STATE OF WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS SECURITIES DIVISION

IN THE MATTER OF DETERMINING
Whether there has been a violation of the
Securities Act of Washington by:

Douglas Charles Anderson;
Jonathan Davis;

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Order No.: S-18-2410-20-SC01

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

Respondents

THE STATE OF WASHINGTON TO:

Douglas Charles Anderson Jonathan Davis

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents Douglas Anderson and Jonathan Davis 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. Douglas Anderson ("Anderson") is a resident of Bellevue, Washington. From September 2014 to January 2016, Anderson served as a director and senior vice president of Diego Pellicer Worldwide, Inc. His responsibilities included pitching the company to potential investors.
- 2. Jonathan Davis ("Davis") is a resident of Renton, Washington. As detailed further below, Davis assisted Anderson in the offer and sale of interests in Diego Pellicer Inc. and Diego Pellicer Worldwide, Inc.

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Related Persons

- 3. Diego Pellicer, Inc. ("Diego WA") is a Washington corporation formed on December 5, 2012, with its principal place of business in Seattle, Washington. Until late 2019, Diego WA operated as a marijuana retailer in the SoDo neighborhood of Seattle.
- 4. Diego Pellicer Worldwide, Inc. ("Diego Worldwide") is a Delaware corporation. Diego Worldwide's current headquarters is Reno, Nevada, but at the times relevant to this action, its headquarters was in Los Angeles, California or Santa Monica, California. Diego Worldwide's business model involved leasing commercial properties and then subleasing them to marijuana retailers, with the lease contract containing an option to acquire those retailers if marijuana was federally legalized. Diego also licensed its intellectual property to those retailers so that they could operate under the Diego Pellicer brand, which the company sought to establish as a high-end luxury brand for marijuana and related products. Diego Worldwide trades over-the-counter under the ticker symbol DPWW.
- 5. Ron Throgmartin ("Throgmartin") is a Georgia resident. Throgmartin served as CEO of Diego Worldwide from September 2014 to October 2019.

Nature of the Conduct

Overview

6. From approximately March 2015 to at least December 2015, Anderson and Davis worked together to solicit investments in Diego WA and Diego Worldwide via Craigslist. Davis, with Anderson's knowledge, posted advertisements on Craigslist soliciting investments, then forwarded inquiries to Anderson, who discussed the investments with the inquirer. During this time, Anderson was aware that this offering method was inconsistent with securities laws and the exemptions on which Diego WA sought to rely for raising capital.

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7. In December 2015, Anderson offered the opportunity to run Diego WA to A.C., who then resided in Florida. In exchange for the opportunity to run Diego WA, Anderson solicited A.C. to purchase several hundred thousand shares of Diego Worldwide stock. In connection with the offer and sale of Diego Worldwide stock, Anderson made several false or misleading statements about Diego WA's retail operations. In particular, Anderson (a) provided A.C. with misleading revenue projections; (b) misled A.C. into thinking that Diego WA had a 49% stake in an existing medical marijuana retailer, and (c) failed to disclose that as operator of Diego WA, A.C. would be paying approximately a 500% rent markup to Diego Worldwide.

Background

- 8. Diego WA was founded in 2012 in response to Washington State's legalization of recreational marijuana. Diego WA's intent was to establish itself as a high-end luxury marijuana retailer.
- 9. Diego Worldwide was founded in 2013, in part to enable non-Washington residents to invest in the Diego Pellicer brand without directly investing in a marijuana retailer. As noted above, Diego WA was formed in December 2012 shortly after the passage of the ballot initiative legalizing recreational marijuana, but the implementing rules, which effectively prohibited non-Washington residents from investing in marijuana producers and retailers, were not finalized until late 2013. In September 2014, largely in response to these rules, Diego Worldwide offered Diego WA investors the opportunity to exchange their Diego WA promissory notes for Diego Worldwide preferred stock with a warrant for additional stock.

Initial Transaction with Davis

10. In approximately July 2014, Anderson contracted with Davis to perform work on Anderson's home. As part of Davis's compensation for the work, Anderson offered Davis 50,000 shares of his personal stock in Diego Worldwide. In exchange, Davis agreed to pay \$10,000 and perform \$40,000 of work on Anderson's home. After this transaction, Anderson and Davis began working together to solicit investments in the Diego entities.

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11. From approximately March 2015 to December 2015, Anderson knowingly violated the Securities Act of Washington's registration provisions in offering interests in Diego WA. Anderson was aware that securities laws, and the exemption on which Diego WA sought to rely, prohibited general advertisements of investments in Diego WA, but despite this knowledge, Anderson worked with Davis to solicit investments through Craigslist. Davis posted Craigslist ads and forward emails from interested parties to Anderson, who would call to pitch them on investing.

12. Anderson spoke to at least three potential investors located through Craigslist. For instance, in approximately late October 2015, Davis posted a Craigslist ad with the subject line "Seeking Angel Investor for 502 Store." Davis received at least one inquiry from a potential investor which included the investor's phone number, and forwarded the inquiry to Anderson and urged Anderson to call the potential investor. Anderson testified before the Securities Division that he "ha[d] no idea" what the Craigslist posting referred to, but his cell phone records reflect a call to the number that Davis forwarded to him shortly after. Anderson also sent offering materials to one person located through Craigslist, who expressed interest in investing \$200,000. The Securities Division has sought further records from Anderson to determine the extent of his offering activity, but Anderson has claimed that he is no longer able to access the email account which would contain correspondence with Davis, such as forwarded emails from potential investors.

Transaction with A.C.

13. In approximately December 2015, Anderson offered the opportunity to run Diego WA to A.C., who was then a Florida resident, but conditioned the opportunity on A.C. purchasing a significant number of shares in Diego Worldwide. The specific numbers changed throughout the discussions, but ultimately, A.C. paid \$150,000 for 500,000 shares.

¹ "502" refers to Initiative 502, the Washington ballot initiative which legalized recreational marijuana.

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- 14. In offering the shares in Diego Worldwide, Anderson provided A.C. with a document containing unsubstantiated revenue projections, and failed to disclose a reasonable basis for these projections. According to A.C., the store's actual revenue was roughly half of the projections in the pro forma, largely due to the location of the store.
- 15. Anderson also misrepresented the status of Diego WA's efforts to obtain a marijuana license. For instance, Anderson told A.C. that Diego WA had "a 49% stake medical dispensary operation selected, which is currently operating two locations (with two licenses), which we believe at least one of which are capable of converting to recreational." Anderson also told A.C. that a proposed subscription agreement would "secure[] his exclusive first rights to the two dispensary licenses discussed." In reality, Diego WA did not have any formal contractual relationship with the dispensary operation referenced, and was ultimately unable to reach an agreement for its licenses.
- 16. Anderson further failed to disclose the enormous markup that A.C. would be paying to Diego Worldwide to rent the retail location. According to A.C., Diego Worldwide paid approximately \$6,000 per month in rent for the retail location, then subleased the location to Diego WA for \$30,000 per month—a 500% markup. Although Anderson disclosed the amount of rent in the pro forma, he did not inform A.C. about the 500% markup, which deprived A.C. of the opportunity to evaluate the extent to which Diego Worldwide would be extracting profit from his efforts.

Registration Status

- 17. Diego WA is not and has never been registered to sell its securities in the State of Washington, and although it filed for an exemption from registration under Rule 506(b), the exemption is invalid due to Anderson and Davis's general solicitation through Craigslist.
- 18. Neither Anderson nor Davis is, or has ever been, registered as a securities salesperson or broker-dealer in the State of Washington.

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

CONCLUSIONS OF LAW

- 1. The offer of the Diego WA interest via Craigslist, and the offer and sale of the Diego Worldwide stock to A.C., as described above, constitute the offer and/or sale of a security as defined in RCW 21.20.005(14) and (17).
- 2. Anderson and Davis have each violated RCW 21.20.140, because, as set forth in the Tentative Findings of Fact, Respondents offered and/or sold Diego WA interests for which no registration is on file with the Securities Administrator.
- 3. Anderson and Davis have each violated RCW 21.20.040 by offering and/or selling Diego WA interests while not being registered as a securities salesperson or broker-dealer in the state of Washington.
- 4. Anderson has violated RCW 21.20.010(2), because, as set forth in the Tentative Findings of Fact, he made untrue statements of material fact or omitted to state material facts necessary to make the statements made, in light of the circumstances in which they were made, not misleading.

NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST

Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order, pursuant to RCW 21.20.390(1), that Respondents Douglas Anderson and Jonathan Davis, and their agents and employees, each shall cease and desist from violations of RCW 21.20.040 and RCW 21.20.140, and that Respondent Douglas Anderson, and his agents and employees, shall cease and desist from violations of RCW 21.20.010.

NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent Douglas Anderson shall be liable for and shall pay a fine of \$10,000.

NOTICE OF INTENT TO CHARGE COSTS

Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent Douglas Anderson shall be liable for and shall pay the costs, fees, and other expenses incurred in the administrative investigation and hearing of this matter, in an amount not less than \$5,000.

AUTHORITY AND PROCEDURE

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, Douglas Anderson, and Jonathan Davis, 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	23rd	day of	July	, ;	20	2	21	0

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Suzanne Sarason

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Presented by:

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