

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-04-078-05-CO01
Whether there has been a violation of the)
Securities Act of Washington by:) CONSENT ORDER AS TO
) J. GREGORY TRANUM
Yakima Brewing and Malting Co., Inc.;)
Paul C. Brown, Jr.; J. Gregory Trantum;)
their employees and agents,)
)
)
Respondents.)

On August 18, 2004, the Securities Division entered an issued a Summary Order to Cease and Desist, S-04-078-04-TO01 against Respondents, Yakima Brewing and Malting Co., Inc.; Paul C. Brown, Jr.; and J. Gregory Trantum, whose attorney accepted service of the order on August 19, 2004. Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division and the Respondent, J. Gregory Trantum, do hereby enter into this CONSENT ORDER in settlement of the matters alleged herein. Trantum neither admits nor denies the Findings of Fact and Conclusions of Law stated below.

FINDINGS OF FACT
RESPONDENT

1. J. Gregory Trantum ("Trantum") was the former President of Yakima Brewing and Malting Co., Inc. and is a resident of Olympia, Washington. Trantum resigned as President on July 15, 2005.

1 **OTHER RELEVANT PERSON AND ENTITIES**

2 2. Yakima Brewing and Malting Co., Inc. ("Yakima Brewing") is a Washington
3 corporation with a business address of 1803 Presson Place, Yakima, WA 98903. Yakima
4 Brewing manufactures beer under the "Grant's" label and operates Grant's Brewery Pub in
5 Yakima, Washington. In 2002, Yakima Brewing was acquired by the Black Bear Brewing
6 Company and its principals, Paul C. Brown, Jr. and Tranum.

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8 3. Paul C. Brown, Jr. ("Brown") is the Vice President and Treasurer of Yakima Brewing.
9 Brown resides in Yakima, Washington. From 1988 to 1989, Brown was registered in Florida
10 and other states as a securities principal and representative with Kober Financial Corp., a
11 securities broker-dealer.

12 4. Black Bear Brewing Company ("Black Bear") is a Florida corporation with a mailing
13 address identical to Yakima Brewing. Brown is the President and Tranum is the Vice
14 President of Black Bear. According to materials provided to investors that are dated June 30,
15 2003, Black Bear owned 990,991 of Yakima Brewing's 996,291 common shares. Since
16 approximately January 2002, Black Bear's primary business has been operating Yakima
17 Brewing.

18 **NATURE OF THE OFFERING**

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20 5. Between approximately June 2003 and May 2004, Yakima Brewing offered preferred
21 stock for \$1 per share to residents of Washington and other states. In mid-2003, Brown
22 suggested to Tranum that Yakima Brewing offer preferred stock that paid a dividend to investors.
23 Under the terms of the offering, investors who purchased preferred stock were to receive an
24 annual dividend of 7.75% of their total investment, which would be paid semi-annually. Although
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1 Tranum was the President of Yakima Brewing, he deferred securities matters to Brown based on
2 his experience. Tranum knew that Brown was offering Yakima Brewing preferred stock from
3 June 2003 through May 2004 and that the offering was not registered with the State of
4 Washington, and he acquiesced in these transactions. Tranum believed that the offering was
5 exempt from registration, based on representations from Brown.
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7 6. Brown initially promoted the offering by drafting advertisements and having them
8 published in Washington business newspapers. Brown also drafted a Private Offering
9 Memorandum ("Offering Memorandum") and had several hundred copies produced. These
10 advertising efforts, however, were unsuccessful and did not raise any significant capital for the
11 company.

12 7. As months passed, Yakima Brewing continually lost money and faced substantial cash
13 flow problems. As Tranum later described, Yakima Brewing's payables were growing faster
14 than its receivables, and the company was in a "terrible cash flow situation." Yakima Brewing
15 fell behind on payments to its key suppliers, who in turn, began to demand cash-on-delivery,
16 further exacerbating the company's financial woes. During the month of November 2003, the
17 company's bank charged it with over two dozen overdraft and returned checks charges.

18 8. In late November 2003, Brown gave an interview for a news article that was later
19 published in the *Yakima Herald-Republic*. Other versions of the story were later published in
20 newspapers across Washington, including *The Seattle Times*. During the interview, Brown
21 discussed the offering of Yakima Brewing preferred stock and stated that his partners hoped to
22 take Black Bear public in the "not too distant future." The Offering Memorandum stated that each
23 share of Yakima Brewing preferred stock could later be converted into two shares of Black Bear
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1 common stock.

2 9. As a result of the article, hundreds of Washington residents contacted Yakima Brewing by
3 telephone and in person. Brown spoke to several prospective investors and had copies of the
4 Offering Memorandum distributed to them. The Offering Memorandum only included financial
5 statements for 2002. It described 2002 as a "record year" for Grant's Brewery Pub and stated
6 that Yakima Brewing was "poised for dramatic growth as it enters the second half of 2003."

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8 10. After an article discussing the offering appeared in *The Olympian* newspaper, Trantum
9 met with prospective investors in western Washington and distributed copies of the Offering
10 Memorandum to them.

11 11. Between November 2003 and May 2004, nearly 500 persons from a dozen states
12 purchased Yakima Brewing preferred stock and transferred approximately \$500,000 to the
13 company, using cash, checks, and credit cards to pay for their shares.

14 12. In early March 2004, Brown wrote to numerous Yakima Brewing shareholders and stated
15 that Yakima Brewing had "nearly sold out our entire private stock offering within just a few weeks
16 of making it available." Brown added that "only about 50,000 shares are remaining" and that
17 Yakima Brewing was providing "one last opportunity to purchase stock at \$1.00 per share."

18 13. In late March 2004, the Securities Division notified Trantum that the offering of Yakima
19 Brewing preferred stock was not registered with the State of Washington and that Yakima
20 Brewing must immediately cease offering securities to Washington residents. Trantum submitted
21 the notification to Brown, but did not take steps to ensure that the unregistered offering was halted.
22 Yakima Brewing continued offering of securities to Washington residents through May 2004.

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24 14. Since April 2004, several Yakima Brewing shareholders have been offered the opportunity
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1 to reinvest their dividends and purchase additional shares of preferred stock for \$1.00 per share.

2 MISREPRESENTATIONS AND OMISSIONS

3 15. In the offer and sale of its preferred stock, Yakima Brewing failed to disclose material
4 information, which made the information that was disclosed misleading to investors. As the
5 President of Yakima Brewing, Tranum was responsible for the company's misleading
6 disclosure.

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8 16. Yakima Brewing failed to disclose material information regarding the ownership of and
9 the liabilities associated with its core asset, the company's brewery. The Offering
10 Memorandum stated that Black Bear completed the acquisition of Yakima Brewing on January
11 4, 2002. The Offering Memorandum included financial statements for 2002, which stated that
12 Yakima Brewing had approximately \$2.2 million in total assets. Of this amount, \$1.1 million
13 of the assets represented brewery machinery and approximately \$975,000 represented a
14 building.

15 17. Yakima Brewing failed to disclose to investors that in December 2001, Black Bear
16 executed a \$1.68 million promissory note to International Wine & Spirits, Ltd. ("IWS"), as part
17 of the purchase of Yakima Brewing.¹ Under the terms of the note, Black Bear was required to
18 make monthly payments to IWS and pay the principal balance in February 2006. As the
19 President of Yakima Brewing, Tranum was responsible for the failure to disclose these facts to
20 prospective investors in the Offering Memorandum or through other disclosure documents.

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22 18. Yakima Brewing failed to disclose to investors that Black Bear missed numerous

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24 ¹ IWS is a holding company for Ste. Michelle Wine Estates (formerly Stimson Lane
25 Vineyard & Estates), which produces wines under the Chateau Ste. Michelle and Columbia
Crest labels.

1 payments that were due under the note, and received a Notice of Default in June 2003. Under
2 the terms of the note, this triggered a default interest rate of eighteen percent (18%) upon the
3 principal balance. Two months later, after missing more payments, Black Bear received a
4 Second Notice of Default and Acceleration, in which IWS demanded immediate payment of
5 the entire principal balance and accrued interest. As the President of Yakima Brewing, Trantum
6 was responsible for the failure to disclose these facts to prospective investors in the Offering
7 Memorandum or through other disclosure documents.
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9 19. Yakima Brewing failed to disclose to investors that in December 2003, in the midst of
10 the offering, Black Bear entered into a new agreement with IWS, which in the words of Brown,
11 "gave the brewery back to them." Brown, on behalf of Black Bear and Yakima Brewing,
12 executed a Deed in Lieu of Foreclosure Agreement to IWS. As part of the agreement, Black
13 Bear conveyed the brewery's real property and equipment back to IWS, and also transferred
14 various trademarks and trade names to IWS. As the President of Yakima Brewing, Trantum
15 was responsible for the failure to disclose these facts to prospective investors in the Offering
16 Memorandum or through other disclosure documents.
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18 20. Yakima Brewing failed to disclose material information about the company's
19 principals. Among other things, the Offering Memorandum failed to disclose that Trantum and
20 Brown failed at a previous similar business venture, including a proposed brewery in Atlanta,
21 Georgia that ultimately resulted in losses to investors in a related \$4.2 million bond offering.
22 The Offering Memorandum misrepresented that Brown graduated from the University of South
23 Florida and had a B.S. in finance from the University of Florida. Trantum was responsible for
24 the failure to disclose these facts to prospective investors, in the Offering Memorandum or
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1 through other disclosure documents.

2 21. Yakima Brewing failed to disclose other material information, including, but not
3 limited to, current financial statements, the company's cash flow problems, and the basis for its
4 ability to pay investors an annual dividend of 7.75% of their investment. The Offering
5 Memorandum also failed to disclose related party transactions, including loans to the company
6 from Trantum and Brown. In September 2003, Trantum loaned Yakima Brewing \$25,000 and
7 was repaid in February 2004 in the midst of the offering. As the President of Yakima
8 Brewing, Trantum was responsible for the failure to disclose these facts to prospective investors
9 in the Offering Memorandum or through other disclosure documents.
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11 **REGISTRATION STATUS**

12 22. Yakima Brewing is not currently registered to offer or sell securities in the state of
13 Washington and has not previously been so registered.

14 23. On June 14, 2002, Trantum and Brown filed a notice of claim of exemption from
15 securities registration in Washington pursuant to WAC 460-44A-504. The claim of exemption
16 stated that Yakima Brewing was conducting a \$250,000 offering of common stock, and that the
17 company's shares would be sold for \$2 per share to no more than twenty non-accredited
18 investors.

19 24. At all relevant times to this order, Trantum was not registered as a security salesperson
20 or broker-dealer in the state of Washington.
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1 Based upon the Findings of Fact, the following Conclusions of Law are made:

2 **CONCLUSIONS OF LAW**

3 1. The offer or sale of Yakima Brewing preferred stock described above constitutes the
4 offer or sale of a security, as defined in RCW 21.20.005(10) and (12).

5 2. Trantum has violated RCW 21.20.010 because, in connection with the offer or sale of
6 said securities, he each made untrue statements of material fact or omitted to state material
7 facts necessary in order to make the statements made, in the light of the circumstances under
8 which they were made, not misleading.

9 3. Trantum has violated RCW 21.20.140, the securities registration provision of the Securities
10 Act, because he offered and/or sold securities for which there was no registration on file with the
11 Securities Administrator.

12 4. Trantum has violated RCW 21.20.040, the salesperson registration provision of the
13 Securities Act, because he offered and/or sold securities while not registered as a securities
14 salesperson or broker-dealer in the state of Washington.
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1 **CONSENT ORDER**

2 Based upon the foregoing:

3 IT IS AGREED AND ORDERED that J. Gregory Trantum, shall cease and desist from
4 violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

5 IT IS FURTHER AGREED AND ORDERED that J. Gregory Trantum shall cease and
6 desist from offering or selling securities in violations of RCW 21.20.140, the securities
7 registration section of the Securities Act of Washington.

8 IT IS FURTHER AGREED AND ORDERED that J. Gregory Trantum shall cease and
9 desist from acting as an unregistered securities broker-dealer or salesperson in violation of
10 RCW 21.20.040, the broker-dealer and securities salesperson registration section of the
11 Securities Act of Washington.

12 IT IS FURTHER AGREED AND ORDERED that J. Gregory Trantum, shall pay a
13 fine in the amount of \$5,000 and investigative costs in the amount of \$2,500 prior to the entry
14 of this order.

15 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this
16 Order.

17 IT IS FURTHER AGREED that J. Gregory Trantum shall cooperate fully with the
18 Securities Division in any and all investigations, litigation, or other proceedings relating to or
19 arising from the matters described in this Consent Order.
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IT IS FURTHER AGREED that in consideration of the foregoing, J. Gregory

Tranum, waives his right to a hearing in this matter and judicial review of this order.

Approved for entry by:
Ralph R. Smith

/s/ Ralph R. Smith
Ralph R. Smith, Esq.
Attorney for J. Gregory Tranum

SIGNED this 7th day of October, 2005.

Signed by:

/s/ J. Gregory Tranum
J. Gregory Tranum, individually

SIGNED and ENTERED this 12th day of October, 2005



Michael E. Stevenson
Securities Administrator

Approved by:



Martin Cordell
Chief of Enforcement

Presented by:



Robert Kondrat
Financial Legal Examiner