

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

4 IN THE MATTER OF DETERMINING) Order No.: S-19-2694-19-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 ORDER
8 Blue Gold co LC;) TO CEASE AND DESIST, TO IMPOSE
9 Gregory D. Mrachek;) FINES, AND TO CHARGE COSTS
10)
11)
12 Respondents)
13)

14 THE STATE OF WASHINGTON TO: **Blue Gold co LC**
15 **Gregory D. Mrachek**

16 **STATEMENT OF CHARGES**

17 Please take notice that the Securities Administrator of the State of Washington has reason to believe
18 that Respondents Blue Gold co LC and Gregory D. Mrachek, have each violated the Securities Act of
19 Washington. The Securities Administrator believes that those violations justify the entry of an order against
20 the Respondents to cease and desist from such violations and to charge costs pursuant to RCW 21.20.390, and
21 to impose fines under RCW 21.20.395. The Securities Administrator finds as follows:

22 **TENTATIVE FINDINGS OF FACT**

23 **Respondents**

24 1. Blue Gold co LC (“Blue Gold”) is an inactive Wyoming limited liability company, organized
25 on March 2, 2010. The Wyoming Secretary of State’s office administratively dissolved Blue Gold on May
26 10, 2011 for failure to pay its franchise tax. Gregory D. Mrachek formed Blue Gold to engage in the business
27 of acquiring and selling drinking water. Blue Gold maintained a principal place of business in Renton,
28 Washington.

2. Gregory D. Mrachek (“Mrachek”) is a Renton resident. Mrachek is a principal and salesperson of Blue Gold. Mrachek is a respondent in an enforcement action that the Securities Division took that involved InfoScape Corporation (“InfoScape”) of Vancouver, Washington in 2018. In June 2018, the Securities Division entered a Statement of Charges against InfoScape and Mrachek. The Securities Division alleged that InfoScape and Mrachek sold over \$650,000 worth of convertible promissory notes to Washington residents. The Securities Division also alleged that InfoScape and Mrachek sold unregistered securities and violated the Washington State Securities Act’s anti-fraud section. The Securities Division also alleged that Mrachek acted as an unregistered securities salesperson. In October 2018, the Securities Division and Mrachek entered into a Consent Order in settlement of that matter. Mrachek agreed to cease and desist from violating the Washington State Securities Act, and agreed to pay a fine of \$2,000, and to reimburse the Securities Division \$1,000 of its investigative costs.

Related Party

3. James W. Quinlan (“Quinlan”) was a resident of Georgia. Quinlan was a principal and salesperson of Blue Gold. Quinlan was a member of the State Bar of Georgia from 1982 until his disbarment in June 2002. The Supreme Court of Georgia disbarred Quinlan for violating the bar’s rules prohibiting willful abandonment or disregard of an entrusted legal matter, and for failure to account for trust property held in a fiduciary capacity. Quinlan died in October 2018.

Overview

4. Between March and December 2010, Mrachek and Quinlan sold at least \$150,000 of limited liability company interests in Blue Gold to at least four investors, three of whom were Washington residents. Mrachek solicited two of the investors by himself, and solicited the other investors with Quinlan. Mrachek represented to a potential investor that Blue Gold had positioned itself to withdraw water from a New Zealand aquifer, and to sell that water to countries that did not have adequate amounts of drinking water. The

1 respondents also offered debt that investors could later convert into equity in Blue Gold. The investors did
2 not actively participate in the management of Blue Gold.

3 **Nature of the Conduct**

4 *Sources of Potential Investors*

5 5. Mrachek solicited potential investors from his then-existing social and work circles. Mrachek
6 also solicited InfoScape investors to invest in Blue Gold. Mrachek solicited one potential investor whom he
7 had known for at least ten years. Mrachek presented Blue Gold to this potential investor when Mrachek heard
8 that he was seeking investment opportunities. Mrachek also solicited a potential investor with whom he
9 worked at Boeing. A friend from Mrachek's church introduced a potential investor to Mrachek. This potential
10 investor subsequently invested \$105,000 in Blue Gold because he believed Mrachek to be a "trusted Christian
11 brother." Mrachek also solicited a family member to invest in Blue Gold. Quinlan participated in the
12 solicitation of two of these potential investors.

13 *Solicitation of Investors*

14 6. Mrachek made misstatements of material fact about Blue Gold's business to a potential
15 investor. Mrachek represented to a potential investor that Blue Gold had the exclusive right to draw water
16 from an aquifer in New Zealand. Mrachek further represented that Blue Gold would transport and sell this
17 water to nations that lacked adequate quantities of drinking water. Mrachek represented that this agreement
18 providing for the exclusive right to draw water from an aquifer in New Zealand was a "done deal." However,
19 Blue Gold did not have a contract to draw water from New Zealand. In fact, Blue Gold only had a
20 memorandum of understanding with a New Zealand business called Aquazeal, which also planned to be in
21 the business of gathering and selling water in bulk from New Zealand.
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Offering Materials

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2 7. Mrachek distributed a number of documents concerning Blue Gold to potential investors
3 before they invested. These documents included profit projections, and a document entitled “Proposal for
4 Delivery of Bulk Drinking Water” (“Proposal”).

5 8. Blue Gold and Mrachek omitted material facts in the profit projections that Mrachek provided
6 to at least one potential investor. In the profit projections, Blue Gold provided figures for the quantity of
7 water sold, revenue per gallon, and cost per gallon over ten years. In the profit projections, Blue Gold stated
8 that, in year two, it would transport more than eight times the amount of water that it transported in year one.
9 Blue Gold also stated in the profit projections that its annual revenue would increase by more than 900% from
10 year one to year two. Further, Blue Gold stated in the profit projections that its costs would not increase from
11 years three to year ten. Blue Gold did not disclose any basis to support the profit projections, or the underlying
12 assumptions made in arriving at those projections.

13
14 9. Blue Gold and Mrachek made misstatements of material fact, and omitted to state material
15 facts in the Proposal. In the Proposal, Blue Gold stated that it was offering debt that the investor could convert
16 to interests in Blue Gold at a later date. Blue Gold included a summary of its business to date and its plans in
17 the Proposal. Blue Gold stated that it was in the process of forming a joint venture with New Zealand Aquifer
18 Limited in the Proposal. In the Proposal, Blue Gold identified Quinlan as an attorney, and as a founder of
19 Blue Gold. However, Blue Gold failed to disclose Quinlan’s disbarment. Blue Gold provided profit
20 projections on a page entitled “Financial Forecast.” Blue Gold stated in the Financial Forecast that it would
21 earn \$26 million dollars per month during its first year of operation. Mrachek and Blue Gold further stated in
22 the Financial Forecast that Blue Gold would earn \$130 million per month during its second year of operations,
23 and that Blue Gold would earn \$325 million per month in its third year of operation. Blue Gold did not
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1 provide an adequate basis for these projections, nor did it identify the underlying assumptions made in
2 determining that Blue Gold would realize these earnings.

3 *Post Investment Developments*

4 10. Mrachek and an investor continued to communicate after he invested. Mrachek sent emails to
5 the investor that provided updates on Blue Gold's ultimately unsuccessful attempts to reach agreements to
6 sell water. Mrachek offered and sold an InfoScape promissory note to this investor after his Blue Gold
7 investment. During his testimony before the Division, Mrachek stated that Blue Gold ceased operations in
8 2010 after a severe decline in the health of its representative in negotiations with potential purchasers of its
9 water. Despite this, in 2010, Mrachek asked an investor to pay the fees necessary to maintain control of
10 certain domain names such as bluegold.com. The investor paid those fees for seven years.

11 **Registration Status**

12 11. Blue Gold co LC is not currently registered to sell its securities in the State of Washington,
13 and has not previously been so registered.

14 12. Gregory D. Mrachek is not currently registered as a securities salesperson or broker-dealer in
15 the State of Washington, and has not previously been so registered.

17 **CONCLUSIONS OF LAW**

18 Based on the above Tentative Findings of Fact, the Securities Administrator makes the following
19 Conclusions of Law:

20 1. The offer and sale of limited liability company interests and debt described above constitute
21 the offer or sale of a security as defined at RCW 21.20.005(14) and (17).

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

1 3. Gregory D. Mrachek has violated RCW 21.20.040 by offering and selling said securities
2 while not registered as a securities salesperson or broker-dealer in the State of Washington.

3 4. The Respondents violated RCW 21.20.010 because, Respondents, in connection with the
4 offer or sale of securities, made misstatements of material facts or omitted to state material facts necessary
5 in order to make the statements made, in light of the circumstances under which they were made, not
6 misleading.

7 **NOTICE OF INTENT TO ENTER ORDER TO CEASE AND DESIST**

8 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator
9 intends to order, pursuant to RCW 21.20.390(1), that Blue Gold co LC and Gregory D. Mrachek, and their
10 agents and employees, shall each cease and desist from violations of RCW 21.20.010, RCW 21.20.040, and
11 RCW 21.20.140.

12 **NOTICE OF INTENT TO CHARGE COSTS**

13 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of
14 Law, the Securities Administrator intends to order that Blue Gold co LC and Gregory D. Mrachek,
15 shall be jointly and severally liable for, and shall pay, the costs, fees, and other expenses incurred in the
16 administrative investigation and hearing of this matter, in an amount not less than \$2,500.
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18 **NOTICE OF INTENT TO IMPOSE FINES**

19 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of
20 Law, the Securities Administrator intends to order that Blue Gold co LC and Gregory D. Mrachek
21 shall each be liable for, and shall each pay, a fine of \$10,000.
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23 **AUTHORITY AND PROCEDURE**

24 This Securities Administrator enters this Statement of Charges pursuant to the provisions of Chapter
25 21.20 RCW and is subject to the provisions of Chapter 34.05 RCW. Respondents may make a written request

1 for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR
2 HEARING accompanying this Order. If a Respondent does not make a hearing request in the time allowed,
3 the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law
4 as final and to enter a permanent order to cease and desist, to impose the fine sought, and to charge any costs
5 sought against that Respondent.
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7 SIGNED AND ENTERED this 5th day of September, 2019.

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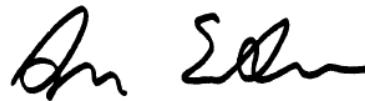
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11 _____
12 William M. Beatty
13 Securities Administrator

14 Presented by:

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17 Edward R. Thunen
18 Financial Legal Examiner

19 Approved by:

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21 _____
22 Suzanne Sarason
23 Chief of Enforcement

24 Reviewed by:

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26 _____
27 Jack McClellan
28 Financial Legal Examiner Supervisor