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

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Order No. S-23-3552-23-SC01

STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO CEASE AND DESIST, TO IMPOSE A FINE, AND TO CHARGE

COSTS

Educational

Respondents.

THE STATE OF WASHINGTON TO:

d/b/a

IN THE MATTER OF DETERMINING

Whether there has been a violation of the

Educator of Truth, and His or Her Successors, a

Securities Act of Washington by:

Mark Laurence Donald Emerson,

Empowerment Corporation;

sole,

Educator of Truth, and His or Her Successors, a corporation sole, d/b/a Educational

Empowerment Corporation; Mark Laurence Donald Emerson

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents Educator of Truth, and His or Her Successors, a corporation sole, d/b/a Educational Empowerment Corporation; and Mark Laurence Donald Emerson violated the Securities Act of Washington. The Securities Administrator believes these violations justify the entry of an order against Respondents Educator of Truth, and His or Her Successors, a corporation sole, d/b/a Educational Empowerment Corporation; and Mark Laurence Donald Emerson to cease and desist from such violations, to impose a fine, and to charge costs pursuant to RCW 21.20.390 and RCW 21.20.395. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. Respondent Educator of Truth, and His or Her Successors, a corporation sole, d/b/a Educational Empowerment Corporation ("EEC") is a Nevada entity formed on April 17, 2003 with its

STATEMENT OF CHARGES

DEPARTMENT OF FINANCIAL INSTITUTIONS Securities Division PO Box 41200 Olympia, WA 98504-1200 360-902-8760

principal place of business in Austin, Texas. EEC's business is developing a program for teaching algebra, primarily to homeschoolers.

2. Respondent Mark Laurence Donald Emerson ("Emerson") is a resident of Texas and the principal of EEC.

Nature of the Conduct

- 3. From early to mid-2023, EEC and Emerson offered investments issued by EEC via EEC's website, algebravictory.com. In the offering prospectus on EEC's website, Emerson describes EEC as "a patriotic, nonprofit, spiritual, educational, tax-exempt, 501(c)(3)1 organization seeking investment capital to develop AlgebraVictory and sell it to a vast market, focusing initially on homeschoolers."
- 4. EEC characterizes its investments as "charms," which it subdivides into two types, "hearts" and "stars." EEC claims that "[h]eart investments are tax-deductible donations," and that "[r]eturns are paid as grants to [the investor's] nonprofit." For "stars," EEC stated that "[r]eturns are paid to [the investor] and may be taxable." An investor in EEC would receive a certain number of "charms" depending on their level of investment; the investor would choose whether their "charms" were "hearts" or "stars."
- 5. In the most recent iteration of its prospectus, EEC offered six levels of investment package, ranging from a low of \$990 to a high of \$1,000,000. EEC projected extraordinarily high returns on every level of investment, ranging from a "2,093% return on cumulative investment" for the \$990 package to a "3,242% return on cumulative investment" for the \$1,000,000 package (emphases in originals). EEC further claims that the "projected pre-Offering current valuation of EEC is \$132,551,301." EEC bases this valuation on its own revenue growth projections of 3,259% from 2023-24, 288% from 2024-25, and 400% in both 2025-26 and 2026-27. Emerson and EEC further represented that their extraordinarily high financial projections were "normal for startups" and compared them to venture capital investments, but failed to explain how EEC's offering was reasonably comparable to such investments.

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6. Emerson and EEC based these projections on unrealistic assumptions without adequately explaining the basis for them. In particular, EEC claims that there is an "English-speaking homeschool market for AlgebraVictory of \$505,000,000 (1,775,000 students)" and that it believes that "the non-English market is huge," but that EEC "ha[s] not yet attempted to quantify any of this expanded market potential (other than making rough guesses for 2026 and 2027 revenues in our financial projection, without the higher pricing)." Despite the lack of attempt to quantify the non-English-speaking market, EEC's 2027 financial projections assume 3,657,588 enrollments in AlgebraVictory—over double the size of its estimated English-speaking market. EEC and Emerson provided no basis whatsoever for the 3.6 million projected enrollments.

Registration Status

- 7. EEC is not and has never been registered to sell its securities in the State of Washington, nor has it filed a claim of exemption from registration.
- 8. Emerson is not and has never been registered as a securities salesperson or broker-dealer in the State of Washington.

Exemption Claims

9. In the prospectuses for EEC investments, Emerson claimed that EEC's securities were exempt from registration in Washington under WAC 460-44A-300, also known as the model accredited investor exemption. However, Emerson and EEC failed to adequately comply with the terms of the exemption in multiple ways. First, the exemption requires that an announcement of the proposed offering contain only limited information, such as the issuer's contact information, a brief description of the security being offered and a maximum 25-word description of the business of the issuer, and a statement that sales will be made only to accredited investors. EEC's prospectus contained substantially more information than the model accredited investor exemption allows, including financial projections, an extensive discussion of EEC's target market, and several dozen pages discussing the exemptions from securities registration on which EEC and

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Emerson are relying in the offer. Although the model accredited investor exemption does allow an issuer to provide further information to persons it reasonably believes are accredited investors, Emerson and EEC had no mechanism for establishing such a reasonable belief. While EEC's website contained a click-through page where the viewer purportedly confirmed that they were accredited before viewing the prospectus, EEC and Emerson took no steps to verify this claim, and did not even ask the viewer of the website to state how they qualified as an accredited investor. Because EEC and Emerson made a public offering which contained substantially more information than allowed by the rule, the model accredited investor exemption is not available to them.

In Algebra Victory's prospectus, EEC and Emerson also claim to be exempt from registration in numerous other states under an exemption for securities issued by nonprofit organizations (in Washington, RCW 21.20.310(11) sets forth the nonprofit exemption). This exemption is unavailable to EEC and Emerson for several reasons. First, the person claiming the exemption must first file a notice of the offering with DFI's Securities Division; Emerson and EEC did not do so. Second, securities offered by a nonprofit organization must be "offered or sold only to persons who, prior to their solicitation for the purchase of said securities, were members of, contributors to, or listed as participants in, the organization." As set forth above, EEC's prospectus was generally available to both EEC members and non-members on Algebra Victory's website, meaning that it was offered to non-members of EEC. Finally, even if the nonprofit exemption were available, the exemptions set forth in RCW 21.20.310 only provide a method for the securities themselves to be exempt from registration, not the persons selling the securities. As noted above, Emerson is not and has never been registered with the Securities Division as a broker-dealer or securities salesperson, meaning that he would not be appropriately licensed to sell Algebra Victory securities even if EEC qualified for the nonprofit exemption.

Other State Actions

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11. On March 14, 2023, the Vermont Department of Financial Regulation issued an Ex Parte Order to Cease and Desist against EEC and Emerson, charging them with violations of the registration provisions of Vermont securities law. The parties settled this action via consent order on May 5, 2023. In the order, Emerson and EEC agreed not to offer securities to Vermont residents without prior approval from the Vermont Department of Financial Regulation.

12. On June 8, 2023, the Maine Department of Professional and Financial Regulation's Office of Securities issued a Summary Order to Cease and Desist and Denying Exemptions against EEC and Emerson, charging them with violations of the registration provisions of Maine securities law. The parties settled this action via consent order on August 29, 2023. In the order, Emerson and EEC agreed that before any future offerings to Maine residents, they would "either properly register the securities in Maine or obtain confirmation from the Administrator that the offering meets the requirements for any claimed exemption." Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

CONCLUSIONS OF LAW

- 1. The offer of the EEC "charms," as described above, constitutes the offer of a security as defined in RCW 21.20.005(14) and (17).
- 2. Respondent Educator of Truth, and His or Her Successors, a corporation sole, d/b/a Educational Empowerment Corporation violated RCW 21.20.140, the securities registration section of the Securities Act of Washington, by offering and/or selling securities for which no registration is on file with the Securities Administrator.
- 3. Respondent Mark Laurence Donald Emerson violated RCW 21.20.040, the licensee registration section of the Securities Act of Washington, by offering and/or selling said securities while not being registered as a securities salesperson or broker-dealer in the state of Washington.

NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST

Pursuant to RCW 21.20.390(1), and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order Respondent Educator of Truth, and His or Her Successors, a corporation sole, d/b/a Educational Empowerment Corporation, and their agents and employees, to each permanently cease and desist from violating RCW 21.20.140, and Respondent Mark Laurence Donald Emerson, and his agents and employees, to each permanently cease and desist from violating RCW 21.20.040.

NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that:

- a. Respondent Educator of Truth, and His or Her Successors, a corporation sole, d/b/a Educational Empowerment Corporation shall be liable for and shall pay a fine of \$5,000; and
 - b. Respondent Mark Laurence Donald Emerson shall be liable for and shall pay a fine of \$5,000.

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 Educator of Truth, and His or Her Successors, a corporation sole, d/b/a Educational Empowerment Corporation and Mark Laurence Donald Emerson shall be jointly and severally liable for and 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 \$1,000.

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 Educator of Truth, and His or Her Successors, a corporation sole, d/b/a Educational Empowerment Corporation and Mark Laurence Donald Emerson may each make a written request for a hearing as set forth in the Notice of 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 1 order to cease and desist as to that respondent, to impose any fines sought against that respondent, and to 2 charge any costs sought against that respondent. 3 4 SIGNED and ENTERED this 5th day of January, 2024. 5 6 7 8 9 10 11 /s/ 12 William M. Beatty Securities Administrator 13 Approved by: Presented by: 14 15 Brian Guerard Adam N. Yeaton 16 Chief of Enforcement Financial Legal Examiner 17 Reviewed by: 18 19 Holly Mack-Kretzler Financial Legal Examiner Supervisor 20 21 22

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