

1 STATE OF WASHINGTON
2 DEPARTMENT OF FINANCIAL INSTITUTIONS
3 SECURITIES DIVISION

4 IN THE MATTER OF DETERMINING)Order Number S-09-053-09-SC01
5 Whether there has been a violation of the)
6 Securities Act of Washington by:) STATEMENT OF CHARGES AND
7) NOTICE OF INTENT TO ENTER
8) ORDER TO CEASE AND DESIST,
9) IMPOSE FINES, AND
10) RECOVER COSTS
11)
12 Respondents)

13 THE STATE OF WASHINGTON TO: Soup House Organics Inc.
14 Christopher R. McGrath

15 **STATEMENT OF CHARGES**

16 Please take notice that the Securities Administrator of the State of Washington has reason
17 to believe that Respondents, Soup House Organics Inc. and Christopher R. McGrath, have each
18 violated the Securities Act of Washington and that their violations justify the entry of an order of
19 the Securities Administrator under RCW 21.20.390 against each to cease and desist from such
20 violations, to impose fines, and recover costs. The Securities Administrator finds as follows:

21 **TENTATIVE FINDINGS OF FACT**

22 Respondents

23 1. Soup House Organics Inc. ("Soup House") was a Washington corporation
24 formed on July 26, 2005. Soup House was founded in 2003 and initially operated as a
25 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

STATEMENT OF CHARGES AND NOTICE OF
INTENT TO ENTER ORDER TO CEASE AND DESIST,
IMPOSE FINES, AND RECOVER COSTS

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DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

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
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23

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.”

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, as set forth in the Tentative Findings of Fact, Respondents made
11 misstatements of material facts or omitted to state material facts necessary in order to make the
12 statements made, in light of circumstances under which they were made, not misleading.

13 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

14 Pursuant to RCW 21.20.390(1), and based on the above Tentative Findings of Fact and
15 Conclusions of Law, the Securities Administrator intends to order that Soup House Organics Inc.
16 and Christopher R. McGrath, and their agents and employees, each cease and desist from
17 violations of RCW 21.20.140, RCW 21.20.040, and RCW 21.20.010.

18 **NOTICE OF INTENT TO IMPOSE FINES**

19 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and
20 Conclusions of Law, the Securities Administrator intends to order that Christopher R. McGrath
21 shall be liable for and pay a fine of \$5,000.

1 **NOTICE OF INTENT TO RECOVER COSTS**

2 Pursuant to RCW 21.20.390(5), and based upon the Tentative Finds of Fact and
3 Conclusions of Law, the Securities Administrator intends to order that the Respondent
4 Christopher R. McGrath shall be liable for and pay the Securities Division the costs, fees, and
5 other expenses incurred in the conduct of the administrative investigation and hearing of this
6 matter of not less than \$1,500.

7 **AUTHORITY AND PROCEDURE**

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9 This Statement of Charges is entered pursuant to the provisions of chapter 21.20 RCW
10 and is subject to the provisions of RCW 34.05. The Respondents may each make a written
11 request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
12 OPPORTUNITY FOR HEARING accompanying this order.

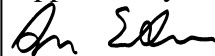
13 If a Respondent does not request a hearing, the Securities Administrator intends to adopt
14 the above Tentative Findings of Fact and Conclusions of Law as final and enter an order to cease
15 and desist permanent as to that Respondent, and impose the fines and costs sought.

16 Dated and Entered this 22d day of June, 2009.

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18 MICHAEL E. STEVENSON
19 Securities Administrator

20 Approved by:

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22 Suzanne E. Sarason
23 Chief of Enforcement

20 Presented by:

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22 Robert Kondrat
23 Enforcement Attorney

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Reviewed by:



Martin Cordell
Financial Legal Examiner Supervisor