

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

IN THE MATTER OF DETERMINING) Order No. S-14-1528-16-CO01
Whether there has been a violation of the)
Securities Act of Washington by:)
) CONSENT ORDER
Northwest Crest, LLC;)
NW Crest Capital, LLC;)
Scot R. Reynolds;)
)
)
)
Respondents.)

INTRODUCTION

On May 4, 2016, the Securities Administrator of the Securities Division of the Department of Financial Institutions (“Securities Division”) issued a Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, to Impose Fines, and to Charge Costs (“Statement of Charges”), Order Number S-14-1528-16-SC01, against Respondents Northwest Crest, LLC; NW Crest Capital, LLC; and Scot R. Reynolds. Pursuant to the Securities Act of Washington, Chapter 21.20 RCW, the Securities Division and Respondents Northwest Crest, LLC; NW Crest Capital, LLC; and Scot R. Reynolds do hereby enter into this Consent Order in settlement of the matters set forth in the Statement of Charges and as alleged below. Respondents Northwest Crest, LLC; NW Crest Capital, LLC; and Scot R. Reynolds neither admit, nor deny the Findings of Fact and Conclusions of Law as stated below.

FINDINGS OF FACT

Respondents

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.

1 Northwest Crest was in the business of selling and managing investments. Northwest Crest was
2 administratively dissolved on November 3, 2014.

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

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

9 **Background and Overview**

10 4. Between March 2013 and August 2014, Reynolds offered and sold approximately \$650,000
11 of securities to fifteen investors, including at least nine Washington residents. During this time period,
12 Reynolds sold a variety of investments, including penny stock owned by a third party, oil and gas
13 investments, and investments related to taking companies public. In each offering, Reynolds failed to
14 disclose material information related to the investments, including the use of funds, his personal financial
15 condition, and the financial condition of the companies issuing the investments.
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17 5. In each offering, Reynolds failed to disclose that he was subject to liens and judgments from
18 an earlier business. Between 2006 and 2009, Reynolds became personally liable for judgments and liens
19 related to a boat business that he owned and managed until 2008. At the time of the offerings, Reynolds
20 was liable for more than \$300,000 in judgments by the company’s vendors and an IRS tax lien for
21 \$960,000.

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

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

9 **Penny Stock Transactions**

10 8. In March and September 2013, Reynolds and Northwest Crest sold \$37,000 of Company A
11 penny stock to two Washington investors in private transactions. Reynolds did not screen the investors to
12 determine their investment sophistication or whether they were accredited investors. At least one investor
13 was not an accredited investor at the time of the sale. Neither investor had prior experience in purchasing
14 stock in a private transaction or in purchasing penny stock.

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

21 10. Reynolds and Northwest Crest failed to disclose material information related to the penny
22 stock investment, including but not limited to the basis of the stock price that Reynolds offered each
23 investor, and the amount of commission, if any, that Reynolds and Northwest Crest would receive from the
24 investor, and the amount of commission, if any, that Reynolds and Northwest Crest would receive from the
25 investor.

1 sale. Reynolds and Northwest Crest failed to disclose the general and specific risks of investing in the
2 penny stock, including the fact that trading of the stock was limited and sporadic, and that low trading
3 volume could impair the investors' ability to resell the stock. Reynolds and Northwest Crest also failed to
4 disclose that Reynolds would retain at least half of the purchase price paid by the investors, and that
5 Reynolds would use some of these funds to pay interest and IRA fees to prior oil and gas investors.

6 11. Reynolds delivered the penny stock to one of the two investors. Reynolds told this investor
7 that, over the next six months, the penny stock company would execute an extensive campaign that would
8 give the investor time to watch for the right time to capitalize on the best price. The investor sold his shares
9 at a loss after the stock price declined. Reynolds failed to deliver the penny stock to the second,
10 unaccredited investor, and the investor demanded a refund, to which Reynolds agreed. Reynolds repaid the
11 unaccredited investor over several months using, in some instances, funds that he raised from new investors.

12 **2013 Oil & Gas Investment**

13 12. In April 2013, Reynolds and Northwest Crest offered and sold an additional \$78,000
14 investment in the oil and gas project described above. Reynolds told the investor that he was leasing oil
15 wells in Oklahoma and that Northwest Crest was successfully refurbishing existing wells. Reynolds also
16 told the investor that he had raised funds from about twelve other investors. Reynolds represented that the
17 investor would receive monthly interest payments on his principal. Reynolds suggested that the investor
18 transfer retirement funds into a self-directed IRA to invest in the project, and he represented that Northwest
19 Crest would pay the IRA fees. Reynolds and Northwest Crest have stopped paying the IRA fees, and the
20 investor has not received any monthly interest payments or a return of his principal.

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
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1 that Reynolds and Northwest Crest had raised from prior oil and gas investors. In addition, Reynolds made
2 false and misleading statements related to the use of the investor's funds. Reynolds told the investor that he
3 would use the funds to develop oil wells when, in fact, Reynolds used the funds for other purposes,
4 including to pay interest and IRA fees to prior oil and gas investors.

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

6 *Overview*

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

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

20 16. Reynolds solicited investments from members of his church, friends, business acquaintances,
21 prospective investors referred by existing investors, and job seekers who responded to Craigslist ads. In
22 most instances, Reynolds did not screen prospective investors to determine their investment sophistication
23 or whether they were accredited investors. At least five investors were not accredited investors at the time
24 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 suggested that they 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. Both investors became employees of NWCC. Reynolds told the investors that Northwest Crest
11 was a private fund with \$20 million in assets, and that Northwest Crest would provide financing to NWCC's
12 client companies. Reynolds represented that the investors would receive ownership in the fund if they
13 worked for NWCC for one year. Depending on the size of the investment, this ownership interest would be
14 2% to 3% of the fund. The investors would not 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 had
21 provided some financing to the client companies but did not own any stock in either client company.
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23 20. Reynolds made false and misleading statements to investors regarding the financial condition
24 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 part of the funds to pay NWCC salaries,
7 operating 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, while the client companies had
7 received some financing, NWCC did not own stock in either 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 he did not disclose the basis for
12 valuing the shares at \$900,000. Reynolds and NWCC also failed to disclose that Reynolds would use a
13 portion of the investor's funds to pay prior oil and gas investors.
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15 26. In the fall of 2014, NWCC ceased doing business. By March 2015, both Northwest Crest
16 and NWCC were administratively dissolved. In March 2015, approximately four months after NWCC
17 ceased doing business, one client company agreed to issue 40,000 of its shares to NWCC in exchange for
18 the financing the company had received the year before. Approximately six months later, in September
19 2015, the second client company agreed to issue 128,144 of its shares to NWCC in exchange for the
20 financing it had received the year before. As of the date of this Statement of Charges, at least eight of the
21 investors described above have not received any return on their investment or a return of their principal.
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Registration Status

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

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

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

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

CONCLUSIONS OF LAW

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

2. Northwest Crest, LLC and Scot R. Reynolds have each violated RCW 21.20.140 because, as set forth in the Tentative Findings of Fact, Northwest Crest, LLC and Scot R. Reynolds offered and sold securities issued by Northwest Crest, LLC for which no registration is on file with the Securities Administrator.

3. Northwest Crest, LLC has violated RCW 21.20.040 because, as set forth in the Tentative Findings of Fact, Northwest Crest, LLC offered and sold shares of penny stock without being registered as a broker-dealer.

4. Scot R. Reynolds has violated RCW 21.20.040 because, as set forth in the Tentative Findings of Fact, he offered and sold shares of penny stock and securities issued by Northwest Crest, LLC without being registered as a securities salesperson or broker-dealer in the state of Washington.

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

7 **CONSENT ORDER**

8 IT IS AGREED AND ORDERED that Respondents Northwest Crest, LLC and Scot R. Reynolds,
9 their agents, and their employees each shall cease and desist from violating RCW 21.20.140, the securities
10 registration section of the Securities Act of Washington.

11 IT IS FURTHER AGREED AND ORDERED that Respondents Northwest Crest, LLC and Scot R.
12 Reynolds, their agents, and their employees each shall cease and desist from violating RCW 21.20.040, the
13 securities salesperson and broker-dealer registration section of the Securities Act of Washington.

14 IT IS FURTHER AGREED AND ORDERED that Respondents Northwest Crest, LLC; NW Crest
15 Capital, LLC; and Scot R. Reynolds, their agents, and their employees each shall cease and desist from
16 violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

17 IT IS FURTHER AGREED AND ORDERED that Respondents Northwest Crest, LLC; NW Crest
18 Capital, LLC; and Scot R. Reynolds shall be jointly and severally liable for and shall pay a fine of \$7,500.

19 IT IS FURTHER AGREED AND ORDERED that Respondents Northwest Crest, LLC; NW Crest
20 Capital, LLC; and Scot R. Reynolds shall be jointly and severally liable for and shall pay investigative costs
21 of \$2,500.
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1 IT IS FURTHER AGREED AND ORDERED that payment of the fines and costs described above
2 shall be made as follows: Respondents shall pay \$5,000 on or before the entry of this Consent Order, and
3 Respondents shall pay the remaining \$5,000 on or before January 31, 2017.

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

5 IT IS FURTHER AGREED that Respondents Northwest Crest, LLC; NW Crest Capital, LLC; and
6 Scot R. Reynolds entered into this Consent Order freely and voluntarily and with a full understanding of its
7 terms and significance.

8 IT IS FURTHER AGREED that in consideration of the foregoing, Respondents Northwest Crest,
9 LLC; NW Crest Capital, LLC; and Scot R. Reynolds each waive their right to a hearing and to judicial
10 review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

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

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15 Signed this 23rd day of December 2016.

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17 Signed by:
18 Northwest Crest, LLC

Signed by:
NW Crest Capital, LLC

19 _____
20 /s/
21 Scot R. Reynolds
22 Managing Member

20 /s/
21 Scot R. Reynolds
22 Managing Member

23 Signed by:
24 _____
25 /s/
Scot R. Reynolds, Individually

