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STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF CORPORATIONS

To: Steven Strauss
8758 Saddlebrook Cove
Olive Branch, MS 38654

Kenneth Eugene Zellmer
40204 N. Hickcock Trail
Phoenix, AZ 85086

Sean Zarinegar
11660 Greentree Road
Colorado Springs, CO 80909

ORDER WITHDRAWING NOTICE OF INTENTION TO BAR CERTAIN NAMED
RESPONDENTS AND ACCUSATION IN SUPPORT THEREOF

It is hereby ordered that the Notice of Intention to Revoke a Broker-Dealer Certificate and Bar Respondents from any Position of Employment, Management, or Control of any Broker-Dealer or Investment Adviser and the Accusation in Support thereof issued on or about July 26, 2007 in case number 110936 is withdrawn as to the following Respondents: Steven Strauss, Kenneth Eugene Zellmer, and Sean Zarinegar.

DATED: November 17, 2011
Los Angeles

PRESTON DuFAUCHARD
California Corporations Commissioner

By _____
Alan S. Weinger
Deputy Commissioner
Enforcement Division

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California Corporations Commissioner
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8 BEFORE THE DEPARTMENT OF CORPORATIONS
9 OF THE STATE OF CALIFORNIA

10 In the Matter of the Accusation of)
11 THE CALIFORNIA CORPORATIONS)
12 COMMISSIONER,)
13 Complainant,)
14 v.)
15 MALORY INVESTMENTS, LLC.; RONALD)
16 STEIN, STEVEN STRAUSS; KENNETH)
EUGENE ZELLMER and SEAN ZARINEGAR,)
17 Respondents.)

FILE NO. 110936

ACCUSATION IN SUPPORT OF
NOTICE OF INTENTION TO
REVOKE A BROKER-DEALER
CERTIFICATE AND BAR
RESPONDENTS FROM ANY
POSITION OF EMPLOYMENT
MANAGEMENT OR CONTROL
OF ANY BROKER-DEALER
OR INVESTMENT ADVISOR

19 I.

20 STATEMENT OF CHARGES

21 YOU ARE HEREBY NOTIFIED that the Commissioner of the Department of Corporations
22 of the State of California (“Commissioner”) has reason to believe that Respondents, Malory
23 Investments, LLC and its principals, Ronald Stein, Steven Strauss, Kenneth Eugene Zellmer and Sean
24 Zarinigar, (hereafter “Respondents”) have each violated the California Corporate Securities Law
25 sections 25110, 25210, 25216, 25217, 25218, 25241, 25245, 25401, and California Code of
26 Regulations sections 260.216, 260.218 and 260.241. Malory Investments, LLC has been operated by
27 Ronald Stein in a manner inconsistent with the statutory obligations of a licensed broker-dealer,
28 including violation of the obligation to conduct the business in a just and equitable manner, failure to

1 maintain books and records, failure to provide adequate supervision, and operating the business in
2 such a manner as to obviate the obligation to protect investors. As such, the Commissioner intends to
3 revoke the broker-dealer certificate of Malory Investments, LLC and permanently bar Respondents
4 from any position of employment, management, or control of any broker-dealer or investment adviser
5 operating in the State of California.

6 This Order is necessary, in the public interest, for the protection of investors, and consistent
7 with the purposes, policies, and provisions of the Corporate Securities Law of 1968. The California
8 Corporations Commissioner finds that:

9 **II.**

10 **JURISDICTION AND VENUE**

11 1. The Commissioner brings this action pursuant to the provisions of California
12 Corporations Code sections 25212 and 25213 and the rules and regulations promulgated thereunder.

13 2. The Commissioner is authorized to administer and enforce the provisions of the
14 Corporate Securities Law of 1968, Corporations Code section 25000 *et seq.*, and the regulations
15 thereunder at California Code of Regulations, title 10, section 260.000 *et seq.*

16 **III.**

17 **INTRODUCTION AND PARTIES**

18 3. This action is brought in order to revoke a certificate of broker-dealer previously
19 issued to respondent MALORY INVESTMENTS, LLC ("Malory") pursuant to Corporations Code
20 section 25212 and to bar Respondents from any position of employment, management or control of
21 any broker-dealer or investment adviser pursuant to Corporations Code section 25213.

22 4. At all relevant times RONALD STEIN ("Stein") (Central Registration Depository, or
23 "CRD," #434761) was the reported "owner" (at least 75% ownership) of Malory. CRD records
24 indicate that Stein holds series 1, 27, 40 and 63 designations. Stein's address is 10937 Wilkins
25 Avenue #304, Los Angeles, CA, which is also the listed business address for Malory.

26 5. This action is brought against MALORY INVESTMENTS, LLC and Respondents in
27 part as a result of Stein's involvement with CAPITAL GUARDIAN, INC. ("CGI") and BLAKE
28 WILLIAM WILSON ("Wilson"). At all relevant times Wilson (CRD #1390808) has been the

1 reported "owner" of CGI. He has a business address of 155 East El Roblar Drive, Ojai, CA 93023.
2 On November 1, 1992, Wilson was convicted of a felony to wit: "False Statement to Sell Securities"
3 in the state of California. As a result of that conviction, Wilson was barred by the Court from any
4 association to wit: "Position of employment, management, and control of any broker-dealer and/or
5 Investment Adviser." Although not disclosed as a Principal of Malory, Wilson effectively operated
6 and controlled Malory. Wilson not only had the ability to recruit, hire and register agents, but he also
7 had the ability to commit Malory to act as the broker-dealer of record with issuers. Malory's source
8 of income was provided from the Wilson-negotiated deals.

9 6. MALORY INVESTMENTS, LLC ("Malory") Central Registration Depository
10 ("CRD") #110936, at all times relevant, has been a registered securities dealer in the state of
11 California pursuant to Corporations Code section 25211 with a current business address of 10937
12 Wilkins Avenue, #304, Los Angeles, CA. Previous addresses for Malory are 6345 Balboa Blvd.;
13 Suite 259 Bldg. 3, Encino, CA 91316; 12966 Euclid, #150 Garden Grove, CA; 1351 Westwood
14 Blvd., #102, Los Angeles, CA; and 520 S. Sepulveda Blvd., Suite 308, Los Angeles, CA 90049.
15 CRD records indicate the authorized product types for Malory are private placements and mutual
16 funds.

17 7. STEPHEN STRAUSS ("Strauss") (CRD #4446296), a member of Malory, is reported
18 to own 10% but not more than 25% of the firm. CRD records indicate that he holds no securities
19 designations. Strauss has lived in various locations, including Santa Clarita, California, Olive
20 Branch, Mississippi and Memphis, Tennessee. He has business addresses of 3340 Goodman Road,
21 South Haven, MS 38672 and 904 Rayner St., Memphis, TN. Strauss has been convicted in Alabama
22 for one felony count of Theft of Services 1st degree.

23 8. KENNETH EUGENE ZELLMER, JR. ("Zellmer") (CRD #476238) is a principal with
24 Malory. At all times relevant, Zellmer has not been a registered securities dealer/agent in the state of
25 California. CRD records indicate that he owns less than 5% of the firm and holds series 1, 4, 22, 24,
26 40, 53, 63, and 66 designations. He resides in Phoenix, Arizona.

27 9. SEAN ZARINEGAR ("Zarinegar") (CRD #2244373) was employed with Malory
28 from July 9, 2001 through April 8, 2005. At all times relevant, Zarinegar has not been a registered

1 securities dealer in the state of California. He resides in Colorado Springs, CO. He holds a Series 6,
2 7, 22, 24, 27, 39 and 63 designation. CRD disciplinary disclosure records for Zarinagar reflect a
3 personal, Chapter 7 Bankruptcy Case, #SA00-13205L, discharged on July 31, 2000, involving a high-
4 risk private investment in restaurants that resulted in major losses in personal income. He was also
5 named in two NASD Arbitration Cases. The first is NASD case #9901479, alleging fraud and
6 negligent misrepresentation, breach of fiduciary duty and negligence in connection with investments
7 in two limited liability company private placements in November 1997, in the amount of \$105,000.
8 The second is NASD case #99-03941, involving suitability of investments and breach of fiduciary
9 duty in connection with investments in two limited partnerships during the period of 1995 to 1997, in
10 the amount of \$369,500. Additionally, Zarinagar was named as a defendant in a civil law suit filed in
11 Orange County Superior Court of California (Case Number 808225) in 1999. The complaint
12 involved investments in two limited partnerships in 1995 and 1996 and was settled in January 2000
13 for \$22,000.

14 10. CAPITAL GUARDIAN, INC. ("CGI") has a business address of 155 East El Roblar
15 Drive, Ojai, CA 93023. CGI is self-described as a third party broker-dealer and issuer compliance
16 company.

17 As of December 12, 2006, CGI's website stated that its staff included "*a practicing attorney,*
18 *a former broker-dealer, former licensed members of the NASD, an experienced broker-dealer*
19 *representative and other securities industry professionals with a combined experience of more than*
20 *40 years.*"

21 CGI's website and documents state that it provides its clients with broker-dealer services,
22 regulation, compliance services (including analysis and development of compliance policies,
23 compliance audits and draft disclosures and responses to federal and/or state document production
24 requests), training, legal representation in enforcement actions (including complex litigation matters,
25 regulatory investigations and proceedings, parallel criminal and civil proceedings, sales practices
26 claims, subpoena enforcement, Cease & Desist issues, administrative hearings and other proceedings,
27 and other claims of alleged violations), private placement disclosure document preparation, issuance
28 of securities, blue sky registration, broker-dealer and agent registration, and new business formation.

1 CGI's website states that issuers *"need the experience of a broker-dealer who has been*
2 *selling offering of all types for years and has met with many obstacles."*

3 CGI's web site states that *"When selling a security, whether private or public, a disclosure*
4 *document is required in all cases. You are required to inform the investor of certain risks and other*
5 *not-so-obvious information."*

6 11. BLAKE WILLIAM WILSON (aka Arnold Kramer, Arnold Cramer, and Irv
7 Kranberg) (CRD #1390808) ("Wilson") is the owner of CGI. He has a business address of 155 East
8 El Roblar Drive, Ojai, CA 93023 and resides in Ojai, CA 93023. From July 17, 1985 to August 14,
9 1992, Wilson owned and operated NASD broker-dealer Blasanne, Inc. (CRD #16647), aka: Blago Oil
10 Company. On November 11, 1992, Wilson was convicted of a felony, to wit: "False Statement to
11 Sell Securities" in the state of California." As a result of that conviction, Wilson was barred from
12 any association to wit: "position of employment, management, and control of any broker-dealer
13 and/or Investment Adviser." On June 29, 1992, the NASD censured and barred Wilson from
14 association with any member of the NASD in any capacity for violation of Rules of Fair Practice to
15 wit: "Wilson failed to respond to NASD request for information made pursuant to Article IV, Section
16 5 of the Rules of Fair Practice concerning an investigation of his securities business." Although not
17 disclosed as a Principal of Malory, Wilson controlled Malory. He exercised the ability to recruit, hire
18 and register agents. He also was the only person who solicited and negotiated with issuers and had
19 the ability to commit Malory to act as the Broker-Dealer of Record. The only source of income for
20 Malory came from the Wilson negotiated deals.

21 12. CHRISTINE FENN (aka Christine Ann Gilbert) ("Fenn") is an employee of CGI and
22 is the administrator/administrative assistant for Malory. She has a business address of 155 East El
23 Roblar Drive, Ojai, CA.

24 13. A review of the files of the California Department of Corporations disclosed no record
25 of the registrations of CGI, Wilson, AND Fenn as securities dealers in the state of California. In fact,
26 if Wilson attempted to register as such, his prior criminal conviction for securities fraud and related
27 bar would act as a disqualification.

28 ///

IV.

STATEMENT OF FACTS

THE MALORY INVESTMENTS, LLC AUDIT

14. On October 23, October 24, and October 26, 2006, examiners from the California Department of Corporations, the Office of the Kansas Securities Commissioner and the Pennsylvania Securities Commission conducted an audit of the books and records of Malory.

15. As of July of 2006, the main office address of Malory disclosed on the CRD was 520 S. Sepulveda Boulevard, Suite 308, Los Angeles, CA 90049.

16. According to California Department of Corporations records, 520 S. Sepulveda Boulevard, Suite 308, Los Angeles, CA 90049, is the business address of Andrick Financial Securities Inc. and Andrick Securities. According to the owner of the Andrick firms, Malory never occupied an office at that location, and no records for Malory were ever kept at that location.

17. Some of the books and records of Malory were actually located at 10937 Wilkins Avenue, #304, Los Angeles, CA, 90024. This location is in a restricted access apartment building and is the residence of Stein and his wife.

18. During the October audit of Malory, examiners located a Written Supervisory Procedure manual ("WSP") dated July 27, 2001. The document appeared to be generic in form and had been downloaded from the Internet. The document had been trademarked *Books on Screen*, and appears to have been published by Compliance International, Inc. No updates dated after July 27, 2001 were provided by Malory.

19. The WSP did not contain Anti-Money Laundering procedures.

20. Sections 5.2 through 5.3.1 of the WSP established guidelines for drafting, approval and retention for incoming and outgoing correspondence. Stein was designated as the responsible party for approving and retaining all correspondence. Malory and Stein failed to maintain any files containing incoming and outgoing correspondence for the firm and its registered representatives.

21. The examiners found that Malory and its employees did not maintain client files. Stein stated that his firm did not sell any PPOs ("Private Placement Offerings") and only sold one mutual fund since the inception of the firm.

1 22. Stein stated that Malory received no commission on any sales of PPOs for which the
2 firm was the broker-dealer of record.

3 23. During the audit, Stein stated that Malory received \$2,000 per PPO for which it was
4 the broker-dealer of record. Stein stated he never spoke to the issuer of a PPO. He stated that CGI,
5 acting by and through Fenn and Wilson, negotiated the broker-dealer agreement for Malory with
6 respect to these PPOs.

7 24. During the audit, the examiners found one hundred and seven private placement
8 memoranda (“PPMs”) for which Malory was the broker-dealer of record. Stein stated that since the
9 inception of the firm in 2002, no Malory agent ever sold a PPO.

10 25. Section 16.1.2.1 of Malory’s WSP explains Section 4(2) of the Securities Act of 1933
11 as follows:

12 *Some private placements are offered under section 4(2) which provides an exemption for*
13 *“transactions by an issuer not involving any public offering.” While the section does not*
14 *specifically outline the requirements for establishing an exemption, the following is a*
15 *summary of requirements gleaned from SEC interpretations and court decisions.*

16 -There may be no general solicitation of purchasers.

17 -Offerees and purchasers must have access to information about the issuer and must
18 be able to comprehend and evaluate the information.

19 -The issuer, broker-dealer and others acting for the issuer must conduct due diligence
20 to reasonably insure the information given to Offerees and purchasers is complete and
21 accurate.

22 26. During the examination, Stein gave inconsistent statements to examiners regarding
23 due diligence investigations of offerings for which Malory was shown as broker-dealer of record.
24 Initially, he stated that he, as principal of Malory, performed due diligence on each private placement.
25 Later, when no due diligence information was located on the PPMs or for the issuers of the offerings,
26 Stein stated that Malory relied on CGI to conduct due diligence investigations.

27 27. Wilson’s involvement, felony conviction, and bar from association with broker-dealers
28 was never disclosed to investors by any of the PPOs reviewed for which Malory was the broker-

1 dealer of record and for which CGI performed due diligence, subscription tracking services, PPM
2 preparation and other services.

3 28. Section 2.21.4 of Malory's WSP requires that a background investigation be
4 conducted on all new employees. Stein admitted that neither Strauss, Zellmer, Zarinegar, nor he ever
5 interviewed the Malory sales agents prior to hiring them and never conducted a background
6 investigation on them. Stein was informed by Wilson which agent was to be registered with Malory.
7 Stein stated that on at least two occasions, Wilson instructed that Stein allow two agents to "park"
8 their license with Malory. Stein submitted to Wilson's instructions, *to wit* on August 26, 2004, he
9 hired Michael Jones (CRD # 2157872) and on June 6, 2006, he hired Jeremy Dane Jobe ("Jobe")
10 (CRD #4271958).

11 29. Sections 2.21.5 and 4.0 of the WSP identified Stein as the designated principal on
12 regulatory filings, requiring Stein to make all regulatory filings for Malory and its employees,
13 including U-4 filings and fingerprints. In reality, Wilson, Fenn and CGI made all regulatory filings
14 for Malory with little or no review by Stein.

15 30. On July 6, 1987, Strauss was convicted of Theft of Service 1st degree for which he
16 was sentenced to 24 months. The Respondents, Wilson and Fenn failed to disclose the criminal
17 record of Strauss on the CRD. On March 25, 2002, the California Department of Corporations issued
18 a Desist and Refrain Order for the sale of unqualified, non-exempt securities issued by Stovact Inc.,
19 to Strauss, who at the time was the Director of Business Affairs for Stovact. The CRD records
20 indicate that Strauss was the Chief Operating Officer of Stovact Inc. Respondents, Wilson and Fenn
21 failed to disclose this Desist and Refrain Order on Strauss' U-4.

22 31. Since its inception, Malory has employed fifty-five registered agents. Malory
23 maintained incomplete personnel files for those agents. When asked to produce information on all its
24 employees, Malory produced partial information on only forty-six agents.

25 32. Fenn signed as the administrator on many documents that were printed on Malory
26 letterhead. Fenn conducted numerous activities on behalf of Malory, CGI and the issuers to include
27 filing of registration for broker-dealer agents for Malory and making notice filings for the issuers.
28 Fenn was not an employee of Malory, nor did she work from any Malory office; in fact, Fenn was

1 employed by Wilson and worked from the CGI offices.

2 33. In a document dated September 4, 2002, Fenn sent a letter to NASD Registration, Inc,
3 regarding Malory's "Broker Dealer Initial Registration Fees and Agent Registration Fees" for
4 registration in 40 states.

5 34. During the audit, an examiner located an e-mail from Fenn (From:
6 Christine<Christine@west.net>) to Stein (To: Ronald Stein < Maloryllc @ hotmail.com >) dated
7 September 21, 2006. In the e-mail, Fenn writes:

8 *I spoke to the woman listed on the letter from the NASD in regards to Jobe. She said she had*
9 *posted the waiver, however, it was pending due to the fact that there is still disclosure issue.*
10 *When you have a chance, can you tell me what they are? I also spoke to Rob and he wanted to*
11 *know if I had sent off the fingerprints and fee's to the NASD. I told him I was waiting for the*
12 *SEC matter to be sent through. He asked if you were o.k. with the U-4's that have been sent to*
13 *you, especially Kirk Smith. I suppose we will need to collect an additional \$95.00 disclosure*
14 *fee for the NASD as well as for Amato (I am sending to you today) with a check for \$500.*
15 *Thanks, Christine.*

16 35. Jobe (CRD #4271958) was hired by Malory on June 6, 2006, as a registered
17 representative. On February 28, 2006, Jobe was issued a summary Order to Cease and Desist (2006-
18 02-06) by Pennsylvania Securities Commission regarding an offering named "504 Fund Inc".

19 36. Section 11.3 of the WSP (Branch Offices Assigned to OSJ's [Office of Supervisory
20 Jurisdiction]) states:

21 *Each branch office that is not an OSJ will be assigned to the supervision of an OSJ. The*
22 *designated supervisor is required to visit non-OSJ branch offices on a periodic basis and*
23 *record the visit in a memorandum or other record to be retained by the designated supervisor*
24 *for the branch location.*

25 37. Section 11.4 of the WSP (Non-Branch Business Location) states:

26 *"Visit the non-branch location at least quarterly or require the RR(s) to visit the OSJ at least*
27 *quarterly... Document visits to non-branches and /or meetings with non-branch RR(s)."*

28 38. Stein did not conduct internal audits or visits as required by the firm's WSP.

1 39. Malory delegated compliance responsibilities to CGI, although there was no written
2 contract for that purpose. The compliance activities included but were not limited to registration
3 filings for the firm and its agents, due diligence for all offerings, hiring of agents, training of agents,
4 registration of agents, scheduling for exams, and assistance to Stein in written responses to state
5 regulators as well as the NASD and the SEC.

6 40. Stein stated that Wilson and CGI marketed Malory's services to the issuers. Stein
7 admitted that the only source of revenue for Malory was the fee that accompanied the broker-dealer
8 agreements with issuers that were brought to Malory by Wilson and CGI.

9 41. In an e-mail dated December 8, 2004 (7:42 PM) from Monty Mayfield
10 (MrNewBiz@aol.com) to CGI (cgi@west.net), Mr. Mayfield requested information on CGI's
11 services and costs associated with those services. He identified himself as a person who has "an
12 interest in raising money on oil and gas investments/projects"

13 42. In response to Mr. Mayfield (MrNewBiz@aol.com) on the date December 9, 2004
14 (9:39 AM), Fenn (cgi@west.net) outlined the services provided by CGI and their cost. The e-mail
15 reads as follows:

16 *Dear Mr. Mayfield, thank you for contacting us. We are a full service compliance company*
17 *as our website states. For a 506 PPM, a 25102(n) California PPM (if applicable), SEC filing*
18 *of the Form D, our fee's are \$18,000. Blue sky doc's and fee's are mandatory in each state*
19 *where there is an investor. We strongly recommend using a Broker dealer to underwrite the*
20 *project. We can recommend. There is a \$2,000 fee paid directly to the BD. We also do all the*
21 *clearing and tracking, verify if investor is accredited or not, send out certificate and keep you*
22 *posted on keeping your non-accreds under 35. State blue sky fee's are \$1,350 per state*
23 *(including state fees). California (if 25102(n) and NY are \$2,350..... Thank you. Christine*
24 *Fenn*

25 43. In an e-mail dated December 9, 2004 (2:23 PM) from "YVT,EA"
26 (MrNewBiz@aol.com) to CGI (cgi@west.net), "E A" (identity unknown) wrote:

27 *One of my "partners" was also impressed about what I shared with him about your company*
28 *and financial requirements, BUT he had one question: re the Broker/Dealer, the fee is \$2k,*

1 *but are there any additional fees or points due the BD” Thanks.*

2 44. In response Fenn (cgi@west.net) wrote on December 9, 2004 (3:54 PM) the
3 following:

4 *Yes, 6.5% on monies invested. Example Joe Smith invests \$10,000, 6.5% of that is \$650. In*
5 *addition, if you have employees that are to receive commission, they need in state to have a*
6 *series 63 license and out of state a 7. They then would hang their license with a BD and work*
7 *out a commission structure together. I have training contacts if you need them for the series*
8 *63 and 7. Thank you. Christine.*

9 **MALORY INVESTMENTS, LLC AND RESPONDENTS IMPROPERLY RELIED ON**
10 **BLAKE WILSON AND CAPITAL GUARDIAN FOR BROKER-DEALER SERVICES**

11 45. CGI, Wilson and Fenn drafted and/or filed the PPMs and/or allegedly conducted
12 subscription tracking for at least one hundred and seven offerings for which Malory was broker-
13 dealer of record. In some but not all offerings, CGI is noted as providing subscription tracking
14 services.

15 46. CGI charged some issuers a commission of as much as 6.5%. CGI generally referred
16 to these commissions as “subscription tracking fees” or “clearing fees.”

17 47. In a February 6, 2004, letter from Carlos Sandoval of issuer Coomer Energy, Inc., with
18 a business address of 101 Westwood Drive, Columbia, Kentucky, to Steve Colangelo of Miami, FL
19 regarding developing a sales team for the Coomer offerings and the cost of raising capital. In that
20 letter, Sandoval stated that the known costs were:

21 \$20,000 to \$30,000 – Capital Guardian

22 \$15,000 to \$20,000 – State registration and filing

23 \$2,000 to \$3,000 – Broker dealer + 6 ½ % of each sale/so that’s \$65,000 or more

24 The aforementioned is an example of CGI’s fee structure as understood by the issuers.

25 48. An example of CGI receiving commissions is found on a September 14, 2005, check
26 that was issued by Kentucky Mountain View Petroleum, Inc. to “Mallory Investments or Capital
27 GuardI” [sic] for “3.5% broker dealer agreement.” The check was deposited in a CGI bank account
28 at Washington Mutual Bank, FA.

1 49. Wilson negotiated with the issuers for all services provided by CGI and Malory,
2 including but not limited to broker-dealer services, regulation, compliance services (including
3 analysis and development of compliance policies, compliance audits, drafting of disclosures, and
4 responses to federal and/or state document production requests), training, legal representation in
5 enforcement actions (including complex litigation matters, regulatory investigations and proceedings,
6 parallel criminal and civil proceedings, sales practices claims, subpoena enforcement, Cease & Desist
7 issues, administrative hearings and other proceedings, and other claims of alleged violations),
8 preparation of private placement disclosure documents, issuance of securities, blue sky registration,
9 broker-dealer and agent registration, and new business formation.

10 50. No Malory offering materials disclosed that Wilson was involved with providing any
11 broker-dealer related services to Malory, and none of the offering materials disclosed Wilson's 1992
12 conviction of securities fraud in the state of California and related bar from associating with any
13 broker-dealer.

14 51. Respondent Stein told examiners that records of Malory were being kept at CGI.
15 However, during a visit to CGI conducted in order to obtain Malory-related records, an examiner
16 heard Fenn tell Stein on a phone conversation that the records Stein wanted CGI to release to
17 examiners did not belong to Stein or to Malory, but instead belonged to CGI and the issuers. Despite
18 a written authorization for release of the records sent by Stein on behalf of Malory to CGI, and in
19 spite of requests made to Wilson by the examiners and an Order to Produce Broker-Dealer Records
20 issued by the California Department of Corporations, the due diligence records were never produced.
21 In fact, CGI represented to examiners that no due diligence files existed because CGI did not conduct
22 due diligence examinations.

23 52. In addition to the due diligence records, the Commissioner obtained a Court Order that
24 CGI immediately produce for review, inspection and copying by the California Corporations
25 Commissioner (or designee(s) of the Commissioner) all books, papers, correspondence, memoranda,
26 agreements, or other documents or records relating to Malory, or any issuer for which Malory was
27 listed as the broker-dealer, including any books, papers, correspondence, memoranda, agreements, or
28

1 other documents maintained in electronic format of any type. In response to the court order, CGI
2 produced approximately 19,000 documents for review and copying.

3 53. As of September 23, 2005, the CGI website provided the viewer with a selection that
4 stated "CLICK HERE for a list of regulators and other persons working with various state securities"
5 agencies." Once the viewer clicked on the selection, a second page was revealed that stated "Please
6 Call Us @ (805)646-4656 or Email Us For A Current List Of Persons Posing As Investors."

7 54. The examiners received a document from CGI containing a list of the undercover
8 names and/or names of regulators for eleven states and the FBI that purportedly posed as potential
9 investors.

10 55. On September 12, 2000, the Wisconsin Department of Financial Institutions issued an
11 Order of Prohibition and Revocation against Blake W. Wilson aka: Arnold Kramer, aka: Arnold
12 Cramer and aka: Irv Kranberg. The Order states that Wilson, "aka Arnold Kramer, aka Arnold
13 Cramer, aka Irv Kranberg," his agents, servants, employees, and every entity and person directly or
14 indirectly controlled or organized by or on his behalf, are prohibited from making or causing to be
15 made to any person or entity in Wisconsin any further offers or sales of securities unless and until
16 such securities are registered."

17 56. The petition for the Wisconsin Order cited that Wilson was the controlling person of
18 issuers Sierra West Unit Investment Trust, Sierra West-A Unit Investment Trust, and Pac West II
19 Unit Investment Trust.

20 57. The petition for the Wisconsin Order further recited that during 1997 Wilson used
21 unlicensed agents to sell securities issued by Sierra West Unit Investment Trust, Sierra West-A Unit
22 Investment Trust, and Pac West II Unit Investment Trust, to Wisconsin residents.

23 58. The petition for the Wisconsin Order further stated that the securities sold as exempt
24 securities under Reg. D Rule 506 were not exempt from registration because they had been sold to
25 non-accredited members of the general public.

26 59. The California Department of Corporations is in receipt of information that
27 Respondents, CGI, Wilson and Fenn engaged in the offer and/or sale of securities to California
28 residents, that were neither qualified nor exempt from qualification in the state of California.

1 **PRIVATE PLACEMENTS AND ISSUERS**

2 60. Malory was listed in public filings as the broker-dealer of record on sixty-four
3 offerings which were purported to be exempt from federal and state registration under Reg. D. Most
4 of the offerings were either fraudulent and/or violated the Reg. D exemption requirements.

5 **Mercer Capital, Inc., Mercer Capital Management, Inc., Tri-State Energy Group, LLC, Tri-**
6 **State Energy Group I, LTD., Tri-State Energy Group I, LP and Tri-State Energy Group II,**
7 **LTD.**

8 61. Malory is listed as the broker-dealer of record on a copy of a signed Securities and
9 Exchange Commission (“SEC”) Reg. D, Rule 506 filing for a securities offering by Tri-State Energy
10 Group I, LP found by the examiners at the offices of CGI.

11 62. On May 3, 2006, Mercer Capital Management, Inc., issued a check to CGI for \$2,000.
12 The notation in the check’s memo line was “Tri-State.” The check was deposited in a CGI bank
13 account located at Washington Mutual Bank, FA.

14 63. On behalf of Malory, Stein signed a broker-dealer agreement with Tri-State Energy
15 Company, LLC for an offering by Tri-State Energy Group II, Ltd. Stein and Robert L. Flickinger, II
16 (“Flickinger”), the principal of Mercer Capital Management, Inc., and Vice-President of Tri-State
17 Energy Company LLC, signed the broker-dealer agreement.

18 64. On July 25, 2006, Mercer Capital Management, Inc., issued a check to Malory for
19 \$2,000. The notation in the memo line was “Tri-State II.”

20 65. The Tri-State Energy Group II, Ltd. private placement memorandum states that the
21 “General Partner has contracted services for the compliance to securities laws relative to the sale and
22 solicitation of the Limited Partnership Units. These securities “compliance services” may include,
23 but are not limited to, Blue Sky and Private Placement Memorandum (“PPM”) preparation and
24 filing.” This memorandum states that the compliance company is to be paid 5% of the offering
25 (\$2,000,000). CGI was contracted as the “compliance service” provider.

26 66. The PPM of Tri-State Energy Group II, Ltd. failed to name CGI as the compliance
27 service provider and also failed to disclose Wilson’s criminal conviction and bar and administrative
28 sanctions.

1 67. The Tri-State Energy Group II, Ltd. PPM states that Flickinger has served as the Vice-
2 President of Tri-State Energy Company, LLC since December 1999.

3 68. On November 21, 2006, the SEC, filed a complaint for an injunction and obtained a
4 temporary restraining order and asset freeze against Mercer Capital, Inc., Mercer Capital
5 Management, Inc., Tri-State Energy Group, LLC, Tri-State Energy Group I, LTD., Tri-State Energy
6 Group II, LTD, and Flickinger.

7 69. In the complaint which supported the injunction action, the SEC alleged that Mercer
8 Capital, Inc., Mercer Capital Management, Inc., Tri-State Energy Group, LLC, Tri-State Energy
9 Group I, LTD., Tri-State Energy Group II, LTD, and Flickinger were engaged in the fraudulent
10 trading of securities issued by Tri-State Energy Company, LLC, a Casper, Wyoming company.

11 70. Respondents' failures to conduct due diligence on the issuers related to the Tri-State
12 Energy Group matter and the issuer-provided information for the PPMs used in their offerings
13 deprived the investors of the opportunity to learn of the fraud relating to these offerings.

14 71. Kirk Devon Smith (CRD #1002884) was hired by Malory on October 9, 2006. He
15 was also employed by Mercer Capital, Inc., a commodities dealer located in Portland, Oregon. Stein
16 did not conduct a pre-employment interview with Smith and did not conduct an inquiry after the
17 SEC's action against Mercer Capital, Inc. referred to above. Acting on behalf of CGI, Wilson took
18 actions to arrange for Smith's registration as an agent with Malory, including the payment of
19 registration fees, which would normally be paid by the broker-dealer, in this case, Malory.

20 **North American Resource Group**

21 72. Beginning in December 2005 and continuing to March of 2006, Malory hired at least
22 14 agents who had previously been employed by North American Resource Group ("NARG"). A
23 review of CGI records revealed that NARG paid CGI for the NASD registration fees for the NARG
24 agents that were hired by Malory. A fax cover sheet dated June 19, 2006, from Stein to FENN
25 discussed the increased premium for Malory's fidelity bond renewal. It states that "NARG is causing
26 a large increase in the premium. I believe NARG should pay for the increase." A letter from
27 Candace D. Shirley of NARG to FENN states "I am enclosing a check in the amount of \$294 payable
28 to Malory Investments, LLC for the fidelity bond renewal."

1 73. On December 8, 2005, NARG drafted a check (#9243) in the amount of \$6,300.00 to
2 the NASD. The check was signed by Candace Shirley. The description on the corresponding check
3 stub reads "Legal and Professional Expense."

4 74. On December 12, 2005, NARG drafted a check (#9247) in the amount of \$3,490.00 to
5 the NASD. The check was signed by Candace Shirley. The description on the corresponding check
6 stub reads "Legal and Professional Expense."

7 75. On December 12, 2005, Stein wrote a letter to the NASD CRD-IARD regarding the
8 renewal of Malory's registration. In the letter, Stein references two checks in the amount of
9 \$6,300.00 and \$3,490.00. "Enclosed are two checks for \$6,300.00 and \$3,490.00 toward my 2006
10 renewal. If you have any questions, please [call] give Christine, my administrator on my account."

11 76. On March 22, 2006, the Alabama Securities Commission issued a Cease and Desist
12 order to NARG and several of its principals related to the offer and sale on an unregistered security.

13 77. Despite the dual employment of agents by Malory and NARG, Malory failed to
14 conduct any review of the activities of the NARG employees following the Alabama cease and desist
15 order.

16 **Lifeline Imaging, LLC**

17 78. Lifeline Imaging, LLC ("Lifeline") is a California Limited Liability Company and is
18 owned and operated by Randy Morton ("Morton"). Since 2001, Lifeline has sold securities in at least
19 8 separate offerings that Lifeline claimed to be exempt from securities registration. In connection
20 with these offerings, Lifeline filed Form Ds which it had reason to know would be available to the
21 investing public. Malory was the broker-dealer of record on at least three Lifeline Regulation D,
22 Rule 506 filings with the SEC and with the states.¹

23 79. Malory hired at least four former sales employees of Pacific Network and Consulting.
24 Pacific Network and Consulting was the call center that marketed only the Lifeline PPOs.

25 80. CGI, Wilson and Fenn undertook all the actions required to register the representatives
26 referred to in the previous paragraph as Malory sales agents.

27 81. CGI drafted and filed each of the PPMs on behalf of Lifeline securities offerings. CGI
28

1 failed to disclose on these PPMs Morton's felony convictions for transporting narcotics and
2 possession of a control substance.

3 82. The state Notice filings and/or federal Form D filings for Lifeline Imaging of Los
4 Gatos, Advanced Health Care Group of Dallas, and Advanced Imaging-Ft. Worth, issued by
5 companies owned and controlled by Morton, indicates that Malory was the broker-dealer of record on
6 these securities offerings. However, it was never disclosed in those offerings that Morton negotiated
7 the offerings only with Blake Wilson, an individual who was not registered with Malory, and who
8 was barred from any association with a broker-dealer.

9 83. In a statement made by Daniel Alfred Caterino ("Caterino") to examiners, Caterino
10 stated that he was a "consultant" for Lifeline. However, Caterino maintained an office located at
11 Pacific Network and Consulting. Caterino has a criminal record that includes drug-related charges,
12 burglary, theft, and grand theft auto.

13 84. On October 17, 2000, Caterino and seven other respondents were named in a
14 Wisconsin Order of Revocation of Exemption finding that the respondents committed fraud in the
15 offers and sales of unregistered securities by an unlicensed broker-dealer and agent. The issuer of
16 those securities was Heart Scan LLC. Caterino was named as an agent for the unlicensed broker-
17 dealer, Cornerstone Financial (aka: Pacific Capital Network).

18 85. On October 1, 2003, the Commissioner of the California Department of Corporations
19 issued a Desist and Refrain Order against Lifeline Imaging, LLC and Lifeline Imaging Systems, Inc.,
20 ordering them to stop selling "unit investment partnership units" in the state in violation of the
21 Corporate Securities Law of 1968.

22 86. On December 27, 2006, the Commissioner of the California Department of
23 Corporations obtained a Final Judgment in a civil case, No. 02CC15333, Orange County Superior
24 Court, against, among others, Daniel A. Caterino, that included a permanent injunction against any
25 unqualified, non-exempt sales of securities, unlicensed broker-dealer activity, and the offer or sale of
26 securities in the state by means of material misrepresentations or omissions of fact. This Final
27
28

¹ LifeLine Imaging of Los Gatos, Advanced Health Care Group of Dallas, and Advanced Imaging-Ft. Worth

1 Judgment was obtained in conjunction with a civil action filed by the Commissioner against Heart
2 Scan, LLC and others involved in that operation.

3 87. In a statement taken from Ken Perdue by the examiner, Purdue stated that he assisted
4 in the management and operation of Pacific Network and Consulting utilizing unregistered sales
5 agents. Perdue stated that the unregistered agents "cold-called" possible investors in the United
6 States. The initial call would be made by a "fronter" and if the potential investor was interested, the
7 investor would be transferred to a "closer." In the event of a sale, both the fronter and the closer
8 would receive a commission. Perdue stated that if the issuer wanted to raise \$1,000,000 for working
9 capital, the PPO would be made for \$2,000,000 because the cost of raising the funds would be
10 approximately 50% of the total offering amount.

11 88. Perdue stated that Daniel Caterino operated and supervised Pacific Network and
12 Consulting. Furthermore, he operated and supervised the call center's operation. At least 80 of the
13 agents of Pacific Network and Consulting were not registered at the time they sold offerings for
14 Lifeline.

15 89. Perdue has a criminal history record that includes convictions for violations of
16 corporate securities laws, unlawful sale of securities, offer or sale of unqualified securities, selling
17 false securities, counterfeiting checks, grand theft, conspiracy, theft of government property,
18 embezzlement, false statements (2 counts), damage to property, and DUI.

19 90. Wilson came to the call center on several occasions and met with Caterino.

20 91. Wilson and Fenn, acting on behalf of Malory, hired and registered with Malory at least
21 four Pacific Networking and Consulting sales agents.

22 92. One of the agents hired by Wilson and Fenn was Thomas Glinskas ("Glinskas") (CRD
23 #4618972). In a statement by Glinskas taken by the examiners, Glinskas said he had never heard of
24 Stein. He stated that Wilson arranged for him to take the NASD Series 22 classes at the Lifeline call
25 center in order to become registered with the NASD through a sponsoring company. Glinskas said
26 that he did not know who the sponsoring company was. Glinskas stated that Wilson was present at
27 the Pacific Network and Consulting call center on multiple occasions.

28 93. On February 2, 2005, the Alabama Securities Commission issued a Cease and Desist

1 Order (CD-2005-0004) against Lifeline Imaging, LLC.

2 94. On June 3, 2003, the Kansas Office of the Securities Commissioner issued a Cease
3 and Desist Order (2002-4477) against Lifeline Imaging, LLC.

4 95. On January 28, 2003, the State of Missouri issued a Stipulation and Consent Order
5 (#AO-03-02) against Lifeline Imaging, LLC.

6 96. On June 3, 2005, the State of Nebraska issued a Cease and Desist Order against
7 Lifeline Imaging, LLC.

8 97. On February 26, 2003, the State of Pennsylvania issued a Cease and Desist Order
9 (2003-02-32) against Lifeline Imaging of Long Beach Unit Investment Partnership, which is an
10 offering made by issuer Lifeline Imaging, Inc.

11 98. In August of 2005, Morton resigned and appointed Stanley Johnson, who formerly
12 acted as an unregistered sales agent of Pacific Network and Consulting, as the general partner of
13 Lifeline and the issuers of the other offerings made by Morton. The only assets of Lifeline at that
14 time were leases on two buildings in Laguna Hills, California and Ft. Worth, Texas.

15 99. Stanley Johnson (“Johnson”), an admitted closer for the Lifeline offerings, stated that
16 while he was an unregistered sales agent for Pacific Network and Consulting, “fronters” were paid on
17 an hourly rate plus a 2% commission if a sale was made from one of their contacts. He further stated
18 that the closers received an 18% commission on each sale. Johnson said that each manager received
19 2 to 3% from each sale.

20 100. In addition to other fees received, CGI received 6.5% of each investment as a
21 commission disguised as “subscription tracking.” Checks made payable to CGI from issuer Lifeline
22 Imaging, LLC, located in Orange County, CA, reflect “6.5%” in the memo line. CGI was retained to
23 write the offerings, file the necessary “blue sky” filings, perform subscription tracking services for
24 Lifeline, and send the investors a “Welcome Aboard” letter. CGI recommended that Malory be used
25 as the broker-dealer of record for the Lifeline offerings. CGI billed Lifeline for a broker-dealer fee
26 and issued a check to Malory for broker-dealer fees for the Advance Imaging – Ft. Worth LP
27 offering.

28 101. The Lifeline PPMs failed to disclose that CGI was the compliance service/tracking

1 service and failed to disclose Wilson's criminal record and administrative sanctions. They also failed
2 to disclose the commissions paid to CGI, an unlicensed entity, which were described as "subscription
3 tracking fees."

4 102. An analysis of the bank accounts for Lifeline revealed that investors' funds from the
5 various offerings were co-mingled, making it very difficult to accurately identify, measure, analyze
6 or record the financial results of the separate Lifeline offerings.

7 **Consulting Dynamics Inc./Advance Body Imaging LP**

8 103. Consulting Dynamics, Inc., is a Nevada corporation with a business address of 1339
9 Katella, Orange, California. Stanley Johnson is the general partner and chief operating officer.
10 Advance Body Imaging, LP is a California limited partnership formed by Consulting Dynamics for
11 the purpose of funding the construction of medical imaging centers.

12 104. The Form D filing by Advance Body Imaging LP, dated July 13, 2004, indicated that
13 Malory was the broker-dealer of record. Respondents, CGI, Wilson and Fenn never disclosed in the
14 offering that Stanley Johnson negotiated only with Wilson, an individual not registered with Malory,
15 and who was a convicted felon and barred from any association with a broker-dealer.

16 105. Johnson admitted to the examiners that he operated a call center utilizing unregistered
17 sales agents to sell the PPO for Advance Body Imaging LP. The PPM for that offering failed to
18 disclose these unregistered sales agents.

19 106. Johnson met Wilson while Johnson was working as an unregistered sales agent for
20 Lifeline Imaging.

21 107. Johnson stated to examiners that Wilson and CGI wrote the PPM and filed the Form D
22 and notice filings for Advance Body Imaging.

23 108. On July 7, 2004, Consulting Dynamics issued a check to CGI for \$1,800.00. The
24 memo line indicated that it was a payment for "broker dealer fees."

25 109. On September 29, 2004, Consulting Dynamics issued a check to CGI for \$2,000.00.
26 The memo line indicated that it was a "broker dealer" payment.

27 110. At least one sales agent for Consulting Dynamics was a registered agent of Malory at
28 the time he received commission checks from Consulting Dynamics.

1 111. On July 21, 2006, the Alabama Securities Commission issued a Cease and Desist
2 Order against Consulting Dynamics, Advance Body Imaging, Stanley Johnson, and other officers of
3 these companies, for the sale of unregistered securities by unregistered agents.

4 112. An analysis of the bank accounts for Consulting Dynamics revealed that the investors'
5 funds were deposited in both the general partner's account and the issuer's account and were
6 repeatedly transferred between accounts.

7 **The Loan Shoppe, Inc.**

8 113. The Loan Shoppe, Inc. was an Alabama corporation that had mailing addresses of
9 3183 East Pelham Parkway, Pelham, Alabama, and 777 South State Road 7, Margate, Florida. The
10 owner and operator of The Loan Shoppe was Charles Carver. Wilson negotiated with Charles Carver
11 of The Loan Shoppe to provide broker-dealer services for The Loan Shoppe, Inc.'s corporate bond
12 offering. In a June 8, 2004, letter written by J. B. Grossman, attorney for The Loan Shoppe and
13 Carver, Grossman acknowledged the broker-dealer agreement between CGI and The Loan Shoppe in
14 which CGI was to receive 4.5% of the capital raised through the offering. He also questioned CGI's
15 lack of NASD registration as a broker-dealer.

16 114. In a May 26, 2004, State of New York publication of *Securities Offerings*, Malory is
17 cited as the broker-dealer of record for The Loan Shoppe offering of Corporate Bonds. However, a
18 broker-dealer agreement between Malory and The Loan Shoppe has not been located.

19 115. On December 12, 1991, Charles Carver was arrested and subsequently convicted for
20 felony Possession of a Controlled Substance. Respondents were legally responsible to ensure the
21 accuracy of The Loan Shoppe's PPM, but the PPM did not disclose Charles Carver's felony
22 conviction.

23 116. On August 23, 2004, the Alabama Securities Commission issued a Cease and Desist
24 Order against The Loan Shoppe Inc. and Charles Carver as a result of the offer and sale of
25 unregistered securities, in the form of promissory notes, to investors.

26 117. In October 2006, the principals of The Loan Shoppe, Charles Carver and Mario Robert
27 Naranjo, were indicted by a Federal Grand Jury in the Southern District of Florida for criminal
28 activity related to the sale of securities issued by The Loan Shoppe, including wire fraud, mail fraud

1 and money laundering.

2 **Amerivet Securities**

3 118. In an offering named Phase Two Value Creating Fund, Respondents, CGI, Wilson
4 and Fenn used the name of Elton Johnson in the offering as the fund manager. Johnson's signature
5 appeared on a Malory broker-dealer agreement that was also signed by Stein. Mr. Johnson, who is a
6 reservist with the military, stated that he was deployed overseas on the date the agreement was
7 signed. He further stated he did not give anyone permission to use his name in the Phase Two
8 offering or to sign his name to any documents.

9 119. The principal of Phase Two Value Creating Fund was Michael Andre Jones (CRD
10 #2157872). He was employed by Malory from August 26, 2004 to June 9, 2006. Jones was also a
11 former employee of Amerivet Securities (CRD #34786), an NASD registered broker-dealer, which is
12 owned by Elton Johnson.

13 120. On June 26, 2006, three complainants filed a NASD Dispute Resolution Arbitration
14 (06-02978) against Michael Jones for misrepresentations made during the sale of "pre IPO's." The
15 sale took place on May 18, 2006, while Michael Jones was a registered agent of Malory.

16 121. Prior to Wilson's association with Stein and Malory, Amerivet Securities was used as
17 the broker-dealer of record for offerings conducted by CGI. Elton Johnson stated that Wilson paid
18 Johnson a flat fee of \$400.00 to use Amerivet's name in regulatory filings related to the offerings.
19 Wilson told Elton Johnson that no sales agents were needed because the sales would be made by
20 other unidentified individuals. Amerivet agents never made any sales of offerings brought by
21 Wilson.

22 122. Elton Johnson had known both Wilson and Stein from the "chop shops" (boiler
23 rooms) that were located in the Los Angeles, California area.

24 **IV.**

25 **CONCLUSIONS OF LAW.**

26 **1. Respondents engaged in unjust, inequitable and fraudulent business practices in**
27 **connection with the offer, sale, or purchase of securities, and in the conduct of the**
28 **business of a licensed broker-dealer, to the detriment of the investing public.**

1 In violation of Corporations Code sections 25110, 25216, 25217, 25218, 25241, 25245,
2 25401, and California Code of Regulations sections 260.216, 260.218 and 260.241, Respondents,
3 Malory Investments, LLC, Ronald Stein, Steven Strauss, Kenneth Eugene Zellmer, and Sean
4 Zarinegar, engaged in unjust, inequitable and fraudulent business practices in that:

- 5 A. Respondents filed a broker-dealer application for Malory Investments, LLC that failed
6 to disclose the true address for Malory.
- 7 B. Respondents allowed Respondent Wilson to act as an undisclosed principal of Malory,
8 despite the fact his prior felony conviction for securities fraud barred him from any
9 association with a broker-dealer.
- 10 C. Respondents filed a broker-dealer application for Malory that failed to disclose
11 Respondent Wilson's involvement in the operation and control of Malory.
- 12 D. Respondents filed a false U4 application in that the application failed to disclose
13 Strauss's prior criminal convictions.
- 14 E. Respondents filed a false U4 application in that the application failed to disclose that
15 Strauss and Stovact were subject to a Desist and Refrain Order issued by the State of
16 California. Strauss's U-4 application also failed to disclose that Strauss was acting as
17 the Chief Operating Officer of Stovact Inc., at the time of that Desist and Refrain
18 Order.
- 19 F. Respondents Malory, Stein, Strauss, Zellmer and Zarinegar filed false financial
20 statements that incorrectly identified underwriting fees as commissions earned.
- 21 G. Respondents affiliated themselves with CGI, Wilson and Fenn, who held CGI out to
22 the public as a "broker dealer," while CGI was not registered as such.
- 23 H. Respondents acquiesced in allowing CGI, Wilson and Fenn to offer their clients a list
24 that disclosed the covert names and telephone numbers used by the FBI and state
25 securities regulators, indicating an intent to engage in business practices that violated
26 the securities laws.
- 27 I. Respondents filed notice filings with the California Department of Corporations which
28 claimed that Respondent Malory was an associated broker-dealer of the securities

offerings, when Malory failed to conduct any due diligence.

2. Respondents engaged in a course of business, in connection with the offer, sale or purchase of securities, which worked or tended to work a fraud or deceit upon the purchasers.

In violation of Corporations Code section 25216(a) and the California Code of Regulations section 260.216, Respondents Malory, Stein, Strauss, Zellmer, and Zarinegar, engaged in a course of business, in connection with the offer, sale or purchase of securities, which works or tends to work a fraud or deceit upon the purchaser in that:

- A. Respondents allowed Wilson to act as an undisclosed principal of Malory, despite the fact that as a result of his earlier securities fraud conviction Wilson was barred from any association with a broker/dealer.
- B. Respondents failed to disclose prior criminal and regulatory actions against the principals of Malory.
- C. Respondents represented to investors that the securities of issuers underwritten by Malory were exempt from qualification, while in fact Respondents knew or should have known, that the securities were being sold in a manner inconsistent with claimed exemptions.
- D. Respondents circulated private placement memoranda knowing or having reasonable grounds to know that the memoranda contained false or untrue material representations.
- E. Respondents failed to disclose to investors that Capital Guardian was the firm providing “subscription tracking services” and that Capital Guardian was operated by Blake Wilson, a person with a prior conviction for securities fraud who was barred from any affiliation with a broker-dealer.
- F. Respondents participated as the broker-dealer of record in the offer and sale of Lifeline Imaging securities, while the Respondents knew or should have known that the criminal background of officers of Lifeline was not disclosed to investors.
- G. Respondents participated as the broker-dealer of record in the offer and sale of

1 Lifeline Imaging securities while the Respondents knew or should have known that
2 unregistered salespeople were selling the securities.

3 H. Respondents participated as the broker-dealer of record in the offer and sale of the
4 securities issued by Advance Body Imaging, LP; while the Respondents knew or
5 should have known that the proceeds of the offerings were being co-mingled with that
6 of the accounts of the general partner.

7 I. Respondents participated as the broker-dealer of record in the offer and sale of
8 Advance Body Imaging, LP securities while the Respondents knew or should have
9 known that unregistered salespeople were selling the securities.

10 J. Respondents participated as the broker-dealer of record in the offer and sale of
11 securities issued by The Loan Shoppe, while the Respondents knew or should have
12 known that the criminal background of The Loan Shoppe's owner and operator was
13 not disclosed to investors.

14 K. Respondents participated as the broker-dealer of record in the offer and sale of
15 securities issued by Phase Two Value Creating Fund, while the Respondents knew or
16 should have known that the fund used the name of the proposed fund manager without
17 his knowledge or consent.

18 L. Respondents participated as the broker-dealer of record in the offer and sale of
19 securities issued by Phase Two Value Creating Fund, while the Respondents knew or
20 should have known that the proposed fund manager for the fund was deployed
21 overseas.

22 M. Respondents affiliated themselves with Capital Guardian, which held itself out as a
23 broker-dealer and acted as a broker-dealer, while not registered as such.

24 **3. Respondents obtained money through the sale of securities by means of making**
25 **untrue statements or omitting to state facts necessary in order to make the statements**
26 **made not misleading.**

27 In violation of Corporations Code section 25401 and California Code of Regulations sections
28 260.216 and 260.218, Respondents Malory, Stein, Strauss, Zellmer, and Zarinegar obtained money

1 through the sale of securities by means of making untrue statements or omitting to state facts
2 necessary in order to make the statements made not misleading, in that:

- 3 A. Respondents received money from the sale of securities issued by Malory's
4 underwriting clients without disclosing the involvement of Blake Wilson and his prior
5 criminal conviction and bar from association with a broker-dealer.
- 6 B. Respondents received money from the sale of securities issued by Malory's
7 underwriting clients, claiming the securities were exempt from qualification, while in
8 fact, Respondents knew or should have known that the securities were being sold in a
9 manner inconsistent with claimed exemptions.
- 10 C. Respondents received money from the sale of securities issued by Malory's
11 underwriting clients, knowing or having reasonable grounds to know that private
12 placement memorandums used to market the securities contained false representations
13 and omissions of material facts.
- 14 D. Respondents received money from the sale of securities issued by Lifeline Imaging,
15 LLC, while the Respondents knew or should have known that the criminal
16 backgrounds of Lifeline officers were not disclosed to investors.
- 17 E. Respondents received money from the sale of securities issued by The Loan Shoppe,
18 Inc., while the Respondents knew or should have known that the criminal background
19 of the owner and operator of the Loan Shoppe was not disclosed to investors.
- 20 F. Respondents received money from the sale of securities issued by Consulting
21 Dynamics Inc. and securities issued by Advance Body Imaging, LP while the
22 Respondents knew or should have known that Consulting Dynamics Inc. and Advance
23 Body Imaging, LP failed to disclose that the proceeds of the offerings were being
24 commingled.
- 25 G. Respondents received money from the sale of securities issued by Phase Two Value
26 Creating Fund while the Respondents knew or should have known that the person
27 named as the fund manager was not associated with the offering.
- 28 H. Respondents permitted CGI, Wilson and Fenn to receive money in connection with

1 the sale of securities by falsely holding CGI out as a the undisclosed broker-dealer,
2 while it was not registered as such, and after Blake Wilson was convicted of
3 securities-related crimes and barred from association with a broker-dealer.

4 **4. Respondents failed to reasonably supervise the operation of Malory Investments,**
5 **LLC.**

6 In violation of Corporations Code sections 25217 and 25218, 25241 and California Code of
7 Regulations section 260.218.4, Malory, acting through Respondents Stein, Strauss, Zellmer, and
8 Zarinegar, failed to reasonably supervise the operation of Malory, in that:

- 9 A. Respondents allowed Wilson to act as an undisclosed principal of Malory, despite the
10 fact that as a result of his earlier securities fraud conviction, Wilson was barred from
11 any association with a broker-dealer.
- 12 B. Malory failed to have any written policies relating to anti-money laundering
13 procedures.
- 14 C. Malory failed to have any procedures for reviewing correspondence.
- 15 D. Malory failed to maintain incoming and outgoing correspondence.
- 16 E. Malory failed to have any system to archive e-mail relating to the operation of Malory.
- 17 F. Malory failed to maintain client account records.
- 18 G. Malory registered offerings as a broker-dealer of record, without conducting any due
19 diligence.
- 20 H. Malory allowed Wilson and Fenn, neither of whom was registered with Malory, to
21 negotiate underwriting agreements on behalf of Malory.
- 22 I. Malory failed to conduct background investigations on new employees, as required by
23 their own written supervision procedures.
- 24 J. Malory allowed Wilson and Fenn to hire new registered representatives to work for
25 Malory, despite Wilson and Fenn not being registered with Malory.
- 26 K. Malory allowed Wilson and Fenn to make regulatory and registration filings on behalf
27 of Malory, with little or no review by a designated Principal.
- 28 L. Malory failed to conduct compliance reviews of it's branch offices, as required by

- 1 their own written supervision procedures.
- 2 M. Malory failed to conduct a pre-employment interview prior to registering Kirk Devon
- 3 Smith.
- 4 N. Malory failed to conduct any inquiry into the activities of Kirk Devon Smith, after his
- 5 previous employer was named in a SEC enforcement case.
- 6 O. Malory failed to conduct any inquiry into the activities of 14 agents that had dual
- 7 registration with Malory and North American Resources, after North American
- 8 Resources was named in an Alabama Cease and Desist Order.
- 9 P. Malory failed to conduct a due diligence review in any of the offerings for which it
- 10 acted as the associated broker-dealer.
- 11 Q. In offerings in which it was listed as the broker-dealer, Malory failed to ensure that
- 12 Private Placement Memoranda associated with the offerings disclosed the principals’
- 13 prior criminal convictions.
- 14 R. In offerings in which Malory was listed as the broker-dealer, it failed to ensure that
- 15 Private Placement Memoranda did not contain false or misleading statements.
- 16 S. In offerings in which Malory was listed as the broker-dealer, it failed to ensure that the
- 17 offerings were sold in a manner consistent with exemptions claimed in the Private
- 18 Placement Memoranda.

19 **5. Respondents made, or caused to be made, statements to the California**

20 **Department of Corporations which were false or misleading.**

21 In violation of Corporations Code section 25245, Respondents Malory, Stein, Strauss,

22 Zellmer, and Zarinegar made, or caused to made, statements to the California Department of

23 Corporations which were false or misleading in that:

- 24 A. Respondents, filed a false broker-dealer application for Malory Investments, LLC that
- 25 failed to disclose the true address for Malory.
- 26 B. Respondent Malory, by and through respondents Stein, Strauss, Zellmer, Zarinegar,
- 27 CGI, Wilson, and Fenn, filed false financial statements that incorrectly identified
- 28 underwriting fees as commissions earned.

1 ///

2 **6. Respondents failed to maintain books and records and, during a legally**
3 **authorized audit, failed to allow the required books and records to be examined.**

4 In violation of California Corporations Code section 25241 and California Code of
5 Regulations section 260.241, Respondent Malory acting through Respondents Stein, Strauss, Zellmer
6 and Zarinigar failed to allow required books and records to be examined during an audit, in that:

- 7 A. Malory failed to produce and/or maintain accurate financial statements.
- 8 B. Malory failed to produce and/or maintain financial records including check books,
9 bank statements, cancelled checks and cash reconciliations.
- 10 C. Malory failed to produce and/or maintain incoming and outgoing correspondence,
11 including e-mail.
- 12 D. Malory failed to have any system to archive e-mail relating to the operation of Malory.
- 13 E. Malory failed to produce and/or maintain client files.
- 14 F. Malory failed to produce and/or maintain employment records for certain registered
15 representatives.
- 16 G. Malory failed to produce and/or maintain records in regard to disciplinary actions
17 against registered representatives registered with Malory.
- 18 H. Malory failed to produce and/or maintain due diligence files relating to its
19 underwriting clients.
- 20 I. Malory failed to produce and/or maintain notice filings filed on behalf of its
21 underwriting clients.
- 22 J. Malory failed to produce and/or maintain subscription agreements, indications of
23 interest, escrow agreements, banks records, sales blotters, and certain broker-dealer
24 agreements for transactions relating to the sale of the securities of its underwriting
25 clients.
- 26 K. Malory unjustifiably relied on Wilson and Fenn, unlicensed individuals, and CGI,
27 whose principal, Blake Wilson, was convicted of violations of the California securities
28 law and barred from any association with a broker-dealer, to perform a variety of

1 broker-dealer activities, including negotiating broker-dealer agreements, maintaining
2 books and records, due diligence, subscription tracking, and sales activities.

3 ACCORDINGLY, THE COMMISSIONER SEEKS AN ORDER, pursuant to California
4 Corporations Code sections 25212(a), 25212(b), 25212(d), 25212(e), 25212(g), 25212(i), that the
5 broker-dealer certificate of Respondent, MALORY INVESTMENTS, LLC. be revoked.

6 FURTHER, THE COMMISSIONER SEEKS AN ORDER, pursuant to California
7 Corporations Code section 25213, that the principals of Malory Investments, LLC, namely
8 Respondents, RONALD STEIN, STEVEN STRAUSS, KENNETH EUGENE ZELLMER and SEAN
9 ZARINEGAR, are immediately and forever barred from any position of employment, management or
10 control of any broker-dealer or investment adviser in the State of California.

11 The Order does not prevent the California Department of Corporations or any other California
12 regulatory or enforcement agency from seeking such other civil or criminal remedies that are
13 available to it under the Corporate Securities Law of 1968.

14 The Order is appropriate in the public interest for the protection of investors and consistent
15 with the purpose of the California Corporate Securities Law of 1968.

16 Entered at Sacramento, California, this 26th day of July, 2007.

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19 PRESTON DuFAUCHARD
20 California Corporations Commissioner

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22 By: _____
23 JAMES K. OPENSHAW
24 Senior Corporations Counsel
25 Enforcement Division
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