

Division of Securities  
Utah Department of Commerce  
160 East 300 South, 2<sup>nd</sup> 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:**

**INSANE ASYLUM SKATEBOARDS, INC.,  
DAVID CURTIS ALLEN,**

**Respondents.**

**ORDER TO SHOW CAUSE**

Docket No.

Docket No.

00-12-1003  
00-12-1004

It appears to the Director of the Utah Division of Securities (Director) that Insane Asylum Skateboards, Inc. and David Curtis Allen 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 Utah Division of Securities' (Division) investigation of this matter, 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 Respondents and the subject matter is appropriate because the Division alleges that they violated § 61-1-1 (securities fraud) of the Act while engaged in the offer

and sale of securities in or from Utah.

## **STATEMENT OF FACTS**

### **THE RESPONDENTS**

2. Insane Asylum Skateboards, Inc., (IAS) is a Utah corporation registered on December 29, 2008. Joshua Mark Richards was the registered agent, director, and officer. IAS has never been licensed with the Division.
3. David Curtis Allen (Allen) was, at all relevant times, a resident of the State of Utah. Allen has never been licensed in the securities industry in any capacity.

### **GENERAL ALLEGATIONS**

4. From December 2009 to March 2011, Respondents offered and sold stock to investors, in or from Utah, and collected at least \$47,352.
5. Shares of stock are securities under the Act.
6. Respondents made material misstatements and omissions in connection with the offer and sale of securities to the investors below.
7. Investors lost \$45,852 of their principal.

### **INVESTOR J.S.**

8. J.S. met Allen through a prior business relationship.
9. In late 2009, Allen began discussing investment opportunities in IAS with J.S. when they would meet on other business matters.

10. In or about December 2009, Allen formally offered an investment in IAS to J.S. During the conversations between J.S. and Allen, Allen made the following statements about an investment in IAS:
- a. Allen had other investors in IAS and he wanted to buy them out;
  - b. If J.S. invested, his funds would be used to buy out prior investors;
  - c. J.S. would receive 5% ownership of IAS, which would sell finished skateboards, and 5% ownership of Velos, a company that would produce “trucks” (a skateboard part;)
  - d. J.S. would receive stock certificates representing his ownership in the companies;
  - e. J.S.’s ownership would entitle him to a share of profits of the company, dividend distributions, and voting rights, but no day-to-day managerial responsibilities;
  - f. J.S. would receive monthly payments of 2% of his principal investment;
  - g. The profits of the company would be significant;
  - h. Allen already had a warehouse of product ready to sell and was already selling product;
  - i. The prior owner of IAS, Joshua Richards<sup>1</sup> (Richards), had a patent on the trucks Velos would produce and Allen was stepping in as the new owner to reorganize the company;

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<sup>1</sup> Richards spoke with an investigator from the Division and said that in November 2009 he and Allen discussed transferring ownership of IAS to Allen. The transfer was conditional on Allen’s future performance as Chief Executive Officer of IAS.

- j. Allen had “in’s” with the Costco Road show and just needed to get additional boards pressed;
  - k. IAS’s business model would be to press its own boards and enter the market at a price point that would be attractive to Costco consumers; and
  - l. Entering the market at the “Costco price point” would be undercutting the competitors’ prices significantly; and
  - m. Allen was in a hurry and he already had the paperwork ready to go.
- 11. Allen showed J.S. a mock invoice, but never provided financial statements.
  - 12. Based on Allen’s statements, J.S. invested \$25,000 in IAS. On or about February 3, 2010, J.S. gave Allen a check for \$25,000 made payable to David C. Allen Consulting while in Salt Lake County, Utah.
  - 13. J.S. never received the stock certificates.
  - 14. J.S. received payments from Allen totaling \$1,500.
  - 15. Allen and IAS still owe J.S. \$23,500 in principal alone.
  - 16. Bank records show \$24,744 of J.S.’s funds were used by Respondents in the following manner:
    - a. \$5,964 paid to Custom Molded Products;
    - b. \$3,384 paid to Ariki;
    - c. \$3,000 paid to Elevate Fulfillment;

- d. \$3,000 transferred to Allen's personal account;
- e. \$2,400 paid to Smilemon, LLC;
- f. \$2,000 paid to Lil Diner Show;
- g. \$1,643 paid to Washington Mutual;
- h. \$1,005 paid to Euler Hermes UMA (debt collection);
- i. \$496 paid to Ocwen Loan Servicing;
- j. \$425 paid to Verizon Wireless;
- k. \$418 paid to Citimortgage;
- l. \$375 paid to McKay Pinegar;
- m. \$259 paid to health insurance premiums;
- n. \$200 paid to Conoco;
- o. \$125 paid to Kris Russell; and
- p. \$50 paid to bank fees.

INVESTOR B.C.

- 17. In February 2010, Allen met with B.C. in Salt Lake County, Utah to discuss an investment opportunity in IAS. Allen told B.C. that he owned IAS and was seeking investors.
- 18. Between this meeting and March 29, 2010, Allen met with B.C. four or five times.
- 19. During the meetings, Allen made the following statements about an investment in IAS:
  - a. Allen owned and controlled IAS;

- b. Allen owed a 10% value of IAS to Richards in the event of a sale of the company;
- c. Allen was raising capital and would grant ownership in IAS to investors;
- d. Ownership in IAS would be memorialized through certificates;
- e. IAS had a few smaller investors that Allen was working to “eliminate;”
- f. The smaller investors had not necessarily invested cash;
- g. Allen and B.C. would be equal partners;
- h. Allen owed 10% ownership to two individuals operating as KCNay as well as 10% to an Idaho investor;
- i. B.C.’s money would be used to purchase inventory and press boards;
- j. Allen would have IAS’s inventory shipped to Simple Products warehouse;
- k. IAS was currently producing skateboards through a third party;
- l. IAS was already selling boards and components on the internet;
- m. Kahuna Boards was buying IAS trucks;
- n. Allen compared IAS’s financial prospects to a competing board company called Sector 9. Sector 9 was sold for \$40 million. Allen stated that after just one year IAS was where Sector 9 had been after four years;
- o. Allen planned to out-compete the competition by pressing IAS’s own boards;
- p. Allen stated IAS would be profitable within thirty days;
- q. Investors would be paid from profits of sales of skateboards and would receive

payments related to their capital investment as well as through dividends of their stock ownership;

- r. B.C. could reduce his risk by holding IAS's inventory at his warehouse;
  - s. Allen needed \$38,560 from B.C. for inventory and labor; and
  - t. Allen offered to memorialize investment in IAS with dividend paying stock certificates.
20. On March 19, 2010, B.C. received an email from Allen stating that B.C. would receive 20% ownership in IAS for his investment.
21. Based on Allen's statements, B.C. invested \$22,352 in IAS. On or about March 29, 2010, wire transferred \$22,352 to Allen's account.
22. B.C. never received the stock certificates.
23. B.C. never received any payments from Respondents and is still owed \$22,352 in principal alone.
24. Bank records show B.C.'s investment funds were used by Respondents in the following manner:
- a. \$7,980 paid to Custom Molded Products;
  - b. \$4,036 paid to Shane Mckenn;
  - c. \$3,238 paid to Chase Home Finance Loan;
  - d. \$2,200 cashed;

- e. \$1,600 paid to Netmark Essentials;
- f. \$1,325 paid to Adams Mfg. Corp.;
- g. \$1,000 paid to Dave Allen;
- h. \$302 paid to Smith's;
- i. \$303 paid to Peppermill Cash;
- j. \$196 paid to Office Depot;
- k. \$97 paid to Chevron;
- l. \$55 paid to Holiday Oil; and
- m. \$20 paid to Wire Transfer Fees.

#### **CAUSES OF ACTION**

##### **Securities Fraud under § 61-1-1 of the Act**

- 25. The Division incorporates and re-alleges paragraphs 1 through 24.
- 26. The investment opportunities offered and sold by Respondents are securities under § 61-1-13 of the Act.
- 27. In connection with the offer and sale of a security to the investors, Respondents, directly or indirectly, made false statements, including, but not limited to, the following:
  - a. Investors would receive stock certificates memorializing their investment, when in fact, this was false;
  - b. J.S.'s investment funds would be used to buy out other investors, when in fact, funds

- were used to pay interest to other investors and Allen's personal expenses;
- c. Allen owned and operated IAS, when in fact, Allen did not own IAS; and
  - d. B.C.'s investment funds would be used to purchase inventory for IAS, when in fact, funds were used to pay interest to other investors and Allen's personal expenses.
28. In connection with the offer and sale of a security to the investors, Respondents, directly or indirectly, failed to disclose material information, including, but not limited to, the following, which was necessary in order to make statements made not misleading:
- a. Whether Allen was drawing a salary or other compensation from investor funds;
  - b. Allen had filed for Ch. 7 bankruptcy in 1989<sup>2</sup>;
  - c. Allen owed the IRS \$6,000 as of 2009<sup>3</sup>;
  - d. Allen owed as much as \$90,360 in credit card debt at the time of the investment<sup>4</sup>;
  - e. Some or all of the information typically provided in an offering circular or prospectus regarding IAS and Allen, such as:
    - i. Financial statements;
    - ii. Risk factors;
    - iii. The involvement of Allen and IAS's principals in legal proceedings;
    - iv. The number of investors;

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<sup>2</sup> *In re Allen*, Case No. 89-24541 (Bankr. D. Utah 1989).

<sup>3</sup> *In re Allen*, Case No. 10-37103 (Bankr. D. Utah 2010).

- v. Suitability factors for the investment;
- vi. Nature of competition;
- vii. Whether the investment was a registered security or exempt from registration;  
and
- viii. Whether Respondents were licensed to sell securities.

**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. § 63G-4-202, -204 through -208, and held before the Utah Division of Securities. The hearing will occur on Wednesday, February 1, 2012, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2<sup>nd</sup> Floor, Salt Lake City, Utah. The purpose of the hearing is to establish a scheduling order and address any preliminary matters. If Respondents fail to file an answer and 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. § 63G-4-209. In lieu of default, the Division may decide to proceed with the hearing under § 63G-4-208. At the hearing, Respondents may show cause, if any they have:

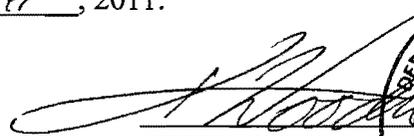
- a. Why Respondents should not be found to have engaged in the violations alleged by the Division in this Order to Show Cause;

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<sup>4</sup> *Id.*

- b. Why Respondents 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 Respondents should not be barred from (i) associating with any broker-dealer or investment adviser licensed in Utah; (ii) acting as an agent for any issuer soliciting investor funds in Utah, and (iii) from being licensed in any capacity in the securities industry in Utah; and
- d. Why Respondents should not be ordered to pay to the Division a fine amount to be determined by stipulation or by the presiding officer after a hearing in accordance with the provisions of Utah Admin. Rule R164-31-1, which may be reduced by restitution paid to the investors.

DATED this 29 day of December, 2011.

  
KEITH WOODWELL  
Director, Utah Division of Securities



Approved:

  
D. SCOTT DAVIS  
Assistant Attorney General  
D.W.

Division of Securities  
Utah Department of Commerce  
160 East 300 South, 2<sup>nd</sup> Floor  
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<p><b>IN THE MATTER OF:</b></p> <p><b>INSANE ASYLUM SKATEBOARDS, INC., DAVID CURTIS ALLEN,</b></p> <p><b>Respondents.</b></p>	<p><b>NOTICE OF AGENCY ACTION</b></p> <p>Docket No. <del>SD-12-0003</del> Docket No. <del>SD-12-0004</del></p>
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THE DIVISION OF SECURITIES TO THE ABOVE-NAMED RESPONDENTS:

You are hereby notified that agency action in the form of an adjudicative proceeding has been commenced against you by the Utah Division of Securities (Division). The adjudicative proceeding is to be formal and will be conducted according to statute and rule. See Utah Code Ann. § 63G-4-201 and 63G-4-204 through -209; see also Utah Admin. Code R151-4-101, *et seq.* The facts on which this action is based are set forth in the accompanying Order to Show Cause. The legal authority under which this formal adjudicative proceeding is to be maintained is Utah Code Ann. § 61-1-20. You may be represented by counsel or you may represent yourself in this proceeding. Utah Admin. Code R151-4-110.

You must file a written response with the Division within thirty (30) days of the mailing date of this Notice. Your response must be in writing and signed by you or your representative. Your

response must include the file number and name of the adjudicative proceeding, your version of the facts, a statement of what relief you seek, and a statement summarizing why the relief you seek should be granted. Utah Code Ann. § 63G-4-204(1). In addition, pursuant to Utah Code Ann. § 63G-4-204(3), the presiding officer requires that your response:

- (a) admit or deny the allegations in each numbered paragraph of the Order to Show Cause, including a detailed explanation for any response other than an unqualified admission. Allegations in the Order to Show Cause not specifically denied are deemed admitted;
- (b) identify any additional facts or documents which you assert are relevant in light of the allegations made; and
- (c) state in short and plain terms your defenses to each allegation in the Order to Show Cause, including affirmative defenses, that were applicable at the time of the conduct (including exemptions or exceptions contained within the Utah Uniform Securities Act).

Your response, and any future pleadings or filings that should be part of the official files in this matter, should be sent to the following:

**Signed originals to:**

Administrative Court Clerk  
c/o Julie Price  
Utah Division of Securities  
160 E. 300 South, 2<sup>nd</sup> Floor  
Box 146760  
Salt Lake City, UT 84114-6760  
(801) 530-6600

**A copy to:**

D. Scott Davis  
Assistant Attorney General  
Utah Division of Securities  
160 East 300 South, 5<sup>th</sup> Floor  
Salt Lake City, UT 84114-0872  
(801) 366-0358

An initial hearing in this matter is set for **February 1, 2012** at the Division of Securities, 2<sup>nd</sup>

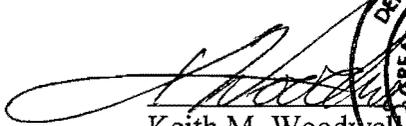
Floor, 160 E. 300 S., Salt Lake City, Utah, at **9:00 A.M.** The purpose of the initial hearing is to enter a scheduling order addressing discovery, disclosure, and other deadlines, including pre-hearing motions, and to set a hearing date to adjudicate the matter alleged in the Order to Show Cause.

If you fail to file a response, as described above, or fail to appear at any hearing that is set, the presiding officer may enter a default order against you without any further notice. Utah Code Ann. § 63G-4-209; Utah Admin. Code R151-4-710(2). After issuing the default order, the presiding officer may grant the relief sought against you in the Order to Show Cause, and will conduct any further proceedings necessary to complete the adjudicative proceeding without your participation and will determine all issues in the proceeding. Utah Code Ann. § 63G-4-209(4). In the alternative, the Division may proceed with a hearing under § 63G-4-208.

The Administrative Law Judge will be Angela Hendricks, Utah Department of Commerce, 160 East 300 South, P.O. Box 146701, Salt Lake City, UT 84114-6701, telephone (801) 530-6035. This adjudicative proceeding will be heard by Ms. Hendricks and the Utah Securities Commission. You may appear and be heard and present evidence on your behalf at any such hearings.

You may attempt to negotiate a settlement of the matter without filing a response or proceeding to hearing. To do so, please contact the Utah Attorney General's Office. Questions regarding the Order to Show Cause should be directed to D. Scott Davis, Assistant Attorney General, 160 E. 300 South, 5th Floor, Box 140872, Salt Lake City, UT 84114-0872, Tel. No. (801) 366-0358.

Dated this 29 day of December, 2011

  
Keith M. Woodwell  
Director, Division



**Certificate of Mailing**

I certify that on the 7th day of January, 2012, I mailed, by certified mail, a true and correct copy of the Notice of Agency Action and Order to Show Cause to:

INSANE ASYLUM SKATEBOARDS, INC.  
DAVID CURTIS ALLEN  
11944 N. Apollo Way  
Highland, UT 84003

Certified Mail # 7007 0920 0001 100357465

  
Executive Secretary