

Division of Securities  
Utah Department of Commerce  
160 East 300 South, 2<sup>nd</sup> Floor  
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Salt Lake City, UT 84114-6760  
Telephone: (801) 530-6600  
FAX: (801) 530-6980

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BEFORE THE DIVISION OF SECURITIES  
OF THE DEPARTMENT OF COMMERCE  
OF THE STATE OF UTAH

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**IN THE MATTER OF:**

**SCOTT LAMAR RHOADS;  
ZACHARIA LAMAR RHOADS; and  
AUTO RAMA, L.L.C.;**

**Respondents.**

**STIPULATION AND CONSENT  
ORDER**

**Docket No. SD-05-0077  
Docket No. SD-~~05~~-0078  
Docket No. SD-~~05~~-0079**

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The Utah Division of Securities (Division), by and through its Director of Enforcement, Michael Hines, and Scott Lamar Rhoads, Zacharia Lamar Rhoads, and Auto Rama, LLC, (the Respondents) hereby stipulate and agree as follows:

1. Scott Lamar Rhoads, Zacharia Lamar Rhoads, and Auto Rama, LLC were the subject of an investigation conducted by the Division into allegations that they violated certain provisions of the Utah Uniform Securities Act (the Act), Utah Code Ann. § 61-1-1. et seq, as amended.

2. In connection with that investigation, on December 30, 2005, the Division issued an Order to Show Cause to the Respondents, alleging that they committed securities fraud, sold securities without a license, employed unlicensed agents, and sold unregistered securities. On June 11, 2007, Scott Rhoads pleaded guilty to four counts of Securities Fraud, a second degree felony, in Case No. 061902825 resulting in a \$632,704 restitution judgment.<sup>1</sup>
3. Respondents and the Division have agreed to settle the matter by way of this Stipulation and Consent Order (Consent Order).
4. Respondents admit the jurisdiction of the Division over them and over the subject matter of this action.
5. Respondents waive any right to a hearing to challenge the Division's evidence and present evidence on the Respondent's behalf.

#### THE DIVISION'S INVESTIGATIVE FINDINGS

From July 2005 to June 2006, the Division conducted an investigation of the Respondents which revealed the following:

6. Scott Lamar Rhoads (S. Rhoads) resides in Weber County, Utah.
7. Zacharia Lamar Rhoads (Z. Rhoads), S. Rhoads' son, resides in Weber County, Utah.

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<sup>1</sup>*State of Utah v. Scott Lamar Rhoads*, Case No. 061902825, Second District Court of Utah (2006).

8. Auto Rama, LLC (Auto Rama) was registered as a Utah limited liability company on May 22, 2002, but its corporate status expired in August 2006. Auto Rama's business address was 1528 North 350 East, Kaysville, Utah, however Auto Rama's car lot was located at 746 N. Harrisville Road, Harrisville, Utah. Z. Rhoads was the registered agent and sole manager of Auto Rama.
9. Between February 2003 and November 2005, Respondents collected at least \$632,704 from nine Utah investors, providing each investor with a promissory note for each investment. One investor, during a thirteen-month period of time, purchased 462 notes.
10. All of the promissory notes were issued by "AUTORAMA" and signed by Z. Rhoads. The majority of the notes were unsecured, short-term (two months), and offered a \$250 profit to the investor. Most of the investments ranged from three to ten thousand dollars.
11. Potential Auto Rama investors were solicited exclusively by S. Rhoads. When S. Rhoads was not available, Z. Rhoads would meet with investors to pay or renew a note.
12. S. Rhoads told investors their funds would be used to purchase automobiles at wholesale which would be placed on Auto Rama's car lot for sale. When the automobiles sold, the investor would be paid their principal investment plus the \$250 profit. S. Rhoads told investors if the automobiles did not sell within two months, the investor would receive the \$250 profit and the note would be renewed for another two months.

13. S. Rhoads told investors their investments would be secured by the automobiles purchased with their investment funds. S. Rhoads wrote the last six numbers of the vehicle identification number on the promissory note along with a description of the vehicle. Starting in September 2003, S. Rhoads gave investors the vehicle titles with the promissory notes, but this practice lasted only a couple of months. In November or December 2003, S. Rhoads began giving investors a copy of the wholesale purchase invoice with their notes, thereby leaving the investor unsecured.
14. Auto Rama note holders were typically friends and acquaintances of the Rhoads' who referred their friends and acquaintances to S. Rhoads.
15. In most cases, investors held several notes over the time period they invested in Auto Rama inventory. When a promissory note came due and an investor received his or her principal investment plus the \$250 profit, he or she typically rolled the entire amount into a new Auto Rama note.
16. Respondents started missing payments to investors in November 2004, and the payments completely stopped in June 2005. Despite this, Respondents continued rolling over the notes, promising additional earnings.
17. In November 2004, while in the presence of S. Rhoads, investor RB was informed by former investor, GH that Auto Rama was in financial trouble. GH told RB that S. Rhoads and Auto Rama owed \$50,000 to Ken Garff, \$50,000 to Brasher's Auto Auction, and

\$50,000 in taxes to the state. S. Rhoads remained silent while GH explained this to RB. GH asked RB to take a smaller fee on the automobiles sold by Auto Rama so S. Rhoads could stay in business.

18. All together, investors lost at least \$632,704 from their investments in Auto Rama.

#### Securities Fraud

19. In connection with the offer and sale of securities to investors, S. Rhoads, Z. Rhoads, and Auto Rama, directly or indirectly, made false statements, including, but not limited to, the following:

- a. That investors' promissory notes were secured by vehicles, when in fact, many of the vehicles were already pledged to Brasher's Auto Auction, and investors did not have possession of the car titles (which is the only way to perfect a security interest in a vehicle); and
- b. That a single promissory note was secured by a single vehicle, when in fact, the same vehicle often secured many notes.

21. In connection with the offer and sale of securities to investors, S. Rhoads, Z. Rhoads, and Auto Rama, directly or indirectly, failed to disclose or provide material information to investors, including, but not limited to, the following, which was necessary in order to make representations made not misleading:

- a. That on October 5, 2001, a judgment of \$3,170,562 was entered against S. Rhoads by First Security Bank of Utah;
- c. That on April 28, 2003, the Utah State Tax Commission filed nine tax liens against S. Rhoads, totaling \$206,871;
- d. That as of November 2004, Auto Rama and S. Rhoads owed Ken Garff Automotive and Brasher's Auto Auction \$50,000 each;
- e. That S. Rhoads' former car lot, Dusty's Inc., was a failure and resulted in lawsuits by dissatisfied investors;
- f. That on May 12, 2004, a landlord filed an action to evict Z. Rhoads from property located in Eden, Utah;
- g. That on July 6, 2004, Z. Rhoads and Auto Rama entered into a Dealer Flooring Agreement with Brasher's Auto Auction, in which Z. Rhoads and Auto Rama granted Brasher's a security interest in "all of its inventory, present and future, or used motor vehicles, and all proceeds of sale or other disposition of the foregoing." On March 23, 2004 and again on July 1, 2004, Auto Rama and Z. Rhoads filed UCC Financing Statements with the Utah Department of Commerce, reflecting Brasher's security interest in all of Auto Rama's vehicle inventory;

- h. That on July 6, 2004, Z. Rhoads, S. Rhoads and Shauna Rhoads signed a Personal Guaranty to Brasher's Auto Auctions, personally guaranteeing performance on the above mentioned Dealer Flooring Agreement;
- i. That on July 30, 2004, a plaintiff filed a small claims action against Z. Rhoads, in which Z. Rhoads was ordered to pay plaintiff \$500. The action was dismissed by stipulation of the parties on January 11, 2005;
- j. That on August 26, 2004, a local construction company filed a small claims action against Z. Rhoads, which was later dismissed in May 2005;
- k. That on April 6, 2005, a local construction and development company filed a lien / mortgage foreclosure action against Z. Rhoads;
- l. That on August 22, 2005, the Utah State Tax Commission filed two tax liens: one against Auto Rama for \$25,521.69, and one against Z. Rhoads for \$14,439.70. Both of the tax liens were dismissed on August 29, 2005;
- m. That on October 12, 2005, a landlord filed an action to evict Z. Rhoads;
- n. That on October 31, 2005, the Utah State Tax Commission filed two tax liens against Auto Rama totaling \$40,289.86;
- o. That on November 5, 2005, Brasher's Auto Auction filed an action against Auto Rama, Z. Rhoads, S. Rhoads, and Shauna Rhoads, regarding a contract dispute. In the complaint, Brasher's alleges breach of contract and misrepresentation /

fraud in connection with a Dealer Flooring Agreement, and alleges that Auto Rama owes Brasher's \$525,181;

- p. The track record of Auto Rama in repaying promissory notes to its investors;
- q. Whether the investment was marketable (i.e., was liquid);
- r. That the securities being offered and sold were not registered, as required, and that the sellers of the investment program were not licensed to sell securities in Utah, as required; and
- s. The type of information ordinarily given to investors in a prospectus including financial statements, descriptions of the backgrounds of company officers and directors, the intended use of proceeds, a list of the risk factors relating to the investment, and a discussion of the company's business operations.

#### Licensing Violations

- 22. Between February 2003 and November 2005, S. Rhoads and Z. Rhoads offered and/or sold securities in or from Utah.
- 23. The securities were sold by S. Rhoads and Z. Rhoads as agents of the issues (Auto Rama) and not through a broker-dealer.
- 24. Neither S. Rhoads nor Z. Rhoads have been licensed to sell securities in Utah as an agent or broker-dealer.

#### Registration Violation

25. The securities offered and sold by the Respondents are not registered with the Division, not federal covered securities for which a notice filing has been made, nor has any other exemption filing been made with the Division.

THE DIVISION'S CONCLUSIONS

26. Based on the Division's investigative findings, the Division concludes that:
- a. The promissory notes offered and sold by the Respondents to investors are securities under § 61-1-13 of the Act.
  - b. Respondents violated § 61-1-1 of the Act by making misrepresentations of material fact and omitting to state material facts in connection with the offer and sale of a security.
  - c. Z. Rhoads and S. Rhoads violated § 61-1-3(1) of the Act by selling securities in or from Utah without a license.
  - d. Z. Rhoads and Auto Rama violated § 61-1-3(2)(a) of the Act by employing or engaging unlicensed agent, S. Rhoads, to offer or sell Auto Rama securities in or from Utah.
  - e. Respondents violated § 61-1-7 of the Act by selling unregistered securities in or from Utah.

REMEDIAL ACTIONS/SANCTIONS

27. Respondents admit the substance of the Division's investigative conclusions and consent to the Division entering an Order:
28. Pursuant to Utah Code Ann. § 61-1-6(1)(d) and in consideration of the guidelines set forth in Utah Admin. Code Rule R164-31-1, the Division imposes a fine of \$40,000 against Scott Lamar Rhoads and Zacharia Lamar Rhoads. The fine will be held in abeyance on condition that Scott Rhoads and Zacharia Rhoads commit no violation of the Act during their probationary period set forth by the Second District Court which ends November 5, 2011.
29. Scott Rhoads and Zacharia Rhoads agree that they will be barred from (i) associating with any broker-dealer or investment adviser licensed in Utah; and (ii) acting as an agent for any issuer soliciting investor funds in Utah until the fine amount is paid in full.

FINAL RESOLUTION

30. Respondents acknowledge that this Consent Order, upon approval by the Securities Commission, shall be the final compromise and settlement of this matter. Respondents further acknowledge that if the Securities Commission does not accept the terms of the Consent Order, it shall be deemed null and void and without any force or effect whatsoever.
31. Respondents acknowledge that the Consent Order does not affect any civil or arbitration causes of action that third parties may have against the Respondents arising in whole or in

part from their actions, and that the Consent Order does not affect any criminal cause of action that a prosecutor might bring.

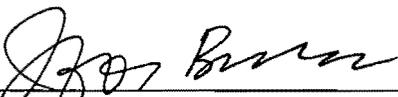
32. This Consent Order constitutes the entire agreement between the parties herein and supersedes and cancels any and all prior negotiations, representations, understandings, or agreements between the parties. There are no verbal agreements which modify, interpret, construe, or otherwise affect this Consent Order in any way.
33. Respondents represent that any information they have provided to the Division is accurate and complete, and if the Division finds otherwise, the Respondents acknowledge that this Consent Order will be deemed null and void and without any force or effect whatsoever.
34. Violation of this Consent Order is a third degree felony pursuant to § 61-1-21(1) of the Act.
35. The Respondents have read this Consent Order, understand its contents, and enter into this Consent Order voluntarily. No promises or threats have been made by the Division, nor by any member, officer, agent, or representative of the Division other than as contained herein, to induce the Respondents to enter into this Consent Order.

Utah Division of Securities

Date: 12/22/10

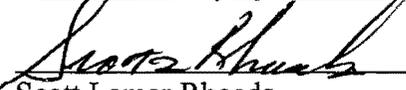
by:   
Michael Hines  
Director of Enforcement

Approved:

  
Jeff Buckner  
Assistant Attorney General

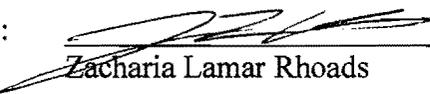
Respondent S. Rhoads

Date: 12-20-10

by:   
Scott Lamar Rhoads

Respondent Z. Rhoads

Date: 12-20-10

by:   
Zacharia Lamar Rhoads

Respondent Auto Rama, LLC

Date: 12-20-10

by:   
Zacharia Lamar Rhoads  
President

**ORDER**

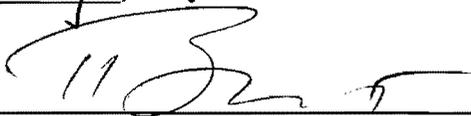
IT IS HEREBY ORDERED THAT:

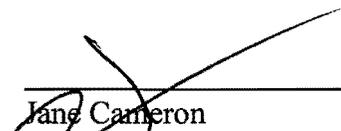
1. The Division has made a sufficient showing of Findings of Fact and Conclusions of Law to form a basis for this settlement.
2. Respondents cease and desists from violating the Utah Uniform Securities Act.
3. Division imposes a fine of \$40,000 on Respondents.
4. The fine shall be held in abeyance for Respondents' probationary period ending November 5, 2011.

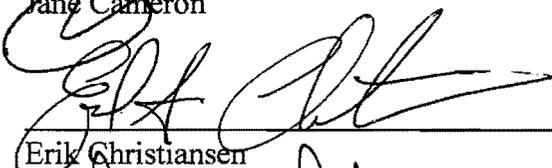
5. If Respondent materially violates any of the terms of this Order the full fine amount shall be imposed against the Respondent and become due immediately.
6. Scott Rhoads and Zacharia Rhoads are barred from (i) associating with any broker-dealer or investment adviser licensed in Utah; and (ii) acting as an agent for any issuer soliciting investor funds in Utah.
7. Respondents cooperate with the Division in any future investigations.

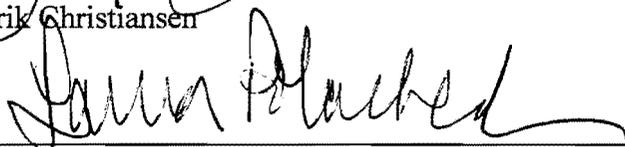
**BY THE UTAH SECURITIES COMMISSION:**

DATED this 7<sup>th</sup> day of January, 2010.

  
\_\_\_\_\_  
Tim Bangerter

  
\_\_\_\_\_  
Jane Cameron

  
\_\_\_\_\_  
Erik Christiansen

  
\_\_\_\_\_  
Laura Polacheck

  
\_\_\_\_\_  
Michael O'Brien

Certificate of Mailing

I certify that on the 25<sup>th</sup> day of (January), 2011, I mailed, by certified mail, a

true and correct copy of the Stipulation and Consent Order to:

Auto Rama, LLC  
Scott Lamar Rhoads  
Zacharia Rhoads  
P.O. Box 1554

Rock Springs, WY 82902

Certified Mailing # 7007 0220 0001 0005 4884

  
Executive Secretary