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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:

Lollicup Franchise System LLC;

Respondent

Order No.: S-19-2723-19-CO01

CONSENT ORDER

Pursuant to the Franchise Investment Protection Act of Washington, RCW 19.100, the Securities Division and the Respondent Lollicup Franchise System LLC do hereby enter into this Consent Order in settlement of the matters alleged herein. Respondent Lollicup Franchise System LLC neither admits nor denies the Findings of Fact or Conclusions of Law as stated below.

FINDINGS OF FACT

Respondent

1. Lollicup Franchise System LLC is a California limited liability company formed on September 10, 2014 with a principal place of business in Chino, California. Lollicup Franchise System LLC grants franchises for retail stores that sell beverages including tapioca (“boba”) drinks, teas, iced teas, coffee-based drinks, milk-based drinks, smoothies, juices, and other food items. The President of Lollicup Franchise System LLC is Alan Yu and the Vice President is Marvin Cheng.

Other Relevant Entities

2. Lollicup USA, Inc. is a California corporation incorporated on January 21, 2000 that owned and operated retail stores between 2000 and November 2013. In 2015, Lollicup USA, Inc. transferred ownership of the stores to an affiliate, Lollicup Franchising, LLC, a California limited liability company that was formed on or about June 23, 2009.

CONSENT ORDER

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

1 **Other Regulatory Actions**

2 3. On April 16, 2008, the California Department of Corporations (now known as the California
3 Department of Business Oversight) issued a Desist and Refrain Order against Lollicup USA, Inc., Alan Yu,
4 and Marvin Cheng for the offer and sale of unregistered franchises between 2000 and 2008 in violation of the
5 California Franchise Investment Law. As part of a settlement agreement, Lollicup USA Inc., Yu, and Cheng
6 paid a \$35,000 administrative penalty.

7 4. On June 9, 2015, the California Department of Business Oversight issued a Citation and
8 entered into a settlement agreement with Lollicup USA, Inc. In November 2014, Lollicup USA, Inc. filed a
9 notice of violation and disclosed that it had sold five unregistered franchises in California after the 2008
10 settlement agreement. As part of the 2015 settlement agreement, Lollicup USA, Inc. paid \$5,850 in
11 administrative penalties.

12 **Nature of the Conduct**

13 5. On February 23, 2018, Lollicup Franchise System LLC filed an application to register a
14 franchise offering in Washington (Franchise Registration Application File No. 70016449) pursuant to
15 Washington's Franchise Investment Protection Act. Lollicup Franchise System LLC included a franchise
16 disclosure document (FDD) for the offering. Between March 2018 and March 2019, the Registration Unit of
17 the Securities Division sent comment letters to counsel for Lollicup Franchise System LLC.

18 6. In a letter dated May 30, 2019, counsel for Lollicup Franchise System LLC notified the
19 Securities Division that prior to the filing of its registration application in 2018, Lollicup Franchise System
20 LLC caused the sale of a franchise to a Washington resident.

21 7. In December 2017, a Washington resident met with a Lollicup representative. Following the
22 meeting, the Lollicup representative sent emails to the Washington resident and a link to an online franchise
23 application form that was available on Lollicup's website. The Washington resident filled out the online

1 application in January 2018. On January 23, 2018, a Lollicup representative sent an email to the Washington
2 resident with a FDD dated April 17, 2017 and a franchise agreement.

3 8. On February 16, 2018, the Washington resident emailed a signed copy of the franchise
4 agreement to Lollicup. Under the terms of the agreement, the Washington resident had the right to operate a
5 Lollicup store in Kirkland, Washington as part of a distinctive system that was referred to as the Lollicup
6 System. As part of the agreement, the Washington resident had the right to use the Lollicup trademarks,
7 training programs and materials, product and supplier resources, recipes, menu item preparation and service
8 techniques, branded packaging and proprietary mixes and ingredients, operations methods and techniques,
9 and other proprietary information.

10 9. According to the FDD, the first 15 franchisees to sign an agreement after November 2016
11 would receive a “discount” and pay an initial franchise fee of \$10,000, rather than the normal price of \$35,000.
12 Under the franchise agreement, the Washington resident was also required to pay other fees, including a
13 royalty fee of 4% of the franchisee’s gross sales and a marketing fee of 2% of gross revenues. On November
14 10, 2018, a Washington resident wrote a \$10,000 check as a franchise fee and mailed it to Lollicup. In May
15 2019, Lollicup issued a refund to the Washington resident for the \$10,000 initial franchise fee that was paid
16 in 2018.

17 **Registration Status**

18 10. Respondent Lollicup Franchise System LLC is not currently registered to sell franchises in
19 the state of Washington and has not previously been so registered. There is no notification of exemption on
20 file with the state of Washington. As described above, on February 23, 2018, Lollicup Franchise System
21 LLC filed a franchise registration application with the Washington Securities Division. To date, that
22 franchise registration application has not yet been approved.

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

1 **CONCLUSIONS OF LAW**

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

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

6 **CONSENT ORDER**

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

8 IT IS AGREED AND ORDERED that Respondent Lollicup Franchise System LLC and their agents
9 and employees shall each cease and desist from offering or selling franchises in violation of RCW 19.100.020,
10 the registration section of the Franchise Investment Protection Act of the state of Washington.

11 IT IS FURTHER AGREED AND ORDERED that Respondent Lollicup Franchise System LLC shall
12 pay investigative costs of \$500 prior to the entry of this Consent Order.

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

14 IT IS FURTHER AGREED that Respondent Lollicup Franchise System LLC enters into this Consent
15 Order freely and voluntarily and with a full understanding of its terms and significance.

16 IT IS FURTHER AGREED that in consideration of the foregoing, Respondent Lollicup Franchise
17 System LLC waives its right to a hearing and to judicial review of this matter.

18 Signed this 23 day of August, 2019

19 Signed by:

20 Lollicup Franchise System LLC


21 By _____ /s/
22 Alan Yu
23 President

1 SIGNED and ENTERED this 28th day of August, 2019

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5 _____
6 William M. Beatty
7 Securities Administrator

8 Approved by:

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10 _____
11 Suzanne Sarason
12 Chief of Enforcement

13 Presented by:

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16 Robert Kondrat
17 Financial Legal Examiner

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