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

11	In the Matter of:)	FIL ORG ID: 130338
12)	
13	THE COMMISSIONER OF FINANCIAL)	STATEMENT IN SUPPORT OF STOP
14	PROTECTION AND INNOVATION,)	ORDER DENYING EFFECTIVENESS OF
15)	FRANCHISE REGISTRATION
16	Complainant,)	APPLICATION
17)	
18	v.)	(Corp. Code § 31115)
19)	
20	CLASSIC ROCK COFFEE CO.)	
21	FRANCHISING LLC,)	
22)	
23	Respondent.)	
24)	

21
22 The Complainant, the Commissioner of Financial Protection and Innovation (Commissioner)
23 of Department of Financial Protection and Innovation (Department) is informed and believes, and
24 based upon such information and belief, alleges as follows:

25 1. At all relevant times, Classic Rock Coffee Co. Franchising LLC (Classic Rock) is a
26 limited liability company organized and existing under the laws of the State of Missouri, on or
27 around August 2, 2012, with a principal place of business at 1900 West Sunset, Suite A116,
28 Springfield, Missouri 65807.

1 2. At all relevant times, Kent Morrison (Morrison) was the President and Managing
2 Member of Classic Rock, with a principal place of business at 1900 West Sunset, Suite A116,
3 Springfield, Missouri 65807.

4 3. The Commissioner, as head of the Department, is responsible for administering and
5 enforcing the Franchise Investment Law (Corporations Code § 31000, *et seq.*) (FIL).

6 4. Pursuant to sections 31111, 31112, and 31114 of the FIL, an application for
7 registration of an offer of a franchise, whether by a franchisor or sub-franchisor, shall be
8 accompanied by a Uniform Franchise Disclosure Document (FDD) that contains the material
9 information set forth in the application for registration and shall be filed with the Commissioner.

10 5. As stated in Corporations Code section 31101, it is the intent of the FIL to provide
11 each prospective franchisee with the information necessary to make an intelligent decision
12 regarding the franchise being offered.

13 6. On or around January 10, 2019, the Commissioner issued a Citation including: (1)
14 Desist and Refrain Order, (2) Assessment of Administrative Penalties, and (3) Claim for Ancillary
15 Relief to Classic Rock (2019 Citation).

16 7. The Commissioner ordered Classic Rock to desist and refrain from further violations
17 of Corporations Code section 31119, subdivision (a), failing to provide a FDD to a franchisee, at
18 least 14 days prior to the execution of any binding franchise agreement or receipt of any
19 consideration.

20 8. The Commissioner also ordered Classic Rock to desist and refrain from further
21 violations of Corporations Code section 31201 – offering or selling a franchise by any written or oral
22 communication which includes an untrue statement of material fact or omits to state a material fact
23 necessary in order to make the statements made, in the light of the circumstances under which they
24 were made, not misleading.

25 9. The 2019 Citation stated, in relevant part:
26 (a) If, upon inspection or investigation, based upon a complaint or
27 otherwise, the commissioner has cause to believe that a person is
28 violating any provision of this division or any rule or order
promulgated pursuant to this division, the commissioner may issue a

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citation to that person in writing describing with particularity the basis of the citation. Each citation may contain an order to desist and refrain and an assessment of an administrative penalty not to exceed two thousand five hundred dollars (\$2,500) per violation and shall contain reference to this section, including the provisions of subdivision (c). All penalties collected under this section shall be deposited in the State Corporations Fund.

(b) The sanctions authorized under this section shall be separate from, and in addition to, all other administrative, civil, or criminal remedies.

(c) If within 60 days from the receipt of the citation, the person cited fails to notify the commissioner that the person intends to request a hearing as described in subdivision (d), the citation shall be deemed final

10. On or around January 15, 2019, the Commissioner served Classic Rock with the 2019 Citation, with a Desist and Refrain Order, which currently remains in effect.

11. On or around February 25, 2020, Classic Rock filed with the Commissioner an initial franchise registration application and FDD for the offer or sale of Classic Rock Coffee Co. store franchises pursuant to Corporations Code sections 31111 and 31112 (2020 Application).

12. “Item 2: Business Experience” of the 2020 Application disclosed that Morrison was the Managing Member since Classic Rock’s inception and in 2011, Morrison built the first Classic Rock Coffee Co. store.

13. “Item 3: Litigation” of the 2020 Application stated the following:
The franchisor is subject to currently effective injunction or restrictive order resulting from a pending action brought by the California Department of Business Oversight¹:

Title: In the Matter of the Commissioner of Business Oversight v. Classic Rock Co. Franchising LLC
Initial Filing Date: January 10, 2019
Name of the Parties: The Commissioner of Business Oversight, Complainant (“Commissioner”) and Classic Rock Coffee Co. Franchising LLC, Respondent (“CRCC”)

¹ In September 2020, the California Department of Business Oversight changed its agency name to the California Department of Financial Protection and Innovation.

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Forum: State of California – Department of Business Oversight

Summary: The Commissioner alleges that CRCC failed to provide the requisite copy of the then-current FDD at least 14 days prior to the execution of the franchise agreement or receiving consideration from the potential franchisee.

Status: Pending

14. The 2020 Application contained a certification by Morrison as President of Classic Rock and signed on August 30, 2019 before a Notary Public, stating, “I certify and swear under penalty of law that I have read and know the contents of this application, including the Franchise Disclosure Document with an issuance date of _____, 20___, attached as an exhibit, and that all material facts stated in all those documents are accurate and those documents do not contain any material omissions. I further certify that I am duly authorized to make this certification on behalf of the Franchisor and that I do so upon my personal knowledge.”

15. While the 2020 Application was under review, on or around July 27, 2020, the Commissioner sent Classic Rock a letter acknowledging receipt of its application for franchise registration under Corporations Code section 31111.

16. In his letter dated July 27, 2020, the Commissioner informed Classic Rock that the 2020 Application may be forthcoming once the applicant addressed the Department’s comments:

Based on the Department’s records, the franchisor has failed to fully comply with the Citation issued by the Department on January 10, 2019, which included an order that the franchisor pay administrative penalties of \$5,000 to the Department and restitution in the amount of \$39,000 to the franchisee named therein. The Department will not review or register this application until franchisor has complied with all the terms of the Citation. Once the franchisor has fully complied, please submit proof of compliance to [the Department].

17. To date, Classic Rock has not responded to the Commissioner’s letter dated July 27, 2020, and franchisor has not complied with the 2019 Citation.

1 18. Classic Rock and Kent Morrison omitted and made untrue statements in its 2020
2 Application regarding the 2019 Citation:

- 3 i. Characterized the 2019 Citation as “pending,” but the Desist and Refrain
4 Order became final on March 1, 2019;
- 5 ii. Did not disclose that the Commissioner ordered franchisor to desist and
6 refrain from further violations of Corporations Code sections 31119 and
7 31201;
- 8 iii. Did not disclose that franchisor did not pay the \$39,000 in restitution to
9 former Franchisee A.M.; and
- 10 iv. Did not disclose that franchisor did not pay the administrative penalty of
11 \$5,000.00 to the Commissioner.

12 19. As of June 2019, the offer and sale of Classic Rock Coffee Co. stores franchises is not
13 yet registered, and the 2020 Application is pending before the Commissioner.

14 20. Cal. Code of Regs., tit. 10, section 310.111 states, in relevant part:

- 15 (a) All applications for registration under this Law shall be filed upon the
16 Uniform Franchise Registration Application as defined in subsection (b).
- 17 (b) Until June 30, 2008, the term “Uniform Franchise Registration
18 Application” means information required from the applicant in accordance
19 with either (1) the Uniform Franchise Offering Circular (“UFOC”) Guidelines, as amended by the North American Securities Administrators
20 Association, Inc. on April 25, 1993; or (2) the Uniform Franchise
21 Disclosure Document (“UFDD”) Guidelines, as adopted by the North
22 American Securities Administrators Association, Inc. on June 22, 2007
23 and effective July 1, 2007. On or after July 1, 2008, the term “Uniform
24 Franchise Registration Application” means information required from the
25 applicant in accordance with the Uniform Franchise Disclosure Document
26 (“UFDD”) Guidelines, as adopted by the North American Securities
27 Administrators Association, Inc. on June 22, 2007 and effective July 1,
28 2007

25 21. The North American Securities Administrators Association, Inc. 2008 Franchise
26 Registration and Disclosure Guidelines states, in relevant part:

27 **Item 2: Business Experience.** Disclose by name and position the
28 franchisor’s directors, trustees, general partners, principal officers, and any

1 other individuals who will have management responsibility relating to the
2 sale or operation of franchises offered by this document . . .

3 **Item 3: Litigation** Disclose whether the franchisor . . . and any
4 person identified in Item 2 . . . is subject to a currently effective injunctive
5 or restrictive order or decree resulting from a pending or concluded action
6 brought by a public agency and relating to the franchise or to a Federal,
7 State, or Canadian franchise (Emphasis in original.)²

8 22. Corporations Code section 31200 states:

9 It is unlawful for any person **willfully to make any untrue statement of a**
10 **material fact** in any application, notice or report filed with the
11 commissioner under this law, or **willfully to omit to state in any such**
12 **application**, notice, or report **any material fact which is required to be**
13 **stated therein**, or fail to notify the commissioner of any material change
14 as required by Section 31123. (Emphasis applied.)

15 23. Corporations Code section 31115 states, in relevant part:

16 The commissioner may summarily issue a stop order denying the
17 effectiveness of or suspending or revoking effectiveness of any
18 registration if the commissioner finds:

19 (a) That there has been a failure to comply with any of the provisions of
20 this law or the rules of the commissioner pertaining thereto . . .

21 . . .

22 (d) That any person identified in the application or any officer or director
23 of the franchisor, whether or not identified in the application, meets one or
24 more of the following conditions, and the involvement of this person in
25 the sale or management of the franchise creates an unreasonable risk to
26 prospective franchisees: . . .

27 . . .

28 (4) Is subject to any currently effective injunctive or restrictive order
relating to business activity as a result of an action brought by any public
agency or department, including, without limitation, actions affecting a
license as a real estate broker or sales person.

29 24. Based upon the foregoing findings, the Commissioner is of the opinion that Classic
30 Rock Coffee Co. Franchising LLC and Kent Morrison willfully made an untrue statement of a
31 material fact and omitted to state in an application, notice, or report a material fact which is required

32 _____
33 ² The North American Securities Administrators Association, Inc. 2008 Franchise Registration and Disclosure
34 Guidelines can be viewed at <https://www.nasaa.org/industry-resources/uniform-forms/franchise-registration-and-disclosure-guidelines/>; and <https://www.nasaa.org/wp-content/uploads/2011/07/2-2008UFOC.pdf>.

1 to be stated therein in violation of Corporations Code section 31200 and Cal. Code of Regs., tit. 10,
2 section 310.111.

3 25. Accordingly, the Commissioner is of the opinion that Classic Rock Coffee Co.
4 Franchising LLC and Kent Morrison failed to comply with the provisions of the FIL and that
5 franchisor is subject to a currently effective injunctive or restrictive order relating to the offer or
6 sale of franchises as a result of an action brought by the Department, a public agency, and the
7 involvement of this person in the sale or management of the franchise creates an unreasonable risk
8 to prospective franchisees.

9 26. For these reasons, the Commissioner has determined that an order should be issued
10 pursuant to Corporations Code section 31115, subdivisions (a) and (d), denying the effectiveness of
11 the franchise registration application filed on or around February 25, 2020, by Classic Rock Coffee
12 Co. Franchising LLC.

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14 Dated: June 16, 2021

MANUEL P. ALVAREZ
Commissioner of Financial Protection and Innovation

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16 By _____
17 Vanessa T. Lu
18 Counsel
19 Enforcement Division
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