNED and ENTERED this 6th day of August 2013.



William M. Beatty
Securities Administrator

Approved by:

Presented by:



Suzanne Sarason
Chief of Enforcement

Brian J. Guerard
Financial Legal Examiner

Reviewed by:



Jack McClellan
Financial Legal Examiner Supervisor