

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 75626 / August 6, 2015**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 4161 / August 6, 2015**

**INVESTMENT COMPANY ACT OF 1940**  
**Release No. 31743 / August 6, 2015**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-16730**

**In the Matter of**

**REID S. JOHNSON**

**Respondent.**

**ORDER INSTITUTING  
ADMINISTRATIVE AND CEASE-  
AND-DESIST PROCEEDINGS  
PURSUANT TO SECTION 15(b) OF  
THE SECURITIES EXCHANGE ACT  
OF 1934, SECTIONS 203(f) AND  
203(k) OF THE INVESTMENT  
ADVISERS ACT OF 1940, AND  
SECTION 9(b) OF THE  
INVESTMENT COMPANY ACT OF  
1940 AND NOTICE OF HEARING**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Reid S. Johnson (“Johnson” or “Respondent”) pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”).

**II.**

After an investigation, the Division of Enforcement alleges that:

**A. SUMMARY**

1. This proceeding involves violations of Advisers Act provisions governing the Custody Rule (Section 206(4) of the Advisers Act and Rule 206(4)-2 thereunder), the Compliance Rule (Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder) and Form

ADV filings (Section 207 of the Advisers Act) by The Planning Group of Scottsdale, LLC (“TPGS”), a former registered investment adviser, and its founder, sole owner, president, managing director, and chief compliance officer, Reid S. Johnson (“Johnson”).

2. From at least 2010 until it withdrew its registration with the Commission in March 2013, TPGS had custody of certain client funds and securities, including funds and securities of pooled investment vehicles whose managing members were entities owned and controlled by Johnson. TPGS and the managing members of the pooled investment vehicles (the “Managing Members”) functioned together with TPGS as a single integrated investment adviser, with the pooled investment vehicles among its advisory clients. TPGS violated the Custody Rule because it failed to accurately determine the securities over which it had custody; failed to ensure the securities were maintained by a qualified custodian; and failed to obtain adequate surprise examinations. Johnson willfully aided and abetted and caused these Custody Rule violations, as well as TPGS’s violations of the Compliance Rule, and TPGS and Johnson willfully made materially false representations in TPGS’s Forms ADV filed from 2010 through 2012.

**B. RESPONDENT**

3. Reid S. Johnson resides in Scottsdale, Arizona. Johnson was the founder, sole owner, president, and managing director of TPGS, and the president and sole owner of former registered broker-dealer Meridian United Capital, LLC (“MUC”). Johnson also served as TPGS’s chief compliance officer in 2010, 2011 (excluding a period of approximately seven months during which another employee held this position) and 2012. Johnson holds Series 7, 24, 63 and 65 licenses. In October 2013, Johnson received a 45-day suspension from FINRA in connection with a private placement offering for which MUC acted as placement agent, where he was suspended for withdrawing \$300,000 from escrow before MUC had satisfied the minimum sales contingency for the offering.

**C. OTHER RELEVANT ENTITIES**

4. TPGS is an Arizona limited liability company with its principal place of business at 8800 North Gainey Center Drive, Suite 176, Scottsdale, Arizona. It was founded by and is 100% owned by Johnson. TPGS registered with the Commission as an investment adviser in July 2006. In June 2012, Johnson sold TPGS’s investment advisory business with respect to individual clients, but not with respect to the advisory business conducted through the Managing Members. TPGS filed a Form ADV-W to withdraw its registration with the Commission on March 28, 2013.

5. MUC is an Arizona limited liability company with its principal place of business at 8800 North Gainey Center Drive, Suite 176, Scottsdale, Arizona. MUC registered with the Commission as a broker-dealer in July 2002 under a different name; Johnson and a partner purchased the broker-dealer in June 2003 and renamed it MUC. Johnson became the sole owner of MUC in December 2011. MUC withdrew its registration with the Commission effective December 15, 2012.

6. Insured Private Equity I, LLC (“IPE”), was founded by Johnson to make investments in microcap and start-up companies and to acquire certain single premium immediate

annuities and life insurance policies. IPE's managing member is Oak Canyon Capital, Inc. ("Oak Canyon"), which is solely owned by Johnson and operates out of the office at 8800 North Gainey Center Drive. From approximately June 2010 to June 2011, units of IPE were sold by MUC in a private placement offering. Fourteen of the fifteen investors in IPE – 93% – were TPGS advisory clients.

7. Eagle Creek Fund, LLC ("Eagle Creek Fund") was founded by Johnson to acquire Series A Preferred Stock in another company located in India. Eagle Creek Fund's managing member is Eagle Creek Management, LLC ("Eagle Creek Management"), which is solely owned by another entity, Strategic Global Partners, LLC, which is in turn co-owned and co-controlled by Johnson and one other individual. Eagle Creek Management operates out of the office at 8800 North Gainey Center Drive. From approximately July 2008 to January 2010, units of Eagle Creek Fund were sold by MUC in a private placement offering. All 97 investors in Eagle Creek Fund – 100% – were TPGS advisory clients.

8. The "Guaranteed Income Strategy" or "GIS3 Programs" were created by Johnson, and employed an insurance arbitrage strategy involving the purchase of a single premium immediate annuity ("SPIA") and a life insurance policy. The GIS3 Programs were securitized so that investors (besides the insured) could purchase units in an LLC pooled investment vehicle holding the SPIA and life insurance policy. At least twelve of the GIS3 Programs were in turn structured so that the LLC did not purchase the SPIA and life insurance policy directly, but purchased 100% ownership in a family limited liability limited partnership (LLLP) that held the SPIA and life insurance policy. The GIS3-LLLP Programs had as their managing member either Oak Canyon or Meridian Services, LLC ("Meridian Services"), another entity owned solely by Johnson that operates out of the office at 8800 North Gainey Center Drive. At least 118 of the 123 investors in the GIS3-LLLP Programs – 96% – were TPGS advisory clients.

9. The Investor A Trust dated January 6, 2009 (the "Investor A Trust") was a family trust for a TPGS client. Johnson was the trustee of the Investor A Trust until at least April 4, 2011. The Investor A Trust invested in Eagle Creek Fund and other pooled investment vehicles as well as publicly-traded securities.

10. StarkSchenkein, LLP ("StarkSchenkein") is a Colorado limited liability partnership headquartered in Denver, Colorado. StarkSchenkein was a full service public accounting firm that provides auditing and accounting, tax, business valuation and legal and business consulting services to a variety of clients including broker-dealers and public companies. StarkSchenkein registered with the PCAOB in 2003. StarkSchenkein was engaged to perform surprise examinations for TPGS for 2010, 2011 and 2012.

#### **D. FACTUAL BACKGROUND**

##### **1. Integration of TPGS and the Managing Members**

11. TPGS and the three Managing Members of the pooled investment vehicles – Oak Canyon, Eagle Creek Management, and Meridian Services – operated as a single integrated investment adviser, with the pooled investment vehicles as clients. They had significant ownership overlap, operational overlap, capitalization overlap, and advisory overlap.

In addition, TPGS and the Managing Members did not conduct themselves as separate entities in dealing with outside parties and failed to observe corporate formalities.

12. TPGS and the Managing Members had ownership overlap and were under common control. Johnson, the owner, president and managing director of TPGS, owned and controlled 100% of Oak Canyon and Meridian Services and 50% of Eagle Creek Management (through Strategic Global Partners).

13. TPGS and the Managing Members also had operational overlap. TPGS and the Managing Members had overlapping management (aside from the co-owner of Eagle Creek Management), and had multiple employees in common. In addition, TPGS and the Managing Members all operated out of a shared physical location at 8800 North Gainey Center Drive, using the same physical infrastructure and equipment, including computers and computer servers. TPGS paid the rent for the 8800 North Gainey Center Drive offices.

14. Additionally, TPGS and the Managing Members had capitalization overlap. Oak Canyon and Meridian Services transferred funds to TPGS, where these funds were commingled with TPGS's funds and used to pay operating expenses. TPGS did not reimburse Oak Canyon or Meridian Services for the transferred funds. Johnson also made some of TPGS's employees his co-signatories on bank accounts belonging to Oak Canyon and Meridian Services. Similarly, TPGS paid for some of Eagle Creek Fund's offering expenses. In addition, TPGS loaned money to Eagle Creek Management's owner, Strategic Global Partners ("SGP"), for SGP's operating expenses. As of at least December 31, 2011, SGP had not repaid these loans. Separately, on its books, TPGS reclassified almost \$142,000 that it had apparently loaned to SGP as a reduction in the amount that TPGS owed to other "related parties." Also, the employees who worked for TPGS and the Managing Members were paid by TPGS.

15. TPGS and the Managing Members also had advisory overlap. Johnson provided investment advice on behalf of both TPGS and the Managing Members. Another employee of TPGS was the manager of Meridian Services, in addition to Johnson, and provided investment advice on behalf of Meridian Services. Johnson and TPGS also advised TPGS clients to invest in the pooled investment vehicles. Almost all of the investors in the pooled investment vehicles were TPGS advisory clients.

16. Furthermore, TPGS and the Managing Members did not conduct themselves as separate entities in dealing with outside parties. Johnson and other employees of TPGS used TPGS's email to conduct business on behalf of the Managing Members and sent correspondence to GIS3-LLLP investors on TPGS's letterhead (as opposed to Oak Canyon's or Meridian Services' letterhead). In addition, TPGS informed StarkSchenkein that it advised the pooled investment vehicles, and TPGS, as opposed to the Managing Members, signed the surprise examination engagement letters with StarkSchenkein.

17. Lastly, TPGS and the Managing Members failed to observe corporate formalities. They were all under Johnson's common control and had no separate boards of directors. In addition, there were no policies and procedures in place to keep these entities separate, or to protect investment advisory information for one of these entities from disclosure to the others. To the contrary, all of TPGS's employees, who also worked for the Managing

Members, had unlimited access to servers shared by TPGS and the Managing Members. Johnson had access to investment information for all of these entities whenever he made an investment decision for any of them.

18. Because TPGS and the Managing Members of the pooled investment vehicles were operating together as a single integrated investment adviser, TPGS was required to follow the requirements of the Advisers Act with respect to the pooled investment vehicles, which were its clients.

## **2. TPGS Had Custody Over Advisory Clients' Funds and Securities**

19. TPGS, operating with the Managing Members as a single integrated investment adviser, had custody over funds and securities of its advisory clients, IPE, Eagle Creek Fund, and GIS3-LLLP Programs.

20. The funds raised in the IPE offering were used to make investments in several companies, based on decisions made by Johnson.

21. Some securities purchased by IPE were held in a brokerage account at a third party registered broker-dealer; Johnson, in his capacity as owner and manager of Oak Canyon, had authority to obtain possession of the funds and securities in that account.

22. Paper stock certificates for other securities purchased by IPE were kept in a lockbox, which was in turn kept for a time in a locked file cabinet set aside for IPE at the office at 8800 North Gainey Center Drive. In or around August 2012, Johnson moved the lockbox to his personal residence. Johnson was the only person with a key to the lockbox.

23. The funds raised in the Eagle Creek Fund offering were used to purchase Series A Preferred Stock in an Indian company, which in turn acquired property in India. The stock certificates Eagle Creek Fund received for its Series A Preferred Stock were kept in a locked storage facility in Scottsdale, Arizona where office documents for TPGS were stored. Johnson was the only person with a key to the storage facility.

24. The funds raised in each GIS3-LLLP Program were held in an account specific to each Program at a bank. Johnson, in his capacity as owner and manager of Oak Canyon or Meridian Services, had authority to obtain possession of the funds in each such account. These funds were used to acquire the ownership interest of family partnership LLLPs that held SPIAs and life insurance policies.

25. The Investor A Trust held funds and securities in a brokerage account at a third party registered broker-dealer. The Investor A Trust was an advisory client of TPGS. Johnson, in his capacity as trustee for the Investor A Trust, had the authority to obtain possession of the money and securities in the brokerage account.

**3. Johnson Willfully Aided and Abetted and Caused TPGS's Violations of the Custody Rule During 2010-2012**

26. Johnson, TPGS's chief compliance officer during a majority of the time from 2010 through 2012, did not have any formal training regarding the Custody Rule, nor did he have the familiarity with the Custody Rule that would be expected of a compliance professional.

27. TPGS did not take any action to comply with the 2009 amendments to the Custody Rule until late 2010. At that time, TPGS concluded that it had custody over, and had to obtain a surprise examination of, assets belonging to IPE, Eagle Creek Fund, the GIS3 Programs (including the GIS3-LLLP Programs) and the Investor A Trust.

28. In early 2011, TPGS engaged StarkSchenkein to perform a surprise examination for 2010 (the "2010 surprise examination") that would include IPE, Eagle Creek Fund, the GIS3-LLLP Programs, and the Investor A Trust.

29. TPGS engaged StarkSchenkein a second time later in 2011 to perform a surprise examination for 2011 (the "2011 surprise examination").

30. TPGS engaged StarkSchenkein a third time in late 2012 – after Johnson sold TPGS's individual client investment advisory business in June 2012, but before TPGS withdrew its investment adviser registration – to perform a surprise examination for 2012 (the "2012 surprise examination"). The 2012 surprise examination was never completed.

31. Between 2010 and 2012, TPGS violated the Custody Rule in several respects. First, TPGS failed to determine accurately which client securities were subject to the Custody Rule. TPGS failed to recognize that the securities purchased by IPE and Eagle Creek Fund fell within the scope of the Custody Rule.

32. Second, in 2010, 2011 and 2012, TPGS failed to ensure that client securities were maintained by a qualified custodian. For example: (1) paper stock certificates for certain securities purchased by IPE were maintained at the office at 8800 North Gainey Center Drive, and subsequently at Johnson's home; and (2) paper stock certificates for securities purchased by Eagle Creek Fund were maintained at a Scottsdale, Arizona storage facility.

33. Third, in 2010, 2011 and 2012, TPGS did not adequately obtain independent verification (a/k/a "surprise examination") of custody of client funds and securities by an independent public accountant pursuant to an appropriate engagement letter, with respect to the IPE, Eagle Creek Fund, and GIS3-LLLP Programs and the Investor A Trust. For example: (1) the engagement letters for StarkSchenkein for the 2010 and 2011 surprise examinations, (a) omitted required language regarding StarkSchenkein's obligation to file a Certificate on Form ADV-E within 120 days of the commencement of the surprise examination, to notify the Commission within one business day of any material discrepancies found during the surprise examination, and to file a Form ADV-E and statement within four business days after termination of work on the surprise examination, and (b) improperly disclosed the dates that StarkSchenkein planned to commence the surprise examinations; and (2) the engagement letter for the 2012 surprise examination lacked necessary language concerning tasks that StarkSchenkein was required to perform.

34. Fourth, the 2010 surprise examination was not conducted during that calendar year; StarkSchenkein was not retained until 2011 and performed the work for the examination in 2011, not 2010.

35. As TPGS's founder, owner, president, and managing director during 2010-2012, and its chief compliance officer during the majority of the period, Johnson, through his conduct, willfully aided and abetted and caused TPGS's violations of the Custody Rule.

36. Johnson knew, was reckless in not knowing, or should have known, that his conduct would substantially assist TPGS's violations of the Custody Rule.

#### **4. TPGS Lacked Adequate Compliance Policies and Procedures Regarding Custody**

37. In 2010, TPGS had a written compliance manual entitled "2010 Compliance Supervisory Guidelines Manual" (the "Compliance Manual"). The Compliance Manual included a section entitled "Custody" that discussed Custody Rule requirements, but did not address the 2009 amendments to the Custody Rule, effective March 12, 2010.

38. The Compliance Manual's discussion of the Custody Rule failed to reflect the fact that the 2009 amendments made annual surprise examinations mandatory for all advisers subject to the Custody Rule (with some narrow exceptions). In addition, the definition of "custody" omitted the description contained in the 2009 amendments to the Custody Rule, that an adviser has custody "if a related person holds, directly or indirectly, client funds or securities, or has any authority to obtain possession of them, in connection with advisory services [it] provide[s] to clients."

39. As TPGS's founder, owner, president, and managing director during 2010-2012, and its chief compliance officer during the majority of this time period, Johnson, through his conduct, willfully aided and abetted and caused TPGS's violations of the Compliance Rule.

40. Johnson knew, was reckless in not knowing, or should have known, that his conduct would substantially assist TPGS's violations of the Compliance Rule.

#### **5. Johnson Made False Representations on TPGS's Forms ADV Filed in 2010, 2011 and 2012**

41. TPGS filed Forms ADV on March 30, 2010, on March 30, 2011 and March 31, 2011 (collectively, the "2011 Forms ADV") and on March 31, 2012.

42. In Item 9, entitled "Custody," of Part I of the 2010 Form ADV, the 2011 Forms ADV, and the 2012 Form ADV, TPGS falsely represented that it did not have custody of any of its advisory clients' cash or bank accounts or any of its advisory clients' securities.

43. In the 2011 Forms ADV, TPGS falsely represented that an independent public accountant prepared an internal control report with respect to custodial services. No internal control report was ever prepared.

44. In addition, in the 2011 and 2012 Forms ADV, TPGS falsely represented that Oak Canyon and Meridian Services were mere “administrative services” firms, when in fact they provided advisory services to IPE and the GIS3-LLLP Programs.

45. In the 2012 Form ADV, TPGS also falsely represented that Oak Canyon and Meridian Services were not managing members of pooled investment vehicles; falsely represented that Eagle Creek Fund was a sponsor or syndicator, rather than a pooled investment vehicle, and failed to include any reference to Eagle Creek Fund’s Managing Member, Eagle Creek Management; and falsely identified Oak Canyon, Meridian Services, and Eagle Creek Fund as qualified custodians even though they were not.

46. Johnson, as TPGS’s founder, owner, president, and managing director during 2010-2012 and its chief compliance officer during the majority of this time period, and as a signatory of the 2010 Form ADV, the March 30, 2011 Form ADV, and the 2012 Form ADV, with ultimate authority over all the Forms ADV, willfully misrepresented and omitted these material facts from TPGS’s Forms ADV in 2010, 2011 and 2012.

47. The misrepresentations and omissions regarding the Custody Rule were material, because they were required disclosures in Form ADV.

#### **E. VIOLATIONS**

48. As a result of the conduct described above, Johnson willfully aided and abetted and caused TPGS’s violation of Section 206(4) of the Advisers Act and Rule 206(4)-2 promulgated thereunder, which make it a fraudulent, deceptive or manipulative act for any registered investment adviser to have custody of clients’ funds or securities unless the adviser, among other things: (1) maintains client funds and securities with a qualified custodian; and (2) obtains an annual surprise examination.

49. As a result of the conduct described above, Johnson willfully aided and abetted and caused TPGS’s violation of Section 206(4) of the Advisers Act and Rule 206(4)-7 promulgated thereunder, which require investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules.

50. As a result of the conduct described above, Johnson willfully violated Section 207 of the Advisers Act, which makes it “unlawful for any person willfully to make any untrue statement of a material fact in any registration application or report filed with the Commission . . . or willfully to omit to state in any such application or report any material fact which is required to be stated therein.”

### **III.**

In view of the allegations made by the Division of Enforcement, the Commission deems it appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;



B. What, if any, remedial action is appropriate in the public interest against Johnson pursuant to Section 15(b) of the Exchange Act including, but not limited to, civil penalties pursuant to Section 21B of the Exchange Act; and

C. What, if any, remedial action is appropriate in the public interest against Johnson pursuant to Section 203(f) of the Advisers Act including, but not limited to, disgorgement and civil penalties pursuant to Section 203 of the Advisers Act;

D. What, if any, remedial action is appropriate in the public interest against Johnson pursuant to Section 9(b) of the Investment Company Act including, but not limited to, disgorgement and civil penalties pursuant to Section 9 of the Investment Company Act; and

E. Whether, pursuant to Section 203(k) of the Advisers Act, Johnson should be ordered to cease and desist from committing or causing violations of and any future violations of Sections 206(4) and 207 of the Advisers Act and Rules 206(4)-2 and 206(4)-7 thereunder; and whether Johnson should be ordered to pay a civil penalty pursuant to Section 203(i) of the Advisers Act.

#### IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondent as provided for in the Commission's Rules of Practice.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related

proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not “rule making” within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Brent J. Fields  
Secretary