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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:

Order No. S-18-2463-20-CO01

CONSENT ORDER

RChain Cooperative;
Lucius Gregory Meredith;

Respondents

THE STATE OF WASHINGTON TO:

RChain Cooperative
Lucius Gregory Meredith

INTRODUCTION

Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division of the Department of Financial Institutions (“Securities Division”) and Respondents RChain Cooperative and Lucius Gregory Meredith do hereby enter into this Consent Order in settlement of the matters alleged herein. Respondents RChain Cooperative and Lucius Gregory Meredith neither admit nor deny the Findings of Fact and Conclusions of Law as stated below.

FINDINGS OF FACT

Respondents

1. RChain Cooperative (“RChain”) is a Washington cooperative association formed on January 11, 2017. RChain used a business address in Seattle, Washington. RChain is in the business of creating a new blockchain. As of January 2019, RChain had more 1,700 members who paid a \$20 fee to join the cooperative.

2. Lucius Gregory Meredith (“Meredith”) is the President and co-founder, and a member of RChain. Meredith is a resident of Seattle, Washington.

CONSENT ORDER

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 **Nature of the Conduct**

2 **Introduction**

3 3. Between 2017 and 2019, RChain raised a total of approximately \$30 million through the sale
4 of millions of cryptographic software access tokens named RHOC(s), which were sold in multiple
5 unregistered offerings.¹ RChain described each of the offerings as a “private token sale” but repeatedly
6 engaged in general solicitation and publicly advertised its intention to sell tokens to members of the
7 cooperative. RChain did not register any of its offerings with state or federal securities regulators and did not
8 file any claim of exemption. When the Securities Division contacted RChain in December 2017 and requested
9 information regarding the RHOC token offering, it reported that it had raised \$9.9 million from its August-
10 September offering. RChain failed to disclose that it had just completed a second offering of more than \$18.7
11 million. RChain later conducted additional unregistered offerings in 2018 and 2019, and raised more than \$1
12 million.

13 4. RHOC tokens have been traded on multiple cryptocurrency exchanges since 2017. The trading
14 price of RHOC rose from approximately \$0.20 in October 2017 to as high as \$3.00 in January 2018. Between
15 July 2018 and November 2018, the trading price of RHOC declined from approximately \$0.81 to \$0.07. By
16 January 2020, RHOC prices further declined and it was traded for approximately \$0.01 to \$0.02 per token.

17 **August-September 2017 RHOC Offering**

18 5. On August 28, 2017, RChain began offering and selling RHOC tokens to members of the
19 cooperative, including residents of Washington. RChain continued to sell RHOC tokens for about one month
20 until September 28, 2017. RChain sold RHOC for \$0.20 per token to a total of approximately 59 purchasers

21 _____
22 ¹ RHOCs are ERC-20 tokens that are issued and distributed on the Ethereum Blockchain using the ERC20 protocol, which
23 function (i) as software access tokens, enabling token-holders to participate in RChain's pre-release operations to build out the
network via node-staking, and (ii) as ‘placeholders’ to demarcate the number of REV tokens that each RHOC token-holder is
eligible to receive upon the launch of RChain's blockchain protocol. Subject to RChain's review and approval, RHOC token-
holders are eligible to receive one REV token for each RHOC token held.

1 and raised approximately \$9.9 million. RChain sold RHOC tokens to 25 U.S. residents, including four
2 Washington residents.

3 6. RChain publicly disseminated information regarding the offering on its website and through
4 various other mediums. RChain posted information regarding the offering on its Facebook page and in
5 newsletters that were emailed to members. As a representative of RChain, Meredith also discussed the
6 offerings during weekly “community debriefs” that were live-streamed and later posted on YouTube.

7 7. RChain required a minimum purchase of \$50,000 in its initial offering, but later decreased the
8 minimum purchase amount in future offerings, as described below. RChain accepted payment in U.S. Dollars
9 (USD), Ethereum (ETH), and Bitcoin (BTC). RChain’s management, including Meredith, conducted online
10 video conferences with potential purchasers as part of the membership verification process, and also
11 communicated with them by email and messaging platforms, including Slack and Discord.

12 8. RChain created a special website for the sale and posted a document dated August 29, 2017
13 that was entitled “Whitepaper.” The Whitepaper contained some limited disclosure regarding RChain, the
14 offering, and the cooperative’s officers, directors, and advisors. The website also included a document entitled
15 “Token Sale Terms” that included some additional information and risk disclosure. The Token Sale Terms
16 stated that the purpose of the RHOC tokens was to “facilitate the provision, creation, execution, and
17 maintenance of scalable decentralized applications ... within the RChain blockchain network” and that,
18 following launch of the RChain blockchain network, RChain would cease to provide support for RHOC,
19 whereupon RHOC token-holders would have the ability to convert such RHOC to REV at a ratio of one
20 RHOC token to one REV token. The Token Sale Terms further stated that eligibility to purchase any tokens
21 from the sale was contingent upon membership in the cooperative.

22 9. RChain failed to disclose that RHOC tokens were not registered with the Securities and
23 Exchange Commission (SEC), and that no claim of exemption had been filed with the SEC or any state

1 securities regulator. The Whitepaper failed to disclose the risk that the sale of RHOC may constitute the sale
2 of a security and could subject RChain to a civil or administrative enforcement action by state and federal
3 securities regulators. RChain failed to disclose that RChain could be subject to civil liability from RHOC
4 purchasers under the federal or state securities laws. RChain failed to disclose its dependence on key
5 personnel, including Meredith.

6 10. The Respondents failed to provide RHOC purchasers with material information regarding the
7 compensation of its officers, directors, and advisors. RChain failed to disclose that it entered into an
8 agreement with outside advisors to assist it with fundraising. RChain failed to disclose that its advisors were
9 paid a “performance commission” of 3% of the funds raised in the offering. The Whitepaper failed to disclose
10 any information regarding prior legal proceedings and litigation involving RChain’s officers, directors, and
11 advisors. RChain failed to disclose that Meredith filed for bankruptcy in 2007.

12 11. On or about September 6, 2017, about a week after the offering commenced, the Registration
13 Unit of DFI’s Securities Division wrote a letter to RChain regarding its sale of RHOC. The letter notified
14 RChain that RHOC may be securities, and that no exemption filings had been made with either the Securities
15 Division or the Securities and Exchange Commission (SEC). The Registration Unit directed RChain to
16 provide additional information regarding its offering.

17 12. On September 20, 2017, RChain sent a 21-page letter to DFI and continued its sale of RHOC.
18 Among other things, RChain claimed that “the sale of RHOC does not constitute the sale of a security” and
19 that there was “no need to either complete registration or secure an exemption from registration for the offer
20 and sale of RHOC.”

21 **RHOC Trading Activity**

22 13. Beginning around September 2017, RHOC purchasers could immediately re-sell their tokens
23 on multiple decentralized exchanges that allow peer-to-peer trading of cryptocurrencies. RHOC holders and

1 potential purchasers could also track the daily trading price of RHOC on the CoinMarketCap.com, a website
2 used by Meredith and other RChain staff.

3 14. Between September 2017 and October 2017, advisors to RChain sent various emails to
4 potential RHOC purchasers, which stated in part:

- 5 • “[T]here are some exchanges out there with RHOC being traded now.”
- 6 • “There are also open exchanges that are trading RHOC currently.”
- 7 • “Currently, RHOCs are available on some smaller exchanges such as Ether Delta and Oasis
8 Dex. They probably will be available on larger exchanges at some point in time in the near
9 future.”
- 10 • “You also can purchase RHOC tokens on some of the smaller exchanges such as Oasis Dex
11 and Ether Delta.”

12 15. RChain also posted a list of FAQ’s (Frequently Asked Questions) on a website, which stated
13 that “RHOCs are tradable on exchanges.” RChain advisors also represented to potential purchasers that
14 RChain was contemplating conducting an Initial Coin Offering (ICO) in 2018.

15 16. On December 12, 2017, KuCoin, a cryptocurrency exchange based in Asia, announced that it
16 would list RHOC on its exchange. Meredith opened an account at KuCoin and later used it to sell RHOC
17 tokens that he received as compensation.

18 **December 2017 RHOC Offering**

19 17. On December 20, 2017, the Registration Unit of the Securities Division sent a follow-up letter
20 to RChain, and directed it to provide detailed information regarding its sale of RHOC, including the total
21 number of purchasers and the total amount of funds that had been raised in the RHOC token offering.

22 18. About a week later, on December 27, 2017, RChain held a community debrief, during which
23 Meredith, participating in his role as President of RChain, discussed another RHOC sale that was being

1 organized. Meredith stated that RChain had received a very large number of requests from cooperative
2 members to purchase additional RHOC. Meredith described the situation as a “runaway train.”

3 19. Over the next four days (December 28 to December 31, 2017), RChain raised approximately
4 \$18.7 million through the sale of RHOC to 44 purchasers, including two Washington residents. In this sale,
5 RChain lowered the minimum purchase amount from \$50,000 to \$10,000 and increased the sales price from
6 \$0.20 to \$0.35 per token (a increase of 75%). According to CoinMarketCap.com, the closing price of RHOC
7 rose from approximately \$0.60 on December 28, 2017 to \$2.42 on January 2, 2018 and its daily trading volume
8 reached a peak of more than 5 million tokens.

9 20. When conducting the December 2017 sale, RChain continued to use its outdated August 29,
10 2017 Whitepaper, and did not update it or add any additional disclosure. The Whitepaper failed to disclose
11 any information regarding the prior fundraising that occurred in August and September 2017. The Whitepaper
12 failed to disclose how funds raised in that offering were used. The Whitepaper contained a misleading Use
13 of Proceeds section, which generally described how proceeds would be used if RChain raised \$10 million or
14 \$15 million. The Whitepaper misleadingly stated that \$15 million was the “maximum” or “max total raise”
15 when in fact, RChain raised nearly double that amount.

16 21. The Whitepaper failed to disclose that proceeds from RHOC sales could be used for the
17 purchase of real property, and it did not disclose the risks associated with purchasing real estate.
18 Approximately three months after conducting the December 2017 offering, RChain used more than \$1.5
19 million in proceeds for the purchase of a five-bedroom house in West Seattle for use as an office. RChain
20 sold the property a few months later at a loss of approximately \$275,000.

21 22. RChain required U.S. purchasers to be accredited investors and complete an “Accredited
22 Participant” questionnaire. Multiple purchasers did not complete their questionnaire until more than two
23 weeks after making their purchase in the December 2017 sale.

1 per token. The minimum purchase amount was \$25,000. Information regarding the sale was also available
2 to the public on a website used by RChain, but purchase was restricted to members of the cooperative. RChain
3 raised more than \$500,000 from multiple overseas purchasers and a resident of New York.

4 28. Since June 2019, RChain raised more than \$700,000 through the sale of RHOC tokens to
5 members of the cooperative in other unregistered offerings. In September 2019, Meredith sent out
6 solicitations by email on behalf of RChain and offered to sell RHOC tokens to multiple persons, including at
7 least one Washington resident. Meredith stated that RChain had a \$600,000 shortfall and was selling 30
8 million tokens at a price of \$0.02.

9 29. In December 2019, RChain commenced a new offering, which was referred to as “Private
10 Token Sale II Q4 2019.” RChain offered 25 million RHOC tokens for sale at a price of \$0.15 per token, with
11 a special “bulk discount” price that was available to large purchasers. Information regarding the sale was
12 available to the public on a website used by RChain, but purchase was restricted to members of the
13 cooperative.

14 **Registration Status**

15 30. RChain Cooperative is not currently registered to sell RHOC tokens in the state of Washington
16 and has not previously been so registered, nor has it filed a claim of exemption from registration.

17 31. Lucius Gregory Meredith is not currently registered as a securities salesperson or broker-dealer
18 in the state of Washington and has not previously been so registered.

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

20 **CONCLUSIONS OF LAW**

21 1. The offer and/or sale of RHOC described above constitute the offer and/or sale of a security as
22 defined in RCW 21.20.005(14) and (17), specifically as either an investment contract or an investment of
23 money or other consideration in the risk capital of a venture with the expectation of some valuable benefit to

1 the investor where the investor does not receive the right to exercise practical and actual control over the
2 managerial decisions of the venture.

3 2. RChain Cooperative and Lucius Gregory Meredith have each violated RCW 21.20.140,
4 because, as set forth in the Findings of Fact, they offered and/or sold securities for which no registration is on
5 file with the Securities Administrator.

6 3. Lucius Gregory Meredith has violated RCW 21.20.040 by offering and/or selling said
7 securities while not being registered as a securities salesperson or broker-dealer in the state of Washington.

8 4. RChain Cooperative and Lucius Gregory Meredith have each violated RCW 21.20.010,
9 because, as set forth in the Findings of Fact, they made untrue statements of material fact or omitted to state
10 material facts necessary to make the statements made, in light of the circumstances in which they were
11 made, not misleading.

12 Based upon the foregoing and finding it in the public interest:

13 **CONSENT ORDER**

14 IT IS AGREED AND ORDERED that Respondent RChain Cooperative, including its agents and
15 employees, and Lucius Gregory Meredith, shall each cease and desist from violating RCW 21.20.140.

16 IT IS FURTHER AGREED AND ORDERED that Lucius Gregory Meredith shall cease and desist
17 from violating RCW 21.20.040.

18 IT IS FURTHER AGREED AND ORDERED that Respondent RChain Cooperative, including its
19 agents and employees, and Lucius Gregory Meredith, shall each cease and desist from violating RCW
20 21.20.010.

21 IT IS FURTHER AGREED AND ORDERED that RChain Cooperative shall be liable for and shall
22 pay a fine of \$50,000.

23

1 IT IS FURTHER AGREED AND ORDERED that Lucius Gregory Meredith shall be liable for and
2 shall pay a fine of \$25,000.

3 IT IS FURTHER AGREED AND ORDERED that RChain Cooperative shall be liable for and shall
4 pay investigative costs of \$15,000.

5 IT IS FURTHER AGREED AND ORDERED that Lucius Gregory Meredith shall be liable for and
6 shall pay investigative costs of \$5,000.

7 IT IS FURTHER AGREED AND ORDERED that Respondent Lucius Gregory Meredith shall make
8 an initial payment of \$5,000 on or before entry of this Consent Order for investigative costs. RChain
9 Cooperative and Lucius Gregory Meredith shall make a second payment of \$30,000 within six (6) months of
10 the date of entry of this Consent Order for RChain Cooperative's investigative costs (\$15,000) and \$15,000
11 of Lucius Gregory Meredith's fine. RChain Cooperative and Lucius Gregory Meredith shall make a third
12 payment of \$30,000 within twelve months of the date of entry of this Consent Order for the remaining portion
13 of Lucius Gregory Meredith's fine (\$10,000) and for \$20,000 of RChain Cooperative's fine. RChain
14 Cooperative shall make a fourth and final payment of \$30,000 within eighteen months of the date of entry of
15 this Consent Order for the remaining portion of its fine.

16 IT IS FURTHER AGREED that failure to make said payments shall be grounds to vacate this Consent
17 Order.

18 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

19 IT IS FURTHER AGREED that Respondents RChain Cooperative and Lucius Gregory Meredith
20 entered into this Consent Order freely and voluntarily and with a full understanding of its terms and
21 significance.

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1 IT IS FURTHER AGREED that in consideration of the foregoing, Respondents RChain Cooperative
2 and Lucius Gregory Meredith each waives their right to a hearing and to judicial review of this matter pursuant
3 to RCW 21.20.440 and Chapter 34.05 RCW.

4 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

5
6 Signed this 26 day of February, 2020.

7 Signed by:
8 RChain Cooperative

9
10 /s/
11 Lucius Gregory Meredith
12 President

7 Signed by:
8
9
10 /s/
11 Lucius Gregory Meredith, Individually

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14 Signed and Entered this 28th day of February 2020.

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17 

18 William M. Beatty
19 Securities Administrator

19 Approved by:
20 

21
22
23 Suzanne Sarason
Chief of Enforcement

19 Presented by:
20
21 

22 Robert Kondrat
23 Financial Legal Examiner