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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:

Robert Lenhart and
San Francisco Sourdough Eatery, Inc.,

Respondents

Order No. S-19-2829-20-CO01

CONSENT ORDER

9 Pursuant to the Franchise Investment Protection Act of Washington, RCW 19.100, the Securities
10 Division and Respondents Robert Lenhart and San Francisco Sourdough Eatery, Inc. do hereby enter into this
11 Consent Order in settlement of the matters alleged herein. Respondents neither admit nor deny the Findings
12 of Fact or Conclusions of Law as stated below.

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FINDINGS OF FACT

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Respondents

1. San Francisco Sourdough Eatery, Inc. ("SFSE") is an Idaho corporation formed on February
14, 2002 with its principal place of business in Coeur d'Alene Idaho. SFSE is in the business of offering San
Francisco Sourdough Eatery franchises that operate deli sandwich restaurants.

2. Robert Lenhart is the founder, Chief Executive Officer ("CEO") and President of SFSE.

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San Francisco Sourdough Eatery Inc.'s Prior Washington Franchise Registrations

3. SFSE was registered under file number 70012828 with the Securities Division to offer and sell
franchises in Washington from June 22, 2004 to June 22, 2005, from April 8, 2008 to April 8, 2009 and from
December 19, 2013 to December 19, 2014.

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CONSENT ORDER

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

1 **Nature of Conduct**

2 4. In 2017, a SFSE franchisee located in Washington State (“Washington Franchisee”)
3 approached Robert Lenhart about the opening of a second Washington SFSE franchise location. Robert
4 Lenhart told the Washington Franchisee that SFSE could not sell an additional franchise because the company
5 was not currently registered to offer and sell franchises in the state. Discussions between SFSE and the
6 Washington Franchisee continued through 2018 to facilitate the opening of the second location. Robert
7 Lenhart and the Washington Franchisee agreed to open the second location through a “joint venture”
8 arrangement. Lenhart and the Washington Franchisee agreed to co-own an entity to operate the second
9 location. Washington Franchisee formed a limited liability company (“LLC”) to operate the store under the
10 arrangement.

11 5. On or about January 24, 2019, Lenhart and Washington Franchisee signed the Agreement in
12 which Robert Lenhart and Washington Franchisee would each own 50% of the LLC. The stated purpose of
13 the LLC was to operate a restaurant “to be known as “San Francisco Style Sourdough Eatery.”” In the
14 Agreement, Robert Lenhart required Washington Franchisee to use SFSE construction plans, specifications
15 and layouts. All improvements, equipment, furniture, and fixtures used by Washington Franchisee had to meet
16 SFSE system standards. In the Agreement, Robert Lenhart required that any changes in the building or
17 improvements had to be pre-approved in writing by SFSE. Robert Lenhart reserved the right to require
18 Washington Franchisee to pay for any changes required to conform the building to SFSE approved designs.

19 6. In the Agreement, Robert Lenhart stated that the restaurant would be referred to as a
20 “Company-Owned Store” of the franchisor.

21 7. Under the Agreement, Washington Franchisee was to retain all profits and losses of the store.

22 8. Robert Lenhart promised to register the offer of SFSE franchises with the state of Washington
23 no later than January 1, 2021. Robert Lenhart agreed to convert the joint venture arrangement into a formal

1 franchise agreement and offer Washington Franchisee a SFSE franchise when it registered in Washington.
2 Robert Lenhart promised to transfer all of his shares of the LLC to Washington Franchisee upon the sale of
3 the franchise and conversion of the Agreement to a formal franchise agreement for the second location.

4 9. The Agreement stated that it was to be an addendum to Washington Franchisee’s franchise
5 Agreement when it was to be signed at a later date.

6 10. The Agreement stated that when the conversion to a “franchise store” takes place, the royalty
7 rate would be 3%.

8 11. On March 4, 2019, the Washington Franchisee filed with the Washington Secretary of State’s
9 Office a Certificate of Formation for the LLC that was to own the second SFSE location.

10 12. The Washington Franchisee negotiated a lease, purchased the required equipment and supplies
11 and opened the second SFSE store in June 2019.

12 13. SFSE permitted Washington Franchisee’s second store to use its marks and logos.

13 14. SFSE required Washington Franchisee to use its approved vendors for products and services
14 in the operation of the restaurant and sell only products from its approved menu list.

15 15. On or about December 23, 2019, in an effort to convert the joint venture arrangement into a
16 formal franchise arrangement, Robert Lenhart emailed Washington Franchisee a copy of the SFSE Franchise
17 Disclosure Document (“FDD”) dated November 15, 2019. An FDD is a document required by law to be
18 provided to prospective franchisees to provide them with material information about the franchisor and the
19 proposed franchise business. Lenhart included a statement in the FDD that referenced the second restaurant
20 and stated that SFSE had an “affiliate” that opened a San Francisco Style restaurant in Washington in June
21 2019 and that SFSE refers to that “location as a “company-owned restaurant” for the purposes of this
22 document.”
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16. Lenhart requested that Washington Franchise sign the FDD’s acknowledgment of receipt page and return it to him. In the email, Lenhart told Washington Franchisee that after the FDD had been reviewed and the fourteen day waiting period had passed, he would prepare a Franchise Agreement (“the Agreement”) to be signed by the Washington Franchisee.

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

CONCLUSIONS OF LAW

- 1. The offer and/or sale of the SFSE store described above constitutes the offer and/or sale of a franchise as defined in RCW 19.100.010(16) and RCW 19.100.010(4).
- 2. The offer and/or sale of said franchise was in violation of RCW 19.100.020 because no registration for such offer and/or sale is on file with the Securities Administrator.

CONSENT ORDER

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

IT IS AGREED AND ORDERED that Respondents SFSE and Robert Lenhart to cease and desist from violations of RCW 19.100.020, the Registration section of the Franchise Investment Protection Act of the state of Washington.

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

IT IS FURTHER AGREED that Respondents SFSE and Robert Lenhart, each enter into this Consent Order freely and voluntarily and with a full understanding of its terms and significance.

IT IS FURTHER AGREED that in consideration of the foregoing, each Respondent waives the right

1 to a hearing and to judicial review of this matter

2 Signed this 16th day of April, 2020

3 Signed by:

4
5 /s/
6 Robert Lenhart, CEO and President for
San Francisco Sourdough Eatery, Inc.

/s/
Robert Lenhart, individually

7 SIGNED and ENTERED this 21st day of April, 2020

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10 William M. Beatty
11 Securities Administrator

12 Approved by:

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14 Suzanne Sarason
15 Chief of Enforcement

16 Reviewed by:

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19 Jack McClellan
Financial Legal Examiner Supervisor

20 Presented by:

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22 Martin Cordell
23 Financial Legal Examiner

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