Division of Securities
Utah Department of Commerce
160 East 300 South, Second Floor
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: | AFFIDAVIT OF SERVICE AND NON-RESPONSE |
|---|---|
| **CITY LIPS COSMETICS, LLC;**<br>**CITY LIPS MARKETING, LLC;**<br>**JORY C. ALLEN;**<br>**CHAD D. WRIGHT; and**<br>FRANK J. GILLEN;<br><br>Respondents. | **Docket No. SD-06-0068**<br>**Docket No. SD-06-0069**<br>**Docket No. SD-06-0070**<br>**Docket No. SD-06-0071**<br>Docket No. SD-06-0072 |

I, Pam Radzinski, first being duly sworn, depose and state as follows:

1. I am the Executive Secretary for the Department of Commerce Division of Securities (the Division).

2. As executive secretary for the Division, I am responsible for supervising the mailing of the Division's Orders to Show Cause and for receiving any responses filed by respondents.

3. On September 14, 2006, the Division mailed, by certified mail, an Order to Show Cause (OSC) to City Lips Cosmetics, LLC, City Lips Marketing, LLC, Jory C. Allen, and Chad D. Wright, along with a Notice of Agency Action (Notice), advising that a default order would be entered if they failed to file a written response to the OSC within thirty (30) days of the mailing date of the Notice.

4. Between September 20th and October 12th, 2006, the Division received notice from the United States Postal Service (USPS), that delivery of the OSC and Notice to City Lips Cosmetics, LLC, City Lips Marketing, LLC, Jory C. Allen, and Chad D. Wright was not successful.

5. On October 11, 2006, the Division re-mailed, by certified mail, the OSC and Notice to a forwarding address for City Lips Cosmetics. Again, USPS was unable to deliver at the new address.

6. As of the date of this Affidavit, the Division has not received a response from City Lips Cosmetics, LLC, City Lips Marketing, LLC, Jory C. Allen, or Chad D. Wright.

DATED this 7TH day of ~~November~~ DECEMBER, 2006.

PAM RADZINSKI

PAM RADZINSKI
Executive Secretary

SALT LAKE COUNTY )
) ss
STATE OF UTAH )

Signed and subscribed to before me this 7th day of ~~November~~ December, 2006

Susan M Jones
Notary Public

NOTARY PUBLIC
SUSAN M. JONES
160 East 300 South 2nd Floor
Salt Lake City, Utah 84111
COMMISSION EXPIRES
March 12, 2010
STATE OF UTAH

Division of Securities
Utah Department of Commerce
160 East 300 South, Second Floor
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:<br><br>**CITY LIPS COSMETICS, LLC;**<br>**CITY LIPS MARKETING, LLC;**<br>**JORY C. ALLEN;**<br>**CHAD D. WRIGHT; and**<br>FRANK J. GILLEN;<br><br>Respondents. | AFFIDAVIT OF ATTEMPTED SERVICE<br><br>**Docket No. SD-06-0068**<br>**Docket No. SD-06-0069**<br>**Docket No. SD-06-0070**<br>**Docket No. SD-06-0071**<br>Docket No. SD-06-0072 |
|---|---|

I, Jeffery Nielsen, first being duly sworn, depose and state as follows:

1. I am an Investigative Technician for the Department of Commerce Division of Securities (the Division).

2. On November 2, 2006, I drove the state vehicle to the last known address of Distributor Sales, LLC (fka City Lips Cosmetics, LLC), Distributor Marketing, LLC (fka City Lips Marketing, LLC), Chad D. Wright, and Jory C. Allen, to attempt to personally serve the Order to Show Cause (OSC) and Notice of Agency Action (Notice).

3. Distributor Sales, LLC, Distributor Marketing, LLC, and Jory C. Allen all share the same address.

4. I found that the last known address for Distributor Sales, LLC, Distributor Marketing,

LLC, and Jory C. Allen did not exist, and I was therefore unable to personally serve the OSC and Notice, or leave a copy.

5. I then drove to Chad D. Wright's last known address. No one answered the door, so I left a copy of the OSC and Notice on the front doorstep.

6. After finding another possible address in the phone book for Distributor Marketing, LLC, I drove to the Murray, Utah address.

7. At the Murray address I entered the business, called Distribution Marketing Group, and asked the receptionist if she knew either Chad D. Wright or Jory C. Allen. The receptionist said she had never heard of either person.

8. With no other possible addresses, I drove back to the Division.

DATED this 28th day of November, 2006.

JEFFERY NIELSEN
Investigative Technician
Utah Division of Securities

SALT LAKE COUNTY )
) ss
STATE OF UTAH )

Signed and subscribed to before me this 28 day of November, 2006

Notary Public

NOTARY PUBLIC
CHRISHEL JAMES
160 East 300 South 2nd Floor
Salt Lake City, UT 84114-6760
COMMISSION EXPIRES
September 9, 2010
STATE OF UTAH

Division of Securities
Utah Department of Commerce
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Telephone: (801) 530-6600
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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 ENTRY OF DEFAULT AND ORDER |
|---|---|
| **CITY LIPS COSMETICS, LLC;**<br>**CITY LIPS MARKETING, LLC;**<br>**JORY C. ALLEN;**<br>**CHAD D. WRIGHT; and**<br>FRANK J. GILLEN;<br><br>Respondents. | **Docket No. SD-06-0068**<br>**Docket No. SD-06-0069**<br>**Docket No. SD-06-0070**<br>**Docket No. SD-06-0071**<br>Docket No. SD-06-0072 |

## I. BACKGROUND

A formal adjudicative proceeding was initiated by the Division's Order to Show Cause and Notice of Agency Action dated September 14, 2006, against City Lips Cosmetics, LLC (City Lips Cosmetics), City Lips Marketing, LLC (City Lips Marketing), Jory C. Allen (Allen), Chad D. Wright (Wright), and Frank J. Gillen (Gillen). The Division's administrative action against

Frank J. Gillen is ongoing. The Division has moved for entry of a default judgment against City Lips Cosmetics, City Lips Marketing, Allen, and Wright (collectively the Defaulting Respondents).

## II. FINDINGS OF FACT

1. On September 14, 2006, the Division commenced a formal adjudicative proceeding by issuing an Order to Show Cause (OSC) and Notice of Agency Action (Notice) to the Defaulting Respondents.

2. On September 14, 2006, the Division mailed, by certified mail, an Order to Show Cause (OSC) to the Defaulting Respondents, along with a Notice of Agency Action (Notice), advising that a default order would be entered if they failed to file a written response to the OSC within thirty (30) days of the mailing date of the Notice.

3. Between September 20th and October 12th, 2006, the Division received notice from the United States Postal Service (USPS), that delivery of the OSC and Notice to the Defaulting Respondents was not successful.

4. On October 11, 2006, the Division re-mailed, by certified mail, the OSC and Notice to a forwarding address for City Lips Cosmetics. Again, USPS was unable to deliver at the new address.

5. At the initial administrative hearing held October 31, 2006, the Presiding Officer, Wayne Klein, held Defaulting Respondents in default for failing to file a response to the September 14, 2006 OSC, and for failing to appear at the initial hearing.

6. On November 2, 2006, the Division's Investigative Technician, Jeff Nielsen (Nielsen), made a final attempt to serve the Defaulting Respondents by personally driving to their last known addresses.

7. Nielsen left a copy of the OSC and Notice on the doorstep of Wright's last known address when there was no answer at the door.

8. Nielsen found that the last known address for City Lips Marketing, City Lips Cosmetics, and Allen, which happens to be the same for all three, did not exist, and he was unable to leave a copy of the OSC and Notice.

9. As of November 22, 2006, the Division has not received a response to the September 14, 2006 OSC from the Defaulting Respondents.

10. 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.

11. 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.

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

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

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

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

16. Defaulting 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. Defaulting 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.

17. Defaulting 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.

18. Defaulting 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.

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

Investor S. B.

20. 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.

21. 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.

22. 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.

23. 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* ¶ *44 below*.

24. 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.

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

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

27. 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.

28. 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.

29. 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.

30. 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.

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

Investor L. J.

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

33. 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.

34. 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.

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

36. 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.

37. 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.

38. 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.

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

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

41. 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.

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

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

43. 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.

44. 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 ¶ 23 above.*

45. 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.

46. 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.

47. 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.

48. 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.

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

50. 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.

51. 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.

52. 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.

53. 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.

54. 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.

55. Despite many demands, B. J. and C. J. received no more interest payments from the Defaulting Respondents, nor did they receive any of their principal. Defaulting 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.

Misrepresentations and Omissions

56. In connection with the offer and sale of a security to investors, Defaulting 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, Defaulting Respondents had no reasonable basis on which to make these representations; and

b. Investors B. J. and C. J. were told by Defaulting 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, Defaulting Respondents had no reasonable basis on which to make these representations.

57. In connection with the offer and sale of a security to investors, Defaulting 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.

## III. CONCLUSIONS OF LAW

58. The service of the OSC and the Notice initiating these proceedings is valid upon Defaulting Respondents.

59. Because Defaulting Respondents failed to file a written response to the September 14, 2006 OSC, they are in default.

60. The investment opportunity offered and sold by Defaulting Respondents is a security under the Utah Uniform Securities Act (the Act).

61. In connection with the offer and sale of a security, Defaulting Respondents misrepresented material facts to investors.

62. In connection with the offer and sale of a security, Defaulting Respondents failed to disclose material information to investors which was necessary to make the statements made not misleading.

63. By this conduct, City Lips Cosmetics, City Lips Marketing, Allen, and Wright violated § 61-1-1(2) of the Act.

## IV. ORDER

Based on the above, the Director hereby:

1. Declares City Lips Cosmetics, LLC, City Lips Marketing, LLC, Jory C. Allen, and Chad D. Wright in default for failing to file a written response to the September 14, 2006 OSC.
2. Enters, as its own findings, the Finding of Fact described in Section II above.
3. Enters, as its own conclusions, the Conclusions of Law described in Section III above.
4. Finds that City Lips Cosmetics, LLC, City Lips Marketing, LLC, Jory C. Allen, and Chad D. Wright willfully violated the Utah Uniform Securities Act by misrepresenting material facts in connection with the offer and sale of a security in or from Utah in violation of § 61-1-1(2).
5. Finds that City Lips Cosmetics, LLC, City Lips Marketing, LLC, Jory C. Allen, and Chad D. Wright willfully violated the Utah Uniform Securities Act by omitting to disclose material information in connection with the offer and sale of a security in or from Utah in violation of § 61-1-1(2).
6. Orders City Lips Cosmetics, LLC, City Lips Marketing, LLC, Jory C. Allen, and Chad D. Wright to permanently CEASE and DESIST from any violations of the Act.
7. Orders City Lips Cosmetics, LLC and City Lips Marketing, LLC to pay a fine, jointly and severally, of four hundred seventy five thousand dollars ($475,000) to the Division, by January 31, 2007.
8. Orders Jory C. Allen to pay a fine of three hundred seventy five thousand dollars ($375,000) to the Division, by January 31, 2007.

9. Orders Chad D. Wright to pay a fine of three hundred seventy five thousand dollars ($375,000) to the Division, by January 31, 2007.

DATED this 7TH day of ~~November~~ December, 2006.

WAYNE KLEIN
Director, Division of Securities

Pursuant to § 63-46b-11(3), Respondent may seek to set aside the Default Order entered in this proceeding by filing such a request with the Division consistent with the procedures outlined in the Utah Rules of Civil Procedure.

## CERTIFICATE OF MAILING

I hereby certify that on the 7th day of December 2006, I mailed, by certified mail, a true and correct copy of the forgoing **Affidavit of Service and Non-Response, Affidavit of Attempted Service and Notice of Entry of Default and Order** to:

Distributor Sales LLC
6337 S Highland Drive Apt 3048
Salt Lake City, UT 84121

CERTIFIED MAIL: 7005 1820 0003 7090 3747

Distributor Marketing LLC
6337 S Highland Drive Apt 3048
Salt Lake City, UT 84121

CERTIFIED MAIL: 7005 1820 0003 7090 3754

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

CERTIFIED MAIL: 7005 1820 0003 7090 3761

Chad D Wright
6337 S Highland Drive Apt 3048
Salt Lake City, UT 84121

CERTIFIED MAIL: 7005 1820 0003 7090 3778

Pamela Radzinski
Executive Secretary