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9  
10 BEFORE THE DEPARTMENT OF CORPORATIONS  
OF THE STATE OF CALIFORNIA

11 In the Matter of the ) OAH CASE NO. N  
12 California Corporations Commissioner, )  
 ) CRD No. 1017937  
13 Complainant, ) CRD No. 16274  
 )  
14 v. ) ACCUSATION  
 )  
15 Monterey Bay Securities, Inc., and )  
Kenneth Mark Doolittle also known as )  
16 Ken Doolittle, )  
 )  
17 Respondents, )  
 )  
18 For Revocation of Broker-Dealer Certificate )  
and For Order Barring From any Employment, )  
19 Management or Control of Any Broker-Dealer )  
or Investment Adviser. )  
20 )

21 The California Corporations Commissioner ("Commissioner") alleges, on information and  
22 belief, as follows:

23 I  
24 INTRODUCTION AND JURISDICTION

25 1. The Corporate Securities Law of 1968, set forth in Corporations Code section 25000  
26 et seq., and California Code of Regulations, title 10, section 260.000 et seq., contain provisions  
27 that govern persons who operate in the securities industry. To ensure the protection of the public,  
28 the Legislature mandates that persons dealing in securities follow explicit legal requirements.

1 The Commissioner gives effect to these legislative mandates by promulgating comprehensive  
2 regulations and by enforcing the Corporate Securities Law.

3 **II**  
4 **FACTS**

5 2. Respondent Kenneth Mark Doolittle also known as Ken Doolittle ("Doolittle") resided at  
6 517 Cliff Drive, Aptos, California but has relocated to 892 E Stormy Drive, Meridian, Idaho. During  
7 relevant times Doolittle's business offices were located at 11 Seascape Village, Aptos, CA 95003.

8 3. Doolittle was employed in the securities industry as a registered representative and as a  
9 financial and operations principal. The National Association of Securities Dealers ("NASD")  
10 maintains the qualification, employment and disclosure histories of registered representatives and  
11 principals in its Central Registration Depository ("CRD"). The NASD assigned Doolittle as a  
12 registered representative an identification number through its Central Registration Depository  
13 ("CRD").<sup>1</sup> According to the NASD, Doolittle's CRD number is 1017937. Since December 1984  
14 Doolittle was the president, financial and operations principal of Monterey Bay Securities, Inc., a  
15 NASD member firm (CRD 16274) and a California licensed broker-dealer. Doolittle represented to  
16 the NASD that Monterey Bay Securities, Inc. was engaged primarily in the retail sale of mutual funds.

17  
18 4. The Department of Corporations regulates licensed broker-dealers and other persons who  
19 work in the securities industry. The Department of Corporations recognizes the NASD as "a national  
20 securities association" within the meaning of Corporations Code section 25212, subdivision (d).

21 5. On May 6, 1997, the NASD filed a complaint (case number C 01970012) against Monterey  
22 Bay Securities, Inc. and Doolittle for multiple securities violations including the following: the lack  
23 of adequate net capital for Monterey Bay Securities, Inc.; Doolittle's failure to notify the Securities  
24 and Exchange Commission ("SEC") and the NASD about this net capital deficiency; Monterey Bay  
25 Securities, Inc., and Doolittle's failure to have a continuing education plan and failure to disclose and  
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27 <sup>1</sup> The CRD is a centralized computer data bank that maintains information concerning the registration,  
28 qualification, employment and disciplinary histories of persons employed in the securities industry.  
These persons include registered representatives and broker-dealers such as Doolittle and Monterey  
Bay Securities, respectively.

1 report as required an arbitration award entered against Monterey Bay Securities, Inc., Doolittle and  
2 his employee in the amount of \$100,000. On August 3, 1998, a final order was entered against  
3 Doolittle and Monterey Bay Securities, Inc., which censured and fined them and required Doolittle to  
4 requalify as a financial and operations principal by an examination with the NASD.

5 6. Doolittle also formed and acted as the president of Monterey Bay Investment Corp.  
6 Doolittle, using the name Monterey Bay Investment Corp., obtained an investment adviser certificate  
7 from the Commissioner in 1986. The certificate issued to Monterey Bay Investment Corp. was  
8 revoked in February 2000 but Doolittle never surrender it and he continued to operate as an  
9 investment adviser using that name and variants of the name including, but not limited to, Monterey  
10 Bay Investment Corporation, Monterey Bay Investments, and Monterey Bay Investment Inc. All of  
11 these entities and fictitious business names used by Doolittle functioned as his alter egos.

12 7. Doolittle routinely sought clients and sought investors' funds by means of advertising.  
13 Doolittle offered "free notary services" in the yellow pages and local newspapers. In addition,  
14 Doolittle advertised on his Internet websites, which include: <http://recycledhousing.com>,  
15 <http://kendoolittle.com>, <http://www.investorsdomain.com>, <http://www.lawyerdomains.com> and  
16 <http://www.guntransfers.com>. Some of Doolittle's websites described investments opportunities.

17 8. Doolittle also sought investors through affiliation with church or religious groups and with  
18 military veterans and gun owners. Doolittle represents himself to be a devout church member and  
19 descendant of General Doolittle from the World War II era. Doolittle sought to exploit the trust and  
20 friendship existing among those in various religious and military groups to gain access to investors'  
21 funds. Doolittle's clients acquired in this manner were elderly, trusting and unsophisticated  
22 individuals. Doolittle's offer of free notary services in his offices provided him with the opportunity  
23 to discuss estate and financial planning with potential clients and make recommendations to them. At  
24 times Doolittle advised and directed the sale or exchange of a client's stock, mutual funds or other  
25 assets to enable a client to purchase other investments and financial products that he sold, which  
26 resulted in fees, commissions and compensation being paid to him or his alter egos. Doolittle's  
27 recommendations included the sale or exchange of low risk mutual funds, blue chip stock and other  
28 investments held by clients with sale proceeds transferred to Doolittle. Doolittle induced clients to

1 purchase investments he offered. After Doolittle acquired funds from clients they often had difficulty  
2 obtaining documents reflecting their investments with him. Initially clients would receive some  
3 profit or return on their investment in the form of monthly interest payments, but Doolittle invariably  
4 ceased making payments and offered a variety of excuses or avoided contact with clients.

5 9. Doolittle's discretionary investment advice to California investors and receipt of  
6 compensation for these investment advisory services occurred during a time he was unlicensed and not  
7 exempt from the certification requirement in section 25230 of the Corporate Securities Law.

8 10. The investments offered by Doolittle include interests in a "mortgage fund" he created.  
9 Doolittle explained to investors that he managed a first trust deed mortgage pool in the central coast  
10 area. Doolittle offered fractionalized interests in trust deeds secured by real or personal property,  
11 including mobile homes, and also offered domain name investments. In all cases Doolittle promised  
12 investors profits or interest payments to investors significantly above the market rate, ranging from  
13 ten to fifteen percent (10%-15%).

14 11. Doolittle's offers and sales of investment contracts in the form of interests in mortgage  
15 pools, fractionalized trust deeds, and domain name investments constitute securities. These securities  
16 were required to be but were not qualified under the Corporate Securities Law and are not exempt in  
17 violation of Corporations Code section 25110.

18 12. In violation of Corporations Code section 25401 Doolittle failed to disclose to investors  
19 the following: (1) the Commissioner revoked his investment advisory certificate and that neither he  
20 nor his alter egos possessed a investment adviser certificate from the Commissioner or the SEC  
21 authorizing him to conduct business as an investment adviser in California; (2) he was not licensed  
22 by the California Department of Housing and Community Development to act as a mobile home  
23 dealer and that it had refused to grant him a license to engage in mobile home transactions; (3) the  
24 NASD disciplinary action taken Respondents; and, (4) that Respondents and/or Doolittle's alter egos  
25 were defendants in civil cases resulting in judgments against them including, but not limited to, one  
26 that resulted in a judgment of over \$564,700 against Respondents.

27 13. Both before and after the NASD disciplined Doolittle, he formed and managed several  
28 entities to facilitate his access, control and appropriation of investors' funds. These entities include,

1 but are not limited to, the following: Monterey Bay Investments, M Homes, Mobile Repo, Inc.,  
2 Recycled Mobile Homes and Recycled Housing. These entities and fictitious business names used by  
3 Doolittle served as his alter egos.

4 14. From 2000 and continuing thereafter Doolittle was engaged in unlicensed activities as an  
5 investment adviser. Doolittle used the above-described entities to pool investors' funds. At all  
6 times Doolittle acted as the principal and manager of his entities and thus he or his alter egos  
7 directly managed and controlled investors' funds and securities.

8 15. The investors who entrusted funds to Doolittle were unsophisticated and persons of  
9 modest means who entrusted their retirement funds to him.

10 16. Investors were led to believe the securities Doolittle purchased were held in qualified  
11 custodial IRA accounts or retirement accounts with the Trust Company of America or other firms. In  
12 fact, Doolittle arranged for investors' retirement funds deposited with the Trust Company of America  
13 to be subsequently transferred to bank accounts he controlled.

14 17. As a registered representative with NASD member firms and as principal of his own firm  
15 Doolittle was required to pass qualifying examinations and to conform to the requirements of the  
16 Corporate Securities Law, Federal securities law, rules and regulations promulgated by the SEC and  
17 the NASD. Doolittle took and passed several examinations and was knowledgeable about the legal  
18 requirements governing those who are employed in the securities industry. Doolittle was also  
19 required by the NASD to requalify by examination. Doolittle knew that either qualification or an  
20 exemption is required to offer and sell securities and that a license is required to engage in non-  
21 exempt investment advisory activities.

22 18. On August 3, 1998, the NASD entered a final order against Respondents Doolittle and  
23 Monterey Bay Securities, Inc. The NASD's action against Doolittle resulted in him being censured  
24 and fined by the NASD but Doolittle never informed his clients about the NASD disciplinary action.

25  
26 19. Doolittle never disclosed the fact that in 2000 the Commissioner revoked the investment  
27 adviser's license issued to Doolittle. Doolittle failed to surrender his revoked investment adviser's  
28 license to the Commissioner in violation of Corporations Code section 25244.

1 20. On January 2, 2007, the Commissioner issued a Desist and Refrain Order to Respondents  
2 Doolittle to his violations of Corporations Code sections 25110, 25230, and 25401.

3 21. Doolittle filed for bankruptcy in September 2005 but failed to produce many of the  
4 records he was required to produce to the bankruptcy trustee in 2006 pursuant to the U. S.  
5 Bankruptcy Court’s Order for Rule 2004 Examination of Doolittle.

6 **III**  
7 **RESPONDENTS’ VIOLATIONS AND THE ORDERS ISSUED AGAINST THEM**  
8 **CONSTITUTE GROUNDS TO REVOKE THE BROKER-DEALER**  
9 **CERTIFICATE ISSUED TO MONTEREY BAY SECURITIES, INC.,**  
10 **AND TO BAR DOLITTLE FROM THE SECURITIES INDUSTRY**

11 22. Corporations Code section 25212 provides, in pertinent part:

12 The commissioner may, after appropriate notice and opportunity for hearing, by  
13 order censure, deny a certificate to, suspend for a period not exceeding 12  
14 months or revoke the certificate of, any broker-dealer if the commissioner finds  
15 that the censure, denial, suspension, or revocation is in the public interest and  
16 that the broker-dealer . . . or any partner, officer, director, or branch manager of  
17 the broker-dealer, . . . or any person directly or indirectly controlling the broker-  
18 dealer, . . . or any agent employed by the broker-dealer while so employed has  
19 done any of the following:

20 \* \* \*

21 (d) Is or has been subject to . . . (3) any other order of the commission or  
22 any administrator, association, or exchange referred to in this subdivision  
23 which is or has been necessary for the protection of any investor.

24 (e) Has willfully violated any provision of the Securities Act of 1933, the  
25 Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the  
26 Investment Company Act of 1940, . . . or of any rule or regulation under any  
27 of those statutes, or any order of the commissioner which is or has been  
28 necessary for the protection of any investor.

(i) Has violated any provision of this division or the rules thereunder or, in  
the case of an applicant only, any similar regulatory scheme of the State of  
California or a foreign jurisdiction.

23. Corporations Code section 25213 provides that:

The commissioner may, after appropriate notice and opportunity for hearing,  
by order or censure, or suspend for a period not exceeding 12 months, or deny  
or bar from any position of employment, management or control of any  
broker-dealer or investment adviser, any officer, director, partner, agent,  
employee of, or person performing similar functions for, a broker-dealer, if  
the commissioner finds that such censure, suspension or bar is in the public

1 interest and that such person has committed any act or omission enumerated in  
2 subdivision (e) . . . of Section 25212 . . . or is subject to any order specified in  
3 subdivision (d) of Section 25212.

4 24. Corporations Code section 25215 provides that:

5 No order may be entered under Section 25212, 25213, or 25213.3, or  
6 25252 except after notice to any person affected thereby (and, in the case  
7 of an agent, to his employer or prospective employer if known to the  
8 commissioner) of the intention of the commissioner to enter that order and  
9 of the reasons therefore and that upon receipt of a request the matter will  
10 be set down for hearing to commence within 15 business days after such  
11 receipt unless the person affected consents to a later date. If no hearing is  
12 requested within 30 days after the mailing of the notice and none is  
13 ordered by the commissioner, the order may be entered without a hearing  
14 to remain in effect until it is modified or vacated by the commissioner. In  
15 the case of an original application for a certificate, that hearing shall be set  
16 down to commence within 15 business days after receipt of a written  
17 request by the applicant made 30 days or more after the filing of the  
18 application, even though no notice by the commissioner has been given,  
19 unless the applicant consents to a later date. If a hearing is requested or  
20 ordered, it shall be held in accordance with the provisions of the  
21 Administrative Procedure Act, (Chapter 5 (commencing with Section  
22 11500) of Part 1 of Division 3 of Title 2 of the Government Code), and the  
23 commissioner shall have all of the powers granted thereunder.

24 25. The NASD order, the Commissioner's orders and Respondents' violations of Corporations  
25 Code including, but not limited to sections 25110, 25230, 25244, and 25401 are within the provisions  
26 of the Corporations Code section 25212 (d), (e) and (i) and provides grounds to revoke the broker-  
27 dealer certificate of Monterey Bay Securities Inc., and bar Doolittle pursuant to Corporations Code  
28 sections 25212 and 25213, respectively.

**PRAYER**

**WHEREFORE**, based on the foregoing, the Commissioner finds it in the public interest and  
prays that the certificate of Monterey Bay Securities Inc. be revoked and that Kenneth Mark  
Doolittle, also known as Ken Doolittle, be barred from the securities industry.

Dated: April 22, 2007  
San Francisco, California

PRESTON DuFAUCHARD  
California Corporations Commissioner

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By \_\_\_\_\_  
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