

Division of Securities
Utah Department of Commerce
160 East 300 South, 2nd 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:

MICHAEL SCOTT JOLLEY

Respondent.

ORDER TO SHOW CAUSE

Docket No. 00-12-0058

It appears to the Director of the Utah Division of Securities (Director) that Michael Scott Jolley (Respondent) has engaged in acts and practices that violate the Utah Uniform Securities Act, Utah Code Ann. § 61-1-1, *et seq.* (the Act). Those acts and practices 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 Respondent and the subject matter is appropriate because the Division alleges that he 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 RESPONDENT

2. Michael Scott Jolley (Jolley) was, at all relevant times, a resident of the state of Utah.
Jolley has never been licensed in the securities industry in any capacity.

GENERAL ALLEGATIONS

3. Between February and July 2008, Respondent offered and sold securities to an investor, in or from Utah, and collected a total of at least \$35,000.
4. Respondent made material misstatements and omissions in connection with the offer and sale of securities to the investor identified below.
5. The investor lost \$35,000 in principal alone.

INVESTOR C.B.

6. Jolley initially met C.B. through her son, D.S., when D.S. and Jolley worked for the same mortgage company.
7. Jolley helped C.B. in refinancing her home.
8. Using funds acquired through the refinance process, C.B. then decided to invest in a condominium project that Jolley presented to her.
9. Specifically, in May 2006, C.B. invested \$35,000 with Jolley, thereby providing short-term funding to help build the condominium complex. Jolley told C.B. that her investment would be secured by one of the units in the project.
10. Through that investment, C.B. received a return of her principal plus \$14,000 and considered

the transaction to be a success.

11. Later, in February 2008, Jolley reached out to C.B. to discuss an additional investment opportunity. This investment involved Jolley's company, Red Rock Funding Group, Inc. (RRFG).¹
12. Because C.B. had already invested with Jolley and received a return, as promised, she decided to invest a second time.
13. As a result, on July 16, 2008, C.B. wired \$35,000 from her bank account at Washington Mutual into RRFG's bank account at State Bank of Southern Utah.
14. As further evidence of their arrangement, C.B. received a lender agreement and an addendum to that lender agreement.²
15. The lender agreement is dated February 26, 2008 and executed by Jolley. In accordance therewith, it contains the following terms:
 - a. C.B. shall receive 1.5% interest per thirty-day cycle (18% per annum), resulting in monthly interest payments of \$525.00.
 - b. Additionally, the principal would be repaid within six months and five business days of the document's execution.
 - c. Finally, the "loan shall be considered secured and lent directly to [RRFG] for the

¹ Red Rock Funding Group, Inc. was a Utah corporation that initially registered with the Utah Division of Corporations on January 2, 2007. As of May 6, 2009, the entity's status changed from active to expired. During its existence, Jolley served as registered agent, president, treasurer, and director of the company.

² It remains unclear when C.B. actually received the contract and addendum, as she did not execute either document. C.B. states that she received the documents in the mail after she provided the funds to Jolley but she cannot recall an exact date.

purpose of business growth and cash flow development.”

- d. The agreement also listed an address, indicating that the property located at that address would serve as collateral for the loan.
16. The addendum is dated July 15, 2008 and unsigned by either party. Its terms include the following:
 - a. The dates of the loan agreement were modified to reflect the date in which RRFG actually received the funds.
 - b. The collateral changed from real property located at 101 N. 1850 W. to 2208 W. Saddleback Dr. in Cedar City, Utah 84720.
 - c. All other terms and conditions remained the same as the original agreement.
 17. At a time when C.B. believed her investment to be due, she contacted Jolley to inquire about payment.
 18. He stated that the company’s funds had been used to purchase real property, which should have been sold to a third party; however, the third party had subsequently backed out, and RRFG now owned the property.
 19. C.B. asked for her money back, but Jolley stated that the property would need to be sold first.
 20. To date, C.B. has not received a return of her initial investment, leaving \$35,000 in principal alone currently outstanding.
 21. Based on a first in, first out analysis, bank records indicate that Jolley used C.B.’s funds in the following manner:

- a. \$1,787.81 for automobile and transportation expenses;
- b. \$11,184.62 for bills and utilities;³
- c. \$1,917.53 in cash withdrawals;
- d. \$832.21 in education expenses;
- e. \$354.49 in entertainment expenses;
- f. \$0.35 in fees and charges;
- g. \$674.90 in life insurance premium payments;
- h. \$1,128.88 in food and dining expenses;
- i. \$3,576.00 in gifts and donations;
- j. \$561.40 in health and fitness expenses;
- k. \$2,078.49 in mortgage costs;
- l. \$1,155.06 in miscellaneous expenses;
- m. \$30.00 for personal care;
- n. \$3,669.06 in shopping expenses;
- o. \$5,206.00 transferred;⁴
- p. \$618.72 in travel expenses; and
- q. \$224.48 in legitimate business expenses, including a business license for RRFG, office cooler repair, E Commerce Group membership, and a fax service.

³ This amount includes \$9,499 in credit card payments.

⁴ Three transfers went to a bank account at JPMorgan Chase.

CAUSES OF ACTION

**Securities Fraud under § 61-1-1 of the Act
(Investor C.B.)**

22. The Division incorporates and re-alleges paragraphs 1 through 21.
23. The investment opportunities offered and sold by Respondent are securities under § 61-1-13 of the Act.
24. In connection with the offer and sale of securities to investor C.B., Respondent, directly or indirectly, made false statements, including, but not limited to, the following:
 - a. The funds would be used as an investment in his business, when in fact, Respondent used the majority of the funds for personal expenses.
25. In connection with the offer and sale of securities to investor C.B., Respondent, 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. Some or all of the information typically provided in an offering circular or prospectus regarding Respondent or an investment in RRF, such as:
 - i. Financial statements;
 - ii. Risk factors;
 - iii. Total number of investors;
 - iv. Suitability factors for the investment;
 - v. Whether the investment was a registered security or exempt from registration;and

- vi. Whether Respondent was licensed to sell securities.

ORDER

The Director, pursuant to § 61-1-20 of the Act, hereby orders Respondent 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, November 7, 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, 2nd Floor, Salt Lake City, Utah. The purpose of the hearing is to establish a scheduling order and address any preliminary matters. If Respondent fails to file an answer and appear at the hearing, the Division of Securities may hold Respondent 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, Respondent may show cause, if any he has:

- a. Why Respondent should not be found to have engaged in the violations alleged by the Division in this Order to Show Cause;
- b. Why Respondent should not be ordered to cease and desist from engaging in any further conduct in violation of Utah Code Ann. §§ 61-1-1 and 61-1-3, or any other section of the Act; and
- c. Why Respondent should not be ordered to pay to the Division a fine amount to be determined by the Utah Securities Commission after a hearing in accordance with the provisions of Utah Admin. Rule R164-31-1, which may be reduced by restitution

paid to the investor.

DATED this 3rd day of October, 2012.


KEITH WOODWELL
Director, Utah Division of Securities



Approved:



D. SCOTT DAVIS

Assistant Attorney General

N.M.

Division of Securities
Utah Department of Commerce
160 East 300 South, 2nd Floor
Box 146760
Salt Lake City, UT 84114-6760
Telephone: (801) 530-6600
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**BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH**

<p>IN THE MATTER OF:</p> <p>MICHAEL SCOTT JOLLEY</p> <p>Respondent.</p>	<p>NOTICE OF AGENCY ACTION</p> <p>Docket No. <u>SD-12-1058</u></p>
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THE DIVISION OF SECURITIES TO THE ABOVE-NAMED RESPONDENT:

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, 2nd 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, 5th Floor
Salt Lake City, UT 84114-0872
(801) 366-0358

An initial hearing in this matter is set for **Wednesday, November 7, 2012** at the Division of Securities, 2nd Floor, 160 E. 300 S., Salt Lake City, Utah, at **9:00 A.M.** The purpose of the initial

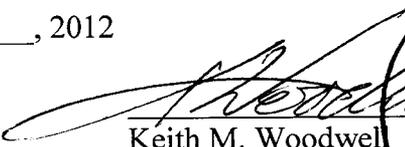
hearing is to enter a scheduling order addressing discovery, disclosure, and other deadlines, including pre-hearing motions, and to set a hearing date to adjudicate the matter alleged in the Order to Show Cause.

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 Jennie Jonsson, Utah Department of Commerce, 160 East 300 South, P.O. Box 146701, Salt Lake City, UT 84114-6701, telephone (801) 530-6706. This adjudicative proceeding will be heard by Ms. Jonsson 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 3rd day of October, 2012


Keith M. Woodwell
Director, Division of Securities



Certificate of Mailing

I certify that on the 4th day of October, 2012, I mailed, by regular and certified mail, a true and correct copy of the Notice of Agency Action and Order to Show Cause to:

MICHAEL JOLLEY
2208 W. SADDLEBACK DR.
CEDAR CITY, UT 84720

Certified Mail # 7007 0220 0001 0004 7954


Executive Secretary