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

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IN THE MATTER OF DETERMINING) Order No. S-14-1528-16-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE OF
) INTENT TO ENTER ORDER TO CEASE AND
Northwest Crest, LLC;) DESIST, TO IMPOSE FINES, AND TO CHARGE
NW Crest Capital, LLC;) COSTS
Scot R. Reynolds;)
)
)
Respondents.)

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THE STATE OF WASHINGTON TO: Northwest Crest, LLC
NW Crest Capital, LLC
Scot R. Reynolds

STATEMENT OF CHARGES

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Please take notice that the Securities Administrator of the state of Washington has reason to believe that Respondents Northwest Crest, LLC; NW Crest Capital, LLC; and Scot R. Reynolds have each violated the Securities Act of Washington. The Securities Administrator believes these violations justify the entry of an order against each respondent to cease and desist from such violations pursuant to RCW 21.20.390, to impose fines pursuant to RCW 21.20.395, and to charge costs pursuant to RCW 21.20.390. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

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1. Northwest Crest, LLC (“Northwest Crest”) is an inactive Washington limited liability company formed on July 24, 2008 with its principal place of business in Federal Way, Washington. Northwest Crest was in the business of selling and managing investments. Northwest Crest was administratively dissolved on November 3, 2014.

1 2. NW Crest Capital, LLC (“NWCC”) is an inactive Washington limited liability company
2 formed on November 8, 2013 with its principal place of business in Bellevue, Washington. NWCC was in
3 the business of providing consulting services to private companies that wanted to complete an initial public
4 offering (“IPO”). NWCC was administratively dissolved on March 2, 2015.

5 3. Scot R. Reynolds (“Reynolds”) is a resident of Washington. Reynolds was the managing
6 member of Northwest Crest and NWCC.

7 **Background and Overview**

8 4. Between March 2013 and August 2014, Reynolds offered and sold approximately \$650,000
9 of securities to fifteen investors, including at least nine Washington residents. During this time period,
10 Reynolds sold a variety of investments, including penny stock owned by a third party, oil and gas
11 investments, and investments related to taking companies public. In each offering, Reynolds failed to
12 disclose material information related to the investments, including the use of funds, his personal financial
13 condition, and the financial condition of the companies issuing the investments.

14 5. In each offering, Reynolds failed to disclose that he was subject to liens and judgments from
15 an earlier business. Between 2006 and 2009, Reynolds became personally liable for judgments and liens
16 related to a boat business that he owned and managed until 2008. At the time of the offerings, Reynolds
17 was liable for more than \$300,000 in judgments by the company’s vendors and an IRS tax lien for
18 \$960,000.

19 6. In each offering, Reynolds failed to disclose that he would use a portion of the investors’
20 funds to repay prior Northwest Crest investors. Between 2008 and 2012, Reynolds and Northwest Crest had
21 sold more than \$830,000 of promissory notes to twenty investors for the development of an oil and gas
22 project in Oklahoma. The promissory notes were issued by Northwest Crest, which Reynolds formed to
23 manage the investment. The promissory notes had annual interest rates of 14% to 16%, and a term of four
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1 years. Reynolds directed some investors to use a self-directed Individual Retirement Account (“IRA”) to
2 invest, and he represented that Northwest Crest would pay the IRA fees.

3 7. In 2013, Reynolds and Northwest Crest abandoned the oil and gas project because the wells
4 were not profitable. Some oil and gas investors did not receive any return on their investment or a return of
5 their principal. Beginning no later than March 2013, Reynolds used funds from new investors to pay
6 interest payments and IRA fees to some of these prior oil and gas investors.

7 **Penny Stock Offering**

8 8. In March and September 2013, Reynolds and Northwest Crest raised \$37,000 through the
9 private sale of penny stock to two Washington investors. Reynolds also offered the shares to another
10 Washington resident who purchased the penny stock from a third party. Reynolds did not screen the
11 investors to determine their investment sophistication or whether they were accredited investors. At least
12 one investor was not an accredited investor at the time of the sale. Neither investor had prior experience in
13 purchasing stock in a private transaction or in purchasing penny stock.

14 9. Reynolds and Northwest Crest did not own the penny stock; Reynolds was selling the stock
15 on behalf of a third party. Despite this, Reynolds instructed each investor to sign a stock purchase
16 agreement that listed Northwest Crest as the owner and seller of the stock. Reynolds also instructed each
17 investor to pay Northwest Crest for the stock. Reynolds told one investor that Northwest Crest had received
18 the shares as a “bonus” for work that he performed for the penny stock company. In reality, Reynolds and
19 Northwest Crest have never owned stock in the company.

20 10. Reynolds and Northwest Crest failed to disclose material information related to the penny
21 stock investment, including but not limited to the basis of the stock price that Reynolds offered each
22 investor, and the amount of commission, if any, that Reynolds and Northwest Crest would receive from the
23 sale. Reynolds and Northwest Crest failed to disclose the general and specific risks of investing in the
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1 penny stock, including the fact that trading of the stock was limited and sporadic, and that low trading
2 volume could impair the investors' ability to resell the stock. Reynolds and Northwest Crest also failed to
3 disclose that Reynolds would retain at least half of the purchase price paid by the investors, and that
4 Reynolds would use some of these funds to pay interest and IRA fees to prior oil and gas investors.

5 11. Reynolds delivered the penny stock to one of the two investors. Reynolds told this investor
6 that, over the next six months, the penny stock company would execute a marketing campaign promoting
7 the stock that would allow the investor to sell the stock at a higher price. In reality, the investor sold his
8 shares at a loss after the stock price declined. Reynolds failed to deliver the penny stock to the second
9 investor, and the investor demanded a refund. Reynolds repaid the investor over several months using, in
10 some instances, funds that he raised from new investors.

11 **2013 Oil & Gas Investment**

12 12. In April 2013, Reynolds and Northwest Crest offered and sold an additional \$78,000
13 investment in the oil and gas project described above. Reynolds told the investor that he was leasing oil
14 wells in Oklahoma and that Northwest Crest was successfully drilling wells. Reynolds also told the investor
15 that he had raised funds from about twelve other investors. Reynolds represented that the investor would
16 receive monthly interest payments on his principal. Reynolds directed the investor to transfer retirement
17 funds into a self-directed IRA to invest in the project, and he represented that Northwest Crest would pay
18 the IRA fees. Reynolds and Northwest Crest have stopped paying the IRA fees, and the investor has not
19 received any monthly interest payments or a return of his principal.
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21 13. Reynolds failed to disclose material information related to the oil and gas investment,
22 including but not limited to information about the oil wells that Northwest Crest was developing, the
23 amount of funds that Reynolds and Northwest Crest needed to develop the wells, and the amount of funds
24 that Reynolds and Northwest Crest had raised from prior oil and gas investors. In addition, Reynolds made
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1 false and misleading statements related to the use of the investor's funds. Reynolds told the investor that he
2 would use the funds to develop oil wells when, in fact, Reynolds used the funds for other purposes,
3 including to pay interest and IRA fees to prior oil and gas investors.

4 **Investments Related to the Business of NWCC**

5 *Overview*

6 14. Between October 2013 and August 2014, Reynolds, Northwest Crest, and NWCC offered
7 and sold more than \$534,000 of unregistered securities to at least twelve investors, including seven
8 Washington residents. The respondents sold these securities to raise funds for the business of NWCC,
9 which Reynolds began developing in the fall of 2013. NWCC would provide consulting services to private
10 companies that wanted to complete an IPO (hereinafter "client companies"). As part of NWCC's services,
11 Northwest Crest would provide financing that the client companies needed to complete an IPO. At the
12 completion of the IPO, the client companies would issue stock to NWCC in return for the services it had
13 provided to them.

14 15. Prior to developing NWCC, Reynolds had never taken a company public and had limited
15 knowledge about the process. In addition, Reynolds, NWCC, and Northwest Crest did not have sufficient
16 funds or assets to operate NWCC or provide financing to the client companies. To raise funds, the
17 respondents sold a variety of investments as described below.

18 16. Reynolds solicited investments from members of his church, friends, business acquaintances,
19 prospective investors referred by existing investors, and job seekers who responded to Craigslist ads. In
20 most instances, Reynolds did not screen prospective investors to determine their investment sophistication
21 or whether they were accredited investors. At least five investors were not accredited investors at the time
22 that Reynolds solicited their investment.
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Northwest Crest Investors

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2 17. Between October 2013 and May 2014, Reynolds and Northwest Crest offered and sold at
3 least \$472,000 of investments issued by Northwest Crest to ten investors. Several investors invested
4 retirement funds, and Reynolds directed them to transfer their funds into a self-directed IRA. Reynolds
5 represented that Northwest Crest would pay the IRA fees. Reynolds told at least one investor that he would
6 get a better return for the investor than what her retirement investments were currently earning.

7 18. In the fall of 2013, Reynolds and Northwest Crest sold \$150,000 of these investments issued
8 by Northwest Crest to two Washington residents. The investors had responded to job ads that Reynolds
9 posted on Craigslist, and Reynolds solicited each investor to invest in Northwest Crest during his job
10 interview. Reynolds told the investors that Northwest Crest was a private fund with \$20 million in assets,
11 and that Northwest Crest would provide financing to NWCC's client companies. Reynolds represented that
12 the investors would receive ownership in the fund if they worked for NWCC for one year. Depending on
13 the size of the investment, this ownership interest would be 2% to 3% of the fund. The investors would not
14 have control over the use of their investment funds.

15 19. Between December 2013 and May 2014, Reynolds and Northwest Crest sold \$322,000 of
16 these investments issued by Northwest Crest to eight investors. Reynolds and Northwest Crest represented
17 to investors that they would receive a minimum annual return of 10% on their investment. Investors could
18 receive additional annual returns of up to 36% if a client company's IPO was successful. Reynolds and
19 Northwest Crest also offered additional returns to at least two investors in the form of client company stock.
20 At the time that Reynolds and Northwest Crest offered these additional returns, Northwest Crest did not
21 own any stock in either client company.

22 20. Reynolds made false and misleading statements to investors regarding the financial condition
23 of Northwest Crest. Reynolds represented to at least two investors that Northwest Crest was a private fund
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1 with \$20 million in assets. In reality, Northwest Crest had little to no assets and owed hundreds of
2 thousands of dollars to prior oil and gas investors. Further, Reynolds failed to disclose that Northwest Crest
3 did not have sufficient funds or assets to finance the completion of an IPO by either client company.

4 21. Reynolds made false and misleading statements to Northwest Crest investors regarding the
5 use of investor funds. Reynolds represented that he would use the investors' funds to finance NWCC's
6 client companies. In truth, Reynolds and Northwest Crest used the funds to pay NWCC salaries, operating
7 expenses, meals, travel, and interest and IRA fees to prior oil and gas investors.

8 *Sale of Client Company Stock*

9 22. In January 2014, Reynolds and Northwest Crest sold 12,500 unregistered shares of a
10 potential client company to an investor for \$15,000. At the time of the purported sale, Northwest Crest did
11 not own any shares in the client company. Despite this, Northwest Crest and Reynolds represented to the
12 investor that Northwest Crest owned the shares. As of the date of this Statement of Charges, the investor
13 does not own any stock in the client company.

14 23. In the spring of 2014, Reynolds and NWCC entered into agreements with two client
15 companies. Under the agreements, Reynolds and NWCC proposed to provide financing of up to \$2.2
16 million to one client company, and up to \$2 million to another client company. Reynolds and NWCC also
17 proposed to provide additional funds for costs associated with completing an IPO, such as accounting, legal,
18 and marketing costs. At the time, NWCC and Northwest Crest did not have sufficient funds or assets to
19 finance the completion of an IPO by either company. Between March 2014 and June 2014, the respondents
20 provided the client companies with a total of approximately \$265,000 in financing. The client companies
21 did not receive any additional financing from the respondents.
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NWCC Investment

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2 24. In August 2014, Reynolds and NWCC offered and sold a 7% interest in NWCC to an
3 investor for \$47,750. To invest in NWCC, the investor signed an agreement stating that the investor was a
4 non-managing member of NWCC and had no control over the company. In addition, the investor did not
5 have control over the use of his investment funds. In the agreement, Reynolds and NWCC purported to
6 transfer shares in each of the client companies to the investor. In reality, NWCC did not own stock in either
7 client company at the time of the investment.

8 25. Reynolds and NWCC made false and misleading statements to the investor regarding the
9 financial condition of NWCC. In an offering document, Reynolds and NWCC represented that NWCC had
10 \$450,000 in cash and owned shares in its client companies valued at \$900,000. In truth, at the time that
11 Reynolds sold the investment, NWCC had less than \$5,000 in cash and did not own any stock in its client
12 companies. Further, Reynolds and NWCC represented that the target “launch date” for each company’s
13 IPO was October 2014 and November 2014. Reynolds failed to disclose that Northwest Crest and NWCC
14 had provided the client companies with only a fraction of the financing the companies would need to
15 complete an IPO. Reynolds and NWCC also failed to disclose that Reynolds would use a portion of the
16 investor’s funds to pay prior oil and gas investors.
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18 26. In the fall of 2014, NWCC ceased doing business. By March 2015, both Northwest Crest
19 and NWCC were administratively dissolved. In March 2015, approximately four months after NWCC
20 ceased doing business, one client company agreed to issue 40,000 of its shares to NWCC in exchange for
21 the financing the company had received the year before. Approximately six months later, in September
22 2015, the second client company agreed to issue 128,144 of its shares to NWCC in exchange for the
23 financing it had received the year before. As of the date of this Statement of Charges, at least eight of the
24 investors described above have not received any return on their investment or a return of their principal.
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Registration Status

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2 27. Northwest Crest, LLC is not currently registered to sell its securities in the state of
3 Washington and has not previously been so registered, nor has it filed a claim of exemption from
4 registration.

5 28. Northwest Crest, LLC is not currently registered as a broker-dealer in the state of
6 Washington and has not previously been so registered.

7 29. Scot R. Reynolds is not currently registered as a securities salesperson or broker-dealer in the
8 state of Washington and has not previously been so registered.

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

10 **CONCLUSIONS OF LAW**

11 1. The offer or sale of the investments as described above, including the penny stock, the
12 investments issued by Northwest Crest, and the investment issued by NWCC, constitute the offer or sale of
13 securities as defined by RCW 21.20.005(14) and RCW 21.20.005(17).

14 2. Northwest Crest, LLC and Scot R. Reynolds have each violated RCW 21.20.140 because, as
15 set forth in the Tentative Findings of Fact, Northwest Crest, LLC and Scot R. Reynolds offered and sold
16 securities issued by Northwest Crest, LLC for which no registration is on file with the Securities
17 Administrator.
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19 3. Northwest Crest, LLC has violated RCW 21.20.040 because, as set forth in the Tentative
20 Findings of Fact, Northwest Crest, LLC offered and sold shares of penny stock without being registered as a
21 broker-dealer.

22 4. Scot R. Reynolds has violated RCW 21.20.040 because, as set forth in the Tentative Findings
23 of Fact, he offered and sold shares of penny stock and securities issued by Northwest Crest, LLC without
24 being registered as a securities salesperson or broker-dealer in the state of Washington.
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1 5. Northwest Crest, LLC; NW Crest Capital, LLC; and Scot R. Reynolds have each violated
2 RCW 21.20.010 because, as set forth in the Tentative Findings of Fact, in connection with the offer, sale, or
3 purchase of securities, they each made untrue statements of material fact or omitted to state material facts
4 necessary to make the statements made, in light of the circumstances in which they were made, not
5 misleading.

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

7 Pursuant to RCW 21.20.390(1), and based upon the above Tentative Findings of Fact and
8 Conclusions of Law, the Securities Administrator intends to order that Respondents Northwest Crest, LLC;
9 NW Crest Capital, LLC; and Scot R. Reynolds, their agents, and their employees shall each cease and desist
10 from violations of RCW 21.20.010, and that Respondents Northwest Crest, LLC and Scot R. Reynolds, their
11 agents, and their employees shall each cease and desist from violations of RCW 21.20.040 and RCW
12 21.20.140.

13 **NOTICE OF INTENT TO IMPOSE FINES**

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

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- 17 a. Respondent Northwest Crest, LLC shall be liable for and shall pay a fine of \$30,000;
 - 18 b. Respondent NW Crest Capital, LLC shall be liable for and shall pay a fine of \$10,000; and
 - 19 c. Respondent Scot R. Reynolds shall be liable for and shall pay a fine of \$40,000.

20 **NOTICE OF INTENT TO CHARGE COSTS**

21 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions
22 of Law, the Securities Administrator intends to order that Respondents Northwest Crest, LLC; NW Crest
23 Capital, LLC; and Scot R. Reynolds shall be jointly and severally liable for and shall pay the costs, fees, and
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1 other expenses incurred in the administrative investigation and hearing of this matter, in an amount not less
2 than \$8,000.

3 **AUTHORITY AND PROCEDURE**

4 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is
5 subject to the provisions of Chapter 34.05 RCW. The respondents, Northwest Crest, LLC; NW Crest
6 Capital, LLC; and Scot R. Reynolds, may each make a written request for a hearing as set forth in the
7 NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this
8 Order. If a respondent does not make a hearing request in the time allowed, the Securities Administrator
9 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to enter a
10 permanent order to cease and desist as to that respondent, to impose any fines sought against that
11 respondent, and to charge any costs sought against that respondent.

12 Signed and Entered this 4th day of May 2016.

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16 _____
17 William M. Beatty
18 Securities Administrator

19 Approved by:

20 Presented by:

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23 _____
24 Suzanne Sarason
25 Chief of Enforcement

26 _____
27 Holly Mack-Kretzler
28 Financial Legal Examiner

29 Reviewed by:

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31 _____
32 Robert Kondrat

Financial Legal Examiner Supervisor

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