Division of Securities
Utah Department of Commerce
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BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF:	**PETITION FOR ORDER REVOKING LICENSES, BARRING LICENSEES, AND IMPOSING A FINE**
WALNUT STREET SECURITIES, INC., CRD#15840;	**Docket No.** SD-06-0040
RICHARD W. MACK, CRD#2400825;	**Docket No.** SD-06-0041
CAROLE TURNER, CRD #274397	**Docket No.** SD-06-0043
Respondents.	

Pursuant to the authority of § 61-1-6 of the Utah Uniform Securities Act ("Act"), the Utah Division of Securities ("Division") petitions the Director of the Division ("Director") to enter an Order, subject to the approval of a majority of the Securities Advisory Board, revoking the license of Walnut Street Securities, Inc., CRD#15840, revoking the license of and barring Richard W. Mack, CRD#2400825, barring Carole Turner, CRD #274397, and imposing a fine. In support of this petition, the Division alleges the following:

A. THE PARTIES

1. Walnut Street Securities, Inc. ("WSS"), CRD#15840, is a broker-dealer that has been licensed by the Division from October 28, 1985 to the present. WSS maintains its principal place of business in St. Louis, Missouri. At all times relevant to this action, WSS operated a branch office location at 1935 Vine Street, Suite 170 in Salt Lake City, Utah.

2. Roy N. Hafen ("Hafen"), CRD#1106258, was a WSS broker-dealer agent. Hafen was licensed in Utah as a broker-dealer agent for WSS from April 6, 2000 until February 7, 2002.

3. Hafen's license was temporarily suspended by the Division on February 5, 2002 by means of an emergency order. The emergency order alleged that Hafen effected securities transactions away from his broker-dealer and failed to comply with a request for information from the Division.

4. WSS permitted Hafen to resign from his association with WSS February 7, 2002. Hafen agreed to revocation of his broker-dealer agent license through a stipulation and consent order entered September 3, 2004.

5. Richard W. Mack ("Mack"), CRD#2400825, was designated as branch manager for the Salt Lake City branch office of WSS, and was the direct supervisor over Hafen. Mack qualified with the NASD as a general principal. Mack is presently licensed with the Division as an agent of Sammons Securities, LLC, CRD#115358.

6. Carole A. Turner ("Turner"), CRD#274397, is an individual who at all relevant times was a WSS Regional Compliance Director. Turner was also qualified with the NASD as a general principal. Turner was licensed in Utah from July 5, 1999 through December 31,

2001. Turner reviewed and approved Hafen's 2000 and 2001 outside business activities forms in her capacity as the Regional Compliance Director. In this capacity, Turner had and exercised supervisory authority over Hafen. Hafen is the subject of an Order to Show Cause filed contemporaneously with this Petition.

7. Kelly G. Brady ("Brady"), a resident of Utah County, Utah, is an individual who solicited funds for Video Venue, an assumed name of Buckingham, LLC. ("Video Venue"). Brady is not employed by, or affiliated with, WSS, and has never been licensed by the Division. Brady is the subject of a pending criminal action based upon the conduct described herein.

8. Video Venue is a limited liability company based in Oklahoma which actively engaged in business operations in Washington County, Utah. The Video Venue project was represented by Hafen as the production, sale and implementation of a patented screen system whereby advertising would be delivered to gas station customers while pumping fuel.

9. Vedette, LLC ("Vedette") is an Oklahoma limited liability company which actively engaged in business operations in Washington County, Utah, which owned the technical rights to the Video Venue process.

B. BACKGROUND

10. In November 2001, the Division received an investor complaint concerning an unpaid promissory note. The Division thereafter learned that Hafen was acting as an agent for Red Mountain Investment Company, LLC ("Red Mountain") and Video Venue by selling investments for those companies.

11. Red Mountain was registered with the Utah Division of Corporations on January 10, 2001. Corporate records identify Brady as the manager and registered agent of Red Mountain. Hafen represented to some investors that Red Mountain owned patents and other essential rights necessary for the successful operation of the Video Venue project.

12. Brady began accepting monies for Video Venue in late 1999 and at that time was also accepting funds from investors for his factoring operations. Factoring is a type of financial service whereby a firm sells or transfers title to its accounts receivable to a factoring company which then acts as a principal and not an agent in the collection of the receivable. Many of those factoring investments went into one of several bank accounts used to fund the development of Video Venue.

13. Investors providing money to Brady thought their funds would be used in the purchase and collection of trade receivables. Some investors stated that Brady did not mention Video Venue at the time Brady took their investments.

14. Brady and Hafen told other Video Venue investors:

    a. Video Venue was in need of short-term operating capital to continue the development and installation of its gas pump video advertising screens.

    b. Investors would receive a five percent per-month return on their money.

    c. The loan period would be for no more than 90 days.

    d. Before the end of the 90 day period, the company's long-term financing, which had already been contractually secured, would arrive and pay off all short-term loans.

e. Investors were also promised that for every $300,000 invested in the company, the investor would receive a one percent equity ownership interest in Video Venue.

15. Brady and Hafen solicited new investors into Video Venue from early 2000 until late 2001.

16. On February 5, 2002, Division auditors attempted to meet with Hafen to discuss his involvement with Red Mountain and Video Venue. Hafen disclosed to Division auditors that he had done consultant work and received compensation from Red Mountain.

17. Hafen disclosed that he had personally invested in Red Mountain and had knowledge of many investors in St. George, Utah.

18. Hafen refused to comply further with the examination and refused to provide the Division with the names of investors.

19. Hafen subsequently stated that he would not provide immediate access to his business records but would comply and provide investor lists and information regarding his involvement and knowledge of Red Mountain and Video Venue if given an additional week. The requested documentation was never provided.

20. On February 5, 2002, the Division issued an emergency order to suspend Hafen's broker-dealer agent license for effecting transactions away from his broker-dealer and failing to comply with the Division's request for information.

21. On February 7, 2002, WSS permitted Hafen to resign rather than taking action to terminate Hafen.

22. Hafen subsequently consented to revocation of his broker-dealer agent license in September, 2004.

23. Hafen's solicitation efforts raised approximately $3,252,000 from Utah investors, of which $112,000 was eventually paid back to two investors. Two other investors, who had contributed a total of $800,000, filed a civil lawsuit which was subsequently settled. Accordingly, the remaining Utah investors are still owed $2,340,000.

24. In February 2005, the Division filed a civil action against WSS, Hafen, Mack, Turner, Brady, and Vedette in the Fifth District Court for Washington County, Utah, Civil No. 050500310.

Sale of Unregistered Securities by Brady and Hafen

25. Beginning on a date uncertain, but at least from early 2000, Brady and Hafen offered or sold, either directly or indirectly to Utah residents, securities in Red Mountain and Video Venue.

26. The investments offered and sold by Brady and Hafen are securities under § 61-1-13(1)(x)(i) of the Act.

27. At no time have any of the securities of Video Venue offered and sold by Brady and Hafen been registered nor had they filed for an exemption from registration with the Division as required by § 61-1-7.

28. Brady and Hafen willfully violated § 61-1-7 of the Act.

Securities Fraud by Brady and Hafen

29. Brady and Hafen offered or sold securities in Red Mountain and Video Venue to individuals in this state in violation of § 61-1-1(2) of the Act, because they made false statements of material fact and omitted to state material facts which, in the light of the circumstances under which they were made, were necessary to make their other statements not misleading.

30. The false statements of Brady and Hafen include, but are not limited to, the following:

    a. Representing to investors that they would receive outright ownership interests in Video Venue equal to one percent for every $300,000 invested. In reality, under Video Venue's Operating Agreement, Brady could not add other members to the LLC without the consent of all existing members.

    b. Falsely stating that investor funds would be used to pay Video Venue's ongoing operational expenses when in fact, a large portion of investor funds was used to make payments to prior investors or diverted for personal/family purposes.

    c. Representing to investors that there was no risk of loss to their principal.

    d. Providing financial statements of Buckingham to some investors which materially misstated outstanding short-term loans as capital contributed to the entity.

31. The false statements of Brady include but are not limited to the following:

    a. Representing to investors that they would receive a stated percentage in Video Venue itself when in fact he was actually offering the stated percentage of his 50

percent interest in Video Venue. Brady failed to disclose to investors that the actual ownership interests they would receive would equal only half the promised amounts.

32. In connection with the offer and sale of securities in Video Venue, Brady and Hafen omitted the following material information:

a. Neither Brady nor Hafen disclosed to investors that Brady was paying commissions to Hafen out of investor funds.

b. Failing to disclose that Video Venue was in default on numerous contracts when offering new investors a five percent per month return with a required commitment of 30 to 90 days.

c. Failing to disclose to investors that Video Venue had no system of accounting controls on any of the investor funds sent to Video Venue's office in Florida.

d. Failing to disclose the business risks faced by the company or the investment risks being assumed by the investor.

e. Failing to disclose the business and operating history of Video Venue.

f. Financial statements of the company.

g. The identity of the principals in the investment along with a description of their experience in this type of investment.

h. The number of other investors and the amount of money being raised from investors.

i. The track record of the company in repaying the investment.

j. Current capitalization of the issuer.

k. Minimum capitalization needed for the company's business plan to succeed.

l. An explanation of the disposition of any investments received if the minimum capitalization was not met.

m. Nature of the competition in the type of business in which Video Venue operated.

n. The existence and extent of any conflicts of interest.

o. The expected use of investment proceeds by Video Venue.

p. That the investment was a "ponzi" scheme in that funds from new investors were used to pay off loans of earlier participants.

q. That the securities being offered and sold were not registered with the State of Utah as required.

33. Brady and Hafen willfully violated § 61-1-1(2) of the Act.

Fraudulent or Deceptive Practices and Courses of Business

34. Brady and Hafen willfully violated § 61-1-1(3) of the Act by engaging in acts, practices, and a course of business which operated as a fraud or deceit on other persons. Their violative acts include, but are not limited to, the following:

a. The pattern of misrepresentations and omissions referred to in paragraphs 29 through 32, above.

b. Operating a "ponzi" type investment program whereby money from new investors was used in part to pay obligations to prior investors.

35. Hafen further willfully violated § 61-1-1(3) of the Act because he engaged in acts, practices and a course of business which operated as a fraud or deceit on other persons by:

a. Engaging in securities activities not recorded on the books and records of his registered broker-dealer.

b. Failing to disclose to WSS the extent of his outside business activities.

FIRST CAUSE OF ACTION

Failure to Supervise Under §§ 61-1-6(2)(g), -(j) of the Act and Utah Admin. Code R164-6-1g(C)(28)

36. Respondents failed to detect a number of "red flags" concerning Hafen's conduct, including but not limited to:

a. Hafen's failure to timely report his outside business activities with Red Mountain/Video Venue and another business by the name of Employ/Ease, which was described by Hafen as an employee leasing company whereby he provided benefits by selling insurance products.

b. The outside business activity form Hafen filed with WSS stated that the company was seeking to obtain a substantial loan ($20 million) from an offshore bank, Central Atlantic Bank, in "Ategia" (sic) (Antigua).

c. Hafen had not completed an outside business activity form for Hafen Financial.

d. Hafen used unapproved, non-WSS advertising.

37. Respondents further failed to reasonably supervise Hafen based upon the following:

a. Failing to adopt, implement, and follow adequate supervisory and compliance procedures when presented with indications Hafen was engaging in questionable outside business activities when they knew or should have known of Hafen's discrepancies in reporting the nature of his outside business activity.

b. Failing to reasonably supervise Hafen with a view to preventing and detecting violations of the securities laws.

c. Failing to conduct an inspection of Hafen's office as required by the WSS compliance manual. On November 8, 2001, WSS conducted an inspection of Hafen's office. Although WSS's compliance manual required WSS to conduct annual inspections of the offices of representatives who are in unregistered offices physically detached from the branch, the 2001 annual office inspection was the only inspection of Hafen's office. WSS failed to conduct the 2000 office inspection.

d. Failing to adequately review outside business activity forms submitted by Hafen.

e. Failing to investigate Hafen's failure to report outside business activities prior to engaging in the activity.

f. Failing to adequately investigate the discrepancy between the verbal representation of Hafen that he was a salesman for Video Venue and the outside business activity form that reported he was a consultant receiving $75,000 in fees;

g. Failing to update Hafen's U-4 Form to reflect the outside business activities he reported.

h. Failing to ensure that the supervisory persons assigned oversight of Hafen's activities diligently exercised their supervisory and compliance responsibilities.

i. Failing to maintain books and records sufficient to document that adequate efforts were made to inquire into the outside business activities of WSS's agent Hafen.

j. Failing to detect that Hafen was engaged in the offer of securities that were not registered and failing to take adequate steps to prevent further harm resulting from his conduct.

k. Failing to detect that Hafen was "selling away".

l. Failing to document any discussions regarding Hafen's earning a greater income from a source other than his securities business when Hafen finally disclosed the outside business he was engaged in.

m. Failing reasonably to carry out the policies and procedures of WSS's compliance manual.

38. Respondents failed to reasonably supervise Hafen, warranting sanctions under 61-1-6(2)(j) of the Act.

39. Respondents' failure to supervise violates NASD Conduct Rule 3010, which violation is a dishonest and unethical business practice under R164-6-1g(C)(28) of the Utah Admin. Code, made applicable to agents through R164-6-1g(D)(7), warranting sanctions under 61-1-6(2)(g) of the Act.

REQUEST FOR RELIEF

The Division requests that, pursuant to § 61-1-6 of the Act, and subject to the approval of a majority of the Securities Advisory Board, the Director enter an order:

a. Revoking the licenses of WSS and Mack;

b. Barring Mack and Turner from associating with any broker-dealer or investment adviser licensed in this state; and

c. Imposing a fine of $300,000, jointly and severally.

DATED this 3rd day of August, 2006.

UTAH DIVISION OF SECURITIES

George Robison
Director of Licensing

Approved:

Laurie L. Noda
Assistant Attorney General

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

IN THE MATTER OF:	**NOTICE OF AGENCY ACTION**
WALNUT STREET SECURITIES, INC., CRD#15840;	**Docket No.** SD-06-0040
RICHARD W. MACK, CRD#2400825	**Docket No.** SD-06-0041
CAROLE TURNER, CRD #274397	**Docket No.** SD-06-0043
Respondents.	

THE DIVISION OF SECURITIES TO THE ABOVE-NAMED RESPONDENTS:

The purpose of this Notice of Agency Action is to inform you that the Division hereby commences a formal adjudicative proceeding against you as of the date of mailing of the mailing of this Notice. The authority and procedure by which this proceeding is commenced are provided by Utah Code Ann. §§63-46b-3 and 63-46b-6 through -11. The facts on which this action is based are set forth in the accompanying Petition.

Within thirty (30) days of the mailing date of this notice, you are required to file an Answer with the Division. The Answer must include the information required by Utah Code § 63-46b-6(1). In addition, you are required by § 63-46b-6(3) to state: a) by paragraph, whether

you admit or deny each allegation contained in the Petition, including a detailed explanation for any response other than an unqualified admission; b) any additional facts or documents which you assert are relevant in light of the allegations made; and c) any affirmative defenses (including exemptions or exceptions contained within the Utah Uniform Securities Act) which you assert are applicable. To the extent that factual allegations or allegations of violations contained in the Petition are not disputed in your Answer, they will be deemed admitted.

After your Answer is filed, a hearing will be set at a date and time agreed upon by the parties. If you fail to file an Answer, as set forth herein, or fail to appear at any hearing that is set, you may be held in default in accordance with Utah Code Ann. §64-46b-11 without any further notice to you, or the hearing may proceed without your participation under § 63-46b-8.

The presiding officer in this case is Wayne Klein, Director, Division of Securities, 160 East 300 South, P.O. Box 146760, Salt Lake City, UT 84114-6760, telephone (801) 530-6600. An administrative law judge may be assigned for the hearing. At any hearing, the Division will be represented by the Utah Attorney General's Office, 160 East 300 South, P.O. Box 140872, Salt Lake City, UT 84114-0872, telephone (801) 366-0310. You may appear and be heard and present evidence on your behalf at any such hearings. You may be represented by counsel of your choice at these proceedings. You may attempt to negotiate a settlement of the matter without filing an Answer or proceeding to hearing. Should you so desire, please contact the Utah Attorney General's Office. Questions regarding the Petition and Notice of Agency Action should be directed to Laurie Noda, Assistant Attorney General, 160 E. 300 South, P.O. Box 140872, Salt Lake City, UT 84114-0872, telephone (801) 366-0310.

DATED this 3rd day of August, 2006.

Wayne Klein

Wayne Klein
Director, Division of Securities
Utah Department of Commerce

Certificate of Mailing

I certify that on the 4TH day of August, 2006, I mailed, by certified mail, a true and correct copy of the Notice of Agency Action and Petition to:

Walnut Street Securities, Inc.
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Pamela Radzinski
Executive Secretary