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

ON THE MATTER OF:	**RESPONSE TO ORDER TO SHOW CAUSE**
ROYAL AMERICAN MANAGEMENT, LLC, THEODORE L. HANSEN, ROYAL AMERICAN REAL ESTATE HOLDINGS LLC, and CHARLES W. HANNA. Respondents.	Docket No. SD-06-0033 Docket No. SD-06-0034 Docket No. SD-06-0035 Docket No. SD-06-0036

Respondents, Theodore L. Hansen, Charles W. Hanna, Royal American Management, LLC and Royal American Real Estate Holdings, LLC, by and through counsel of record, Rebecca C. Hyde, pursuant to Utah Code § 63-46B-3, hereby submit this Response to Order to Show Cause.

FIRST AFFIRMATIVE DEFENSE

The Order to Show Cause ("Order") filed by the Utah Division of Securities against Respondents fails to state a claim upon which relief can be granted.

SECOND AFFIRMATIVE DEFENSE

Respondents, Theodore L. Hansen ("Mr. Hansen"), Charles W. Hanna ("Mr. Hanna"), Royal American Management, LLC and Royal American Real Estate Holdings, LLC admit, deny and otherwise respond to the numbered paragraphs of the Order as follows:

Jurisdiction

1. Respondents admit that the Utah Division of Securities has jurisdiction over this matter, as alleged in Paragraph 1 of the Order.

The Parties

2. Respondents deny the allegations contained in Paragraph 2 of the Order. Respondents affirmatively assert that Royal American Management, LLC ("Royal American"), is an entity affiliated with Royal American Real Estate Holdings, LLC ("Real Estate Holdings"), and that it was recently created to facilitate real estate transactions. Respondents further assert that Royal American was, at all times relevant to this matter, in the process of being registered in the State of Utah.

3. Respondent, Mr. Hansen, admits that he resides in Utah County, Utah, and that at all times relevant to this matter he was as a representative of Royal American, as alleged in Paragraph 3 of the Order.

4. Respondents admit that Real Estate Holdings is a registered limited liability company in good standing, that it was registered on May 11, 2005, and that its address is 1178 South State Street in Orem, Utah as alleged in Paragraph 4 of the Order. Respondent, Mr. Hanna, admits that he is registered agent for the company, but denies that he is one of only two members of Real Estate Holdings. Respondents affirmatively assert that there are several additional members of Real Estate Holdings.

5. Respondent, Mr. Hanna, admits that he resides in Utah County, Utah, as alleged in Paragraph 5 of the Order.

General Allegations

6. Respondents deny the allegations contained in Paragraph 6 of the Order. Respondents affirmatively assert the following summary of facts and events:

Ruth Jepson ("Ms. Jepson"), referred to as "Investor" in the Order, was, at all times relevant to these allegations, a commercial real estate agent for Realty Plus, a real estate brokerage in Utah County, Utah. Ms. Jepson also participated in business opportunities completely separate from her work as a real estate agent. Among these endeavors, Ms. Jepson entered into an investment deal with Victor Scarpino ("Mr. Scarpino"), which included the borrowing of $100,000 from Thomas Bounthot ("Mr. Bounthot") on March 16, 2005. (A copy of the promissory note to Mr. Bounthot is included herein as "Attachment A").

Ms. Jepson was associated with Royal American in a number of distinct and unrelated capacities. Ms. Jepson maintained an agent-buyer relationship with Royal American in her capacity as a Realty Plus real estate agent. In particular, Ms. Jepson represented Royal American in two attempts to acquire real estate at Thanksgiving Point in Utah County, Utah.

Ms. Jepson formed a lender-borrower relationship with Royal American that bore no connection to their agent-buyer relationship or Royal American's interest in purchasing land at Thanksgiving Point. Specifically, Ms. Jepson made a short-term loan to Royal American in the amount of $100,000. This loan was initiated by Respondent, Mr. Hansen, acting on behalf of Royal American, on or about June 29, 2005. Mr.

Hansen, being aware that Ms. Jepson involved herself in business dealings separate from her work as a real estate agent, inquired as to her ability and interest in entering into a short-term loan agreement with Royal American. Ms. Jepson expressed interest in this agreement. She also indicated a need to make quick money, stating that her most recent investment, wherein she and Mr. Scarpino borrowed $100,000 from Mr. Bounthot, had been unsuccessful, leaving her in debt to Mr. Bounthot for $30,000.

Mr. Hansen proposed a loan agreement containing the following basic terms: in consideration for an immediate loan of $100,000, Royal American would agree to repay Ms. Jepson the loan amount, plus an additional $40,000 by July 18, 2005. Mr. Hansen clearly stated to Ms. Jepson that the funds would not be used as earnest money of any kind. Rather, Mr. Hansen told Ms. Jepson that the funds would be used, in primary part, to make a business loan to Hiddenvale Property Management ("Hiddenvale"). In fact, Mr. Hansen spoke with Ms. Jepson about the possibility of her acquiring Hiddenvale as a new client. Accordingly, it was clear to both Mr. Hansen and Ms. Jepson that the proposed loan would not give her any stake in any present or future real estate investment at Thanksgiving Point

On June 30, 2005, Ms. Jepson made the $100,000 loan to Royal American and Royal American issued Ms. Jepson a promissory note ("Promissory Note") containing the above-mentioned terms. (A copy of the Promissory Note is included herein as "Attachment B"). Mr. Hanna signed the Promissory Note on behalf of Royal American. However, Mr. Hanna was not otherwise involved in the loan. He had no contact with Ruth Jepson concerning the loan prior to the issuance of the Promissory Note. In fact, Mr. Hanna was unaware of Mr. Hansen's attempt to solicit funds from Ms. Jepson or the

intended use of the funds until Mr. Hansen discussed the matter at a Royal American board meeting shortly before the Promissory Note was issued.

Respondents are without knowledge as to how Ms. Jepson obtained the funds for the loan. Prior to entering into the loan agreement, Ms. Jepson had full knowledge of Mr. Hansen's outstanding judgments. She was first made aware of Mr. Hansen's judgments by independent counsel pertaining to the Thanksgiving Point transaction. She then had a meeting with Mr. Hansen in which Mr. Hansen made a full disclosure of all of his legal issues. At the time Royal American received Ms. Jepson's funds, Respondents fully expected that Royal American would be able to fulfill the repayment terms of the Promissory Note.

Ms. Jepson's representation of Royal American as a real estate agent involved two separate attempts to acquire land at Thanksgiving Point. First, Royal American made an offer, on July 5, 2005, to purchase two parcels of land at Thanksgiving Point. Ms. Jepson drafted the Commercial Real Estate Purchase Contract ("REPC No.1"). In connection with this offer, Royal America provided Realty Plus, via Ms. Jepson, a check (Royal American Real Estate check number 2037) made out to Realty Plus Trust Account in the amount of $200,000 ("Earnest Check No.1") on July 6, 2005. (A copy of Earnest Check No.1 is included herein as "Attachment C"). Earnest Check No.1 represented earnest money for the possible purchase of the real estate, which was clearly stated on the "memo" portion of the check, and further evidenced by Royal American's Check Requisition Form, which specifically stated that Earnest Check No.1 was an earnest money deposit for real estate at Thanksgiving Point. (A copy of the Check Requisition Form is included herein as "Attachment D").

According to the terms of REPC No.1, Earnest Check No.1 could only be deposited upon acceptance of the offer. In addition, Ms. Jepson verbally agreed that she would not deposit the check without written instruction from Royal American. REPC No.1 also made Royal American's offer contingent upon Royal American obtaining full financing for the project. Earnest Check No. 1 was post-dated to July 18, 2005, twelve days after its issuance. As is common practice with respect to large earnest money deposits, Royal American did not plan on transferring sufficient funds to cover the check into the appropriate checking account unless and until their offer had been accepted, triggering the need to place earnest funds in escrow. By waiting to transfer the funds, Royal American could continue to draw interest on the money in a more appropriate account or otherwise use the funds in a manner beneficial to the business. In a letter sent to Ms. Jepson with the check, Mike Penn ("Mr. Penn") of Royal American made it clear that Earnest Check No.1 was for Ms. Jepson to hold and not to deposit. Mr. Penn explained that there were not sufficient funds in the account to cover Earnest Check No.1 at the present time. (A copy of the letter is included herein as "Attachment E").

There was absolutely no interconnection between Earnest Check No.1 and the Ms. Jepson's $100,000 loan to Royal American. With Ms. Jepson's knowledge and experience in the real estate field, she could not have had a logical expectation that her $100,000 loan to Royal American created a stake in Royal American's Thanksgiving Point business venture. No return was due to Royal American upon acceptance of the offer to purchase the real estate. Indeed, Royal American, as would any company purchasing large amount of real estate for future development, did not expect to make any return on their investment for a number of years.

Royal American submitted an Engagement Loan Proposal Agreement ("Proposed Agreement No.1") to Commercial Property Lenders, Inc. ("CPL") in an effort to obtain full financing for the project. (A copy of the Proposed Agreement No.1 is included herein as "Attachment F"). Ultimately, it was decided that the project proposed by Royal American was too large for a company of Royal American's size and experience, and the offer was not accepted. Therefore, Ms. Jepson never had any grounds upon which to cash Earnest Check No.1.

Thanksgiving Point encouraged Royal American to submit a new offer, this time for the purchase of one parcel of land instead of two. On August 16, 2005, Royal American offered to purchase one parcel of land at Thanksgiving Point ("REPC No.2"). (A copy of REPC No.2 is included herein as "Attachment G"). Ms. Jepson was again the real estate agent representing Royal American. Royal American provided Ms. Jepson a new earnest money check (Royal American check number 2118) ("Earnest Check No.2"), this time in the amount of $100,000. (A copy of Earnest Check No.2 is included herein as "Attachment H"). Again, the "memo" portion of Earnest Check No.2 clearly stated that the purpose of the check was for earnest money at Thanksgiving Point. The same terms regarding the deposit of the funds applied to Earnest Check No.2 as those that applied to Earnest Check No.1. Specifically, the first paragraph of REPC No.2 stated: "the amount of $100,000 in the for of Check which, upon Acceptance of this offer by all parties (as defined in Section 23) shall be deposited in accordance with state law." Also, Ms. Jepson again agreed not to deposit Earnest Check No. 2 until she had received written instruction from Royal American to do so.

Royal American submitted a new Engagement Loan Proposal Agreement ("Proposed Agreement No.2") to CPL in an attempt to obtain full financing for the project. According to the terms of REPC No.2, Thanksgiving Point had until 5 p.m. on August 22, 2005, to accept the offer. On this date, Ms. Jepson contacted Royal American and informed them that REPC No.2 had been terminated. Ms. Jepson did not provide an explanation as to what had occurred. Because no acceptance was communicated to Royal American, Ms. Jepson had no reason whatsoever to deposit Earnest Check No. 2. Nonetheless, on August 22, in blatant violation of the terms of REPC No.2, her verbal agreements with Royal American and her ethical obligations as its agent, Ms. Jepson deposited Earnest Check No.2 in an attempt to repay herself on the $100,000 loan she had made to Royal American. Royal American had not fulfilled the repayment of the loan according to the terms of the Promissory Note on July 18, 2005 and was over thirty days delinquent at the time that she deposited Earnest Money No.2.

Because Royal American never intended to transfer sufficient funds into their account unless and until their offer had been accepted, the check did not go through due to insufficient funds. (A copy of the returned check notice is attached herein as "Attachment I"). Royal American has never sought to take action against Ms. Jepson for her unwarranted and unethical attempt to cash Earnest Check No. 2. Rather, Royal American has done its best to repay the loan as quickly as possible.

7. Respondent, Mr. Hansen, denies the allegations contained in Paragraph 7 of the Order. Mr. Hansen incorporates, by reference, Paragraph 6 of this Response. Paragraph 7 does not contain allegations against Respondent, Mr. Hanna. However, to the extent that a response is required, Mr. Hanna denies the same.

8. Respondent, Mr. Hansen, denies the allegations contained in Paragraph 8 of the Order. Mr. Hansen incorporates, by reference, Paragraph 6 of this Response, and affirmatively asserts that he spoke with Ms. Jepson regarding money he expected to receive from his mother only in relation to Royal American's ability to repay the $100,000 loan from Ms. Jepson to Royal American. Paragraph 8 does not contain allegations against Respondent, Mr. Hanna. However, to the extent that a response is requires, Mr. Hanna denies the same.

9. Respondents are without knowledge as to the truth of the matters alleged in Paragraph 9 of the Order, and therefore deny the same on that basis. Respondents incorporate, by reference, Paragraph 6 of this Response.

10. Respondents deny the allegations contained in Paragraph 10 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response, and affirmatively assert that Royal American never received or accepted a check from Ms. Jepson that bore any connection to Royal American's earnest money deposits. With the respect to the $100,000 check received by Royal American from Ms. Jepson, Respondents are without knowledge as to the source of Ms. Jepson's funds.

11. Respondents admit that in exchange for $100,000, Royal American gave Ms. Jepson a promissory note, dated July 30, 2005, signed by Mr. Hanna, and that the terms of the promissory note stated that Royal American would repay Ms. Jepson $140,000 on or before July 18, 2005, as alleged in Paragraph 11 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response, and deny that Mr. Bounthot was also owed money and interest in direct connection with this loan. Respondent, Mr. Hansen,

affirmatively alleges that Ms. Jepson represented to him that she intended to satisfy an outstanding debt owed to Mr. Bounthot with the proceeds from the loan agreement.

12. Respondent, Mr. Hanna, admits that on July 5, 2005, he signed a Commercial Real Estate Contract to offer to buy two parcels of land at Thanksgiving Point, and that on July 6, 2005, he gave Ms. Jepson a check made out to Realty Plus Trust Account, which was post dated to July 18, 2005, for the amount of $200,000, as alleged in Paragraph 12 of the Order. Mr. Hanna incorporates, by reference, Paragraph 6 of this Response. Paragraph 12 does not contain allegations against Respondent, Mr. Hansen.

13. Respondents admit, upon information and belief, that Ms. Jepson contacted Respondent's bank and inquired as to whether there were sufficient funds in the account to cover the $200,000 check, as alleged in Paragraph 13 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response, and affirmatively allege that according to the terms of REPC No.1, Ms. Jepson had no reason to deposit the check at any time.

14. Respondent, Mr. Hansen, denies the allegations contained in Paragraph 14 of the Order. Mr. Hansen incorporates, by reference, Paragraph 6 of this Response, and affirmatively alleges that Ms. Jepson contacted him regarding repayment on the $100,000 loan, and that he informed her that Royal American could not satisfy the terms of the loan at that time. Paragraph 14 does not contain allegations against Respondent, Mr. Hanna.

15. Respondent, Mr. Hansen, denies the allegations contained in Paragraph 15 of the Order. Mr. Hansen incorporates, by reference, Paragraph 6 of this Response. Paragraph 15 does not contain allegations against Respondent, Mr. Hanna.

16. Respondents admit that on August 9, 2005, Royal American provided Ms. Jepson, in her capacity as real estate agent, a check in the amount of $100,000 to be used as earnest

money toward the purchase of real estate at Thanksgiving Point, as alleged in Paragraph 16 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response.

17. Respondent, Mr. Hanna, admits that on August 16, 2005, he signed a second Commercial Real Estate Purchase Contract as part of Royal American's offer to purchase land at Thanksgiving Point, as alleged in Paragraph 17 of the Order. Mr. Hanna incorporates, by reference, Paragraph 6 of this Response. Paragraph 17 does not contain allegations against Respondent, Mr. Hansen.

18. Respondents admit, upon information and belief, that Ms. Jepson contacted Zions Bank on July 18, 2005, and inquired as to whether the account held sufficient funds to clear a check for $100,000, as alleged in Paragraph 18 of the Order. Respondents also admit, upon information and belief, that Zions Bank informed Ms. Jepson that the check would not clear. Respondents incorporate, by reference, Paragraph 6 of this Response.

19. Respondents are without knowledge as to the truth of the matters alleged in Paragraph 19 of the Order, and therefore denies the same on that basis. Respondents incorporate, by reference, Paragraph 6 of this Response.

20. Respondent, Mr. Hanna, is without knowledge as to the truth of the allegations contained in Paragraph 20 of the Order, and therefore denies the same on that basis. Mr. Hanna incorporates, by reference, Paragraph 6 of this Response. Paragraph 20 does not contain allegations against Respondent, Mr. Hansen.

21. Respondents deny the allegations contained in Paragraph 21 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response, and affirmatively state that they were informed by Ms. Jepson that REPC No.2 had been terminated on August 22, 2005, and that they were not given an explanation as to what occurred. Also, Respondents

affirmatively assert that it is impossible that Ms. Jepson cancelled REPC No.2 on August 29, 2005, as Ms. Jepson lacked the authority to cancel REPC No. 2, and because the acceptance deadline for the offer was August 22, 2005.

22. Respondents admit that Royal American issued two checks, totaling $2,250, as alleged in Paragraph 22 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response, and deny that these were interest payments. Respondents are without knowledge as to whether Mr. Bounthot has received any of the $100,000 he loaned to Ms. Jepson, and therefore denies the same on that basis.

23. Respondents admit that Royal American has issued Ms. Jepson three checks totaling $21, 561.12, as alleged in Paragraph 23 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response, and deny that these checks constituted principle and interest payments for the "investment" alleged in the Order. Respondents affirmatively assert that the payments made to Ms. Jepson totaling $21, 261.12 constituted repayment of $100,000 loan made by Ms. Jepson to Royal American. Respondents are without knowledge as to what Ms. Jepson has done with the money paid to her by Royal American, and therefore deny the same on that basis.

24. Respondents admit that Royal American has not made any payments to Ms. Jepson since October 2005, as alleged in Paragraph 24 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response.

Use of Ms. Jepson's Money

25. Respondent, Mr. Hansen, admits that On June 30, 2005, Royal American deposited a $100,000 check, issued by Ms. Jepson and made payable to Royal American, into the Real Estate Holdings checking account at Zions Bank, as alleged in Paragraph 25 of the

Order. Respondents, Mr. Hanna and Mr. Hansen, also admit that on June 29, 2005, the close of business balance for the Real Estate Holdings checking account was $21,798.07. Respondents incorporate, by reference, Paragraph 6 of this Response.

26. Respondents admit that on June 30, 2005, six checks, totaling $91,297, were written against Real Estate Holdings' checking account at Zions Bank, as alleged in Paragraph 26 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response, and affirmatively represents that the use of the funds obtained from Ms. Jepson in this manner was consistent with the loan agreement.

27. Respondents admit that before July 11, 2005, a $2000 check from the Real Estate Holdings checking account at Zions Bank was made payable to Eddie McMullin for "Cash-Office, a $5,000 check was made payable to Richard Adams for "Buffalos," and a $5,000 check was made payable to Prudential Utah Real Estate for "Highland Home," as alleged in Paragraph 27 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response.

28. Respondents admit that on July 11, 2005, the close of business balance for the Real Estate Holdings checking account at Zions Bank was $10,448.33, as alleged in Paragraph 28 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response.

29. Respondents admit that during the month of July, 2005, the close of business balance for the Real Estate Holdings checking account at Zions Bank was never at or above $100,000, as alleged in Paragraph 29 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response and deny all other allegations in this paragraph.

30. Respondents admit that on August 16, 2005, the close of business balance for the Real Estate Holdings checking account at Zions Bank was $1,354.35, as alleged in Paragraph 30 of the Order. Respondents incorporate, by reference, Paragraph 6 of this Response.

31. Respondents admit that the only day in August, 2005 on which the close of business balance for the Real Estate Holdings checking account at Zions Bank was over $100,000 was August 17, 2005, as alleged in Paragraph 31 of the Order. Respondents also admit that the close of business balance for the Real Estate Holdings checking account was $47,638.49 on August 18, 2005. Respondents incorporate, by reference, Paragraph 6 of this Response.

Causes of Action

32. Respondents deny the allegations contained in Paragraph 32 of the Order. Respondents incorporate, by reference, Paragraphs 1-31 of this Response.

33. Respondents deny that the promissory note signed by Mr. Hanna on behalf of Royal American on June 30, 2005, and which promises to Pay Ms. Jepson the sum of $140,000 on or before July 18, 2005, qualifies as a security under 61-1-13 of the Act, as alleged in Paragraph 33 of the Order. Respondents incorporate, by reference, Paragraphs 1-31 of this Response.

34. Respondents deny the allegations contained in Paragraph 34 of the Order. Respondents incorporate, by reference, Paragraphs 1-31 of this Response.

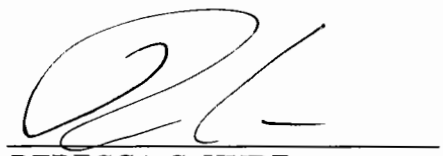
35. Respondents deny the allegations contained in Paragraph 35 of the Order. Respondents incorporate, by reference, Paragraphs 1-31 of this Response.

36. Respondents deny the allegations contained in Paragraph 36 of the Order. Respondents incorporate, by reference, Paragraphs 1-31 of this Response.

WHEREFORE, having responded to each allegation alleged in this Order, Theodore L. Hansen and Charles W. Hanna respectfully requests that this matter be dismissed.

DATED this 18th day of July, 2006.

SKORDAS, CASTON & HYDE, L.L.C.



REBECCA C. HYDE