

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-09-053-09-CO01
Whether there has been a violation of the)
Securities Act of Washington by:)
)
Soup House Organics Inc.;) CONSENT ORDER
Christopher R. McGrath;)
)
Respondents)

INTRODUCTION

On June 22, 2009, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, Impose Fines, and Recover Costs S-09-053-09-SC01, hereinafter referred to as “Statement of Charges,” against Respondents Soup House Organics Inc. and Christopher R. McGrath. The Securities Division and Respondents Soup House Organics Inc. and Christopher R. McGrath do hereby enter into this Consent Order in settlement of the matters alleged herein. The Respondents neither admit nor deny the Findings of Fact and Conclusions of Law stated below.

FINDINGS OF FACT

Respondents

1. Soup House Organics Inc. (“Soup House”) was a Washington corporation formed on July 26, 2005. Soup House was founded in 2003 and initially operated as a Washington partnership under the name Soup House, Organic Soup Company. Soup House was the business of manufacturing organic soups and other food products. Between approximately 2004 and 2007, Soup House operated a restaurant located at 406 Washington

1 Street, in downtown Olympia, Washington. Soup House operated a second location at 720
2 Sleater-Kinney Rd., SE Suite D, in Lacey, Washington. Soup House was dissolved on
3 November 1, 2007.

4 2. Christopher R. McGrath (“McGrath”) was the founder and CEO of Soup House.

5 Nature of the Offering

6 3. Between approximately June and November 2005, the Respondents offered and
7 sold stock in Soup House for \$1 per share to at least five investors, including two Washington
8 residents, raising at least \$185,000. Some of these investors were customers of the restaurant.

9 4. McGrath met with and provided investors with a business plan describing the
10 offering, as well as a stock purchase agreement, terms sheet, and a stock certificate. The
11 Respondents provided some investors with a profit and loss statement and a slide presentation
12 entitled “Update and Growth Plan.”

13 5. In May 2006, McGrath sent an e-mail to Soup House shareholders regarding a
14 “summer capital drive.” McGrath offered investors the opportunity to purchase additional
15 shares of Soup House stock for \$1 per share, and stated that Soup House was seeking to raise
16 an additional \$40,000.

17 Misrepresentations and Omissions

18 6. In the offer and sale of Soup House stock, Respondents failed to disclose
19 material information, which made the information that was disclosed, misleading to investors.
20 Among other things, the Respondents failed to provide investors with material information
21 regarding the company’s financial condition at the time that they invested. Through oral
22

1 representations and written documents, including the business plan and profit and loss
2 statements, the Respondents misrepresented that Soup House was a profitable business and that
3 investor funds would be used to open additional restaurants. In 2007, McGrath disclosed that
4 Soup House was not profitable and had lost \$100,000 in 2005, and stated: “There has never
5 been any profit.” McGrath further revealed that investor funds were “spent most of the time
6 before we ever got it on ingredients, labor or taxes.”
7

8 7. The Respondents also led investors to believe that Soup House would
9 imminently be opening new locations as part of an expansion of its operations. In August
10 2005, the Respondents disseminated a slide presentation with a timeline that indicated that
11 Soup House would be opening a third restaurant in Tumwater, Washington in November
12 2005. The Business Plan stated that investor funds would be used, among other things, to
13 open another area retail location “near the end of 2005.” The Business Plan made other
14 misleading representations and projections regarding the opening of a new locations, net
15 profits and annual sales including, but not limited to:

- 16 ▪ The company was seeking to open seven more stores by 2008, and then “on to hundreds
17 and thousands of stores.”
- 18 ▪ “Management has plans to immediately roll out at least two more locations in the
19 Olympia-Lacey-Tumwater area in the next 18 months.”
- 20 ▪ After opening a total of ten locations, the company “then has aggressive plans to seek
21 investors in order to raise enough capital to open 200 regional stores over the next
22 5 years.”
- 23 ▪ The company had a “retail growth plan of launching 10, 20, 100 on up to 3000 plus
24 locations around the globe over the next two decades.”
25

1 ▪ “The goal for Soup House is to become as ubiquitous as Starbuck Coffee stores, serving
2 organic, wholesome foods by 2030.”

3 ▪ “By January 2011 the company will have over 210 locations and approximately
4 400 employees with annual sales of nearly \$105 million with an expected annual net
5 profit of \$16 million.”

6 ▪ “After reaching its goals in January of 2021, Soup House, Organic Soup Company will
7 have approximately 4500 employees and annual sales of nearly \$1 billion, with an
8 expected annual net profit of \$200 million.”

9 8. When offering the investment, the Respondents made misleading statements
10 regarding the returns that investors would earn, including the representation in the business
11 plan that “Shareholder equity will double after 3 years providing a two-fold return on
12 investment.” The Respondents failed to adequately disclose the basis and assumptions for
13 these projected returns.

14 9. Respondents failed to adequately disclose to investors the risks associated with the
15 investment, including but not limited to, the risks of investing in a restaurant with a limited
16 operating history and a new and unproven business model, and the lack of a public market for
17 Soup House shares.

Registration Status

18 10. Respondent Soup House Organics Inc. is not currently registered to sell its
19 securities in the State of Washington and has not previously been so registered, nor has it filed
20 a claim of exemption from registration.

21 11. Christopher R. McGrath is not currently registered as a securities salesperson or
22 broker-dealer in the State of Washington and has not previously been so registered.

23 Based upon the above Findings of Fact, the following Conclusions of Law are made:

1 **CONCLUSIONS OF LAW**

2 1. The offer or sale of Soup House Organics Inc. stock described above constitutes
3 the offer or sale of a security as defined in RCW 21.20.005(10) and (12).

4 2. The offer or sale of said securities is in violation of RCW 21.20.140 because no
5 registration for such offer or sale is on file with the Securities Administrator.

6 3. Christopher R. McGrath has violated RCW 21.20.040 by offering or selling said
7 securities while not registered as a securities salesperson or broker-dealer in the State of
8 Washington.

9 4. The offer or sale of the investments described above was made in violation of
10 RCW 21.20.010 because Respondents made misstatements of material facts or omitted to state
11 material facts necessary in order to make the statements made, in light of circumstances under
12 which they were made, not misleading.

13
14 The offer and sale of said securities was made in violation of RCW 21.20.010 because
15 Respondents each made untrue statements of material fact or omitted to state material facts
16 necessary in order to make the statements made, in the light of the circumstances under which
17 they were made, not misleading.

18 **CONSENT ORDER**

19 Based upon the foregoing and finding it in the public interest:

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21 IT IS AGREED AND ORDERED that the Respondents, Soup House Organics Inc.
22 and Christopher R. McGrath, and their agents and employees each shall cease and desist from
23 violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

1 IT IS FURTHER AGREED AND ORDERED that the Respondents,
2 Soup House Organics Inc. and Christopher R. McGrath, and their agents and employees each
3 shall cease and desist from offering or selling securities in violations of RCW 21.20.140, the
4 securities registration section of the Securities Act of Washington.

5 IT IS FURTHER AGREED AND ORDERED that Respondent Christopher R.
6 McGrath, and his agents and employees each shall cease and desist from acting as an
7 unregistered securities broker-dealers or salespersons in violation of RCW 21.20.040, the
8 broker-dealer and securities salesperson registration section of the Securities Act of
9 Washington.

10 IT IS FURTHER AGREED AND ORDERED that Respondent Christopher R. McGrath
11 shall be liable for and pay investigative costs in the amount of \$1,000. The payments shall be
12 made as follows. Respondent Christopher R. McGrath shall make an initial payment of \$500
13 on or before the date of entry of the Consent Order. Respondent Christopher R. McGrath
14 shall then make an additional payment of \$500 within 30 days of the date of entry of the
15 Consent Order.

16 IT IS FURTHER AGREED AND ORDERED that Respondent Christopher R.
17 McGrath shall pay a fine in the amount of \$5,000, the entire amount which is suspended
18 based on future compliance with this Order and based on filings with the Division
19 demonstrating an inability to pay.

20 IT IS FURTHER AGREED that Respondent Christopher R. McGrath enters into this
21 Consent Order freely and voluntarily and with a full understanding of its terms and significance.

1 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this
2 Order.

3 IT IS FURTHER AGREED that in consideration of the foregoing, the Respondents,
4 Soup House Organics Inc. and Christopher R. McGrath, each waive their rights to a hearing
5 in this matter and judicial review of this order pursuant to RCW 21.20.440 and RCW 34.05.
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7 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

8 SIGNED this 12th day of October, 2009.

9 Signed by:

10 Soup House Organics Inc.

11 By /s/ _____

12 Christopher McGrath, CEO
13

14 Signed by:

15 _____/s/ _____

16 Christopher McGrath, individually
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18 DATED and ENTERED this 13th day of October, 2009.

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20 MICHAEL E. STEVENSON
21 Securities Administrator
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25 CONSENT ORDER

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Approved by:



Suzanne E. Sarason
Chief of Enforcement

Presented by:



Robert Kondrat
Enforcement Attorney

Reviewed by:



Martin Cordell
Financial Legal Examiner Supervisor