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BEFORE THE ARIZONA CORPORATION COMMISSION

2009 JUL 27 P 2:00

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

AZ CORP COMMISSION
DOCKET CONTROL

In the matter of:
MICHAEL C. REYNOLDS, a married man;
TANZIA REYNOLDS, a married woman;
CASH 2 U, LLC, an Arizona limited liability company;
DOS NINAS, LLC, an Arizona limited liability company;
PAR 3 MANAGEMENT, LLC, an Arizona limited liability company;
Respondents.

DOCKET NO. S-20692A-09-0372
NOTICE OF OPPORTUNITY FOR HEARING REGARDING PROPOSED ORDER TO CEASE AND DESIST, ORDER FOR RESTITUTION, ORDER FOR ADMINISTRATIVE PENALTIES AND FOR OTHER AFFIRMATIVE ACTION

Arizona Corporation Commission
DOCKETED

JUL 27 2009

DOCKETED BY [signature]

NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING
EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that respondents MICHAEL C. REYNOLDS, a married man, TANZIA REYNOLDS, a married woman, CASH 2 U, LLC, an Arizona limited liability company, DOS NINAS, LLC, an Arizona limited liability company, and PAR 3 MANAGEMENT, LLC, an Arizona limited liability company have engaged in acts, practices, and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 et seq. ("Securities Act").

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1 **I.**

2 **JURISDICTION**

3 1. The Commission has jurisdiction over this matter pursuant to Article XV of the  
4 Arizona Constitution and the Securities Act.

5 **II.**

6 **RESPONDENTS**

7 2. MICHAEL C. REYNOLDS ("REYNOLDS") is an individual who, at all relevant  
8 times, resided in Maricopa County, Arizona.

9 3. At all relevant times, REYNOLDS conducted business as Friendship Finance or  
10 Friendship Finance, LLC (collectively "Friendship").<sup>1</sup>

11 4. TANZIA REYNOLDS ("T. REYNOLDS") is an individual who, at all relevant  
12 times, resided in Maricopa County, Arizona.

13 5. REYNOLDS and T. REYNOLDS are husband and wife. At all times relevant,  
14 REYNOLDS and T. REYNOLDS have been acting for their own benefit and for the benefit or in  
15 furtherance of their marital community.

16 6. CASH 2 U, LLC ("CASH") is an Arizona limited liability company organized on  
17 June 24, 1999. At all relevant times, CASH had its principal place of business in Maricopa  
18 County, Arizona.

19 7. Pursuant to the public records of the Commission, REYNOLDS has been the sole  
20 manager of CASH since June 24, 1999.

21 8. DOS NINAS, LLC ("DOS") is an Arizona limited liability company organized on  
22 November 13, 2003. At all relevant times, DOS had its principal place of business in Maricopa  
23 County, Arizona.

24  
25  
26 <sup>1</sup> Friendship Finance, Inc. is an Arizona corporation owned by REYNOLDS' father-in-law and not REYNOLDS. Additionally, Friendship Finance is an Arizona registered trade name owned by someone other than any of the Respondents.



1           18.     REYNOLDS, individually and on behalf of CASH, told at least one investor that  
2 CASH was a "recession-proof" business.

3           19.     REYNOLDS and CASH promised various interest rates to the investors. Each of  
4 the promissory notes had a stated annual rate of return varying from seven and a half percent to 48  
5 percent. Also, each of the promissory notes state interest would be paid monthly, and depending  
6 on the promissory note, the terms were from two months to one year.

7           20.     REYNOLDS and PAR 3 promised to pay an investor a monthly interest payment of  
8 \$4,500.

9           21.     REYNOLDS and DOS promised to an investor a return of five and a half percent a  
10 month for a term of one year.

11          22.     Some investors received a few interest payments but then the payments stopped or  
12 the interest checks were not honored because of insufficient funds. Respondents misrepresented  
13 that the investors would receive monthly interest payments until the promissory notes became due  
14 and payable.

15          23.     Respondents represented that the repayment of the notes were guaranteed by the use  
16 of collateral in the form of a lien against the personal residence of Reynolds or the accounts  
17 receivable of his stores.

18          24.     Respondents failed to tell the investors that there was a mortgage on REYNOLDS'  
19 residence, that the residence had been pledged as security to other investors, that there was no  
20 documentation to allow the investors to exercise their security interest in the collateral and/or that  
21 there were no accounts and loans receivable to pledge as security for the notes.

22 **B. INVESTMENT CONTRACT**

23          25.     REYNOLDS and CASH entered into written agreements with at least three  
24 investors whereby for an investment of funds the investor would purportedly receive a membership  
25 interest in an Arizona limited liability company ("LLC") as well as a percentage interest of the net  
26 cash flow of a new store that REYNOLDS and CASH would open in Arizona.

1           26.     At least three investors contributed funds to receive the LLC interest and a  
2 percentage interest of the net cash flow of a store.

3           27.     REYNOLDS and CASH promised to form an Arizona LLC for each of the new  
4 stores that included the investor as a member. In at least two instances, an Arizona LLC was not  
5 formed. In another instance, REYNOLDS provided to the investor articles of organization for a  
6 limited liability company called G5 Financial, LLC. However, REYNOLDS did not file the  
7 requisite paperwork to form G5 Financial, LLC with the investor.

8           28.     REYNOLDS and CASH promised the investors a percent of the net cash flow per  
9 month. At least one investor was promised 50 percent of the net cash flow per month. At least two  
10 other investors were promised 20 percent of the net cash flow per month. However, none of the  
11 investors received a return because the stores did not open.

12           29.     REYNOLDS and CASH promised to contribute their own capital to operate the  
13 stores. For at least one investment, they promised to contribute \$150,000. In another instance,  
14 they promised to contribute 40 percent of the capital plus "supply additional monies on an as-  
15 needed basis to sustain growth." REYNOLDS and CASH failed to supply the amount of capital  
16 promised.

17           30.     REYNOLDS and CASH promised each of the investors REYNOLDS would  
18 provide the requisite license to operate each store. REYNOLDS did not acquire from the  
19 Department of Financial Institutions ("DFI") the required state licensing for the stores. In at least  
20 two instances, REYNOLDS did not apply for DFI licensing.

21           31.     REYNOLDS and CASH assigned the roles and responsibility for the investors and  
22 REYNOLDS. In at least two instances, REYNOLDS, not the investor, would manage all facets of  
23 the stores, including but not limited to providing the licensing, selecting the store location,  
24 managing the operations of the business (i.e., daily operations, human resources, accounting,  
25 marketing, technology, office management, and record keeping), and obtaining permits and  
26 licenses. The investor's sole role was to provide the funding.

1           32. In another case, the agreement called for the investor and REYNOLDS to share  
2 responsibilities. However, in practice, the investor had no input regarding the store other than to  
3 provide the funds to open it. REYNOLDS handled all aspects of the store, including selecting the  
4 store location and directing the remodeling of the selected site.

### 5 **C. GENERAL ALLEGATIONS**

6           33. Respondents used investor funds to pay personal expenses and to repay investors.  
7 Respondents failed to disclose to the investors their funds would be used in this manner.

8           34. To at least two investors, REYNOLDS presented himself as the owner of  
9 Friendship, an existing payday loan store operator and/or franchisor in Arizona; however,  
10 REYNOLDS did not have an ownership interest in Friendship.

11           35. REYNOLDS provided to at least two investors documents showing REYNOLDS  
12 was seeking investments for Friendship. One such document purported to show that Friendship  
13 was engaged in a \$5 million capital raising program. The second such document purported to  
14 show Friendship seeking short-term funding of \$250,000 to \$500,000 that paid an annual interest  
15 rate of 36 percent.

16           36. In the *Executive Summary of the short-term funding proposal*, REYNOLDS stated  
17 he has owned five stores and successfully operated them.

18           37. To some investors, REYNOLDS said he currently owned from three to six stores.  
19 REYNOLDS did not disclose he owned one store located in Mesa, Arizona. Furthermore,  
20 REYNOLDS did not disclose that he stopped loaning money to customers at the Mesa store.

21           38. T. REYNOLDS attended several meetings with potential investors. She provided  
22 information on the stores. T. REYNOLDS' information included a historical perspective on the  
23 growth patterns of the stores, explained the operations of the payday loan stores, and spoke to  
24 emulating her father's success with his company.

25           39. T. REYNOLDS also received investor funds directly into her personal account and  
26 had deposited a check into an investor's account without the authorization of the investor.



## VI.

## VIOLATION OF A.R.S. § 44-1991

## (Fraud in Connection with the Offer or Sale of Securities)

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4 48. In connection with the offer or sale of securities within or from Arizona,  
5 Respondents directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made  
6 untrue statements of material fact or omitted to state material facts that were necessary in order to  
7 make the statements made not misleading in light of the circumstances under which they were  
8 made; or (iii) engaged in transactions, practices, or courses of business that operated or would  
9 operate as a fraud or deceit upon offerees and investors. Respondents' conduct includes, but is not  
10 limited to, the following:

11 a) REYNOLDS misrepresented he had an ownership interest in Friendship  
12 when he did not;

13 b) REYNOLDS misrepresented the number of stores he actually owned when  
14 he owned one store in Mesa, Arizona and that the other stores he purported to own were either  
15 closed or owned by someone else;

16 c) Respondents misrepresented the use of the funds when the funds were used  
17 for purposes not intended by the investors, such as repaying investors and using it for personal  
18 expenses instead of expanding the stores;

19 d) Respondents misrepresented that the investors would receive monthly  
20 interest payments when the payments stopped before the promissory notes matured;

21 e) REYNOLDS and CASH misrepresented to at least three investors that  
22 invested with REYNOLDS and CASH to open a store whereby each investor would hold a  
23 membership interest in an LLC when none of the purported stores were opened, REYNOLDS and  
24 CASH did not provide their promised capital contributions, REYNOLDS did not file the requisite  
25 paperwork for the limited liability companies and REYNOLDS did not acquire DFI licensing;

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**IX.**

**ANSWER REQUIREMENT**

Pursuant to A.A.C. R14-4-305, if a Respondent requests a hearing, the requesting respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the date of service of this Notice. Filing instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at <http://www.azcc.gov/divisions/hearings/docket.asp>.

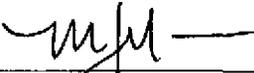
Additionally, the answering respondent must serve the Answer upon the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3<sup>rd</sup> Floor, Phoenix, Arizona, 85007, addressed to Aikaterine Vervilos.

The Answer shall contain an admission or denial of each allegation in this Notice and the original signature of the answering respondent or respondent's attorney. A statement of a lack of sufficient knowledge or information shall be considered a denial of an allegation. An allegation not denied shall be considered admitted.

When the answering respondent intends in good faith to deny only a part or a qualification of an allegation, the respondent shall specify that part or qualification of the allegation and shall admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

The officer presiding over the hearing may grant relief from the requirement to file an Answer for good cause shown.

Dated this 27 day of July, 2009.

  
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Matthew J. Neubert  
Director of Securities

(AV)