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# 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:

Chalice Investments, LLC; Haystack4Life, LLC; Haystack Caps, LLC; Jeffray Lewis Order Number S-18-2534-19-SC01

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

Respondents

THE STATE OF WASHINGTON TO:

Chalice Investments, LLC; Haystack 4Life, LLC; Haystack Caps, LLC; Jeffray Lewis

## STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that the Respondents, Chalice Investments, LLC, Haystack 4Life, LLC, Haystack Caps, LLC and Jeffray Lewis, have each violated the Securities Act of Washington (the "Act"). The Securities Administrator believes that these violations justify the entry of an order to cease and desist, and to charge costs pursuant to RCW 21.20.390. The Securities Administrator further believes that these violations justify the imposition of fines, pursuant to RCW 21.20.395, against the Respondents. The Securities Administrator finds as follows:

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## TENTATIVE FINDINGS OF FACT

# **Respondents**

- 1. Chalice Investments, LLC ("Chalice") was a Washington limited liability company formed in July 2017. The Washington Secretary of State's office administratively dissolved Chalice on December 3, 2019 for failure to file its annual report with that office. Chalice maintained a principal place of business in Woodinville, Washington.
- 2. Haystack 4Life, LLC ("Haystack 4Life") is a Washington limited liability company, formed in March 2018. Haystack 4Life maintains a principal place of business in Woodinville, Washington. Jeffray Lewis formed Haystack 4Life to pursue the development and sale of products containing cannabidiol ("CBD"), a non-intoxicating chemical found in hemp plants.
- 3. Haystack Caps, LLC ("Haystack Caps") is a Washington limited liability company, formed in October 2016. Haystack Caps maintains a principal place of business in Woodinville, Washington. Jeffray Lewis created Haystack Caps to pursue business opportunities involving recreational marijuana.
- 4. Jeffray Lewis ("Lewis") is a Washington resident. Lewis is the only manager of Chalice, Haystack 4Life, and Haystack Caps. In July 2009, Lewis filed bankruptcy in the United States Bankruptcy Court for the Western District of Washington. Lewis was granted a discharge in October 2009.

## **Background and Overview**

5. In late 2016, Lewis first offered interests in Chalice when he stated on Facebook that he was selling a ten percent stake in Chalice for \$20,000. In March and April 2018, Lewis sold thirty percent of Chalice to a Washington couple ("Investors A and B") in two transactions totaling \$60,000.

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6. Lewis represented to Investors A and B, and to others whom he solicited, that Chalice was, in essence, the parent company of Haystack 4Life and Haystack Caps, and, therefore, that investing in Chalice was akin to investing in those other businesses.

7. Lewis offered investments to others after Investors A and B had purchased their interests in Chalice. Lewis made these offers by email, a post on Instagram, and as an incentive for a supplier to temporarily forgo collection of a debt that Lewis owed.

## **Nature of the Conduct**

Sale of Interests in Chalice Investments, LLC to Investors A and B

- 8. In late 2016, Investor A viewed the Facebook post that Lewis made concerning investing in Chalice. In the post, Lewis stated that, by selling an interest in Chalice, he was selling a ten percent stake in a number of businesses for \$20,000.
- 9. Lewis also solicited Investors A and B by text message. In a text message dated February 26, 2018, Lewis stated that the investors would acquire ten percent of "everything in our Chalice Investments Portfolio," and identified Haystack 4Life, Haystack Caps, and Already Anonymous, LLC ("Already Anonymous"), a greeting card business formed in 2013 and managed by Lewis and his former partner, as those components. However, Chalice had no authority over Haystack 4Life and Haystack Caps, as Lewis, not Chalice, was the lone member and manager of both companies. Furthermore, neither Haystack 4Life nor Already Anonymous existed at that point, as Lewis would not form Haystack 4Life until late March 2018, and the Secretary of State's office administratively dissolved Already Anonymous in July 2015. Lewis falsely stated in the text message that he had invested over \$500,000 in those three businesses. However, Lewis spent the majority of the \$500,000 on investments in three unrelated, ultimately unsuccessful marijuana-related businesses that Lewis did not own or manage.

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Chalice and Lewis did not provide any documents concerning Chalice or the other businesses that Investors A and B believed they were investing in before giving Lewis their investment funds. Lewis did not otherwise disclose information concerning the risks of investing in Chalice to the investors, such as

of significant changes to the regulation of marijuana. Further, Lewis did not otherwise disclose how much

risks related to Lewis's lack of success in marijuana-related businesses, and risks related to the possibility

Before they decided to invest, Investors A and B and Lewis met in person to discuss Lewis's

plans to develop and sell products containing CBD. During this conversation, the parties discussed Investor

A's possible role with Chalice, as Investor A wished to help Chalice after investing. However, Lewis made

no representations to either Investor A or B about any employment or managerial role with Chalice for either

money he was seeking in total, or information concerning the businesses' financial state. Lewis also did not

otherwise disclose his 2009 bankruptcy to Investors A and B before he received their funds.

12. Investors A and B purchased their interests by personal checks. The first check was payable to Lewis for \$20,000. The second check was payable to "Haystack for Life" for \$40,000, notwithstanding Lewis's representations to the investors that they would be purchasing interests in Chalice.

13. Shortly after making their second investment in April 2018, Investors A and B became uncomfortable with Lewis's management of the businesses, and asked that Lewis return their investment funds. On September 14, 2018, Investors A and B filed a complaint with the Department, after Lewis failed to give the investors their funds back. In October 2018, Lewis returned Investors A's and B's funds to them. Lewis's partner, at Lewis's request, withdrew money from her inheritance to repay Investors A and B, as neither Lewis, nor Chalice were able to make this repayment.

Other Offers

14. After Investors A and B had invested, Lewis prepared and emailed to potential investors a document entitled "Haystack 4Life CBD Business Plan" (the "Business Plan") that promoted Lewis and Haystack 4Life. In the Business Plan, Lewis provided two lists of "Haystack 4Life Products" that included Haystack 4Life's price to acquire the product, and the price at which it sold the product. However, at that time, no entity owned or controlled by Lewis had released a single product to retail. Furthermore, Haystack 4Life did not own or rent a facility to create these CBD products. This exposed Haystack 4Life to price volatility, a risk that Lewis did not discuss with these potential investors or in the Business Plan. Lewis also failed to disclose the risks of investing in a marijuana-related businesses, such as the risk of significant change in the regulation of marijuana. Lewis also failed to disclose his 2009 bankruptcy in the Business Plan.

- 15. In June 2018, Lewis made a posting on Instagram seeking investment in Chalice. The posting was accessible to the general public. In the posting, Lewis stated that he was selling thirty percent of Chalice for \$120,000. Lewis did not disclose how he determined the valuation of the businesses. Lewis also stated that Chalice would pay a finder's fee for introducing an investor who is the "right fit." Lewis also stated in the posting that Chalice is the "parent company" of Already Anonymous, Haystack Caps, and Haystack 4Life. Lewis further stated that he was nearing an agreement with a "prominent company" to sell CBD products. Lewis did not identify that company in the posting. Lewis also stated in the posting that the business would launch in three to four weeks. However, Lewis did not specify which company, or combination of companies, would launch in that time. Lewis also failed to disclose his 2009 bankruptcy and that the Secretary of State's office had administratively dissolved Already Anonymous.
- 16. In June 2019, Lewis offered interests in Haystack 4Life and Haystack Caps as part of an offer of five percent of "all Haystack Brands" to a supplier, in exchange for the supplier temporarily forgoing

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collection of money that Lewis owed him. Haystack Brands was not, and is not presently, a business entity. 1 In a document that Lewis presented to the supplier to memorialize the agreement, Lewis included five 2 product names along with Haystack 4Life and Haystack Caps in his description of Haystack Brands. The 3 supplier rejected Lewis's offer because Lewis failed to provide certain financial records that he had 4 requested when Lewis first proposed the transaction. 5

# Failure to Disclose Securities Division's Investigation

17. Lewis did not disclose to the supplier that the Securities Division was investigating possible violations of the Act by Lewis and his businesses. At the time of the Haystack Brands offer, Lewis was aware of the Securities Division's investigation of his businesses. The Securities Division had sent correspondence to Lewis directly and to Lewis's counsel that directed Lewis to cease and desist from violating the Act, and that advised Lewis that the Securities Division was investigating his possible violations of the Act. Further, three days prior to the Haystack Brands offer, the Securities Division and Lewis had negotiated a date for Lewis to testify before the Securities Division about Lewis's possible violations of the Act.

# **Registration Status**

- 18. Chalice Investments, LLC is not currently registered to sell its securities in the State of Washington, and has not previously been so registered.
- 19. Haystack 4Life, LLC is not currently registered to sell its securities in the State of Washington, and has not previously been so registered.
- 20. Haystack Caps, LLC is not currently registered to sell its securities in the State of Washington, and has not previously been so registered.

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21. Jeffray Lewis is not currently registered as a securities salesperson or a broker-dealer in the State of Washington, and has not previously registered as such.

## CONCLUSIONS OF LAW

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

- 1. The offer and sale of limited liability company interests described above constitute the offer and sale of a security as defined in RCW 21.20.005(14) and (17).
- 2. The offer and sale of said securities violated RCW 21.20.140 because no registration is on file for said offering with the Securities Administrator.
- 3. Jeffray Lewis has violated RCW 21.20.040 by offering and selling said securities while not registered as a securities salesperson or broker-dealer in the State of Washington.
- 4. Chalice Investments, LLC, Haystack 4Life, LLC, Haystack Caps, LLC, and Jeffray Lewis each violated RCW 21.20.010 because they made untrue statements of material fact, or omitted to state material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

## NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST

Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends order, pursuant to RCW 21.20.390, that Chalice Investments, LLC, Haystack 4Life, LLC, Haystack Caps, LLC, Jeffray Lewis, and their agents and employees, shall each cease and desist from violating RCW 21.20.010 and RCW 21.20.140, and that Jeffray Lewis shall cease and desist from violating RCW 21.20.040.

#### NOTICE OF INTENT TO CHARGE COSTS

Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Chalice Investments, LLC, Haystack 4Life, LLC,

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and Haystack Caps, LLC, and Jeffray Lewis shall be jointly and severally 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 \$1,500.

#### NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions of Law the Securities Administrator intends to order that Chalice Investments, LLC, Haystack 4Life, LLC, Haystack Caps, LLC, and Jeffray Lewis shall each be liable for, and shall each pay, a fine of \$2,500.

## **AUTHORITY AND PROCEDURE**

This Statement of Charges is entered pursuant to the provisions of RCW 21.20.390, and is subject to the provisions of Chapter 34.05 RCW. The Respondents 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 Statement. If a Respondent does not request a hearing in the time allowed, the Securities Administrator intends to adopt the foregoing Tentative Findings of Fact and Conclusions of Law as final as to that Respondent, and to enter a permanent order to cease and desist as to that Respondent, and to impose any fines and to charge any costs sought against that Respondent.

DATED AND ENTERED this \_\_13th\_\_\_ day of \_\_March\_\_\_\_\_\_, 2020.

William M. Beatty

Securities Administrator

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