

1
2
3
4
5
6
7

**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

IN THE MATTER OF DETERMINING) Order No.: S-16-1945-16-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND
) NOTICE OF INTENT TO
Ecocruise Electric Transportation, Inc.,) ENTER ORDER TO CEASE AND DESIST,
Steven D. Leighty,) TO IMPOSE A FINE,
) AND TO CHARGE COSTS
)
Respondents)

THE STATE OF WASHINGTON TO: Ecocruise Electric Transportation, Inc.
Steven Douglas Leighty

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the state of Washington has reason to believe that Respondents, Ecocruise Electric Transportation, Inc. and Steven D. Leighty, have each violated the Securities Act of Washington. The Securities Administrator believes those violations justify the entry of an order against the Respondents to cease and desist from such violations and to charge costs pursuant to RCW 21.20.390, and under RCW 21.20.395 to impose a fine. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. Ecocruise Electric Transportation, Inc. ("Ecocruise") is an active Washington corporation formed on August 22, 2012. From at least August 2012 until August 2016, Ecocruise had its principal place of business in Seattle, Washington. Ecocruise is in the business of developing and producing "neighborhood electric vehicles" that have a limited driving range of 35 to 80 miles between charges. Neighborhood electric vehicles are generally restricted to a maximum speed of 25 miles per hour.

1 written investment agreements. The agreements represented that investors would receive Ecocruise
2 common stock and full repayment of their investment. The repayment claims had no reasonable basis,
3 given the fact that Ecocruise had yet to make any customer sales or generate any income for repaying
4 investors. To date, none of those investors have received any repayment of their investments.

5 7. The Respondents misleadingly represented that investors would earn extraordinary returns on
6 their investments, without disclosing the financial condition of Ecocruise. The Respondents failed to provide
7 financial statements, and failed to disclose that the company did not prepare annual financial statements for
8 2014 and 2015. The Respondents failed to disclose the company's financial operating history. The
9 Respondents failed to disclose the company's assets and liabilities. The Respondents failed to disclose the
10 amount of capital that would be required to operate the company and to meet the company's vehicle
11 production and sales goals.

12 8. The Respondents misleadingly represented that Ecocruise had an established product line.
13 The Ecocruise website, www.ecocruise.com, included drawings or pictures of several different types of
14 neighborhood electric vehicles, including a golf cart, a delivery cart, a delivery van, and a small pickup.
15 The website misleadingly stated that the company had "several lines of vehicles." The Respondents failed
16 to disclose that most of the vehicles were only prototypes. The Respondents failed to disclose that only one
17 model, the Crusier Sport, had ever been produced in larger quantities. As of August 2016, approximately 90
18 Crusier Sport vehicles had been manufactured and assembled, but fewer than 20 had been delivered. The
19 remaining vehicles were still at a factory in China.

20 9. The Respondents failed to disclose that Leighty and Ecocruise had experienced significant
21 manufacturing problems with electric vehicles. The Respondents failed to disclose that in approximately
22 2008, Leighty had formed an electric scooter business that encountered problems with its battery charger.
23 The Respondents failed to disclose that Ecocruise had encountered significant production problems with its
24
25

1 prototypes. For example, the brake cylinders did not function properly, which required a redesign and a
2 larger cylinder. The lead acid batteries leaked, so the company had to switch to lithium ion batteries. The
3 three kilowatt motors did not mesh properly with the vehicle's gears, so the company had to switch to five
4 kilowatt motors.

5 10. The Respondents failed to disclose that Ecocruise had decided not to produce two of the
6 vehicles (the EZIP vehicles) pictured on its website, due to manufacturing problems. An inspection report
7 stated that the EZIP vehicle welds were uneven, the doors did not slide properly, the steering was rough, and
8 the carbon fiber had fit and finish issues.

9 11. The Respondents failed to disclose other product manufacturing risks. The Respondents
10 failed to disclose that Ecocruise used different Chinese manufacturers for several components of its
11 vehicles, including the body, frame, fiberglass, brakes, and steering wheel. The Respondents failed to
12 disclose the risk of having to develop and maintain manufacturing and assembly procedures for a variety of
13 parts and processes (including parts fabrication, body molding, paint, finish, welds, the electrical system,
14 vehicle gauges, motor charging, battery charging, tires, wheels, lights, seats, suspension, doors and/or
15 windshields).
16

17 12. The Respondents failed to disclose that Ecocruise did not have any protection for its
18 intellectual property, including its product designs. The Respondents failed to disclose that Ecocruise did
19 not own any patents, copyrights, or trademarks.

20 13. The Ecocruise website misleadingly listed multiple product warranties, but failed to disclose
21 material information about the warranty coverage and product liability risks. The Respondents failed to
22 disclose that at least some of the warranties came from Chinese manufacturers. The Respondents failed to
23 disclose the estimated amount required and the amount available for warranty claims. The Respondents
24 failed to disclose that inadequate warranty coverage might subject Ecocruise to bad publicity, refund claims,
25

1 and litigation risks. The Respondents failed to disclose the risk of product recalls and product liability
2 claims. The Respondents failed to disclose that lithium ion batteries were a fire risk and that the vehicle
3 braking mechanisms might not function properly. The Respondents failed to disclose that a failure to
4 maintain adequate reserves or insurance for warranty claims, product recalls, and product liability claims
5 could jeopardize the company's continued existence.

6 14. The Respondents failed to disclose material risks about marketing the Ecocruise vehicles.
7 The Respondents failed to disclose that there was no proven market for the vehicles and no assurance of
8 profitability. The Respondents failed to disclose that Ecocruise would be competing against larger, more
9 established, and better capitalized companies for vehicle sales and market share. The Respondents failed to
10 disclose any risks associated with changing technology in the electric vehicle market.

11 15. The Respondents misleadingly represented that Ecocruise vehicles were "street legal" and
12 would be sold in many different locations, but the Respondents failed to disclose the status of its efforts to
13 obtain required regulatory approvals for its vehicles. Depending upon the type and location of the vehicle,
14 approvals would be required from different sources. For example, approvals might be required from the
15 National Highway Traffic Safety Administration, the U.S. Department of Transportation, the European
16 Environment Agency, the California Air Resources Board, or other regulators. The Respondents failed to
17 disclose the cost and the risk of delay in obtaining vehicle regulatory approvals.

18 16. The Respondents failed to disclose the cost and risk of maintaining compliance with other
19 types of local, state, federal, and foreign laws and regulations. Due to the nature of its business, Ecocruise
20 was required to comply with a wide array of laws and regulations. For example, Ecocruise was subject to
21 laws governing vehicle manufacturing, sales, and delivery, and dealers and distributorships. Ecocruise was
22 also subject to environmental, safety, tax, insurance, and labor laws.
23
24
25

1 17. The Respondents failed to disclose the risks of foreign manufacturing, including language
2 and communications barriers; economic, political, and social risks; labor and product market risks; shipping
3 and delivery risks; and currency fluctuations.

4 18. The Respondents disclosed material information about the investors' equity interest in
5 Ecocruise, but they failed to disclose the risk of dilution and the equity interest of other shareholders in the
6 company. The Respondents failed to disclose that at least five Ecocruise staff members had each received a
7 5% equity share of the company, in exchange for their services, in lieu of cash compensation. The
8 Respondents failed to disclose that Leighty had received stock in lieu of cash compensation. The
9 Respondents failed to disclose the basis for valuing the stock compensation.

10 19. The Respondents failed to disclose its dependence on key personnel. The Respondents failed
11 to disclose that during at least 2014 and 2015, Ecocruise experienced significant employee or representative
12 turnover, including the loss of two Presidents, a Chief Financial Officer, a sales manager, and a European
13 sales representative.

14 **Registration Status**

15 1. Ecocruise is not currently registered to sell its securities in the state of Washington and has not
16 previously been so registered, nor has it filed a claim of exemption from registration.

17 2. Leighty is not currently registered as a securities salesperson or broker-dealer in the state of
18 Washington and has not previously been so registered.

19
20
21 Based upon the above Findings of Fact, the following Conclusions of Law are made:

22 **CONCLUSIONS OF LAW**

23 1. The offer and/or sale of the stock and investments described above constitute the offer and/or
24 sale of a security as defined in RCW 21.20.005(14) and (17).

1 2. The Respondents Ecocruise Electric Transportation, Inc. and Steven D. Leighty have each
2 violated RCW 21.20.140, because, as set forth in the Tentative Findings of Fact, the Respondents offered
3 and/or sold securities for which no registration is on file with the Securities Administrator.

4 3. Respondent Steven D. Leighty has violated RCW 21.20.040 by offering and/or selling said
5 securities while not being registered as a securities salesperson or broker-dealer in the state of Washington.

6 4. The Respondents Ecocruise Electric Transportation, Inc. and Steven D. Leighty have each
7 violated RCW 21.20.010, because, as set forth in the Tentative Findings of Fact, the Respondents made
8 untrue statements of material fact or omitted to state material facts necessary to make the statements made,
9 in light of the circumstances in which they were made, not misleading.

10 **NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST**

11 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities
12 Administrator intends to order, pursuant to RCW 21.20.390(1), that Respondents Ecocruise Electric
13 Transportation, Inc. and Steven D. Leighty, their agents and employees each shall cease and desist from
14 violations of RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140.

15 **NOTICE OF INTENT TO IMPOSE FINES**

16 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of
17 Law, the Securities Administrator intends to order that Respondent Steven D. Leighty shall be liable for and
18 shall pay a fine of \$7,500.

19 **NOTICE OF INTENT TO CHARGE COSTS**

20 Pursuant to 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law, the
21 Securities Administrator intends to order that Respondent Steven D. Leighty shall be liable for and shall pay
22 the costs, fees, and other expenses incurred in the administrative investigation of this matter, and any
23 hearing in this matter, in an amount not less than \$2,500.
24
25

AUTHORITY AND PROCEDURE

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

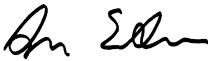
This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the provisions of Chapter 34.05 RCW. The Respondents, Ecocruise Electric Transportation, Inc. and Steven D. Leighty, may each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order. If a Respondent does not make a hearing request in the time allowed, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease and desist as to that Respondent, to impose any fines sought against that respondent, and to charge any costs sought against that Respondent.

Signed and Entered this 27th day of October, 2016



William M. Beatty
Securities Administrator

Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Janet So
Financial Legal Examiner

Reviewed by:



Robert Kondrat
Financial Legal Examiner Supervisor