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20
21 **UNITED STATES DISTRICT COURT**
22 **CENTRAL DISTRICT OF CALIFORNIA**

23 **UNITED STATES OF AMERICA,**

24 Plaintiff,

25 v.

26 **BURGERIM GROUP USA, INC.,**

27 **BURGERIM GROUP, INC.,**

28 and

OREN LONI, individually and as an
officer of Burgerim Group USA, Inc.
and Burgerim Group, Inc.,

Defendants.

No. 2:22-CV-825

**COMPLAINT FOR PERMANENT
INJUNCTION AND MONETARY
JUDGMENTS FOR CIVIL
PENALTIES AND CONSUMER
REDRESS, AND OTHER RELIEF**

DEMAND FOR JURY TRIAL

1 Plaintiff, the United States of America, acting upon notification and
2 authorization to the Attorney General by the Federal Trade Commission (“FTC”),
3 pursuant to Section 16(a)(1) of the Federal Trade Commission Act (“FTC Act”),
4 15 U.S.C. § 56(a)(1), for its Complaint alleges:

5 1. Plaintiff brings this action under Sections 5(a), 5(m)(1)(A), 13(b) and
6 19 of the Federal Trade Commission Act (“FTC Act”), 15 U.S.C. §§ 45(a),
7 45(m)(1)(A), 53(b), 56(a), 57b, and the FTC’s Trade Regulation Rule entitled
8 “Disclosure Requirements and Prohibitions Concerning Franchising,” as amended
9 (the “Franchise Rule” or “the Rule”), 16 C.F.R. Part 436, for permanent injunctive
10 relief, monetary relief, civil penalties, and other relief for Defendants’ acts or prac-
11 tices in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), and the Fran-
12 chise Rule, 16 C.F.R. Part 436.

13 SUMMARY

14 2. Defendants lure would-be entrepreneurs into paying tens of thousands
15 of dollars to open a burger franchise under the trade name “Burgerim.” These fran-
16 chises require a large upfront investment. Purchasers included veterans and people
17 with different backgrounds and business experiences. Many purchasers relied on
18 obtaining loans for tens of thousands of dollars to fund their franchise. Defendants,
19 however, glossed over the risks of these hefty investments, touting the franchise as
20 a “business in a box,” and purporting to offer refunds in the event franchisees
21 could not open the restaurant.

22 3. The Franchise Rule was designed to help prospective entrepreneurs
23 evaluate the risks and benefits of a franchise opportunity with a disclosure docu-
24 ment. In marketing and selling Burgerim franchises, Defendants fell woefully short
25 of complying with the Rule. Left out of Defendants’ disclosure document was the
26 information necessary to enable prospective franchisees to analyze earning repre-
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1 presentations or to get unvarnished experiences from prior purchasers. Worse, De-
2 fendants muddled the waters by making representations in their disclosure docu-
3 ment that contradicted other statements they made to the prospective franchisees.

4 4. Defendants sold more than 1,500 Burgerim franchises, but the over-
5 whelming majority of Burgerim franchisees never got their businesses off the
6 ground. Hundreds sought to cancel their franchise agreements. In many cases, De-
7 fendants did not honor their promises to provide refunds, and in this scheme, have
8 bilked aspiring business owners out of millions of dollars.

9 **JURISDICTION AND VENUE**

10 5. This Court has subject matter jurisdiction over this action pursuant to
11 28 U.S.C. §§ 1331, 1337(a), 1345, and 1355, and 15 U.S.C. § 53(b). This action
12 arises under 15 U.S.C. § 45(a).

13 6. Venue is proper in this District under 28 U.S.C. §§ 1391(b)-(d) and
14 1395(a), and 15 U.S.C. § 53(b).

15 **SECTION 5 OF THE FTC ACT**

16 7. Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), prohibits “unfair or
17 deceptive acts or practices in or affecting commerce.”

18 8. Misrepresentations of material facts constitute deceptive acts or prac-
19 tices prohibited by Section 5(a) of the FTC Act.

20 **THE FRANCHISE RULE**

21 9. The Franchise Rule defines a “franchise” as any continuing commer-
22 cial relationship or arrangement, whatever it may be called, in which the terms of
23 the offer or contract specify, or the franchise seller promises or represents, orally or
24 in writing, that:

- 25 a) The franchisee will obtain the right to operate a business that is identified or
26 associated with the franchisor’s trademark, or to offer, sell, or distribute
27 goods, services, or commodities that are identified or associated with
28 the franchisor’s trademark;

1 b) The franchisor will exert or has authority to exert a significant degree of
2 control over the franchisee's method of operation, or to provide significant
3 assistance in the franchisee's method of operation; and

4 c) As a condition of obtaining or commencing operation of the franchise,
5 the franchisee makes a required payment or commits to make a required
6 payment to the franchisor or its affiliate. 16 C.F.R. § 436.1(h).

7 10. Under the Franchise Rule, a "franchise seller" is a person that offers
8 for sale, sells, or arranges for the sale of a franchise. The term encompasses the
9 franchisor and the franchisor's employees, representatives, agents, subfranchisors,
10 and third-party brokers who are involved in franchise sales activities. It does not
11 include existing franchisees who sell only their own outlet and who are otherwise
12 not engaged in franchise sales on behalf of the franchisor. 16 C.F.R. § 436.1(j).

13 11. A "franchisor" means any person who grants a franchise and partici-
14 pates in the franchise relationship. Unless otherwise stated, it includes sub franchi-
15 sors. For purposes of this definition, a "subfranchisor" means a person who func-
16 tions as a franchisor by engaging in both pre-sale activities and post-sale perfor-
17 mance. 16 C.F.R. § 436.1(k).

18 12. The Franchise Rule requires a franchisor to provide prospective fran-
19 chisees with a basic Franchise Disclosure Document ("FDD") containing twenty-
20 three categories (or "Items") of information, including information about: the fran-
21 chisor and its affiliates (Item 1); prior or pending litigation (Item 3); the initial fee
22 paid by franchisees, including conditions under which the fee is refundable (Item
23 5); franchisee obligations to purchase or lease goods and services from designated
24 suppliers and payments to the franchisor from such suppliers based on those pur-
25 chases (Item 8); franchise endorsement by public figures (Item 18); the assistance
26 provided by the franchisor (Item 11); and statistical information on the number of
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28

1 company-owned and franchisee-owned outlets in the franchisor's system, includ-
2 ing the names, addresses, and telephone numbers of existing franchisees (Item 20).
3 16 C.F.R. § 436.5(a)-(w).

4 13. The FDD must be current (16 C.F.R. § 436.2(a)) and marked with an
5 issuance date (16 C.F.R. § 436.3(e)(6)). Additional disclosures are required if the
6 franchisor elects to make any financial performance representations, such as in-
7 cluding those financial performance representations in Item 19 of the franchisor's
8 FDD, among other things. 16 C.F.R. § 436.9(c). Franchise sellers are prohibited
9 from making any representations that contradict the information required to be dis-
10 closed in the FDD. 16 C.F.R. § 436.9(a).

11 14. Pursuant to Section 18(d)(3) of the FTC Act, 15 U.S.C. 57a(d)(3), and
12 subparts B, D, and F, 16 C.F.R. § 436.2, § 436.6(a), and § 436.9, violations of the
13 Franchise Rule constitute unfair or deceptive acts or practices in or affecting com-
14 merce, in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

15 15. Section 5(m)(1)(A) of the FTC Act, 15 U.S.C. § 45(m)(1)(A), as mod-
16 ified by Section 4 of the Federal Civil Penalties Inflation Adjustment Act of 1990,
17 28 U.S.C. § 2461, the Federal Civil Penalties Inflation Adjustment Act of 2015,
18 Public Law 114-74, sec. 701, 129 Stat. 599 (2015), and Section 1.98(d) of the
19 FTC's Rule of Practice, 16 C.F.R. § 1.98(d), authorizes this Court to award mone-
20 tary civil penalties of not more than \$46,517 for each violation of the Franchise
21 Rule assessed after January 10, 2022, including penalties whose associated viola-
22 tion predated January 10, 2022, that is made with actual knowledge or knowledge
23 fairly implied on the basis of objective circumstances that such act is unfair or de-
24 ceptive and is prohibited by such rule.

25 **DEFENDANTS**

26 16. Defendant Burgerim Group USA, Inc. ("BIMGUSA") is a California
27 corporation with its principal place of business at 23945 Calabasas Road, Cala-
28 basas, California 91302. BIMGUSA sells burger restaurant franchises under the

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