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7
8 BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION
9 OF THE STATE OF CALIFORNIA

10 In the Matter of:) FIL APP ID: 31031
11)
12 THE COMMISSIONER OF FINANCIAL) STATEMENT IN SUPPORT OF STOP
PROTECTION AND INNOVATION,) ORDER DENYING EFFECTIVENESS OF
13) FRANCHISE REGISTRATION
Complainant,) APPLICATION
14 v.)
(Corp. Code § 31115 and 31117)
15 ANCHORED TINY HOMES FRANCHISING,)
16 LLC., doing business as ANCHORED TINY)
HOMES,)
17 Respondent.)

18 I.

19 INTRODUCTION

20 A. The Commissioner of the Department of Financial Protection and Innovation
21 (Commissioner) is responsible for administering and enforcing the Franchise Investment Law
22 (Corporations Code § 31000, *et seq.*) (FIL).

23 B. Pursuant to section 31110 of the FIL, the offer or sale of a franchise in California is
24 illegal unless the franchise is registered with the Commissioner or meets an exemption.

25 C. To register a franchise, a franchisor must file an application which includes a
26 Uniform Franchise Disclosure Document (“FDD”) with the Department for review and approval, in
27 accordance with sections 31111 and 31114 of the FIL.
28

1 D. Every application for registration must include a proposed FDD that contains material
2 information and disclosures to prospective franchisees in accordance with the Uniform Franchise
3 Disclosure Document Guidelines, as adopted by the North American Securities Administrators
4 Association, Inc. on June 22, 2007, and effective July 1, 2007 [See section 31114 of the FIL and
5 Cal. Code Regs., title 10 § 310.111(b)](“FDD Guidelines”) and the Federal Trade Commission’s
6 amended Franchise Rule, 16 C.F.R. § 436.

7 E. The FIL, FDD Guidelines, and the Federal Trade Commission’s amended Franchise
8 Rule (collectively, the “Uniform Franchise Guidelines”) require franchisors to disclose certain
9 material information in their FDD to provide prospective franchisees with facts upon which to make
10 an informed decision to purchase a franchise.

11 F. The Uniform Franchise Guidelines require franchisors to disclose, in Item 3 of the
12 FDD, whether the franchisor has any pending civil actions, other than ordinary routine litigation
13 incidental to the business, which are material in the context of the financial condition of the
14 franchise system or its business operations.

15 G. The Uniform Franchise Guidelines require franchisors to disclose whether the
16 franchisor, or any other individual who has management responsibility relating to the sale or
17 operation of the franchise has filed as a debtor a petition under the United States Bankruptcy Code.
18 This disclosure is required to be made in Item 4 of the FDD.

19 H. Pursuant to section 31111, an application for registration of an offer of a franchise
20 shall be filed with the Commissioner upon the Uniform Franchise Registration Application, as
21 identified, modified, and supplemented by rule of the Commissioner. Pursuant to Cal. Code Regs.,
22 title 10 § 310.111.2(a) (“Rule 310.111.2”), a rule of the Commissioner:

23 “Financial Statements required to be filed by these rules or by any
24 official form of the Department shall be prepared in accordance with
25 generally accepted accounting principles. Financial statements should
26 be audited by either an independent certified public accountant or
27 independent public accountant, except where the particular form or this
28 Section permits the use of unaudited statements for interim periods or
generally.”

I. Under the FIL, “a franchisor shall promptly notify the commissioner in writing, by an

1 application to amend the registration, of any material change in the information contained in the
2 application as originally submitted, amended or renewed.” (§ 31123)

3 J. The filing of a personal bankruptcy by an officer of the franchisor and the filing of
4 non-routing civil actions against the franchisor are material changes required to be reported under
5 section 31123 of the FIL.

6 K. The Commissioner may summarily issue a stop order revoking the effectiveness of
7 any registration if the Commissioner finds that there is a failure to comply with the FIL. (§
8 31115(a)).

9 L. Additionally, the Commissioner may summarily issue a stop order revoking the
10 effectiveness of any registration if the Commissioner finds that any person identified in the
11 application who’s involvement in the sale or management of the franchise creates an unreasonable
12 risk to prospective franchisees if it is found that they are subject to any currently effective injunctive
13 or restrictive order relating to business activity as a result of an action brought by any public agency
14 or department. (§ 31115(d)(4)).

15 II.

16 STATEMENT OF FACTS

17 1. At all relevant times, Anchored Tiny Homes Franchising, LLC., doing business as
18 Anchored Tiny Homes (ATH) was and is a Wyoming limited liability company, with a principal
19 place of business located at 4401 Hazel Avenue, Suite 225, Fair Oaks, California. At all relevant
20 times, ATH represented that it sold franchises that designed, sold, and installed customized tiny
21 home accessory dwelling units, affordable homes, and related services and products. On or about
22 March 16, 2022, ATH applied to the Department for franchise registration by way of application no.
23 23301. The application was approved. ATH applied for renewal on April 8, 2024, by way of
24 application no. 31031 which included an FDD. Their renewal registration became effective on April
25 11, 2024, and is set to expire on April 21, 2025.

26 2. On July 22, 2024, Mr. Advance, LLC, a direct to business lender, brought an action
27 against ATH in Connecticut Superior Court. (Mr. Advance, LLC v. Hello Builder, LLC et al., NNH-
28 CV24-6145640, Connecticut Superior Court J.D. of New Haven, July 22, 2024. The action alleges

1 that ATH and Mr. Advance entered into a merchant account agreement executed on or about April
2 10, 2024. Mr. Advance, LLC advanced over \$400,000 to ATH pursuant to the merchant account
3 agreement. The action alleges that ATH failed to make a single required payment. To date, ATH has
4 not notified the Commissioner of the action brought against it in Connecticut Superior Court. This
5 action alleges that ATH has failed to meet its financial obligations and is material in the context of
6 the financial condition of the ATH franchise system. This failure to notify the Commissioner in
7 writing, by an application to amend its registration, of this material change is a violation of section
8 31123 of the FIL.

9 3. On October 8, 2024, the Registrar of Contractors of the Contractors State License
10 Board for the State of California (“CSLB”) entered an Order revoking the Contractor’s Licenses of
11 Anchored Tiny Homes, License Number 1078940, and Anchored Construction, License Number
12 569596. (*In the Matter of the Accusation Against: Anchored Tiny Homes, LLC; Scott Francis
13 Paulhus, RMM, Austin James Paulhus, Member; and Colton Scott Paulhus, Member, Case No.
14 N2024-140*). To date, ATH has not notified the Commissioner of the action brought against its
15 officers and affiliates by the CSLB. This failure to notify the Commissioner in writing, by an
16 application to amend its registration, of this material change is a violation of section 31123 of the
17 FIL.

18 4. On October 11, 2024, Colton Paulhus, the Chief Executive Office of ATH, filed for
19 Chapter 7 bankruptcy in the United States Bankruptcy Court, Eastern District of California. (*In Re:
20 Colton Scott Paulhus, 2:24-BK-24588 (Bankr. E.D. Cal. 2024)*).

21 5. On September 30, 2024, Austin Paulhus, the Chief Operating Officer of ATH, filed
22 for Chapter 7 bankruptcy the United States Bankruptcy Court, Eastern District of California (*In Re:
23 Austin James Paulhus, 2:24-BK-24383 (Bankr. E.D. Cal. 2024)*).

24 6. To date, ATH has not notified the Commissioner that it’s CEO Colton Paulhus and
25 CFO Austin Paulhus each filed as debtors in Chapter 7 bankruptcies. This failure to notify the
26 Commissioner in writing, by an application to amend its registration, of this material change to the
27 bankruptcy information required to be disclosed in Item 4 of ATH’s FDD is a violation of section
28 31123 of the FIL.

