

BEFORE THE
SECURITIES COMMISSIONER OF MARYLAND

IN THE MATTER OF:

Redline Athletics Franchising, LLC,

Respondent.

Case No. 2021-0032

* * * * *

CONSENT ORDER

WHEREAS, the Securities Division of the Office of the Attorney General of Maryland (the “Securities Division”) initiated an investigation into the franchise-related activities of Redline Athletics Franchising, LLC (“Redline”) under the authority granted under the Maryland Franchise Registration and Disclosure Law, MD. CODE ANN. BUS. REG. §§14-201 et seq. (2015 Repl. Vol.) (the “Maryland Franchise Law”); and

WHEREAS, based on information presented by the Securities Division, the Maryland Securities Commissioner (the “Securities Commissioner”) has concluded that grounds exist to allege that Redline violated the disclosure provisions of the Maryland Franchise Law by including false or misleading statements or omissions of material fact in Franchise Disclosure Documents that Redline filed with the Securities Division and distributed to prospective Maryland franchisees; 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 Redline admitting or denying any violation of law, the Securities Commissioner and Redline have reached an agreement to enter into this Consent Order; and

WHEREAS, Redline waives its rights to a hearing and any rights to seek judicial review or otherwise challenge or contest the terms and conditions of this Consent Order; and

WHEREAS, the Securities Commissioner has determined that it is in the public interest to issue this Consent Order;

NOW, THEREFORE, it is hereby agreed, and the Securities Commissioner hereby orders:

I. JURISDICTION

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

II. FINDINGS OF FACT

2. Redline is an Arizona limited liability company with a principal business address of 1400 North Hayden Road, Suite 101, Scottsdale, Arizona.

3. Redline is in the business of offering and selling franchises that provide sports performance training products and services to the public, with a focus on children ages 8 through 18.

4. Redline has been registered with the Securities Division to offer and sell franchises (“Unit Franchises”) under the Maryland Franchise Law at various periods since 2014.

5. Redline also has been registered with the Securities Division to offer and sell area representative franchises, which Redline calls “regional developers”, under the Maryland Franchise Law at various periods since 2014.

Incorrect Estimate of Time to Open

6. On April 21, 2020, Redline filed with the Securities Division an application to renew the Redline Unit Franchise offering under the Maryland Franchise Law.

7. The Securities Division registered the Redline franchise offering filed in April 2020 effective December 2, 2020.

8. The Franchise Disclosure Document that Redline registered with the Securities Division on December 2, 2020 (“2020 Unit FDD”) discloses, among other things: (A) that a Redline Unit Franchisee must open its Redline Unit Franchise within nine (9) months after signing the franchise agreement, and (B) that Redline estimated that a Redline Unit Franchise will typically open for business approximately six months (6) after signing a franchise agreement.

9. By the time Redline issued its 2020 Unit FDD, the actual average time that Redline franchisees to open a Redline Unit franchise was 10.5 months from the date of signing the franchise agreement, not the six (6) months disclosed in Redline’s 2020 Unit FDD.

10. Therefore, Redline’s 2020 Unit FDD omitted to disclose the material fact that, on average, unit franchisees were not opening their franchise business within the time required to do so under their franchise agreements.

11. Although Redline represents that it did not unilaterally terminate any Redline Unit franchisee for failing to open their franchise business within nine (9) months after signing a franchise agreement, the franchisees who did not open within that period could be subject to termination under their franchise agreements for failing to open within the required time.

Incorrect Disclosure that No Franchisees Signed Confidentiality Clauses

12. Redline’s 2020 Unit FDD also discloses in Item 20 that “None of our franchisees have signed confidentiality clauses with us during the last three years which would restrict their ability to speak openly about their experience with us.”

13. The Franchise Disclosure Document that Redline filed with the Securities

Division in December 2020 for Redline’s area representative franchise offering (“2020 Regional FDD”) represents that “None of our franchisees have signed confidentiality clauses with us during the last three years which would restrict their ability to speak openly about their experience with us.”

14. The Securities Division registered Redline’s 2020 Regional FDD on January 7, 2021

15. As of the date that Redline issued both its 2020 Unit FDD and 2020 Regional FDD, respectively, at least one Redline Regional Developer had entered into a mutual release with Redline, and that mutual release included a confidentiality clause that restricted that Regional Developer’s ability to speak openly about his experience with Redline.

16. Therefore, Redline’s 2020 Unit FDD and 2020 Regional FDD incorrectly stated that none of its franchisees had signed confidentiality clauses restricting their ability to speak openly about their experience with Redline.

2021 FDD Incorrectly Discloses Maryland Outlets in Operation

17. On April 26, 2021, Redline filed an application to renew its franchise registration under the Maryland Franchise Law. As part of that renewal application, Redline included a copy of its Unit FDD that it issued in April 2021 (“2021 Unit FDD.”)

18. In Item 20 of its 2021 Unit FDD, Redline discloses that it had zero Redline Unit Franchises in operation as of December 31, 2020 and four (4) Unit Franchisees who signed franchise agreements that had not opened for business as of December 31, 2020.

19. At the time Redline filed its 2021 Unit FDD with the Securities Division, Redline had one Unit Franchisee located in Maryland who had opened a franchise outlet as of December 31, 2020, and that Maryland Franchisee was identified in the List of Franchisees attached to

Redline's 2021 Unit FDD.

20. Therefore, Redline's 2021 Unit FDD incorrectly disclosed in Item 20 that Redline had zero franchise outlets in operation in Maryland when it had one Maryland franchise outlet in operation in Maryland.

Sales of Redline Franchises in Maryland

21. Between 2018 and 2021, Redline sold Redline Unit franchises to five (5) Maryland residents ("Maryland Franchisees") who received copies of Redline's Franchise Disclosure Documents.

22. Three (3) of the Maryland Franchisees received copies of Redline's Franchise Disclosure Documents that contained the incorrect statement that no franchisees had signed confidentiality clauses with Redline during the previous three years, and the incorrect list of open outlets in Maryland, although two of those three Maryland Franchisees ("Terminated Maryland Franchisees") did not pay any initial franchise fees to Redline and did not open a Redline Unit franchise.

23. One (1) Maryland Franchisee ("ML") received a copy of a Redline Franchise Disclosure Document that included the incorrect statement that no franchisees had signed confidentiality clauses with Redline during the previous three years, and/or the incorrect list of open outlets in Maryland. As of the date of this Consent Order, ML has opened and is operating one or more Redline Unit franchises.

24. Redline represents that its failures to accurately disclose (a) the time for franchisees to open an outlet, (b) that some franchisees signed confidentiality clauses, and (c) the list of franchisees in Maryland that opened an outlet were inadvertent.

25. Redline further represents and agrees that, in the future, it will comply with all

provisions under the Maryland Franchise Law.

III. CONCLUSIONS OF LAW

26. By engaging in the above activities, the Commissioner has concluded that Redline violated Sections 14-229 and 14-230 of the Maryland Franchise Law.

IV. ORDER AND CONSENT

27. THE COMMISSIONER HEREBY ORDERS AND REDLINE HEREBY CONSENTS AND REPRESENTS AS FOLLOWS:

- A. Redline shall immediately and permanently cease and desist from the offer of franchises in violation of the Maryland Franchise Law;
- B. Redline Franchising shall diligently pursue an amendment to the Redline Franchising franchise offering under the Maryland Franchise Law with accurate disclosures.
- C. Within ten (10) days of its receipt of a copy of this executed Consent Order, Redline Franchising shall provide the following to ML: (i) a copy of this executed Consent Order, and (ii) a letter, in substantially the form attached to this letter as Exhibit 1, notifying ML that he is being given an opportunity to rescind his Redline Franchise Agreement under the terms stated in that letter;
- D. Redline Franchising shall notify the Terminated Maryland Franchisees that they are not subject to any post-term and non-competition obligations they may have to Redline under their terminated Redline Unit Franchise Agreements,
- E. Redline acknowledges that this Consent Order is a disclosable order as described under the Maryland Franchise Law, and Item 3 of the NASAA Franchise Registration and Disclosure Guidelines and Amended FTC Franchise Rule.

V. 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.

VI. CONSEQUENCES OF VIOLATING THIS CONSENT ORDER

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

Division may bring administrative or judicial proceedings against it to enforce this Consent Order or to sanction it for violating an order of the Securities Commissioner, and may take any other action authorized under the Maryland Franchise Law or any other applicable law. In any such proceeding in which, after an opportunity for a hearing, the Securities Commissioner or a court finds that Redline has violated this Consent Order, the Statement of Facts and the violations of the Maryland Franchise Law alleged in the Consent Order shall be deemed admitted and may be introduced into evidence against it.

VII. MODIFICATION OF CONSENT ORDER

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

SO ORDERED:

**Commissioner's Signature on File
w/Original Document**

MELANIE SENTER LUBIN
SECURITIES COMMISSIONER

DATE OF THIS ORDER:

February 16, 2022

BY CONSENT:

Redline Athletics Franchising, LLC

By:
Title:

EXHIBIT 1
(On Company Letterhead)

Certified Mail
Return Receipt Requested

Re: **[Company] Offer to Rescind Franchise Agreement**

Dear _____:

Following discussions our attorneys have had with the Securities Division of the Office of the Attorney General of Maryland, [Insert Name of Company] ("we") have entered into a Consent Order to offer rescission to any Maryland residents who entered into Franchise Agreement(s) with us after receiving Franchise Disclosure Documents that contain certain incorrect disclosures about our franchise offering. We are making this offer 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 Agreements, we agree to cancel your Franchise Agreement, including all post-term and non-competition obligations you may have to us under that Franchise Agreement. We will return to you the initial fees you paid us under your Franchise Agreement within thirty-one (31) day after we receive your Acceptance of Offer to Rescind.

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]

cc: Amended Franchise Disclosure Document

ACCEPTANCE OR REFUSAL OF OFFER TO RESCIND FRANCHISE AGREEMENT

1. I, the undersigned, 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, patents, 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.

Date: _____

Franchisee