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

IN THE MATTER OF DETERMINING) Order No. S-16-1868-17-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
Pacific Watercraft Group, Inc.,) CEASE AND DESIST, TO IMPOSE FINES,
Scott E. Anderson,) AND TO CHARGE COSTS
Robin Lynn Sells,)
)
)
Respondents.)

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THE STATE OF WASHINGTON TO: Pacific Watercraft Group, Inc.
Scott E. Anderson
Robin Lynn Sells

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STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the state of Washington has reason to believe that Respondents Pacific Watercraft Group, Inc., Scott E. Anderson, and Robin Lynn Sells have each violated the Securities Act of Washington. The Securities Administrator believes these violations justify the entry of an order against the respondents to cease and desist from such violations and to charge costs pursuant to RCW 21.20.390, and to impose a fine pursuant to RCW 21.20.395. The Securities Administrator finds as follows:

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TENTATIVE FINDINGS OF FACT

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Respondents

1. Pacific Watercraft Group, Inc. is a Washington corporation formed on July 15, 2010 with its principal place of business in Newcastle, Washington. Pacific Watercraft Group, Inc. was formed to engage in the design, development, and commercialization of a solo watercraft. On November 17, 2010, Pacific Watercraft Holdings Ltd., a Washington company, was formed to act as Pacific Watercraft Group, Inc.'s parent company. Before Pacific Watercraft Holdings Ltd. was formed, and after it became inactive on March 1, 2012, Pacific Watercraft Group, Inc. sometimes did business as Pacific Watercraft Holdings Ltd. For the

1 purposes of this order, Pacific Watercraft Group, Inc. and Pacific Watercraft Holdings Ltd. will collectively
2 be referred to as “Pacific Watercraft.”

3 2. Scott E. Anderson (“Anderson”) is a resident of Seattle, Washington. Anderson was a director
4 and Vice President of Manufacturing of Pacific Watercraft Holdings Ltd., and he is a director of Pacific
5 Watercraft Group, Inc.

6 3. Robin Lynn Sells (“Sells”) is a resident of Newcastle, Washington. Sells was founder, a
7 director, and President of Pacific Watercraft Holdings, Ltd., and he is founder, a director, and President of
8 Pacific Watercraft Group, Inc.

9 **Background**

10 4. Since at least 1990, Sells has been involved in attempts to manufacture and sell a solo
11 watercraft, which is a self-propelled watercraft that allows a person to water-ski without assistance from
12 others. During this time, Sells intermittently owned or had an interest in intellectual property related to the
13 solo watercraft, and he owned or controlled companies that attempted to develop the solo watercraft. These
14 companies included Ski-Free Watersports, Inc., Solo Watersports, Inc., and Ski-Free Watersports
15 Development, Inc.
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17 5. In 1999, Sells, Solo Watersports, Inc. and/or Ski-Free Watersports Development, Inc.
18 purchased hundreds of engines from an engine company in North Carolina. The engines were needed to
19 manufacture solo watercrafts. Sells prepaid for the engines to provide the company with operating capital
20 because the engine company was having financial difficulties. Sells determined that it was incumbent on Sells,
21 Solo Watersports, Inc., and Ski-Free Watersports Development, Inc. to make sure that the engine company
22 stayed in business because larger engine companies would not sell engines to independent boat manufacturers
23 like his due to intellectual property concerns. The engine company was unable to fill the entire order, and it
24 produced approximately 65% of the engines that Sells, Solo Watersports, Inc., or Ski-Free Watersports
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1 Development, Inc. bought and paid for. Between 2000 and 2001, approximately 50 of these engines were used
2 to manufacture solo watercrafts.

3 6. On October 9, 2000, the Securities Division entered a Statement of Charges and Notice of
4 Intent to Enter Order to Cease and Desist against Sells, Ski-Free Watersports, Inc., and Solo Watersports, Inc.
5 The Securities Division alleged that Sells offered and sold unregistered stock in Ski-Free Watersports, Inc.
6 and Solo Watersports, Inc. between July 1997 and August 1998. The Securities Division also alleged that
7 Sells failed to disclose material information, such as the financial condition of the company, the use of funds,
8 and Sells's business background.

9 7. In April 2002, an investor filed a civil lawsuit against Sells, Ski-Free Watersports
10 Development, Inc., and Solo Watersports, Inc. The investor alleged that he invested in the company by making
11 a series of short-term loans to Ski-Free Watersports Development, Inc. and Solo Watersports, Inc. between
12 March 1999 and June 1999. The loans totaled \$155,000. In May 2000, the investor entered into a security
13 agreement with Sells, Solo Watersports, Inc., and Ski-Free Watersports Development, Inc. to secure
14 repayment of the loans. The investor filed suit after Sells, Solo Watersports, Inc. and Ski-Free Watersports
15 Development, Inc. stopped making payments on the loans. In January 2003, the investor received a judgment
16 against Sells, Ski-Free Watersports, Inc., and Solo Watersports, Inc. totaling \$253,049. In or around January
17 2005, the investor foreclosed on the security agreement to satisfy the judgment and took possession of the
18 companies' remaining engines.

19 8. On June 13, 2003, the Securities Division entered a Summary Order to Cease and Desist and
20 Notice of Intent to Impose a Fine against Sells and Ski-Free Watersports Development, Inc. The Securities
21 Division alleged that Sells offered and sold unregistered Ski-Free Watersports Development, Inc. stock and
22 convertible debt to at least four investors after the entry of the Division's Statement of Charges. The Securities
23 Division also alleged that, in these offers and sales, Sells failed to disclose material information, including
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1 financial statements for the company, the risks of investing, the history of efforts to develop and market the
2 product, inadequate capitalization, and Sells's business and financial background.

3 9. On October 13, 2005, Sells filed for Chapter 7 bankruptcy in the Western District of
4 Washington. Sells received a discharge of his debts on April 28, 2006. Sells had previously filed for
5 bankruptcy in 1994, 1995, and 1996, and he received a discharge of his debts in 1997.

6 10. In late 2005, Sells manufactured an additional 30 solo watercrafts with engines produced by
7 the original engine company. These watercrafts were called Solo. As of at least December 30, 2016, Sells and
8 his companies have not manufactured any additional solo watercrafts.

9 11. In or around the summer of 2010, Sells and Anderson created Pacific Watercraft Group, Inc.
10 to pursue the development, manufacture, and commercialization of a new Solo, along with related products.
11 In or around 2010, Sells and Pacific Watercraft discussed the development and production of a new engine
12 with the original engine company. The new engines were required to manufacture a new Solo. The engine
13 company had not produced the engine before, so the company agreed to develop the engine. In or around
14 September 2011, Sells and Pacific Watercraft began advertising the new Solo on its website even though the
15 engine company had not developed or produced the engine that the new Solo required. Later, Sells determined
16 that the engine company did not have the engineering knowledge, the equipment, or the capital to develop the
17 new engine.
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19 **Nature of the Conduct**

20 Overview

21 12. Beginning in 2010 and continuing through 2015, Pacific Watercraft, Sells, and Anderson
22 offered unregistered investments in Pacific Watercraft to more than a dozen prospective investors, including
23 members of angel investor and venture capital groups, investment bankers, friends, business acquaintances,
24 and a Pacific Watercraft customer. As a result of these solicitations, Pacific Watercraft, Sells, and Anderson
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1 sold \$90,000 of shares in Pacific Watercraft to three investors, two of whom were Washington residents. At
2 least one investor did not have an existing, substantive relationship with any of the respondents at the time
3 the investment was offered and sold. Pacific Watercraft, Sells, and Anderson failed to disclose to investors
4 material information related to the investment, including use of funds, the basis for revenue projections, and
5 the financial condition of Pacific Watercraft.

6 The Offering

7 13. In July 2010, Sells, Anderson, and Pacific Watercraft began offering up to \$2 million of shares
8 in Pacific Watercraft to develop and commercialize its products. To offer these investments, Sells made
9 presentations at angel investing groups, met with prospective investors, and emailed brochures and offering
10 documents to prospective investors. Through at least November 2015, Sells and Pacific Watercraft continued
11 to offer both debt and equity investments in Pacific Watercraft to raise funds for the development and
12 commercialization of its products.

13 14. Between July 2010 and June 2013, Sells, Anderson, and Pacific Watercraft sold 900 shares of
14 Pacific Watercraft to three investors. Anderson offered and sold the first of these shares in July 2010, when
15 he sold 250 shares to a Washington resident for \$25,000. At the time of the offer and sale, Anderson provided
16 the investor with a subscription agreement but no additional offering documents. Anderson and Pacific
17 Watercraft failed to disclose material information to the investor related to the investment.

18 15. Anderson and Pacific Watercraft failed to disclose information related to Sells's background,
19 including that Sells had been the subject of regulatory actions by the Securities Division in 2000 and 2003,
20 and that Sells had filed for bankruptcy and received a discharge of his debts in 2006. Anderson also failed to
21 disclose that Sells, Solo Watersports, Inc., and Ski-Free Watersports Development, Inc. had been sued by an
22 investor, and that the investor received a judgment of \$253,049 in 2003. Anderson also failed to disclose
23 information related to the use of the investor's funds. The investor invested with the hope of receiving a new
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1 Solo, and he understood that his funds would be used to build the watercraft. Anderson and Pacific Watercraft
2 failed to disclose that the investor's funds would be used to pay for travel and boat show expenses. Anderson
3 and Pacific Watercraft also failed to disclose that 55% of the investor's funds would be used to pay Sells's
4 salary.

5 16. In or around December 2011, Sells demonstrated an old Solo model to a married couple who
6 were interested in purchasing the new Solo model. The couple had seen a picture of the new Solo model on
7 Pacific Watercraft's website, and they traveled to Washington from Arizona to see the demonstration. The
8 couple purchased a new Solo model for \$17,995, and Sells told the couple that their Solo would be ready in
9 three months. Sells also told the couple that he could make one new Solo model per day. Sells failed to disclose
10 that Pacific Watercraft had never produced any Solo model, that Sells had not produced the old Solo model
11 since 2005, and that Pacific Watercraft could not produce a new Solo model because the engine company had
12 not developed the required engine. As of the date of this Statement of Charges, the couple has not received
13 delivery of the new Solo model they paid for, and they have not received a full refund of the purchase price.

14 17. While the couple was visiting Washington for the Solo demonstration, Sells talked to the
15 couple about looking for other investors. In January 2012, Sells sold the couple 500 shares of Pacific
16 Watercraft for \$50,000. Before they invested, Sells misleadingly represented to the investors that the company
17 was worth \$12 million. Sells failed to disclose that this value was based on an analysis of the company that
18 was not independent, and that it relied on sales revenue projections that the company had not realized.

19 18. Sells also failed to disclose information related to the financial condition of the company. Sells
20 failed to disclose that he spent the \$17,995 that the couple paid for a new Solo model on uses other than
21 manufacturing a Solo, that Sells used more than half of the funds invested in July 2010 to pay Sells's salary,
22 and that the company's bank account had a negative balance at the time the couple invested. Sells and Pacific
23 Watercraft also misrepresented the use of funds to the couple. The offering documents represented that
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1 investment funds would be used to design, develop, and manufacture a solo watercraft. Sells failed to disclose
2 that the investment funds would be used for expenses related to attending a boat show, filming a televised
3 demonstration of the old Solo model, and paying Sells's salary.

4 19. In June 2013, Anderson offered an investment in Pacific Watercraft to a Washington resident.
5 Anderson told the investor that Sells was at risk of losing his house to foreclosure, and he offered the investor
6 shares of Pacific Watercraft in return for helping Sells pay his debt. The investor agreed, and Anderson sold
7 150 shares of Pacific Watercraft to the investor for \$15,000. The \$15,000 was paid directly to Sells, and he
8 used the funds to make a payment on his overdue mortgage.

9 20. Pacific Watercraft, Sells, and Anderson provided two of the three above investors with offering
10 documents before they invested. The offering documents included a private placement memorandum, a
11 business plan, company bylaws, and a subscription agreement. The offering documents contained
12 representations about the investment, and Sells, Anderson, and Pacific Watercraft failed to disclose material
13 information related to these representations. The offering documents represented that the company could issue
14 shares in exchange for consideration that benefited Pacific Watercraft. Sells and Pacific Watercraft failed to
15 disclose to at least one investor that Pacific Watercraft shares could be issued for purposes that did not benefit
16 the company, such as paying Sells's overdue mortgage.

17 21. Between July 2010 and mid-2014, the private placement memorandum that Sells and Anderson
18 provided to prospective investors did not include material information related to Sells's business background,
19 including the regulatory actions taken by the Securities Division in 2000 and 2003 and Sells's bankruptcies.

20 22. The offering documents also included projections, which projected sales revenues of
21 approximately \$10 million for the year after the investment, with sales increasing by about 50% each of the
22 following years. Sells, Anderson, and Pacific Watercraft failed to disclose a basis for these projected sales
23 revenues and the substantial yearly increase in sales. In addition, the offering documents included a misleading
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1 valuation of the company, which represented that the company's value was \$10 million and purported to be
2 based on an independent appraisal. Sells, Anderson, and Pacific Watercraft failed to disclose that the appraisal
3 was not independent, as it relied on sales projections and market information provided by the company. Sells,
4 Anderson, and Pacific Watercraft also failed to disclose that the \$10 million value was the high end of a
5 valuation range given in the analysis.

6 **Registration Status**

7 23. Pacific Watercraft Group, Inc. is not currently registered to sell its securities in the state of
8 Washington and has not previously been so registered, nor has it filed a claim of exemption from registration.

9 24. Scott E. Anderson is not currently registered as a securities salesperson or broker-dealer in the
10 state of Washington and has not previously been so registered.

11 25. Robin Lynn Sells is not currently registered as a securities salesperson or broker-dealer in the
12 state of Washington and has not previously been so registered.

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

16 **CONCLUSIONS OF LAW**

17 1. The offer and sale of stock in Pacific Watercraft as described above constitutes the offer and
18 sale of a security as defined by RCW 21.20.005(14) and RCW 21.20.005(17).

19 2. Pacific Watercraft Group, Inc., Scott E. Anderson, and Robin Lynn Sells have each violated
20 RCW 21.20.140 because, as set forth in the Findings of Fact, Respondents offered and sold securities for
21 which no registration is on file with the Securities Administrator.

22 3. Robin Lynn Sells and Scott E. Anderson have each violated RCW 21.20.040 because, as set
23 forth in the Findings of Fact, they each offered and sold said securities while not being registered as a securities
24 salesperson or broker-dealer in the state of Washington.

1 4. Pacific Watercraft Group, Inc., Scott E. Anderson, and Robin Lynn Sells have each violated
2 RCW 21.20.010 because, as set forth in the Findings of Fact, in the offer and sale of securities, Respondents
3 made untrue statements of material fact or omitted to state material facts necessary to make the statements
4 made, in light of the circumstances in which they were made, not misleading.

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

6 Pursuant to RCW 21.20.390(1), and based upon the above Tentative Findings of Fact and Conclusions
7 of Law, the Securities Administrator intends to order that Respondents Pacific Watercraft Group, Inc., Scott
8 E. Anderson, and Robin Lynn Sells, their agents, and their employees each shall cease and desist from
9 violations of RCW 21.20.010 and RCW 21.20.140, and that Respondents Robin Lynn Sells and Scott E.
10 Anderson, their agents, and their employees each shall cease and desist from violations of RCW 21.20.040.

11 **NOTICE OF INTENT TO IMPOSE A FINE**

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

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- 15 1. Respondents Pacific Watercraft Group, Inc. and Robin Lynn Sells shall be jointly and severally
16 liable for and shall pay a fine of \$15,000; and
 - 17 2. Respondent Scott E. Anderson shall be liable for and shall pay a fine of \$5,000.

18 **NOTICE OF INTENT TO CHARGE COSTS**

19 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law,
20 the Securities Administrator intends to order that Respondents Pacific Watercraft Group, Inc., Scott E.
21 Anderson, and Robin Lynn Sells shall be jointly and severally liable for and shall pay the costs, fees, and
22 other expenses incurred in the administrative investigation and hearing of this matter, in an amount not less
23 than \$5,000.

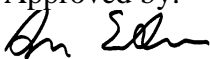
24 **AUTHORITY AND PROCEDURE**

1 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject
2 to the provisions of Chapter 34.05 RCW. The respondents, Pacific Watercraft Group, Inc., Scott E. Anderson,
3 and Robin Lynn Sells, may each make a written request for a hearing as set forth in the NOTICE OF
4 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order. If a
5 respondent does not make a hearing request in the time allowed, the Securities Administrator intends to adopt
6 the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease
7 and desist as to that respondent, to impose any fines sought against that respondent, and to charge any costs
8 sought against that respondent.

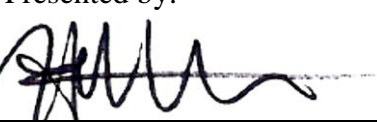
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13 Signed and Entered this 17th day of July 2017.



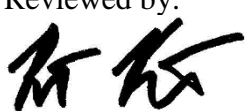
17 William M. Beatty
18 Securities Administrator

19 Approved by:
20 

21 Suzanne Sarason
22 Chief of Enforcement

23 Presented by:
24 

25 Holly Mack-Kretzler
Financial Legal Examiner

Reviewed by:


Robert Kondrat
Financial Legal Examiner Supervisor

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**STATEMENT OF CHARGES AND NOTICE
OF INTENT TO ENTER ORDER TO
CEASE AND DESIST, TO IMPOSE FINES,
AND TO CHARGE COSTS**

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
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