

ADMINISTRATIVE PROCEEDING
BEFORE THE
SECURITIES COMMISSIONER OF MARYLAND

*

IN THE MATTER OF: *

*

Lango, LLC, *

Respondent Case No. 2011-0528

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* * * * *

CONSENT ORDER

WHEREAS, the Securities Division of the Office of the Attorney General of Maryland (the “Securities Division”) initiated an inquiry into the franchise-related activities of Lango, LLC (“Lango”) under the authority granted under the Maryland Franchise Registration and Disclosure Law, MD. BUS. REG. CODE ANN. §14-201 et seq. (2010 Repl. Vol. and Supp. 2011) (the “Maryland Franchise Law”); and

WHEREAS, based on information presented by the Securities Division, the Maryland Securities Commissioner (the “Commissioner”) concluded that grounds exist to allege that Lango violated the registration and disclosure provisions of the Maryland Franchise Law, and a previous Agreement with the Commissioner, in relation to offers and sales in Maryland of Lango franchises; and

WHEREAS, before the holding of a hearing in this matter, without trial or final adjudication of any issue of fact or law, and without Lango admitting or denying any violation of law, the Commissioner and Lango have reached an agreement to enter into this Consent Order;

NOW, THEREFORE, IT IS HEREBY ORDERED AND DECREED:

I. JURISDICTION

1. The Commissioner has jurisdiction in this proceeding pursuant to Section 14-210(a) of the Maryland Franchise Law.

II. STATEMENT OF FACTS

2. Lango is a California limited liability company organized on November 29, 2010. Lango offers franchises for home-based businesses that teach foreign language classes to children (the “Lango Program”).

3. On May 13, 2011, Lango filed an initial registration application to offer and sell franchises in Maryland under the Maryland Franchise Law.

4. In its initial registration application, Lango advised the Securities Division that International Training and Exchange, Inc. (“Intrax”), Lango’s parent and predecessor, had offered licenses to operate Lango Program businesses from April 2008 through September 2010.

5. At the time Lango filed its initial registration application, Lango’s legal counsel at that time represented to the Securities Division that after September 2010, neither Intrax nor Lango offered or sold any licenses in Maryland or to any Maryland residents (hereafter collectively “Maryland Licensees”).

6. Intrax had never registered with the Securities Division to offer franchises under the Maryland Franchise law. Intrax had never given prospective Maryland Licensees a copy of a Franchise Disclosure Document (“FDD”) regarding the Lango Program offering.

7. Intrax represented to the Securities Division that it relied on legal advice from an prior legal counsel regarding the need to register its License Agreement under state franchise registration laws, including the Maryland Franchise Law.

A. The Lango Agreement

8. On June 28, 2011, in order to resolve alleged violations of the Maryland Franchise Law, Intrax, Lango and the Commissioner entered into an Agreement (the “Lango Agreement”) in which the Commissioner made certain findings, and Intrax and Lango made certain representations and undertakings.

9. Under the Lango Agreement, the Commissioner determined, and Intrax acknowledged, that the Intrax license agreements with the Maryland Licensees represented the sale of a “franchise” as defined under §14-201 of the Maryland Franchise Law.

10. The Commissioner also determined that, by entering into Intrax license agreements with Maryland Licensees to operate the Lango Program, Intrax violated the registration and disclosure provisions, §§14-214(a) and 14-216(a), of the Maryland Franchise Law.

11. Under the Lango Agreement, Intrax represented that its offers and sales of franchises in the form of Intrax license agreements in violation of the registration and disclosure requirements of the Maryland Franchise Law were inadvertent.

12. Under the Lango Agreement, both Intrax and Lango further represented that, other than the offer and sale of Intrax license agreements to three (3) Maryland Licensees identified in its May 2011 Franchise Disclosure Document, neither Intrax nor Lango offered or sold any franchises or licenses to any Maryland residents, or to any other residents for a Lango Program business to be located in whole or in part in Maryland.

13. The Securities Division registered Lango’s franchise offering effective December 5, 2011.

B. Violations of the Lango Agreement

14. On or about December 20, 2011, Lango's current legal counsel ("New Counsel") contacted the Securities Division and acknowledged that, contrary to what Lango and Intrax had represented in the Lango Agreement, prior to the date of the Lango Agreement, Intrax actually had entered into Intrax license agreements with four (4) Maryland Licensees, not three (3).

15. In that December 20, 2011 letter, Lango's New Counsel also acknowledged that, after the date of the June 28, 2011 Lango Agreement and before Lango's franchise offering was registered by the Securities Division for use in Maryland, Lango had entered into a franchise agreement with a Maryland resident.

16. Specifically, Lango acknowledged that on September 1, 2011, Lango entered into a franchise agreement with Ken Kennedy ("Kennedy"), a Maryland resident, granting him the right to operate a Lango Program franchise in a Maryland territory.

17. Lango represents that it gave Kennedy an FDD regarding the Lango Program on July 29, 2011, but that FDD was not registered for use in Maryland at the time of the sale and did not contain specific disclosures required under the Maryland Franchise Law.

18. Lango represents that at the time it entered into the Lango Agreement, Lango's former managing director, Michael Fee ("Fee"), was responsible for franchise and license sales activities.

19. Lango also represents that Fee is no longer employed by or affiliated with Lango, and a new management team has assumed responsibility for the administration of Lango's franchise program.

20. Lango represents that it has ceased offering and selling franchises in Maryland and to any Maryland residents pending the outcome of this inquiry.

21. New Counsel, on behalf of both Intrax and Lango, represents that on or about December 22, 2011, Intrax sent to all four (4) Maryland Licensees, a copy of the Lango Agreement, an FDD registered by the Securities Division on December 5, 2011 for use in Maryland (“Maryland FDD”) and a letter offering to rescind their respective Intrax license agreements under the terms of the Lango Agreement.

22. In addition, Lango represents that it has sent Kennedy a copy of the Lango Agreement and a letter offering to rescind his Lango franchise agreement under the terms of the Lango Agreement.

23. Lango represents that it has conducted a thorough search of its records, and based on that search, Lango confirms there are a total of five (5) individuals or entities operating a Lango Program business who are Maryland residents or residents of another state with a territory that includes, in whole or in part, Maryland. Four (4) of those Lango Program operators are Maryland Licensees, and (1) one is Kennedy, a franchisee.

24. Lango represents that, as of the date of this Consent Order, each of those Maryland Licensees has received a copy of the Lango Agreement, a Maryland FDD, and an offer to rescind his or her Lango Program license. In addition, Lango has given Kennedy a copy of the Lango Agreement, a Maryland FDD, and an offer to rescind his franchise agreement on the same terms as the Maryland Licensees were offered in the Lango Agreement.

25. Lango represents that it has implemented new compliance procedures to ensure that, in the future, Lango complies with all required provisions of the Maryland Franchise Law.

IV. CONCLUSIONS OF LAW

26. By engaging in the above activities, the Commissioner has concluded that Lango

violated §§14-214, 14-216 and 14-228 of the Maryland Franchise Law and the Lango Agreement with the Commissioner.

V. ORDER AND CONSENT

27. THE COMMISSIONER HEREBY ORDERS, AND LANGO REPRESENTS AND CONSENTS THAT:

- A. Lango shall immediately and permanently cease and desist from the offer and sale of franchises in violation of the Maryland Franchise Law;
- B. Lango shall promptly file an amendment application to its registration with an FDD that discloses this Consent Order;
- C. Upon notification by the Securities Division that its amended FDD has been registered for use in Maryland, Lango shall send to Kennedy: (i) a copy of the applicable, effectively registered Maryland Franchise Disclosure Document; and (ii) a letter, in substantially the form attached to this letter as Exhibit 1, notifying Kennedy that he has the right to rescind his Lango Program franchise under the terms stated in that letter. If Kennedy accepts Lango's offer to rescind his franchise purchase in response to the Offer to Rescind Franchise Agreement, Lango agrees to complete payments to Kennedy within 30 (thirty) days of Lango's receipt of that written Acceptance;
- D. Lango shall pay to the Office of the Attorney General a civil monetary penalty of \$10,000.00; and
- E. Lango acknowledges that this Consent Order is a discloseable order as described under the Maryland Franchise Law, and Item 3 of the NASAA Franchise Registration and Disclosure Guidelines and Amended FTC Franchise Rule.

VI. JURISDICTION RETAINED

28. Jurisdiction shall be retained by the Commissioner for such further orders and directions as may be necessary or appropriate for the construction or enforcement of the Consent Order.

VII. CONSEQUENCES OF VIOLATING THIS CONSENT ORDER

- 29. If Lango fails to comply with any term of this Consent Order, the Securities

FORM
(On Company Letterhead)

Certified Mail
Return Receipt Requested

Re: [Company] Offer to Rescind Franchise Agreement

Dear _____:

In accordance with discussions our attorneys have had with the Division of Securities of the Maryland Attorney General's Office (the "Division"), [Insert name of Franchisor] ("we") have agreed to offer rescission to all Maryland residents who purchased a franchise that we sold in violation of the registration and disclosure provisions of the Maryland Franchise Law and an earlier agreement we signed with the Maryland Securities Commission. This offer of rescission is made in settlement of the administrative proceeding that the Division may bring for the sale of a franchise in violation of the Maryland Franchise Law and does not affect any civil liability for which we may be responsible.

If you elect to rescind and terminate your franchise, we agree to return to you the initial franchise and training fees you paid us or our affiliates, less the cost for any unreturned items and equipment included in the purchase price you paid for the franchise. If you purchased any optional items as part of your franchise agreement, we will reimburse you for the cost you paid us for any of the items that you return.

In the event you elect to rescind, you will give up your franchise agreement. You also will give up any rights to use our trademarks and system and be obligated to refrain from using and disclosing any of our trade secrets and any of our confidential and proprietary information.

This offer will remain open for thirty (30) days from the date you receive this letter. Please check the appropriate place below and return a signed copy of this letter to me within the time period. If you have any questions, please contact Dale E. Cantone, Assistant Attorney General, at the Division (410-576-6368).

Sincerely,

THE COMPANY

Exhibit 1

ACCEPTANCE OR REFUSAL OF OFFER TO RESCIND FRANCHISE

1. I, the undersigned, acknowledge that I have read the preceding Offer to Rescind Franchise Agreement and understand its contents.
2. I understand that I have not waived my rights under the Maryland Franchise and Disclosure Law by signing this document.
3. I hereby make the following choice to accept or refuse your offer to rescind my franchise agreement:

CHECK ONE

_____ I hereby **accept** your offer of rescission and agree to not use your trademarks and system and to not use or disclose to anyone the trade secrets, and confidential and proprietary information that we obtained from you.

_____ I do **not accept** your offer of rescission. I wish to remain a franchisee under my franchise agreement.

Date: _____

Franchisee