Division of Securities
Utah Department of Commerce
160 East 300 South, 2nd Floor
Box 146760
Salt Lake City, UT 84114-6760
Telephone: (801) 530-6600
FAX: (801)530-6980

BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF: **BRYCE LEE KARL d.b.a. Karl Hospitality, Inc.,** **Respondent.**	**ORDER TO SHOW CAUSE** **Docket No.** SD-11-0013

It appears to the Director of the Utah Division of Securities (Director) that Bryce Lee Karl d.b.a. Karl Hospitality, Inc., has engaged in acts and practices that violate the Utah Uniform Securities Act, Utah Code Ann. § 61-1-1, et seq. (the Act). Those acts are more fully described herein. Based upon information discovered in the course of the Utah Division of Securities' (Division) investigation of this matter, the Director issues this Order to Show Cause in accordance with the provisions of § 61-1-20(1) of the Act.

STATEMENT OF JURISDICTION

1. Jurisdiction over Respondent and the subject matter is appropriate because the Division alleges that he violated § 61-1-1 (securities fraud) of the Act while engaged in the offer and sale of securities in or from Utah.

STATEMENT OF FACTS

THE RESPONDENT

2. Bryce Lee Karl (Karl) was, at all relevant times, a resident of the state of Utah. Karl has never been licensed as a broker-dealer, agent, or as an investment adviser representative in Utah. Karl also operated under the name Karl Hospitality, Inc. (Karl Hospitality) which is not a registered entity.

GENERAL ALLEGATIONS

3. From October 2008 to March 2009, Respondent offered and sold securities to at least two investors, in or from Utah, and collected a total of $50,000.

4. Respondent made material misstatements and omissions in connection with the offer and sale of a security to the investors below.

5. The investors lost all $50,000 of their investment funds.

INVESTORS J.H. AND C.H. (HUSBAND AND WIFE).

6. In or about October 2008, a friend referred J.H. and C.H. to Karl as someone who could help them invest in the food service industry.

7. In or about October 2008, Karl contacted J.H. by telephone to discuss an investment opportunity in Karl Hospitality. Karl called from Utah while J.H. was out of town on business.

8. During the conversation, Karl stated that he had acquired rights from Five Guys Enterprises,

LLC (Five Guys) to open multiple franchises in Wyoming, Idaho, and Canada and was raising capital through Karl's company, Karl Hospitality, to start those franchises.[1]

9. Between October 2008 and March 2009, approximately three meetings took place in Draper, Utah between Karl and J.H.

10. During the meetings, Karl made the following statements about a potential investment in Karl Hospitality:

    a. Karl intended to raise $10 million from a "handful" of investors;

    b. The minimum investment was $100,000, but Karl would do J.H. and C. H. a favor and allow them to invest $50,000.

11. Based on Karl's statements, J.H. and C.H. invested $50,000 in Karl Hospitality.

12. On March 13, 2009, J.H. and C.H. met with Karl in Salt Lake City, Utah to sign a subscription agreement to purchase preferred shares in Karl Hospitality.

13. Karl and J.H. signed a document titled "Subscription for Preferred Shares." The agreement stated the following terms:

    a. The closing date for the shares was March 20, 2009;

    b. The preferred shares were voting shares and were "retractable by the holder upon 60-

---

[1]Five Guys is a limited liability company that operates a restaurant franchise that sells mainly hamburgers and french fries. On January 24, 2011, counsel for Five Guys told the Division that Karl had been in negotiations with Five Guys to be a franchisee restaurant. Five Guys had assured Karl that he would be a franchisee once Karl signed the necessary paperwork and provided the necessary funds to purchase the franchise rights. Karl never signed the paperwork or submitted the funds.

days' written notice to the Corporation for 3 years from their date of issue at a retraction price of USD$1.00 per share;"

c. J.H. and C.H.'s shares were part of a larger offering of preferred shares of up to three million shares at $1.00 per share;

d. The investment funds would be used to carry "out [Karl Hospitality's] business plan and for general corporate purposes;"

e. On the closing date, investors would receive stock certificates; and

f. Time was of the essence.

14. Also included in the agreement was a "Representation Letter" which identified J.H. to be an accredited investor. Karl told J.H. the document was standard legal jargon and discouraged J. H. from reading the document in its entirety before signing. J.H. signed the agreement although he was not an accredited investor.

15. On or about March 13, 2009, J.H. transferred $50,000 from his Wells Fargo bank account to Karl Hospitality's bank account also with Wells Fargo.

16. Karl did not deliver the preferred share certificates to J.H. and C.H. on, before, or any time after March 20, 2009.

17. On or about April 2010, J.H. made a written request for return of the funds in sixty days, pursuant to the subscription agreement. Karl did not return the funds.

18. On or about September 17, 2010, J.H.'s attorney sent a written request for the funds to be

returned. Karl did not return the funds.

19. Karl and Karl Hospitality still owe J.H. and C.H. $50,000.

20. Using a source and use analysis of Karl Hospitality's bank records, Karl used the majority of the $50,000 investment funds in the following manner:

    a. $10,000 used to purchases horses and property for Karl;

    b. $12,269 used to pay various individuals;

    c. $8,800 transferred to an unknown account;

    d. $12,126 paid to RBM Lumber, Inc.; and

    e. $5,000 transferred to Karl's personal account and primarily used to pay bank fees and personal expenses.

CAUSES OF ACTION

COUNT I
Securities Fraud under § 61-1-1 of the Act

21. The Division incorporates and re-alleges paragraphs 1 through 20.

22. The investment opportunities offered and sold by Respondent are securities under § 61-1-13 of the Act.

23. In connection with the offer and sale of a security to the investors, Respondent, directly or indirectly, made false statements, including, but not limited to, the following:

    a. J.H. and C.H.'s investment funds would be used for corporate purposes, when in fact, Karl used the funds for personal expenses and other non-corporate purposes;

b. Karl had already obtained rights to be a franchisee of Five Guys, when in fact, Karl had no reasonable basis for making this statement.

24. In connection with the offer and sale of a security to the investors, Respondent, directly or indirectly, failed to disclose material information, including, but not limited to, the following, which was necessary in order to make statements made not misleading:

a. Karl has an outstanding warrant for his arrest for larceny in Colorado;

b. Karl was in default to previous investors;

c. What would happen with the funds if Karl failed to raise the necessary capital;

d. Karl's prior debt collection proceedings;

e. Some or all of the information typically provided in an offering circular or prospectus regarding Karl Hospitality, such as:

i. Financial statements;

ii. Risk factors;

iii. Suitability factors for the investment;

iv. Track record to investors;

v. Karl Hospitality and Karl's business experience and operating history;

vi. Nature of competition;

vii. Whether the investment is a registered security or exempt from registration; and

viii. Whether Karl was licensed to sell securities.

ORDER

The Director, pursuant to § 61-1-20 of the Act, hereby orders Respondent to appear at a formal hearing to be conducted in accordance with Utah Code Ann. §§ 63G-4-202, -204 through -208, and held before the Utah Division of Securities. The hearing will occur on Wednesday, June 6, 2012, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2nd Floor, Salt Lake City, Utah. The purpose of the hearing is to establish a scheduling order and address any preliminary matters. If Respondent fails to file an answer and appear at the hearing, the Division of Securities may hold Respondent in default, and a fine may be imposed in accordance with Utah Code Ann. § 63G-4-209. In lieu of default, the Division may decide to proceed with the hearing under § 63G-4-208. At the hearing, Respondent may show cause, if any they have:

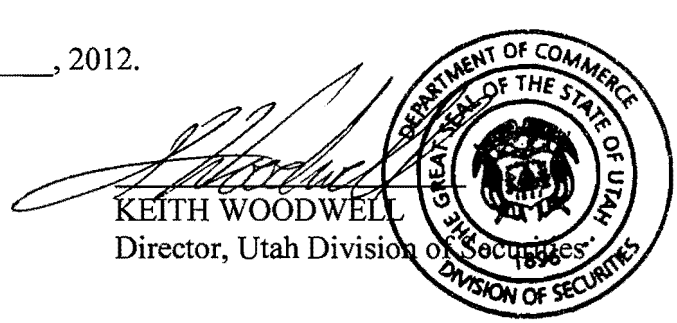
a. Why Respondent should not be found to have engaged in the violations alleged by the Division in this Order to Show Cause;

b. Why Respondent should not be ordered to cease and desist from engaging in any further conduct in violation of Utah Code Ann. § 61-1-1, or any other section of the Act; and

c. Why Respondent should not be ordered to pay to the Division a fine amount to be determined by stipulation or by the presiding officer after a hearing in accordance

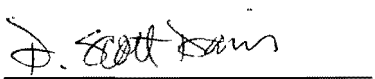
with the provisions of Utah Admin. Rule R164-31-1, which may be reduced by restitution paid to the investors.

DATED this 26th day of April, 2012.



KEITH WOODWELL
Director, Utah Division of Securities

Approved:



D.Scott Davis
Assistant Attorney General
D.W.

Division of Securities
Utah Department of Commerce
160 East 300 South, 2nd Floor
Box 146760
Salt Lake City, UT 84114-6760
Telephone: (801) 530-6600
FAX: (801)530-6980

**BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH**

IN THE MATTER OF: **BRYCE LEE KARL d.b.a. Karl Hospitality, Inc.,** **Respondent.**	**NOTICE OF AGENCY ACTION** **Docket No.** SD-11-0013

THE DIVISION OF SECURITIES TO THE ABOVE-NAMED RESPONDENT:

You are hereby notified that agency action in the form of an adjudicative proceeding has been commenced against you by the Utah Division of Securities (Division). The adjudicative proceeding is to be formal and will be conducted according to statute and rule. See Utah Code Ann. §§ 63G-4-201 and 63G-4-204 through 209; see also Utah Admin. Code R151-46b-1, *et seq.* The legal authority under which this formal adjudicative proceeding is to be maintained is Utah Code Ann. § 61-1-20. You may be represented by counsel or you may represent yourself in this proceeding. Utah Admin. Code R151-46b-6.

You must file a written response with the Division within thirty (30) days of the mailing date of this Notice. Your response must be in writing and signed by you or your representative. Your response must include the file number and name of the adjudicative proceeding, your version of the

facts, a statement of what relief you seek, and a statement summarizing why the relief you seek should be granted. Utah Code Ann. § 63G-4-204(1). In addition, pursuant to Utah Code Ann. § 63G-4-204(3), the presiding officer requires that your response:

(a) admit or deny the allegations in each numbered paragraph of the Order to Show Cause, including a detailed explanation for any response other than an unqualified admission. Allegations in the Order to Show Cause not specifically denied are deemed admitted;

(b) identify any additional facts or documents which you assert are relevant in light of the allegations made; and

(c) state in short and plain terms your defenses to each allegation in the Order to Show Cause, including affirmative defenses, that were applicable at the time of the conduct (including exemptions or exceptions contained within the Utah Uniform Securities Act).

Your response, and any future pleadings or filings that should be part of the official files in this matter, should be sent to the following:

Signed originals to:

Administrative Court Clerk
c/o Julie Price
Utah Division of Securities
160 E. 300 South, 2nd Floor
Box 146760
Salt Lake City, UT 84114-6760
(801) 530-6600

A copy to:

D. Scott Davis
Assistant Attorney General
160 East 300 South, 5th Floor
Salt Lake City, UT 84114-0872
(801) 366-0310

An initial hearing in this matter has been set for June 6, 2012 at the Division of Securities, 2nd Floor, 160 East 300 South, Salt Lake City, Utah, at 9:00 A.M.

If you fail to file a response, as described above, or fail to appear at any hearing that is set, the presiding officer may enter a default order against you without any further notice. Utah Code Ann. § 63G-4-209; Utah Admin. Code R151-46b-10(11). After issuing the default order, the presiding officer may grant the relief sought against you in the Order to Show Cause, and will conduct any further proceedings necessary to complete the adjudicative proceeding without your participation and will determine all issues in the proceeding. Utah Code Ann. § 63G-4-209(4); Utah Admin. Code R151-46b-10(11)(b). In the alternative, the Division may proceed with a hearing under § 63G-4-208.

The Administrative Law Judge will be Angela Hendricks, Utah Department of Commerce, 160 East 300 South, P.O. Box 146701, Salt Lake City, UT 84114-6701, telephone (801) 530-6035. This adjudicative proceeding will be heard by Ms. Hendricks and the Utah Securities Commission. You may appear and be heard and present evidence on your behalf at any such hearings.

You may attempt to negotiate a settlement of the matter without filing a response or proceeding to hearing. To do so, please contact the Utah Securities Division. Questions regarding the Order to Show Cause should be directed to the Division's attorney, D. Scott Davis, at (801) 366-0358.

Dated this 26th day of April, 2012.

KEITH WOODWELL
Director, Division of Securities

Evidence of Mailing

I certify that on the 26th day of April, 2012, I mailed a true and correct copy of the Notice of Agency Action and Order to Show Cause to:

BRYCE LEE KARL
98 Cranleigh Terrace SE
Calgary, AB T3M 0G2

Certificate # 7007 0220 0001 0017 7247

Executive Secretary