Division of Securities
Utah Department of Commerce
160 East 300 South
P. O. Box 146760
Salt Lake City, UT 84114-6760
Telephone: (801) 530-6600
FAX: (801) 530-6980

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

IN THE MATTER OF:	**ORDER TO SHOW CAUSE**
CITY LIPS COSMETICS, LLC;	**Docket No.** SD-06-0068
CITY LIPS MARKETING, LLC;	**Docket No.** SD-06-0069
JORY C. ALLEN;	**Docket No.** SD-06-0070
CHAD D. WRIGHT; and	**Docket No.** SD-06-0071
FRANK J. GILLEN;	**Docket No.** SD-06-0072
Respondents.	

It appears to the Director of the Utah Division of Securities (Director) that City Lips Cosmetics, LLC (currently known as Distributor Sales, LLC), City Lips Marketing, LLC (currently known as Distributor Marketing, LLC), Jory C. Allen, Chad D. Wright, and Frank J. Gillen (Respondents) may have engaged in acts and practices that violate the Utah Uniform Securities Act, Utah Code Ann. § 61-1-1, et seq. (the Act). Those acts are more fully described herein. Based upon information discovered in the course of the investigation of this matter by the Utah Division of

Securities (Division), the Director issues this Order to Show Cause in accordance with the provisions of § 61-1-20(1) of the Act.

STATEMENT OF JURISDICTION

1. Jurisdiction over the Respondents and subject matter is appropriate in this matter because the Division alleges that the Respondents violated § 61-1-1 (Securities Fraud) of the Act while engaged in the offer and sale of securities in Utah.

STATEMENT OF FACTS

THE PARTIES

2. City Lips Cosmetics, LLC (City Lips Cosmetics) was registered as a Utah limited liability company on February 2, 2005, and its registration is "active." City Lips Cosmetics' business address is 6337 South Highland Drive, #3048, Salt Lake City, Utah. Marcus Breun is City Lips Cosmetics'sole manager, and Dave Green is its registered agent. On March 31, 2006, Dave Green changed City Lips Cosmetics' name to Distributor Marketing, LLC.

3. City Lips Marketing, LLC (City Lips Marketing) was registered as a Utah limited liability company on December 2, 2005, and its registration is "active." City Lips Marketing' business address is 6337 South Highland Drive, #3048, Salt Lake City, Utah, and Chad D. Wright is its sole manager. On May 30, 2006, Chad D. Wright changed City Lips Marketing' name to Distributor Marketing, LLC. City Lips Cosmetics and

City Lips Marketing (collectively, City Lips) are in the business of manufacturing and marketing cosmetics.

4. Chad D. Wright (Wright), manager of City Lips Marketing, LLC, resides in Salt Lake County, Utah.

5. Jory C. Allen (Allen) resides in Salt Lake County, Utah. Allen held himself out to be City Lips' chief operations officer.

6. Frank J. Gillen (Gillen) resides in Salt Lake County, Utah. Gillen held himself out to be City Lips' finance director.

GENERAL ALLEGATIONS

7. From June 2004 to February 2005, Respondents solicited a total of $454,000 in investments from three different investors.

8. Respondents told investors City Lips needed to raise capital to keep the business growing, to launch a new product, to replenish inventory, and to take the company public. Respondents told investors they would receive monthly interest payments of 3% per month, and two of the investors were promised either a promissory note or a contract evidencing their investment.

9. Respondents failed to tell investors, among other things, that Gillen was investigated by the SEC in 1997, and by the NASD in 1999 and 2000, in connection with the sale of stock, and that the NASD fined Gillen $25,000 for selling unregistered securities, and revoked his securities license when he did not pay the fine.

10. Respondents also failed to tell investors that Wright was criminally convicted of telephone harassment in 1998, sentenced to 90 days in jail, and fined $250.

11. The investors received a small amount of interest from Respondents, but eventually the payments stopped. Investors have been unable to collect the rest of their money.

Investor S. B.

12. In January 2004, Gillen told S. B. about City Lips and its founders, Wright and Allen. Gillen told S. B. City Lips was a "good company," and that a prior investor, L. Jackson, had received 3% per month without fail from his investment in City Lips.

13. Shortly after talking to Gillen, S. B. talked to either Allen or Wright about investing in City Lips. S. B. was told she would receive a return of 3% per month on her investment, she would be secured by City Lips' inventory, and the investment would mature in six months. S. B. was also told she would receive a promissory note from City Lips to evidence her investment in addition to City Lips' financial statements.

14. On June 14, 2004, S. B. invested $100,000 in City Lips by depositing a cashier's check made payable to City Lips directly into City Lips' account at Wells Fargo Bank.

15. S. B. was still receiving her monthly interest checks from City Lips when Gillen contacted her, and asked her to meet with Wright and Allen to discuss her investment. S. B., Gillen, Wright, and Allen met on February 15, 2005, at an office in Provo, Utah, and S. B. brought her parents, B. J. and C. J. along to hear about the investment opportunity. *See* ¶ *36 below.*

16. At the meeting, Wright said City Lips was "booming," but was in need of more capital. Wright asked S. B. if she would extend her investment for another six months.

17. S. B. asked Wright and Allen if City Lips was financially secure, and both replied that it was.

18. Wright and Allen again promised to provide S. B. with a promissory note and City Lips' financial statements.

19. S. B. rolled over her first investment of $100,000 with City Lips, and invested an additional $50,000 by depositing a $50,000 cashier's check made payable to City Lips into City Lips' bank account at Wells Fargo Bank.

20. In April 2005, Allen gave S. B. a "Custom Detail Transaction Report" outlining her investments and all interest payments made to her by City Lips.

21. S. B. received her monthly interest payments from City Lips from the time she first invested in June 2004, until May 2005, totaling approximately $33,000.

22. In May 2005, when S. B. stopped receiving her monthly interest payments, she called and left many telephone messages for Wright and Allen. None of her calls were returned.

23. Despite several demands, S. B. received no more interest payments from the Respondents, nor did she receive any of her principal. Respondents still owe S. B. $150,000 in principal alone.

Investor L. J.

24. In November 2004, Gillen telephoned L. J. about an investment opportunity in City Lips.

25. Gillen told L. J. that City Lips was a successful cosmetics company, and that it had contracts with Sephora, a well-known cosmetics company. Gillen told L. J. that City Lips needed capital to launch a new product, and L. J. would receive interest of 3% per month if he invested.

26. On November 22, 2004, L. J. invested $75,000 in City Lips by mailing a certified check made payable to City Lips, to City Lips' office in Salt Lake City.

27. L. J. received his first interest payment from City Lips about thirty days after investing.

28. On January 1, 2005, L. J. invested another $4,000 in City Lips by mailing a personal check made payable to City Lips to its office in Salt Lake City.

29. On January 11, 2005, L. J. invested another $21,000 in City Lips by mailing a check from his TD Waterhouse account made payable to City Lips to its office in Salt Lake City.

30. After mailing his last two investment checks, L. J. asked Gillen for a written contract to evidence his investments. Gillen e-mailed a contract to L. J., and L. J. immediately signed and mailed it to City Lips' office. The contract matured in six months and stated that City Lips would pay L. J. 3% per month on his investments. L. J. never received a signed copy of the contract.

31. About the time L. J. sent the signed contract to City Lips, he stopped receiving interest payments from City Lips.

32. L. J. tried to contact Allen and Wright via telephone, e-mail, and through Gillen, but received no response.

33. In September 2005, L. J. spoke to Allen at City Lips' office. Allen told L. J. that City Lips could no longer make payments to L. J., and that the contract L. J. signed was not signed by Wright or Allen, but was created by Gillen.

34. Despite several demands for payment, L. J. has received no additional interest payments from Respondents, nor has he received any principal payments. Respondents still owe L. J. $100,000 in principal alone.

Investors B. J. and C. J., Husband and Wife

35. In February 2005, Gillen contacted C. J. and asked her and her husband to meet with the founders of City Lips to hear about the investment opportunity in City Lips. Gillen told C. J. City Lips was doing well, but needed cash to replace product and to take the company "to the next step." Gillen also told C. J. that Allen and Wright only needed the money for a short time and that they were going to try and take City Lips public.

36. On February 15, 2005, B. J. and C. J. met with Gillen, Allen, and Wright, at an office in Provo, Utah. B. J. and C. J.'s daughter, S. B., was also there. *See ¶ 15 above.*

37. Wright and Allen told B. J., C. J., and S. B., that City Lips was doing very well and they could easily pay interest of 36% per year to investors. C. J. asked Wright and Allen if City Lips was financially solvent enough to pay that much interest, and both replied that it was. Wright and Allen told B. J. they could easily pay back the investment after six months, and promised to provide C. J. with signed investment contracts immediately.

38. B. J. told Wright and Allen that he did not have the money readily available, and he would need to make a withdrawal from his IRA account.

39. On March 7, 2005, B. J. and C. J. transferred, via wire transfer, $200,000 to their daughter's bank account, and she immediately transferred the money to City Lips' bank account. B. J. and C. J. were both over 65 years of age when they invested in City Lips.

40. C. J. contacted Gillen after she did not receive the investment contracts from Wright or Allen. Gillen told C. J. he had been trying to get the contracts from Wright and Allen, but had so far been unsuccessful.

41. B. J. and C. J. received just two interest payments of $6,000 each from City Lips.

42. C. J. arranged a meeting with Gillen and Allen in Salt Lake City, to get a signed contract or promissory note from Allen, and discuss the status of the investment.

43. Allen gave B. J. and C. J. a contract he said was prepared by City Lips' attorney. B. J. and C. J. signed the contract, which stated new terms of payment, and gave it back to Allen. Despite the contract and many promises from Allen, they received no more payments.

44. In March 2006, C. J. called Allen and told him she and her husband were in terrible financial condition and needed their money. Allen told C. J. he was not an officer or director of City Lips, did not owe them any money, and that their investment" was not City Lips' investment.

45. Allen called C. J. shortly thereafter and offered to make payments to B. J. and C. J. as long as they signed a new agreement with City Lips and a release of all claims against City Lips.

46. Allen provided B. J. and C. J. with a "Settlement Agreement and Mutual Release" with City Lips. B. J. and C. J. refused to sign the release because it contained untrue statements.

47. Despite many demands, B. J. and C. J. received no more interest payments from the Respondents, nor did they receive any of their principal. Respondents still owe B. J. and C. J. $200,000 in principal alone. As a result, B. J. and C. J. have had to sell their home.

CAUSES OF ACTION

COUNT I
Securities Fraud under § 61-1-1 of the Act
(Respondents)

48. The Division incorporates and re-alleges paragraphs 1 through 47.

49. The investment opportunity offered and sold by City Lips, Gillen, Wright, and Allen, is a security under § 61-1-13 of the Act as an investment contract and therefore a security because it is an investment of money, in a common enterprise, with an expectation of profits to be derived from the efforts of others.

50. In connection with the offer and sale of a security to investors, Respondents, directly and indirectly, made false statements, including, but not limited to, the following:

a. That City Lips was a "good company," was "doing well," that City Lips was "booming," or that it was a "successful" company and was "financially secure," when, given that City Lips had a very limited operating history having only been incorporated in December 2005, well after investors invested, and given Gillen's history with the NASD and SEC, Respondents had no reasonable basis on which to make these representations; and

b. Investors B. J. and C. J. were told by Respondents that City Lips could easily pay interest of 36% per year to investors, when, given that City Lips had a very limited operating history having only been incorporated in December 2005, well after investors invested, and given Gillen's history with the NASD and SEC, Respondents had no reasonable basis on which to make these representations.

51. In connection with the offer and sale of a security to investors, Respondents, directly and indirectly, failed to disclose material information, including, but not limited to, the following:

a. Gillen was investigated by the SEC in 1997, and by the NASD in 1999 and 2000, in connection with the sale of stock, and was aware of all three investigations.

b. In 2002, the NASD fined Gillen $25,000 for selling unregistered securities.

c. In 2003, the NASD revoked Gillen's securities license due to unpaid fines.

d. In 1998, Wright was criminally convicted of telephone harassment, sentenced to 90 days in jail, and fined $250.

e. In 1999, the Utah State Tax Commission filed a $1,295 tax lien against Allen for unpaid income taxes for the year 1998. The tax lien was dismissed in 2001.

f. Some or all of the information typically provided in an offering circular or prospectus regarding City Lips, such as:

i. The business and operating history for City Lips;

ii. Identities of City Lips' principals along with their experience in this type of business;

iii. City Lips' financial statements;

iv. The market for the product of the company;

v. The nature of the competition for the product;

vi. Current capitalization of the issuer;

vii. A description of how the investment would be used by the business;

viii. The company's past performance for its investors;

ix. Risk factors for investors;

x. The number of other investors;

xi. The minimum capitalization needed to participate in the investment;

xii. The disposition of any investments received if the minimum capitalization were not achieved;

xiii. The liquidity of the investment;

xiv. Discussion of pertinent suitability factors for the investment;

xv. The proposed use of the investment proceeds;

xvi. Any conflicts of interest the issuer, the principals, or the agent may have with regard to the investment;

xvii. Agent commissions or compensation for selling the investment;

xviii. Whether the investment is a registered security or exempt from registration; and

xix. Whether the person selling the investment was licensed.

52. Based on the above, City Lips Cosmetics, LLC, City Lips Marketing, LLC, Gillen, Wright, and Allen, willfully violated § 61-1-1 of the Act.

ORDER

The Director, pursuant to § 61-1-20 of the Act, hereby orders Respondents to appear at a formal hearing to be conducted in accordance with Utah Code Ann. §§ 63-46b-4 and 63-46b-6 through -10, and held before the Utah Division of Securities. The hearing will occur on Tuesday, October 31st, 2006, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2nd Floor, Salt Lake City, Utah. If Respondents fail to file an answer or appear at the hearing, the Division of Securities may hold Respondents in default, and a fine may be imposed in accordance with Utah Code Ann. § 63-46b-11. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-10. At the hearing, Respondents may show cause, if any they have:

a. Why City Lips Cosmetics, LLC, City Lips Marketing, LLC, Jory C. Allen, Chad D. Wright, and Frank J. Gillen should not be found to have engaged in the violations alleged by the Division in this Order to Show Cause;

b. Why City Lips Cosmetics, LLC, City Lips Marketing, LLC, Jory C. Allen, Chad D. Wright, and Frank J. Gillen should not be ordered to cease and desist from engaging in any further conduct in violation of Utah Code Ann. § 61-1-1, or any other section of the Act;

c. Why City Lips Cosmetics, LLC and City Lips Marketing, LLC should not be ordered to pay a fine, jointly and severally, of four hundred seventy five thousand dollars ($475,000) to the Division;

d. Why Jory C. Allen should not be ordered to pay a fine of three hundred seventy five thousand dollars ($375,000) to the Division;

e. Why Chad D. Wright should not be ordered to pay a fine of three hundred seventy five thousand dollars ($375,000) to the Division; and

f. Why Frank J. Gillen should not be ordered to pay a fine of four hundred seventy five thousand dollars ($475,000) to the Division.

DATED this 14th day of September, 2006.

Wayne Klein

WAYNE KLEIN
Director, Utah Division of Securities

Approved:

JEFFREY BUCKNER
Assistant Attorney General

J. S.

Division of Securities
Utah Department of Commerce
160 East 300 South
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Salt Lake City, UT 84114-6760
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FAX: (801) 530-6980

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

IN THE MATTER OF:	**NOTICE OF AGENCY ACTION**
CITY LIPS COSMETICS, LLC; **CITY LIPS MARKETING, LLC;** **JORY C. ALLEN;** **CHAD D. WRIGHT; and** **FRANK J. GILLEN;** **Respondents.**	**Docket No.** SD-06-0068 **Docket No.** SD-06-0069 **Docket No.** SD-06-0070 **Docket No.** SD-06-0071 **Docket No.** SD-06-0072

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 the mailing of the Order to Show Cause. 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 foregoing Order to Show Cause.

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 Order to Show Cause, 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 Order to Show Cause are not disputed in your Answer, they will be deemed admitted.

Your Answer should be filed with the Division, attention Pam Radzinski, P.O. Box 146760, Salt Lake City, Utah 84114-6760. A copy of your Answer should also be mailed to the Division's attorney, Jeff Buckner, Assistant Attorney General in the Utah Attorney General's Office, 160 East 300 South, P.O. Box 140872, Salt Lake City Utah 84114-0872, telephone (801) 366-0310.

A hearing date has been set for Tuesday, October 31st, 2006, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2nd Floor, Salt Lake City, Utah.

If you fail to file an Answer, as set forth herein, or fail to appear at the hearing, the Division of Securities may hold you in default, and a fine and other sanctions may be imposed against you in accordance with Utah Code Ann. § 63-46b-11, without the necessity of providing you with any further notice. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-10. At the hearing, you may appear and be heard and present evidence on your behalf. You may be represented by counsel during these proceedings.

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.

Questions regarding the Order to Show Cause and Notice of Agency Action should be directed to the Division's attorney, Jeff Buckner, at (801) 366-0310.

DATED this 14th day of September, 2006.

WAYNE KLEIN
Director, Division of Securities
Utah Department of Commerce

Certificate of Mailing

I certify that on the 14TH day of September, 2006, I mailed, by certified mail, a true and correct copy of the Order to Show Cause and Notice of Agency Action to:

Distributor Sales, LLC
Formerly known as City Lips Cosmetics, LLC
6337 South Highland Drive, #3048
Salt Lake City, UT 84121

Certified Mail # 7006 0100 0001 7688 8909

Distributor Marketing, LLC
Formerly known as City Lips Marketing, LLC
136 S. Main Street, 4th Floor
Salt Lake City, UT 84101

Certified Mail # 7006 0100 0001 7688 8916

Chad D. Wright
3497 Macintosh Cir.
Salt Lake City, UT 84121

Certified Mail # 7006 0100 0001 7688 8923

Chad D. Wright
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Salt Lake City, UT 84121

Certified Mail # 7006 0100 0001 7688 8930

Frank J. Gillen
2055 E. 6425 S.
Salt Lake City, UT 84121

Certified Mail # 7006 0100 0001 7688 8947

Jory C. Allen
6337 S. Highland Drive, Apt. 3048
Salt Lake City, UT 84121

Certified Mail # 7006 0100 0001 76 88954

Pamela Padzinski
Executive Secretary