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

IN THE MATTER OF DETERMINING ) Order No.: S-14-1496-14-SC01  
Whether there has been a violation of the )  
Securities Act of Washington by: ) STATEMENT OF CHARGES AND  
TreeFree Biomass Solutions, Inc. ) NOTICE OF INTENT TO ENTER  
(formerly Nile Fiber Pulp & Paper, Inc.); ) ORDER TO CEASE AND DESIST,  
Eulysses B. Lewis; ) TO IMPOSE FINES, AND TO CHARGE  
COSTS  
Respondents. )  
)

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THE STATE OF WASHINGTON TO: TreeFree Biomass Solutions, Inc.;  
Eulysses B. Lewis;

**STATEMENT OF CHARGES**

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, TreeFree Biomass Solutions, Inc. and Eulysses B. Lewis have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations and to charge costs, and under RCW 21.20.395 to impose fines. The Securities Administrator finds as follow:

**TENTATIVE FINDINGS OF FACT**

**Respondents**

1. TreeFree Biomass Solutions, Inc. (“TreeFree”) is an active Washington corporation incorporated on November 16, 2000. Between 2000 and January 27, 2009, TreeFree was known as Nile Fiber Pulp & Paper, Inc. TreeFree uses an office in Seattle, Washington. TreeFree is in the business of developing the plant *Arundo donax* (“Arundo”) for use in a variety of commercial applications, including the manufacture of pulp, paper, and building materials, and for use as a biofuel. The company was founded in 2000 by Ernett Altheimer, who died in 2007.

2. Eulyses B. Lewis (“Lewis”) is a Washington resident and has been the President of TreeFree since 2009. On or around November 12, 2008, Lewis filed bankruptcy in United States Bankruptcy Court for the Western District of Washington. Since no later than November 2008, Lewis has had control of a majority of TreeFree’s outstanding shares.

## Related Entities

3. Miracane, LLC ("Miracane") is an inactive Washington limited liability company formed on February 13, 2001, with a business address in East Wenatchee, Washington. Miracane was administratively dissolved on June 1, 2012. As of February 2001, Miracane's sole asset was 2.5 million shares of TreeFree stock.

4. West Coast Theatre Corporation (“West Coast Theatre”) is a Washington corporation formed on April 12, 1976. West Coast Theater is a shareholder of TreeFree. Lewis is the president and chairman of West Coast Theatre.

5. TreeFree Technologies, Inc. (“TreeFree Tech”) is an inactive Washington corporation formed on September 1, 2006. Lewis formed TreeFree Tech to pursue additional applications for *Arundo*, prior to becoming TreeFree’s President. In approximately 2008, TreeFree sent correspondence to shareholders that indicated that TreeFree Tech and TreeFree would merge, but records from the Washington Secretary of State do not reflect that a merger ever took place.

## Overview

6. Beginning no later than 2000 and continuing through at least January 2015, TreeFree raised at least \$9 million through the sale of common stock to approximately 700 investors in at least twenty-five states and other countries, including at least four hundred Washington residents. On or around August 14, 2014, TreeFree received a subpoena from the Securities Division, along with a letter warning TreeFree to immediately cease and desist from additional violations of the Securities Act of Washington. After

1 receiving the subpoena and warning letter, however, TreeFree sold at least \$260,000 worth of its stock to at  
2 least two additional investors. In June 2015, TreeFree repaid \$250,000 to one of these investors. In  
3 addition to selling common stock, TreeFree sold \$500,000 worth of Series A preferred stock to a single  
4 investor in or around 2009. TreeFree also offered and sold at least \$635,000 worth of Series B convertible  
5 preferred stock to seven investors. In addition to direct investments in Tree Free, some investors invested  
6 through Miracane. Between approximately 2001 and 2003, Miracane raised more than \$100,000 through  
7 the sale of its stock to at least 36 investors, who later received shares of TreeFree stock.

8       7. TreeFree found new investors using sales representatives who solicited friends and persons  
9 they knew in a professional capacity. These representatives solicited individuals and groups of potential  
10 investors. TreeFree also solicited existing investors in a number of letters and newsletters that were sent to  
11 shareholders. In these meetings and newsletters, TreeFree described environmental legislation that  
12 enhanced the potential market for TreeFree's main business line, products derived from *Arundo*. TreeFree  
13 initially sought to use the plant for pulp and paper, and later envisioned other uses, including use in building  
14 materials and as a biofuel. One obstacle to the commercial application of *Arundo* has been the fact that it  
15 has caused ecological and economic damage in some areas in the United States, primarily in riparian areas.  
16 Multiple environmental organizations have sought to have *Arundo* included on lists of restricted or  
17 prohibited plants. By 2014, *Arundo* had been declared a noxious or invasive species by at least six states.

18       8. The vast majority of investors did not receive a disclosure document concerning TreeFree,  
19 such as a private placement memorandum ("PPM"), prior to investing. TreeFree representatives provided  
20 some potential investors with a business plan and a DVD presentation about TreeFree. Most investors  
21 signed stock purchase agreements around the time of their investments. Between approximately 2000 and  
22 2009, investors received stock certificates issued by Nile Fiber, and subsequent investors received stock  
23 certificates issued under the name TreeFree.  
24

1. 9. TreeFree typically sold shares of its common stock for \$0.40 per share, but also sold the  
2. stock at various prices ranging from \$0.01 per share to \$2.50 per share. Investors typically paid for  
3. investments through checks payable to TreeFree. At least six investors were instructed to pay for their  
4. investments in cash. In 2012, one investor was instructed to wire \$200,000 to an account in the name of  
5. West Coast Theatre in order to purchase an investment in TreeFree.

6. **Letter and Newsletter Offerings**

7. 10. TreeFree solicited existing investors in a number of letters and newsletters that were sent to  
8. shareholders. TreeFree encouraged investors to purchase additional shares quickly by stating in some letters  
9. that there would be an imminent increase in the stock price. For example, in a 2009 business plan provided  
10. to investors, TreeFree stated that its per share price had not changed in three years, and that the company  
11. was planning to raise its stock price “very shortly.” In July 2012, TreeFree sent a letter to investors that  
12. stated: “STOCK PRICE INCREASE – LAST OPPORTUNITY AT \$0.40 PER SHARE.” TreeFree also  
13. created a sense of urgency in some of these letters by stressing the company’s need for investors’ funds. For  
14. example, in a February 2009 letter, TreeFree stated: “we must immediately raise a minimum of \$400,000 so  
15. that we can open up our office to communicate, organize and implement these opportunities....”

17. **Misrepresentations and Omissions concerning an Initial Public Offering (IPO)**

18. 11. Between 2000 and 2012, TreeFree made misleading representations to investors and potential  
19. investors regarding an initial public offering (“IPO”) that would purportedly be conducted by the company.  
20. During in-person solicitations and in letters to shareholders, TreeFree and its representatives misleadingly  
21. led investors to believe that the IPO would occur in six months or less. In fact, TreeFree never undertook  
22. several prerequisites to making an IPO, including obtaining an independent audit and filing a registration  
23. statement with the Securities and Exchange Commission (“SEC”). TreeFree also failed to disclose that  
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1 potential obstacles could significantly delay the IPO, such as the SEC review of the registration statement,  
2 and the need to rectify any deficiencies.  
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4 12. Moreover, TreeFree representatives failed to disclose that a public market for TreeFree's  
5 stock might not develop, notwithstanding an IPO taking place. TreeFree further failed to disclose that even  
6 if a public market developed, a liquid market for TreeFree stock may not develop and TreeFree shareholders  
could still have difficulty selling their shares.

7 13. TreeFree also made misleading representations concerning the future stock price of the  
8 shares and the potential profits that would be made by investors as part of the IPO. In 2000, a TreeFree  
9 representative told a prospective investor that TreeFree's stock would be worth \$10 per share after the IPO.  
10 In 2003, a TreeFree representative told a prospective investor that shares of TreeFree stock, which were  
11 being sold for \$1 per share, would be worth between \$25 and \$40 per share after the completion of the IPO.  
12 In June 2009, a TreeFree representative told a group of potential investors that TreeFree stock, which was  
13 then available for \$0.40 per share, would be worth \$29 per share after the IPO which was to occur within six  
14 months. TreeFree representatives failed to disclose the basis for these projections and the assumptions  
15 underlying them.  
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17 14. TreeFree also made misleading representations regarding the exchange on which the shares  
18 would trade, leading investors to believe their shares would soon be traded on the NASDAQ. For example,  
19 in February 2008, Lewis sent a letter to shareholders addressing TreeFree's recent activity, and stating that  
20 the contemplated merger of TreeFree and TreeFree Tech would allow "an intended NASDAQ offering...."  
21 Lewis further represented that TreeFree's recent "research and development accomplishments" had "[s]et  
22 the Company on course to qualify for NASDAQ's initial listing requirements." In a letter to shareholders  
23 dated February 5, 2009, Lewis stated that TreeFree's management believed that TreeFree would qualify to  
24 be listed on the NASDAQ within four months.  
25

15. During the relevant time period, companies seeking to be traded on the NASDAQ were required to meet a number of listing requirements. These requirements included, among other things, filing a registration statement with the SEC, an independent audit, an independent board of directors, and the payment of a fee of no less than \$50,000. TreeFree failed to disclose to potential investors that it had not prepared or filed a registration statement with the SEC or paid a listing fee to NASDAQ. Moreover, TreeFree failed to disclose to investors that the company's board of directors was not independent, and that creating a new independent board could significantly delay the IPO.

## **Omissions concerning TreeFree's Financial Condition**

16. TreeFree failed to disclose material information to investors concerning its financial condition. Over the time period of the offering, TreeFree's disclosure of its financial condition has been limited to the distribution of financial statements to shareholders and potential investors who have attended certain shareholder meetings. TreeFree failed to disclose the fact that it was undercapitalized. TreeFree has generated less than \$100,000 in revenue during its existence, and requested additional funds from shareholders on at least ten occasions between 2002 and December 2013. Most of these requests were made for costs related to TreeFree's core business to address short-term needs. TreeFree failed to disclose the risks arising from undercapitalization, including having to accept unfavorable terms from third parties as a condition to acquiring more capital, shareholder dilution from stock sales, and the cessation of operations.

## **Failure to Disclose Potential Liability from Prior Offerings**

17. TreeFree failed to disclose information concerning potential liability from its prior stock offerings. In or around June 2008, Lewis received a letter from an attorney who represented a potential investor who was contemplating forming a group to make an investment in TreeFree. In the letter, the attorney concluded that TreeFree had likely violated state and federal securities laws by offering and selling unregistered securities, and by making inadequate disclosures to investors. The letter also described the

1 potential civil remedies that investors could seek against TreeFree. In spite of receiving this notification of  
2 its potential civil liability, TreeFree did not register its stock offering, file a claim of exemption, or prepare a  
3 detailed disclosure document for investors.

4 **Misrepresentations and Omissions concerning the Use of Investment Funds**

5 18. TreeFree failed to disclose to potential investors detailed written information concerning the  
use of investor funds. In several letters to shareholders, Lewis stated that the funds being solicited would be  
7 applied to creating a PPM. To date, TreeFree has not provided a PPM to potential shareholders. TreeFree  
8 failed to disclose detailed information regarding the compensation received by its personnel and  
management, including the fact that since approximately 2006, Lewis has received a salary of \$14,000  
9 per month. Lewis commingled funds by receiving his salary by using a debit card issued for TreeFree's  
10 main business account for personal expenses. Between January 2012 and May 2015, Lewis used this card to  
11 make approximately 500 ATM withdrawals at local casinos totaling more than \$400,000. Lewis also  
12 commingled funds by making transfers between a personal bank account and TreeFree's main business  
13 account. Between May 2009 and May 2015, Lewis made approximately 480 transfers between these  
14 accounts. At least 460 of these transfers were transfers into Lewis's personal account. At the end of each  
15 month, TreeFree's part time bookkeeper reconciled this account, allocating all money spent by Lewis in  
16 excess of his salary as repayment of loans made to TreeFree by West Coast Theatre. TreeFree failed to  
17 disclose to some investors that, beginning no later than early 2009, TreeFree has been making monthly  
18 payments to two family members of the company's founder (Ernett Altheimer) to buy back their shares,  
19 some of which were acquired upon Altheimer's death. By April 2012, these relatives had received over  
20 \$700,000.  
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## **Failure to Disclose Material Information Regarding Key Personnel**

19. TreeFree failed to disclose material information to investors regarding the background and prior business experience of Lewis and other members of the company's management. TreeFree and its representatives failed to disclose to some investors that Lewis filed for bankruptcy in 2008, shortly before becoming the President of TreeFree in 2009. Lewis originally filed pursuant to Chapter 13 of the bankruptcy code. In March 2009, Lewis's case was converted to a Chapter 11 case because, in part, Lewis's debts exceeded Chapter 13's limits. In May 2010, the court converted Lewis's case to Chapter 7 upon the motion of one of Lewis's creditors who alleged, among other things, that Lewis had failed to comply with court orders, had failed to file required reports, and had not made required payments to the bankruptcy trustee. Lewis's bankruptcy continued for nine months until February 2011 when Lewis received a discharge pursuant to Chapter 7.

20. TreeFree failed to disclose the risks associated with the lack of relevant experience by other members of the company's management. TreeFree's directors and officers have prior business experience in unrelated fields such as entertainment, education, and retail, but did not have prior experience in biotechnology, biomass, or fields related to TreeFree's core business.

## **Failure to Disclose Risks Associated with *Arundo*'s Legal Status**

21. In its solicitations, TreeFree touted the market potential for *Arundo*, but failed to disclose to investors material information concerning the risks presented by *Arundo*'s unsettled legal status. In 2003, the State of California declared *Arundo* a noxious species, and by 2014, it had been declared a noxious or invasive species by at least six states. TreeFree failed to disclose to potential investors the risk of additional jurisdictions declaring *Arundo* an invasive or noxious species. Among other things, such regulatory action presents the risk of significantly limiting TreeFree's ability to grow *Arundo*, which could significantly

1 increase the cost of growing *Arundo*. TreeFree representatives also failed to disclose the risk that certain  
2 states could prohibit the planting of *Arundo*, which could undermine TreeFree's business prospects.  
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### 4 **Misleading Statements and Omissions Concerning Patents**

5 22. TreeFree and its representatives made misleading statements concerning the value of the  
6 company's patents. In newsletters to investors and potential investors, TreeFree provided various valuations  
7 for its patents that ranged between approximately \$100 million to \$300 million. TreeFree failed to disclose  
8 to potential investors that the company's patents have not been independently appraised. In approximately  
9 February 2007, TreeFree representatives stated to a group of potential investors that TreeFree's patents were  
10 "extremely" valuable and had multiple applications. TreeFree failed to disclose the risk that other parties  
11 could infringe upon the patents, due to the fact that the company did not have the financial resources to  
12 enforce and defend its patents. TreeFree also held a limited interest in a second patent. Moreover, in  
13 approximately 2004, a consultant had informed TreeFree's management that the assigned US patent was  
14 "virtually meaningless" because its application was very narrow.

### 15 **Failure to Disclose Loans and Resulting Conflicts of Interest**

16 23. TreeFree representatives failed to disclose to investors that TreeFree has received loans from  
17 Lewis' "investing company," West Coast Theatre. Between approximately 2004 and the present, West  
18 Coast Theatre has lent more than \$1.5 million to TreeFree. This obligation has not been reduced to  
19 writing. Between no later than May 2009 and as recent as April 2015, TreeFree has made regular  
20 payments against these loans to West Coast Theatre through payments to Lewis. TreeFree failed to  
21 provide detailed disclosure of the loan's terms such as its interest rate of 10% and duration. Furthermore,  
22 TreeFree and its representatives failed to disclose to potential investors the conflicts of interest resulting  
23 from this arrangement, including, but not limited to, the possibility that Lewis may direct TreeFree to repay  
24 West Coast Theatre when it is disadvantageous to TreeFree and its shareholders to do so.  
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## Registration Status

24. TreeFree Biomass Solutions, Inc. is not currently registered to sell its securities in the State of Washington. On or around January 25, 2002, TreeFree (then known as Nile Fiber Pulp & Paper, Inc.) filed a Form D with the U.S. Securities and Exchange Commission and with the Securities Division, claiming an exemption for an offering of \$370,000 worth of common stock pursuant to Rule 506 of Regulation D. According to the Form D, TreeFree had already sold the full \$370,000 worth of common stock to 19 investors in three states, including 16 investors in Washington. TreeFree proceeded to sell at least \$8.5 million worth of stock without making any subsequent filings with the Division.

25. Eulysses B. Lewis is not currently registered as a salesperson or broker-dealer in the State of Washington, and has not previously been so registered.

## **CONCLUSIONS OF LAW**

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

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

2. TreeFree Biomass Solutions, Inc. and Eulysses B. Lewis have each violated RCW 21.20.140 because no registration for such an offer and/or sale is on file with the Securities Administrator of the State of Washington, nor is any current claim of exemption.

3. TreeFree Biomass Solutions, Inc. and Eulysses B. Lewis have each violated RCW 21.20.010 because, as described above, Respondents made untrue statements of material fact or omitted to state material facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading.

4. Eulysses B. Lewis has violated RCW 21.20.040 by acting as a securities salesperson or broker-dealer in the State of Washington while not registered as such.

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

Pursuant to RCW 21.20.390(1) and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent TreeFree Biomass Solutions shall cease and desist from violations of RCW 21.20.010, and RCW 21.20.140, and that Respondents Eulysses B. Lewis shall cease and desist from violations of RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140.

## **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 Respondent TreeFree Biomass Solutions, Inc. shall be liable for and shall pay a fine of \$30,000, and that Respondent Eulysses B. Lewis shall be liable and shall pay a fine of \$30,000.

## **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 Respondents TreeFree Biomass Solutions, Inc. and Eulysses B. Lewis shall be jointly and severally liable for and shall pay investigative costs of \$15,000.

## **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. Respondents TreeFree Biomass Solutions, Inc. and Eulysses B. Lewis 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

1 to cease and desist as to that respondent, to impose any fines sought against that respondent, and to charge  
2 any costs sought against that respondent.

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4 Signed and Entered this 6th day of July 2015.

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8 William M. Beatty  
9 Securities Administrator

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11 Approved by:

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15 \_\_\_\_\_  
16 Suzanne Sarason  
17 Chief of Enforcement

18 Presented by

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20 \_\_\_\_\_  
21 Edward R. Thunen  
22 Financial Legal Examiner

23 Reviewed by:

24   
25 \_\_\_\_\_  
26 Robert Kondrat  
27 Financial Legal Examiner Supervisor