

ADMINISTRATIVE PROCEEDING
BEFORE THE
SECURITIES COMMISSIONER OF MARYLAND

IN THE MATTER OF:	*	
	*	
CLUCK-U CORP.,	*	
		Case No. 2007-0409
and	*	
SIMON HADDAD,	*	
Respondents,	*	
* * * * * * * * * * * *		

CONSENT ORDER

WHEREAS, the Maryland Division of Securities (the "Division") initiated an investigation into the franchise-related activities of Cluck-U Corp. ("Cluck U"), pursuant to the authority granted under the Maryland Franchise Registration and Disclosure Law, MD. CODE ANN. BUS. REG. §14-201 et seq. (2004 Repl. Vol. and Supp. 2006) (the "Maryland Franchise Law"); and

WHEREAS, based on information presented by the Division, the Maryland Securities Commissioner (the "Commissioner") has concluded that grounds exist to allege that Cluck U and Simon Haddad (collectively "Respondents") violated the registration, disclosure, and filing provisions of the Maryland Franchise Law, in relation to the offer and sale of Cluck U 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 Respondents admitting or denying any violation of law, the Commissioner and Respondents 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. Cluck U is a Maryland corporation with a principal business address of 14504 Greenview Drive, Suite 200, Laurel, Maryland 20708. Cluck U offers franchises for the operation of fast food dine-in and carry-out restaurants featuring chicken, ribs, sandwiches, salads and related food products.

3. Simon Haddad was, from February 2000 to June 2007, Vice President and Secretary of Cluck U. From April 2003 to December 2006, Simon Haddad also was acting president of Cluck U and was primarily responsible for franchise sales activities and the preparation of applications filed with the Division to register the Cluck U franchise offering in Maryland.

4. Cluck U has been registered by the Division to offer and sell franchises in Maryland at various times since 2000, most recently from July 9, 2004 to July 9, 2005, when Cluck U's last effective franchise registration in Maryland expired.

5. On August 29, 2005, Cluck U filed an application with the Division to reinstate its franchise registration in Maryland. The Division reviewed Cluck U's registration application and, on September 28, 2005, sent Cluck U a letter outlining several deficiencies that Cluck U had to correct in order to register its franchise offering in Maryland.

6. One of the comments the Division made in its letter to Cluck U was a request for Cluck U to submit an undertaking that it had not offered or sold franchises in Maryland since July 9, 2005, the date its previous franchise registration with the Division expired.

7. On or around November 22, 2005, Cluck U responded to the Division's September 28, 2005 letter and filed additional documents with the Division related to Cluck U's pending registration application. Cluck U also submitted an undertaking dated November 14, 2005, signed by Simon Haddad, Vice President of Cluck U, that the franchisor "had not offered or sold any franchises since July 9, 2005."

8. Between December 2005 and July 25, 2007, the Division sent Cluck U additional comment letters requesting that Cluck U file documents or make corrections to its pending franchise registration application.

9. On April 3, 2006, due in part to the length of time the Cluck U registration application had remained deficient, the Division asked for a second undertaking that Cluck U had not offered or sold franchises in Maryland since July 9, 2005, the date its previous franchise registration expired.

10. On September 26, 2006, Cluck U filed a response to the Division's April 3, 2006 comment letter from the Division and produced a second undertaking dated September 22, 2006, signed by Simon Haddad, in which Cluck U certified that it had not offered or sold any franchises since July 9, 2005.

11. On or about March 8, 2007, Cluck U submitted to the Division a corrected and updated franchise disclosure document ("UFOC") in connection with its pending registration application. The UFOC that Cluck U submitted to the Division in March 2007 reflected that Cluck U had opened additional franchised outlets in Maryland during the previous one year reporting period.

12. On March 19, 2007, The Division asked Cluck U for an explanation of the opening of additional franchise outlets during a one year period when Cluck U was not registered to offer and

sell franchises in Maryland. The Division also asked Cluck U for copies of all franchise agreements with Maryland franchisees signed after Cluck U's franchise registration had expired in Maryland and all UFOCs distributed to prospective Maryland franchisees.

13. On or about May 10, 2007, Cluck U provided documents to the Division regarding potential unregistered offers and sales of Cluck U franchises in Maryland. In July 2007, Cluck U provided additional information regarding potential unregistered offers and sales of Cluck U franchises in Maryland.

14. Cluck U acknowledges that it offered and sold Cluck U franchises on the following dates to the following Maryland franchisees ("Maryland Franchisees") for Cluck U franchises to be located in the following territories:

Franchise Agreement Date	Franchisee	Location
May 1, 2006	LJC Laurel, Inc.	Laurel, MD
September 28, 2006	Pak Horizons, Inc.	Hyattsville, MD
February 3, 2006	Talbert Group, Inc.	Oxon Hill, MD
August 23, 2006	MBD Investments, LLC	Edgewater, MD
February 20, 2006	Mahhum, Inc.	Crofton, MD
July 18, 2006	Dunkirk, Inc.	Dunkirk, MD

15. Simon Haddad, on behalf of Cluck U, signed the franchise agreements with each of the Maryland Franchisees listed above.

16. In some cases, Cluck U did not have copies of acknowledgments of receipt forms reflecting when the Maryland Franchisees received a copy of their Cluck U UFOCs. In at least one case, Cluck U produced an acknowledgment of receipt reflecting that one Maryland Franchisee did

not receive a UFOC at least 10 business days before that franchisee signed the Cluck U franchise agreement, as is required under the Maryland Franchise Law.

17. None of the Maryland Franchisees identified above received a current, updated Maryland registered UFOC at the time they signed their respective franchise agreements, as is required under the Maryland Franchise Law.

18. Cluck U acknowledges that, after July 9, 2005, it offered and sold another Cluck U franchise to a Maryland resident, in addition to the Maryland Franchisees described above, but Cluck U represents that the offer and sale was made to an entity or person who already owned a Cluck U franchise, so that the transaction was exempt from the registration provisions of the Maryland Franchise Law, under Section 14-214 (b)(2).

19. Cluck U represents that after July 9, 2005, other than sales to the six Maryland Franchisees identified in Paragraph 14 above and the sale to an existing franchisee, Cluck U did not offer or sell any Cluck U franchises to any Maryland residents, or to any other residents for a Cluck U franchise to be located in whole or in part in Maryland.

20. Cluck U represents that its failure to comply with the registration and disclosure requirements of the Maryland Franchise Law was inadvertent, and that it has developed new compliance procedures to ensure that, in the future, it complies with all required provisions of the Maryland Franchise Law.

21. Respondents also represent that, in the future, Simon Haddad will not have any responsibility related to offers or sales of Cluck U franchises, or for filing or updating any franchise registration applications.

III. CONCLUSIONS OF LAW

22. By engaging in the above activities, the Commissioner has concluded that Respondents Cluck U and Haddad violated §§14-214, 14-216, 14-223, 14-228, and 14-231 of the Maryland Franchise Law.

IV. ORDER AND CONSENT

23. THE COMMISSIONER HEREBY ORDERS AND RESPONDENTS CLUCK U AND SIMON HADDAD REPRESENT AND CONSENT THAT:

- A. Respondents shall immediately and permanently cease and desist from the offer and sale of franchises in violation of the Maryland Franchise Law;
- B. Cluck U shall diligently pursue the completion of the pending application to register the Cluck U franchise offering in Maryland;
- C. Upon notification by the Division that Cluck U's franchise registration has been made effective in Maryland, Cluck U shall send to the Maryland Franchisees the following (i) a copy of the effectively registered Maryland UFOC; (ii) a copy of this Consent Order, and (iii) a letter, in substantially the form attached to this letter as Exhibit 1, notifying those franchisees that they have the right to rescind their respective Cluck U franchise agreements;
- D. Prior to the date of this Consent Order, Cluck U has submitted to the Division a copy of new compliance procedures approved by the Division that Cluck U has implemented to make sure that it complies with the Maryland Franchise Law;
- E. Cluck U shall enroll an officer of Cluck U who is responsible for franchise compliance matters in the International Franchise Association's on-site ½ day training entitled Franchise Sales and Disclosure Law Compliance Training Program, or another franchise law compliance training program pre-approved in writing by the Division;
- F. Simon Haddad, in the future, will have no responsibility related to offers or sales of Cluck U franchises, filing any franchise registration applications with the Division, or updating any franchise disclosure document;
- G. Respondents acknowledge that this Consent Order is a discloseable order as described under §14-216(c)(9)(i)(4) of the Maryland Franchise Law and Item 3 of the Uniform Franchise Offering Circular Guidelines.

V. JURISDICTION RETAINED

24. 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.

VI. CONSEQUENCES OF VIOLATING THIS CONSENT ORDER

25. If any respondent fails to comply with any term of this Consent Order, the Commissioner may bring administrative or judicial proceedings against that respondent to enforce this Consent Order or to sanction it for violating an order of the Commissioner, and may take any other action authorized under the Maryland Franchise Law or any other applicable law. For the limited purposes of determining those sanctions, the Statement of Facts and the violations of the Maryland Franchise Law set forth in this Consent Order shall be deemed admitted and may be introduced into evidence against that respondent.

VII. MODIFICATION OF CONSENT ORDER

26. The terms of this Consent Order may be modified only by a subsequent order issued by the Commissioner.

BY CONSENT:

CLUCK U CORP.

/S/
BY: Jean Pierre Haddad, President

/S/
Simon Haddad

SO ORDERED:

/S/
MELANIE SENTER LUBIN
SECURITIES COMMISSIONER

DATE OF THIS ORDER:

September 24, 2007

FORM
(On Franchisor's Letterhead)

Certified Mail
Return Receipt Requested

Re: [Franchisor] Notice of Offer to Rescind Franchise

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 franchisees who are residents of Maryland or whose franchise is located in Maryland who purchased unregistered franchises from us, or to whom we gave a franchise offering circular that did not comply with the provisions of the Maryland Franchise Law. 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 agreement, we agree to return to you the initial franchise fees or transfer fee that you paid less the cost for any unreturned items and equipment included in the purchase price you paid for the franchise. If you purchased from us or our affiliate any optional items as part of your franchise agreement, we will reimburse you for the cost of any of the items that you return to us.

In the event you elect to rescind, you will give up your franchise agreement and any rights to use our trademarks and system. Also, you will be obligated to refrain from using and disclosing 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 FRANCHISOR

ACCEPTANCE OR REFUSAL OF OFFER TO RESCIND FRANCHISE AGREEMENT

1. I, the undersigned franchisee, acknowledge that I have read the preceding Notice of 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 in your franchise system.

Date: _____

Franchisee