

ADMINISTRATIVE PROCEEDING  
BEFORE THE  
SECURITIES COMMISSIONER OF MARYLAND

\*

IN THE MATTER OF: \*

\*

**JEI Self-Learning Systems, Inc.,** \* Case No. 2013-0123

Respondent. \*

\* \* \* \* \*

**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 JEI Self-Learning Systems, Inc. (“JEI”) under the authority granted under the Maryland Franchise Registration and Disclosure Law, MD. CODE ANN. BUS. REG §14-201 et seq. (2010 Repl. Vol. and Supp. 2012) (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 JEI violated the registration, disclosure, and recordkeeping provisions of the Maryland Franchise Law, in relation to offers and sales of JEI franchises in Maryland; 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 JEI admitting or denying any violation of law, the Commissioner and JEI 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

### A. **Background**

2. JEI is a California corporation with a principal business address of 4465 Wilshire Blvd., Suite 302, Los Angeles, California 90010.

3. JEI offers and sells franchises for the operation of a JEI Learning Center, a supplemental form of education using a method called “the Learning System” developed by JEI Corporation.

4. JEI has been offering franchises since 1992. As of December 31, 2011, JEI had 43 franchised outlets operating throughout the United States.

5. In July 2004, JEI changed its name from JEI America, Inc. to JEI Self-Learning Systems, Inc.

6. On December 20, 2000, JEI, (then named JEI America, Inc.), filed an initial application with the Securities Division to register its franchise offering under the Maryland Franchise Law.

7. With its initial registration application, JEI’s counsel included a letter acknowledging that, prior to its registration with the Securities Division, JEI had sold two franchises in Maryland. JEI’s counsel stated that JEI’s sale of franchises prior to registration in Maryland was inadvertent, and that company management was unaware of an obligation to register its franchise offering prior

to advertising or selling franchises in Maryland.

8. On January 30, 2001, the Securities Division responded to JEI's registration application by sending a comment letter identifying deficiencies in the application and Franchise Disclosure Document ("FDD") that JEI had to correct before the Securities Division would register JEI's franchise offering for use in Maryland.

9. Among other comments in its January 30, 2001 deficiency letter, the Securities Division sought clarification from JEI as to the total number of franchises it had offered and sold in Maryland because the franchise disclosure document that JEI filed with the Securities Division in December 2000 reflected a total of four franchise sales in Maryland prior to the date of JEI's initial franchise registration application.

10. On August 13, 2001, JEI responded to the Securities Division's January 30, 2001 deficiency letter with a corrected application and FDD. JEI's counsel also confirmed at that time that, prior to the date JEI filed its initial franchise registration application, JEI had offered and sold a total of four franchises in Maryland, two of which were in operation as of August 2001.

11. On August 28, 2001 and again on January 14, 2002, the Securities Division responded to JEI's corrected registration application by sending JEI a comment letter identifying additional deficiencies that JEI had to address before the Securities Division would register JEI's franchise offering for use in Maryland. In each such deficiency letter, an examiner for the Securities Division requested copies of the franchise agreements and disclosure documents provided to JEI franchisees.

12. On January 22, 2002, JEI responded to the Securities Division's deficiency letters and included copies of a form of franchise agreement and disclosure document that JEI represented that it provided to Maryland franchisees. JEI's counsel further represented that JEI would provide

additional documents and information that the Securities Division had requested as soon as possible.

13. On August 9, 2002, the Securities Division sent a further deficiency letter to JEI and stated, among other deficiencies:

Counsel for the franchisor has advised the Division that the number of unregistered sales has risen to five from the two we were told about on December 19, 2000. A type of disclosure document and a signed undated agreement for one franchisee has been received. This filing will not become effective in Maryland until such time as all of the information requested for each unregistered franchise sale is received and the outstanding issues are resolved.

14. In that August 9, 2002 letter from the Securities Division, the examiner summarized that it was her understanding that JEI had offered and sold franchises as of that date to the following individuals: Keum Yeon Kim; Keum Lim Ryo (a.k.a. Ryo Chung); Ester Hwang; Mun S. Choi and Keum Y. Cho (f.k.a. Keum Yeon Kim).

15. JEI never responded to the Securities Division August 9, 2002 deficiency letter, and, subsequently JEI's initial franchise registration application was deemed abandoned.

16. On September 14, 2012, JEI, now under the name JEI Self-Learning Systems, Inc., submitted to the Securities Division a re-filed initial application to register JEI's franchise offering under the Maryland Franchise Law.

17. On October 12, 2012, the Securities Division responded to JEI's franchise registration application by sending a comment letter identifying deficiencies in the application and Franchise Disclosure Document ("FDD") that JEI had to correct before the Securities Division would register JEI's franchise offering for use in Maryland.

18. Among the comments the Securities Division made in its October 12, 2012 letter, the Securities Division requested that JEI submit an "undertaking" signed by an officer of the franchisor,

that the franchisor neither offered nor sold franchises in Maryland or to any Maryland residents during the time it was not registered under the Maryland Franchise Registration and Disclosure Law.

19. In response to the Securities Division's October 12, 2012 deficiency letter, JEI submitted an undertaking dated October 16, 2012 signed by Gil C. Choi, a senior vice president for JEI. In that undertaking, Mr. Choi stated that in 2001, JEI had 3 partnership agreements in Maryland, all of which had ceased operations in 2006 and that JEI was not aware at that point that registration was required in the state of Maryland.

20. On November 2, 2012, the Securities Division requested copies of the 3 partnership agreements that Mr. Choi referenced in his October 16, 2012 undertaking.

21. On February 19, 2013, counsel for JEI responded to the Securities Division's November 2, 2012 letter and represented that, due to circumstances beyond JEI's control, it is unable to locate any documents related to the offer and sale of three partnership agreements that JEI entered into with Maryland residents in 2001.

22. JEI acknowledges that, as of December 31, 2001, it offered and sold a total of four franchises in Maryland or to Maryland residents ("Maryland Franchisees").

23. JEI acknowledges further that it has never registered to offer and sell franchises in Maryland, and that it did not give any prospective Maryland Franchisees a copy of a Maryland-registered franchise disclosure document prior to the offer or sale of a JEI franchise to any Maryland Franchisee.

24. JEI represents that none of the Maryland Franchisees who purchased a JEI franchise is currently operational and that JEI currently has no records regarding the sale of a JEI franchise to any Maryland Franchisees.

25. JEI represents that none of its current officers were officers of JEI between December 20, 2000, when JEI filed its initial application with the Securities Division, and 2006.

#### IV. CONCLUSIONS OF LAW

26. By engaging in the above activities, the Commissioner has concluded that JEI violated §§14-214, 14-216, 14-223, and 14-224 of the Maryland Franchise Law.

#### V. ORDER AND CONSENT

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

- A. JEI shall immediately and permanently cease and desist from the offer and sale of franchises in violation of the Maryland Franchise Law;
- B. JEI shall pay the Office of the Attorney General the sum of \$15,000 as a civil monetary penalty, which monetary penalty shall be paid in full no later than December 31, 2013;
- C. Upon completing the payment of the \$15,000 monetary penalty to the Office of the Attorney General, JEI shall submit to the Securities Division a re-filed and updated initial application to register JEI's franchise offering in Maryland and shall diligently pursue completion of that franchise registration in Maryland. For purposes of this Consent Order "diligently pursue" means that the applicant submits a substantive response to a Securities Division comment letter regarding a registration application no later than 15 days after the applicant's receipt of the comment letter;
- D. JEI 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.

