

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

4 IN THE MATTER OF DETERMINING) Order No. S-12-1009-14-SC01
5 Whether there has been a violation of the)
6 Securities Act of Washington by:)
7 Jason Brown,) STATEMENT OF CHARGES AND NOTICE OF
Your Local Market, LLC,) INTENT TO ENTER ORDER TO CEASE AND
Respondents.) DESIST, TO IMPOSE FINES, AND TO CHARGE
COSTS

8 **THE STATE OF WASHINGTON TO:** **Jason Brown**
9 **Your Local Market, LLC**

10 **STATEMENT OF CHARGES**

11 Please take notice that the Securities Administrator of the state of Washington has reason to believe
12 that Respondents Jason Brown and Your Local Market, LLC have each violated the Securities Act of
13 Washington. These violations justify the entry of an order of the Securities Administrator against each
14 respondent to cease and desist from such violations under RCW 21.20.390, to impose fines under RCW
15 21.20.395, and to charge costs under RCW 21.20.390. The Securities Administrator finds as follow:

16 **TENTATIVE FINDINGS OF FACT**

17 Respondents

- 18 1. Your Local Market, LLC (“Your Local Market”) was a Delaware limited liability company formed
19 in July 2011 to develop and manage Your Local Market, a grocery store in Bellevue, Washington. The store
20 opened in November 2011 and closed in June 2012. Your Local Market, LLC filed for bankruptcy in June
21 2012 and became inactive in November 2012.
22 2. Jason Brown (“Brown”) is a resident of Washington State and was the founder and CEO of Your
23 Local Market.

24 Nature of the Offering

- 25 3. In May and June 2012, Brown and Your Local Market offered and sold \$20,000 of Founding
Loyalty Reward Program memberships to 24 customers of the market. The memberships cost \$500 to

1 \$2,000 and would result in a 10% to 20% credit on the member's purchases, plus other benefits, for four
2 years. Brown and Your Local Market sold the memberships to raise working capital for the market, which
3 was undercapitalized. Within weeks of the Founding Loyalty Reward Program being offered, Your Local
4 Market closed its doors and the company filed for bankruptcy.

4 *Background*

5 4. Your Local Market opened in November 2011 after Brown and Your Local Market raised funds for
6 the store's build-out and initial working capital from local investors. After the store opened, Brown and
7 Your Local Market continued to raise capital to compensate for construction cost overruns and lower than
8 projected revenue. While additional working capital was raised, Your Local Market remained
9 undercapitalized. During its existence, Your Local Market never met its projected revenue, and the market
10 was never profitable. By the end of April 2012, Your Local Market could no longer afford to pay for
11 marketing, and the market had stopped paying some of its creditors.

12 5. On May 1, 2012, in order to make payroll, Brown solicited a \$10,000 loan from an existing investor.
13 Brown told the investor he would repay the loan in a week or two from Your Local Market's sales or
14 through a new investor. But the new investor never materialized, and the market did not generate enough
15 revenue to repay the loan. By the middle of May 2012, Your Local Market's sales were declining, and
16 Brown and Your Local Market were defendants in multiple lawsuits filed by the market's creditors. Brown
17 explained to investors that there was insufficient capital to continue operations, and that Your Local Market
18 faced the prospect of being unable to obtain inventory each day.

19 6. On June 7, 2012, Brown notified investors that the company was prepared to file for Chapter 11
20 bankruptcy. On June 22, 2012, Your Local Market closed its doors, and on June 26, 2012, the company filed
21 for bankruptcy.

22 *Founding Loyalty Reward Program*

23 7. On May 1, 2012, a few weeks before the market closed, Brown and Your Local Market announced
24 the Founding Loyalty Reward Program ("Reward Program"). Reward Program members would receive a
25 credit equal to 10%, 15%, or 20% of their purchases if they paid \$500, \$1,000, or \$2,000 for the
26 membership, respectively. The credit could then be used as cash on future Your Local Market purchases.
27 The membership was good for four years, and Reward Program members would also receive free meals at
28 the market, free admission to cooking classes, invitations to private market events, and free home delivery.

29 8. Brown and Your Local Market offered the Reward Program memberships to the general public
30 through Your Local Market's website, emails sent to more than 5,000 Your Local Market customers, a press

1 release posted on at least two public websites, and an article posted on at least one Bellevue-focused
2 website. Additionally, signs advertising the Reward Program were hung throughout Your Local Market,
3 including at the check stands and in the market's windows facing the street.

4 9. When describing the Reward Program to prospective members, Brown and Your Local Market
5 highlighted the amount of money that Reward Program members could save over four years. Prospective
6 members were directed to a "savings calculator" on Your Local Market's website, and Reward Program
7 advertisements demonstrated how members could recoup their investment within a year, and how much
8 members could save in four years. Several Reward Program members expected to recoup the cost of the
9 membership plus benefit from additional savings over the life of the four year membership.

10 10. Brown and Your Local Market represented to prospective members that the funds from the Reward
11 Program would be used to grow and expand Your Local Market. In an email to prospective members,
12 Brown stated that the Reward Program was being offered to prepare Your Local Market for "future
13 growth." At least one prospective member was told that the funds from the Reward Program would be used
14 to expand the current market's operations. Another member understood that the funds would be used to
15 improve and grow Your Local Market. In a press release and email explaining the Reward Program, Brown
16 referenced Your Local Market's expansion into additional locations. When a prospective member asked
17 Brown where the next location would be, Brown replied that the company was working on Seattle and
18 another East Side location for a second store.

19 11. Notwithstanding representations made to prospective Reward Program members, Brown and Your
20 Local Market offered the memberships to raise a significant amount of working capital. Brown and Your
21 Local Market had been unable to raise sufficient capital through Your Local Market's investors, and the
22 Reward Program offering was an attempt to rapidly raise the funds that the market needed to stay open.

23 12. While Brown told prospective members that he and Your Local Market planned on being around for
24 four years, Brown and Your Local Market did not provide any information to prospective members about
25 the company or its financial condition. Further, Brown and Your Local Market did not disclose to
prospective members any risks of purchasing a membership in Your Local Market's Reward Program.

13 13. Brown and Your Local Market offered and sold Reward Program memberships from the beginning
14 of May through the first full week of June 2012. On June 14, 2012, about a week after selling its last
15 membership, Brown informed Reward Program members that the market's inventory had to be put on an
16 aggressive sale to meet the company's financial needs. Eight days later, Your Local Market closed and did
17 not reopen.

Misrepresentations and Omissions

14. Brown and Your Local Market misrepresented to prospective members the intended use of Reward Program funds. Brown and Your Local Market represented that the funds would be used to grow and expand Your Local Market when, in actuality, the Reward Program offering was an effort to raise working capital so that Your Local Market could continue operating.

15. Brown and Your Local Market misled prospective Reward Program members about the financial condition of Your Local Market when they failed to disclose material information regarding the company. Brown and Your Local Market failed to disclose, among other things, that the market needed to quickly raise a large amount of working capital to stay open, that Brown borrowed money to meet payroll on the same day the Reward Program was announced, that Your Local Market had stopped paying some of its creditors, that Brown and Your Local Market were defendants in lawsuits filed by the market's creditors, that Your Local Market's sales were declining, and that Your Local Market was preparing to file for Chapter 11 bankruptcy.

16. Brown and Your Local Market misled prospective Reward Program members about the risks of investing in Your Local Market. Brown and Your Local Market stated that they planned on being in business for four years while failing to disclose material information regarding the company, as outlined above.

17. Brown and Your Local Market failed to disclose to prospective Reward Program members information material to investment in Your Local Market, including but not limited to financial statements, operational history, capitalization, and the general and specific risks of investing in a grocery store.

Registration Status

18. Respondent Your Local Market, LLC is not currently registered to offer or sell its Founding Loyalty Reward Program memberships in the state of Washington, and it has not previously been so registered.

19. Respondent Jason Brown is not currently registered as a securities salesperson or broker-dealer in the state of Washington, and he has not previously been so registered.

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

CONCLUSIONS OF LAW

1. The Founding Loyalty Reward Program memberships as described above were investments of money in the risk capital of Your Local Market with the expectation of some valuable benefit to the

1 member, where the member did not receive the right to exercise practical and actual control over the
2 managerial decisions of Your Local Market. As such, the offer and sale of Reward Program memberships
3 constitutes the offer and sale of a security as defined by RCW 12.20.005(14) and RCW 21.20.005(17).

4 2. The offer or sale of said securities is in violation of RCW 21.20.140 because no registration for such
5 an offer or sale is on file with the Securities Administrator, state of Washington.

6 3. The offer or sale of said securities is in violation of RCW 21.20.040 because Jason Brown is not
7 registered as a salesperson or broker-dealer in the state of Washington.

8 4. The offer or sale of said securities was in violation of RCW 21.20.010 because, as set forth in the
9 Tentative Findings of Facts, Respondents made untrue statements of material fact or omitted to state
10 material facts necessary to make the statements made, in light of the circumstances under which they were
11 made, not misleading.

12 **NOTICE OF INTENT TO ORDER RESPONDENTS TO CEASE AND DESIST**

13 Pursuant to RCW 21.20.390(1), and based upon the above Tentative Findings of Fact and
14 Conclusions of Law, the Securities Administrator intends to order that Respondents Jason Brown and Your
15 Local Market, LLC each shall cease and desist from violations of RCW 21.20.010, RCW 21.20.040, and
16 RCW 21.20.140.

17 **NOTICE OF INTENT TO IMPOSE A FINE**

18 Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions
19 of Law, the Securities Administrator intends to order that Respondents Jason Brown and Your Local
20 Market, LLC shall be jointly and severally liable for and shall pay a fine of \$20,000.

21 **NOTICE OF INTENT TO CHARGE COSTS**

22 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions
23 of Law, the Securities Administrator intends to order that Respondents Jason Brown and Your Local
24 Market, LLC shall be jointly and severally liable for and shall pay investigative costs of at least \$6,500.

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, Jason Brown and Your Local Market, LLC, 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 17th day of April 2014.



William M. Beatty
Securities Administrator

Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Holly Mack-Kretzler
Financial Legal Examiner

Reviewed by:



Robert Kondrat
Financial Legal Examiner Supervisor

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

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