

STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION

CEASE AND DESIST ORDER

The Alabama Securities Commission, having the power to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, upon due consideration of the subject matter hereof, has determined as follows:

RESPONDENTS

1. MALORY INVESTMENTS LLC ("MALORY") Central Registration Depository ("CRD") 110936, has been a registered securities dealer in the state of Alabama pursuant to 8-6-3 since October 11, 2005, with a current business address of 10937 Wilkins Avenue #304 Los Angeles, CA. Previous addresses for MALORY are 6345 Balboa Blvd. Suite 259 Blg 3 Encino, CA 91316, 12966 Euclid #150 Garden Grove, CA, 1351 WestWood Blvd. @102 Los Angeles, CA, and 520 S. Sepulveda Blvd., Suite 308 Los Angeles, CA 90049. CRD records indicate the

authorized product types for MALORY are private placements and mutual funds. Currently, Malory has requested termination from registration in the state of Alabama. The request is currently pending.

2. RONALD STEIN ("STEIN") (CRD # 434761), is the reported "owner" (75%+ ownership) of MALORY. At all times relevant, STEIN has been a registered securities dealer/agent in the state of Alabama since October 12, 2005. His registration in Alabama terminated December 18, 2006. CRD records indicate that STEIN holds series 1, 27, 40, and 63 designations. STEIN's residential address is 10937 Wilkins Avenue #304 Los Angeles, CA.

3. STEPHEN STRAUSS ("STRAUSS") (CRD# 446296), a member of MALORY, is reported to own 10% but not more than 25% of the firm. CRD records indicate that he holds no securities designations and he has never been registered as a securities dealer/agent in the state of Alabama. His recent residential addresses are 26893 Bouquet Canyon Road #C-410 Santa Clarita, CA 91350-3500 and 8758 Saddlebrook Cove, Olive Branch, MS 38654. He has business addresses of 3340 Goodman Road. South Haven, MS 38672 and 904 Rayner St. Memphis, TN. STRAUSS has been convicted in Alabama for one felony count of Theft of Services 1st degree.

4. KENNETH EUGENE ZELMER, JR. ("ZELMER") (CRD# 476238) is a principal with Malory. At all times relevant, ZELMER has never been a registered securities dealer/agent in the state of Alabama. CRD records indicate that he owns less than 5% of the firm and holds series 1, 4, 22, 24, 40, 53, 63, and 66 designations. His residential address is 40204 N. Hickcock Trail Phoenix, AZ, 85086.

5. SEAN ZARINEGAR (AKA Bejahn Zarinagar) ("ZARINEGAR") (CRD # 2244373) was employed with Malory from July 9, 2001 through April 8, 2005. At all times relevant, ZARINEGAR has never been a registered dealer/agent in the state of Alabama. His residential address is 11660 Greentree Rd., Colorado Springs, CO 80908-4126. He holds a Series 6, 7, 22, 24, 27, 39 and 63

designation. CRD disciplinary disclosure records for Zarinagar reflect a personal, Chapter 7 Bankruptcy Case #SA00-13205L discharged on July 31, 2000 involving a high-risk private investment in restaurants that resulted in major losses in personal income. In April of 1993 Zarinagar had a felony charge for cultivation of Marijuana in Orange County, California, Case # 93HF0356, that was dismissed on November 5, 1993. He was also named in two NASD Arbitration Cases. The first is NASD case # 9901479, alleging fraud and negligent misrepresentation, breach of fiduciary duty and negligence in connection with investments in two limited liability company private placements in November 1997, in the amount of \$105,000. The second is NASD case # 99-03941, involving suitability of investments and breach of fiduciary duty in connection with investments in two limited partnerships during the period of 1995 to 1997, in the amount of \$369,500. Additionally, Zarinagar was named as a respondent in a civil law suit filed in Superior Court of California (Case Number 808225) in 1999. The complaint involved investments in two limited partnerships in 1995 and 1996 and was settled in January 2000 for \$22,000.

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

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

CGI's website and documents state that it provides its clients with broker-dealer services regulation, compliance services (including analysis and development of compliance policies, compliance audits and draft disclosures and responses to federal and/or state document production requests), training, legal representation in enforcement actions (including complex litigation matters, regulatory investigations and proceedings, parallel criminal and civil proceedings, sales practices claims, subpoena enforcement, Cease & Desist issues,

administrative hearings and other proceedings, and other claims of alleged violations), private placement disclosure document preparation, issuance of securities, blue sky registration, broker-dealer and agent registration, and new business formation.

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

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

7. BLAKE WILLIAM WILSON (AKA Arnold Kramer, Arnold Cramer, and Irv Kranberg) (CRD # 1390808) ("WILSON") is the owner of CGI. He has a business address of 155 East El Roblar Drive, Ojai, CA 93023 and a home address of 419 Tico Blvd., Ojai, CA. 93023. From July 17, 1985 to August 14, 1992, WILSON owned and operated NASD broker-dealer Blasanne, Inc. (CRD # 16647), aka: Blago Oil Company. On November 11, 1992, WILSON was convicted of a felony, to wit: "False Statement to Sell Securities" in the state of California." As a result of that conviction, WILSON was barred by California from any association to wit: "position of employment, management, and control of any broker-dealer and/or Investment Adviser." On June 29, 1992, the NASD censured and barred WILSON from association with any member of the NASD in any capacity for violation of Rules of Fair Practice to wit: "WILSON failed to respond to NASD request for information made pursuant to Article IV, Section 5 of the Rules of Fair Practice concerning an investigation of his securities business." Although not disclosed as a Principal of MALORY, WILSON controlled MALORY. He exercised the ability to recruit, hire and register agents. He also was the only person who solicited and negotiated with issuers and had the ability to commit MALORY to act as the Broker-Dealer of Record. The only source of income for MALORY came from the WILSON negotiated deals.

¹ CGI recommended Malory to the issuers who inquired about broker-dealer services.

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

9. Review of the files of the Alabama Securities Commission disclosed no record of the registrations of RESPONDENTS CGI, WILSON, AND FENN as securities dealers in the state of Alabama. In fact, if WILSON attempted to register as such, his prior criminal conviction for securities fraud would act as a disqualification.

NATURE OF THE CASE

RESPONDENTS engaged in a wide range of fraudulent securities offerings in which they conspired to sell over one hundred offerings raising hundreds of millions of dollars through the use of the Reg. D 506 exemption. Among other acts, RESPONDENTS employed unregistered sales agents, paid undisclosed sales commissions, fraudulently overstated potential returns on investments, failed to disclose criminal backgrounds of principals, and failed to accurately disclose use of proceeds, assets of the issuers and other material information. In fact, MALORY conducted private offerings at an average of one per week, despite MALORY operating from a residential apartment, not advertising, and not even maintaining a Yellow Pages listing.

In 1992, WILSON was convicted of securities fraud. As a result of that conviction, WILSON was barred from any association with a broker-dealer. Despite this restriction, WILSON controlled the operation of MALORY since the inception of the firm. MALORY'S application for broker-dealer registration was misleading in several ways, including never disclosing the involvement of WILSON with the firm. In fact, MALORY'S sole business and revenue came from offerings solicited and arranged by WILSON.

In order to facilitate their conduct, RESPONDENTS formed shell

companies, acted under false names, used names of individuals without their knowledge, and failed to disclose the involvement of key individuals. They engaged in this conduct through a broker-dealer that failed to maintain books and records, ignored its obligations to perform due diligence, and repeatedly filed regulatory filings containing false statements.

STATEMENT OF FACTS

MALORY AUDIT

10. 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.

11. 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.

12. 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.

13. The books and records of MALORY were located at 10937 Wilkins Avenue #304, Los Angeles, CA, 90024, which is located in a restricted access apartment building and is the residential address of STEIN and his wife.

14. 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 have been made to the WSP since July 2001.

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

16. 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 incoming and outgoing correspondence for the firm and its registered representatives.

17. The examiners found that MALORY and its employees did not maintain client files. STEIN stated that his firm did not sell any PPO's ("Private Placement Offerings") and only sold one mutual fund since the inception of the firm.

18. STEIN stated that MALORY received no commission on any sales of PPO's for which the firm was the broker-dealer of record.

19. During the audit, STEIN stated that MALORY received \$2,000 per PPO for which it was the broker-dealer of record. STEIN stated he never spoke to the issuer of a PPO. He stated that CGI, acting by and through FENN and WILSON, negotiated the broker-dealer agreement for MALORY with respect to these PPO's.

20. During the audit, the examiners found one hundred and seven private placement memoranda ("PPM's") for which MALORY was the broker-dealer of record. STEIN stated that since the inception of the firm in 2002, no MALORY agent ever sold a PPO.

21. Section 16.1.2.1 of Malory's WSP states that (Section 4(2) of the Securities Act of 1933) states that

"Some private placements are offered under section 4(2) which provides an exemption for "transactions by an issuer not involving any public

offering." While the section does not specifically outline the requirements for establishing an exemption, the following is a summary of requirements gleaned from SEC interpretations and court decisions.

- There may be no general solicitation of purchasers.*
- Offerees and purchasers must have access to information about the issuer and must be able to comprehend and evaluate the information.*
- The issuer, broker-dealer and others acting for the issuer must conduct due diligence to reasonably insure the information given to Offerees and purchasers is complete and accurate.*

22. During the examination, STEIN gave inconsistent statements to examiners regarding due diligence investigations of offerings for which MALORY was shown as broker-dealer of record. Initially, he stated that he, as principal of MALORY, performed due diligence on each private placement. Later, when no due diligence information was located on the PPM's or for the issuers of the offerings, STEIN stated that MALORY relied on CGI to conduct due diligence investigations.

23. WILSON'S involvement, felony conviction, and bar from association with broker-dealers was never disclosed to investors by any of the PPO's reviewed for which MALORY was the broker-dealer of record and for which CGI performed due diligence, subscription tracking services, PPM preparation and other services.

24. Section 2.21.4 of the MALORY's WSP requires that a background investigation be conducted on all new employees. STEIN stated that neither STRAUSS, ZELLMER, ZARINEGAR, nor he ever interviewed the MALORY agents prior to hiring them and never conducted a background investigation on them. He further stated that he was informed by WILSON which agent was to be registered with MALORY. STEIN stated that on at least two occasions, WILSON instructed that STEIN allow two agents to park their license with MALORY. STEIN stated that he submitted to WILSON'S command and that on August 26, 2004, he hired Michael Jones (CRD # 2157872) and that on June 6, 2006 he hired Jeremy Dane Jobe ("JOBE") (CRD #4271958).

25. Sections 2.21.5 and 4.0 of the WSP identified STEIN as the designated principal on regulatory filings, requiring STEIN to make all regulatory filings for MALORY and its employees, including U-4 filings and fingerprints. In reality, FENN and CGI made all filings for MALORY with little or no review by STEIN.

26. On July 6, 1987, STRAUSS was convicted of Theft of Service 1st degree for which he was sentenced to 24 months. The RESPONDENTS failed to disclose the criminal record of STRAUSS on the CRD. On March 25, 2002, the California Department of Corporations issued a Desist and Refrain Order for the sale of unregistered securities issued by Stovact Inc., to STRAUSS, who at the time was the Director of Business Affairs for Stovact. The CRD records indicate that STRAUSS was the Chief Operating Officer of Stovact Inc. STRAUSS, STEIN, FENN, and MALORY failed to disclose this Desist and Refrain Order on STRAUSS' U-4.

On July 6, 1987, STRAUSS was convicted of Theft of Service 1st degree for which he was sentenced to 24 months. The RESPONDENTS failed to disclose the criminal record of STRAUSS on the CRD. On March 25, 2002, the California Department of Corporations issued a Desist and Refrain Order for the sale of unregistered securities issued by Stovact Inc., to STRAUSS, who at the time was the Director of Business Affairs for Stovact. The CRD records indicate that STRAUSS was the Chief Operating Officer of Stovact Inc. STRAUSS, STEIN, FENN, and MALORY failed to disclose this Desist and Refrain Order on STRAUSS' U-4.

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

28. FENN signed as the administrator on many documents that were printed on MALORY letterhead. FENN conducted numerous activities on behalf of MALORY, CGI and the issuers to include filing of registration for broker-dealer agents for MALORY and making notice filings for the issuers.

29. In a document dated September 4, 2002, FENN sent a letter to NASD Registration, Inc, regarding the "Broker Dealer Initial Registration Fees and Agent Registration Fees" for registration in 40 states.

30. During the audit, an examiner located an e-mail from FENN (From: Christine<Christine@west.net>) to STEIN (To: Ronald Stein < maloryllc @ hotmail.com >) dated September 21, 2006. In the e-mail, FENN writes:

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

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

32. Section 11.3 of the WSP (Branch Offices Assigned to OSJ's) states that

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

33. Section 11.4 of the WSP (Non-Branch Business Location) states that
"Visit the non-branch location at least quarterly or require the RR(s) to visit the OSJ at least quarterly... Document visits to non-branches and /or meetings with non-branch RR(s)."

34. STEIN stated that he did not conduct internal audits or visits as is required in the firm's WSP cited in paragraphs 32 and 33.

35. STEIN stated that, absent a written contract, MALORY delegates compliance responsibilities to CGI. These compliance activities include but are not limited to registration filings for the firm and its agents, due diligence for all offerings, hiring of agents, training of agents, registration of agents, scheduling for

exams, and assistance to STEIN in written responses to state regulators as well as the NASD and the SEC.

36. STEIN stated that WILSON and CGI marketed MALORY'S services to the issuers. STEIN further stated that the only source of revenue for MALORY was the broker-dealer agreements with issuers that were brought to MALORY by WILSON and CGI.

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

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

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

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

"One of my "partners" was also impressed about what I shared with him about your company and financial requirements, BUT he had one question: re the Broker/Dealer, the fee is \$2k, but are there any additional fees or points due the BD" Thanks."

40. In response FENN (cgi@west.net) writes on December 9, 2004 (3:54 PM) the following:

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

CAPITAL GUARDIAN

41. CGI, WILSON and FENN drafted and/or filed the PPM and/or allegedly conducted subscription tracking for at least one hundred and seven offerings for which MALORY was broker-dealer of record. In some but not all offerings, CGI is noted as providing subscription tracking services.

42. CGI charged some issuers a commission of as much as 6.5%. CGI attempted to disguise these commissions as "subscription tracking fees" or "clearing fees."

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

"\$20,000 to \$30,000 – Capital Guardian
\$15,000 to \$20,000 – State registration and filing
\$2,000 to \$3,000 – Broker dealer + 6 ½ % of each sale/so that's
\$65,000 or more"

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

44. An example of CGI receiving commission is found on a September 14, 2005, check that was issued by Kentucky Mountain View Petroleum Inc. to

"Mallory Investments or Capital Guard" [sic] for "3.5% broker dealer agreement." The check was deposited in a CGI bank account at Washington Mutual Bank, FA.

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

46. No Malory offering materials disclosed that WILSON was involved with providing the services listed in paragraph 45, and none disclosed his 1992 conviction of securities fraud in the state of California.

47. RESPONDENT STEIN told examiners that records of MALORY were being kept at CGI. However, during a visit to CGI conducted in order to retrieve MALORY records, an examiner heard FENN tell STEIN on a phone conversation that the records STEIN wanted CGI to release to examiners did not belong to STEIN or to MALORY but instead belonged to CGI and the issuers. Despite requests made to WILSON by both the examiners and STEIN and a California Department of Corporation's order to produce the due diligence records, those records were never produced. In fact, CGI represented to examiners that no due diligence files existed because CGI did not conduct due diligence examinations.

48. In addition to the due diligence records, the State of California requested pursuant to a Judicial Order that CGI immediately produce for review, inspection and copying by the California Corporations Commissioner (or

designee(s) of the Commissioner) all books, papers, correspondence, memoranda, agreements, or other documents or records relating to MALORY, or any issuer for which MALORY was listed as the broker-dealer, including any books, papers, correspondence, memoranda, agreements, or other documents maintained in electronic format of any type.

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

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

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

52. The petition for the Wisconsin Order cited that WILSON was the controlling person of issuers Sierra West Unit Investment Trust, Sierra West-A Unit Investment Trust, and Pac West II Unit Investment Trust.

53. The petition for the Wisconsin Order further recited that during 1997 WILSON used unlicensed agents to sell securities issued by the entities listed in paragraph 52 above to Wisconsin residents.

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

55. The Alabama Securities Commission is in receipt of information that RESPONDENTS MALORY, STEIN, STRAUSS, ZELLMER, ZARINEGAR, CGI, WILSON, AND FENN engaged in the offer and/or sale of securities to Alabama residents, that were neither registered nor exempt from registration in the state of Alabama.

PRIVATE PLACEMENTS AND ISSUERS

56. MALORY was listed as the broker-dealer of record on sixty-four offerings which were purported to be exempt from federal and state registration under Reg. D. Most of the offerings were either fraudulent and/or violated the Reg. D exemption requirements.

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

57. MALORY is listed as the broker-dealer of record on a copy of a signed Securities and Exchange Commission ("SEC") Reg. D 506 filing for a securities offering by Tri-State Energy Group I, LP found by the examiners at the offices of CGI.

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

59. MALORY signed a broker-dealer agreement with Tri-State Energy Company for an offering by Tri-State Energy Group II, Ltd. STEIN and Robert L. Flickinger, II ("Flickinger"), the principal of Mercer Capital Management, Inc., and Vice-President of Tri-State Energy Company LLC, signed the broker-dealer agreement.

60. On July 25, 2006, Mercer Capital Management, Inc., issued a check to MALORY for \$2,000. The notation in the memo line was "Tri-State II."

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

62. The PPM referred to in Paragraph 61 failed to name CGI as the compliance service provider and failed to disclose WILSON's criminal record and administrative sanction.

63. The Tri-State Energy Group II, Ltd. private placement memorandum states that Flickinger has served as the Vice-President of Tri-State Energy Company LLC since December 1999.

64. On November 22, 2006, the SEC, in conjunction with the National Futures Association, brought an emergency action against Mercer Capital Inc., Mercer Capital Management, Inc., Tri-State Energy Group LLC, Tri-State Energy Group I, LTD., Tri-State Energy Group II, LTD, and Flickinger.

65. In the complaint which supported the emergency action, the SEC alleged that Mercer Capital Inc., Mercer Capital Management, Inc., Tri-State Energy Group LLC, Tri-State Energy Group I, LTD., Tri-State Energy Group II,

LTD, and Flickinger were engaged in the fraudulent trading of securities issued by Tri-State Energy Company LLC, a Casper, Wyoming company.

66. Due to MALORY'S and CGI's failures to conduct due diligence on the issuers referred to in Paragraph 64 and the issuer-provided information for the PPM's used in their offerings, the investors were deprived of the opportunity to learn of the fraud relating to these offerings.

67. Kirk Devon Smith (CRD #1002884) was hired by MALORY on October 9, 2006. He is also employed by Mercer Capital Inc., a commodities dealer located in Portland, Oregon. STEIN did not conduct a pre-employment interview with Smith and did not conduct an inquiry after the SEC's action against Mercer Capital, Inc. referred to in Paragraphs 63 and 64. Acting through CGI, WILSON took actions, including the payment of registration fees, in order to obtain Smith's registration as an agent with MALORY.

North American Resource Group

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

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

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

71. On December 12, 2005, STEIN wrote a letter to the NASD CRD-IARD regarding the renewal of MALORY's registration. In the letter, STEIN references two checks in the amount of \$6,300.00 and \$3,490.00. "Enclosed are two checks for \$6300.00 and \$3,490.00 toward my 2006 renewal. If you have any questions, please [call] give Christine, my administrator on my account."

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

73. Despite the dual employment of agents by MALORY and NARG, MALORY failed to conduct any review of the activities of the NARG employees following the Alabama cease and desist order.

LifeLine Imaging LLC

74. Lifeline Imaging is a California Limited Liability Company and is owned and operated by Randy Morton ("Morton"). Since 2001, LifeLine has sold securities in at least 8 separate offerings that LifeLine claimed to be exempt from securities registration. In connection with these offerings, Lifeline filed Form D's which it had reason to know would be available to the investing public. MALORY was the broker-dealer of record on at least three (3) LifeLine Imaging Reg D 506 filings with the SEC and with the states.²

² LifeLine Imaging of Los Gatos, Advanced Health Care Group of Dallas, and Advanced Imaging-Ft. Worth

75. MALORY hired at least four former sales employees of Pacific Network and Consulting. Pacific Network and Consulting was the call center that marketed only the Lifeline Imaging PPO's.

76. CGI, WILSON, and FENN took all actions to register the representatives referred to in Paragraph 74 as MALORY agents.

77. CGI drafted and/or filed each of the PPM's on behalf of Lifeline securities offerings. CGI, WILSON, FENN, and Morton failed to disclose on these PPM's Morton's felony convictions for transporting narcotics and possession of a control substance/narcotics.

78. The state Notice filings and/or federal Form D filings for LifeLine Imaging of Los Gatos, Advanced Health Care Group of Dallas, and Advanced Imaging-Ft. Worth, issued by companies owned and controlled by Morton, indicates that Malory was the Broker-Dealer of Record on these securities offerings. However, it was never disclosed in those offerings that Morton negotiated the offerings only with Blake Wilson, an individual who was not registered with Malory, and who was prohibited from any association with a broker-dealer.

79. In a statement made by Daniel Alfred Caterino ("Caterino") to examiners, Caterino stated that he was merely a consultant for LifeLine. However, Caterino maintained an office located at Pacific Network and Consulting's office address. Caterino has a criminal record that includes drug-related charges, burglary, theft, and grand theft auto.

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

81. In a statement taken from Ken Perdue ("Perdue") by the examiners, Perdue stated that he assisted in the management and the operation of Pacific Network and Consulting utilizing unregistered salespersons. Perdue stated that the unregistered sales agents "cold called" potential investors throughout the United States. The initial call would be made by a "fronter", and if the potential investor was interested, the investor would be transferred to a "closer." In the event of a sale, both the fronter and the closer would receive a commission. Perdue stated that if the issuer wanted to raise \$1,000,000 for working capital, the PPO would be made for \$2,000,000 because the cost of raising the funds would be approximately 50% of the total offering amount.

82. Perdue stated that Caterino operated and supervised Pacific Network and Consulting. Furthermore, former Pacific Network and Consulting employees verified that Caterino managed, operated and supervised the call center's operation. At least 80 of the agents of Pacific Network and Consulting were not registered at the time they sold the offerings for LifeLine.

83. WILSON came to the call center on several occasions and met with Caterino.

84. WILSON and FENN, acting on behalf of MALORY, hired and registered at least four Pacific Network and Consulting sales agents.

85. One of the agents hired by WILSON and FENN was Thomas Glinskas, CRD # 4618972. In a statement by Glinskas taken by the examiners, Glinskas said he had never heard of STEIN. He stated that WILSON arranged for him to take the NASD Series 22 classes at the LifeLine call center and to become registered with the NASD through a sponsoring company. Glinskas said that he did not know who the sponsoring company was. Glinskas stated that WILSON was present at the Pacific Network and Consulting call center on multiple occasions.

86. Perdue has arrests or criminal convictions for violations of corporate securities laws, unlawful sale of securities, offer or sale of unqualified securities, selling false securities, counterfeiting checks, grand theft, conspiracy, theft of government property, embezzlement, false statements (2 counts), damage to property, and DUI.

87. On February 2, 2005, the Alabama Securities Commission issued a Cease and Desist Order (CD-2005-0004) against LifeLine Imaging LLC.

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

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

90. On October 1, 2003, the California Department of Corporations issued a Desist and Refrain Order against LifeLine Imaging Systems, Inc.

91. On June 3, 2005, the State of Nebraska issued a Cease and Desist Order against LifeLine Imaging LLC.

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

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

94. Stanley Johnson ("Johnson"), an admitted closer for the LifeLine offerings, stated that while he was an unregistered sales agent for Pacific Network

and Consulting, "fronters" were paid on an hourly rate plus a 2% commission if a sale was made from one of their contacts. He further stated that the closers received an 18% commission on each sale. Johnson said that each manager received 2 to 3% from each sale.

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

96. The LifeLine PPM's failed to disclose that CGI was the compliance service/tracking service and failed to disclose WILSON's criminal record and administrative sanctions. They also failed to disclose the commissions paid to CGI, which were described as "subscription tracking fees."

97. An analysis of the bank accounts for LifeLine revealed that investors' funds from the offerings were co-mingled. The co-mingling of funds makes the identifying, measuring, interpreting or recording of the economic results of the separate LifeLine offerings inaccurate.

Consulting Dynamics Inc./Advance Body Imaging LP

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

99. The Form D filing by Advance Body Imaging LP, dated July 13, 2004, indicated that MALORY was the Broker-Dealer of Record. However, in regards to MALORY's participation as the broker-dealer, the offering never disclosed that Stanley Johnson negotiated only with WILSON, an individual not registered with MALORY, and prohibited from any association with a broker-dealer.

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

101. Johnson met WILSON while Johnson was working as an unregistered sales agent for LifeLine Imaging.

102. Johnson stated to examiners that WILSON and CGI wrote the PPM and filed the Form D and notice filings for Advance Body Imaging.

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

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

105. At least one sales agent for Consulting Dynamics was a registered agent of MALORY at the time he received commission checks from Consulting Dynamics.

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

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

The Loan Shoppe, Inc.

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

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

110. On December 12, 1991, Charles Carver was arrested and subsequently convicted for felony Possession of a Controlled Substance. The Loan Shoppe's PPM did not disclose Charles Carver's felony conviction.

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

112. In October 2006, the principals of The Loan Shoppe, Charles Carver and Mario Robert Naranjo, were indicted by a Federal Grand Jury in the Southern

District of Florida for criminal activity related to the sale of securities issued by The Loan Shoppe, including wire fraud, mail fraud and money laundering.

Amerivet Securities

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

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

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

116. Prior to WILSON forming MALORY, Amerivet Securities was used as the broker-dealer of record for offerings conducted by CGI. According to Elton Johnson, WILSON paid Johnson a flat fee of \$400.00 to use Amerivet's name in regulatory filings related to the offerings. Elton Johnson stated that WILSON told him that no sales agents were needed because the sales would be made by other unidentified individuals. According to Johnson, Amerivet agents never made any sales of offerings brought by WILSON.

117. Elton Johnson stated that he had known both WILSON and STEIN from the "chop shops" (boiler rooms) that were located in the Los Angeles, California area.

CONCLUSIONS OF LAW

In violation of 8-6-3 (j) (7), Code of Alabama, 1975 and 8-6-3(j)(7), Code of Alabama, 1975, Respondents engaged in dishonest or unethical business practices in connection with the offer, sale or purchase of securities in that:

- A. Respondents Malory, Stein, Strauss, Zellmer, Zarinagar, CGI, Wilson and Fenn filed a broker dealer application for Malory Investments, LLC that failed to disclose the true address for Malory.
- B. Respondents Malory, Stein, Strauss, Zellmer, Zarinagar, CGI, Wilson and Fenn allowed Respondent Wilson to act as an undisclosed principal of Malory, despite the fact his prior felony conviction for securities fraud barred him from any association with a broker-dealer.
- C. Respondents Malory, Stein, Strauss, Zellmer, Zarinagar, CGI, Wilson and Fenn filed a broker dealer application for Malory Investments that failed to disclose Respondent Wilson's involvement in Malory.
- D. Respondents Malory and Strauss filed a false U4 application in that the application failed to disclose Strauss's prior criminal convictions.
- E. Respondents Malory and Strauss filed a false U4 application in that the application failed to disclose that Strauss and Stovact were subject to a Desist and Refrain Order issued by the State of California. Strauss U4 application also failed to disclose that Strauss was acting as the Chief Operating Officer of Stovact Inc., at the time of that Desist and Refrain Order.
- F. Respondent Malory, by and through respondents Stein, Strauss, Zellmer, Zarinagar, CGI, Wilson and Fenn, filed false financial statements that incorrectly identified underwriting fees as commissions earned.
- G. Respondents CGI, Wilson and Fenn held CGI out to the public as a broker dealer, while CGI was not registered as such.
- H. Respondents CGI, Wilson and Fenn offered their clients a list that disclosed the covert names and telephone numbers used by the FBI and state securities regulators.

- I. Respondents Malory, Stein, Strauss, Zellmer, Zarinagar, CGI, Wilson, and Fenn filed notice filings with Alabama Securities Commission which claimed that Respondent Malory was an associated broker/dealer of the offering, when Malory failed to conduct any due diligence.

In violation of 8-6-17 (a)(3) Code of Alabama, 1975, Respondents engaged in any act, practice or course of business, in connection with the offer, sale or purchase of securities, which operates or would operate as a fraud or deceit upon any person:

- 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 Malory's underwriting clients were exempt from registration, 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.
- F. Respondents participated 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 in the offer and sale of Lifeline Imaging securities while the Respondents, knew or should have known, that unregistered salespeople were selling the securities.
- H. Respondents participated in the offer and sale of the securities issued by Advance Body Imaging, LP; while the Respondents knew or should have known that the proceeds of the offerings were being co-mingled with that of the accounts of the general partner.

- I. Respondents participated in the offer and sale of Advance Body Imaging, LP , securities while the Respondents knew or should have known that unregistered salespeople were selling the securities.
- J. Respondents participated in the offer and sale of securities issued by The Loan Shoppe, while the Respondents knew or should have known that the criminal background of the Loan Shoppe's owner and operator was not disclosed to investors.
- K. Respondents participated in the offer and sale of securities issued by Phase Two Value Creating Fund, while the Respondents knew or should have known that the fund used the name of the proposed fund manager without his knowledge or consent.
- L. Respondents participated in the offer and sale of securities issued by Phase Two Value Creating Fund, while the Respondents knew or should have known that the proposed fund manager for the fund was deployed overseas.
- M. Respondent Capital Guardian held itself out as a broker-dealer and acted as a broker-dealer, while not registered as such.

In violation of 8-6-17 (a)(2) Code of Alabama, 1975, Respondents obtained money through the sale of securities by means of making untrue statements or omitting to state facts necessary in order to make the statements made not misleading, in that:

- A. Respondents received money from the sale of securities issued by Malory's underwriting clients without disclosing the involvement of Blake Wilson and his prior criminal conviction.
- B. Respondents received money from the sale of securities issued by Malory's underwriting clients, claiming the securities were exempt from registration, while in fact, Respondents knew or should have known that the securities were being sold in a manner inconsistent with claimed exemptions.
- C. Respondents received money from the sale of securities issued by Malory's underwriting clients, knowing or having reasonable grounds to know that private placement memorandums used to market the securities contained false representations.
- D. Respondents received money from the sale of securities issued by Lifeline Imaging, while the Respondents knew or should have known that the criminal backgrounds of Lifeline officers were not disclosed to investors.

- E. Respondents received money from the sale of securities issued by The Loan Shoppe, while the Respondents knew or should have known that the criminal background of owner and operator of the Loan Shoppe was not disclosed to investors.
- F. Respondents received money from the sale of securities issued by Consulting Dynamics Inc. and securities issued by Advance Body Imaging, LP while the Respondents knew or should have known that Consulting Dynamics Inc. and Advance Body Imaging, LP failed to disclose that the proceeds of the offerings were being commingled.
- G. Respondents received money from the sale of securities issued by Phase Two Value Creating Fund while the Respondents knew or should have known that the person named as the fund manager was not associated with the offering.
- H. Respondent CGI, Wilson and Fenn received money in connection with the sale of securities by falsely holding CGI out as a broker-dealer, while it was not registered as such.

In violation of 8-6-3(j)(10) Code of Alabama, 1975 and 830-x-3-.13 Code of Alabama, 1975, Malory, acting through Respondents Stein, Strauss, Zellmer, Zarinagar, CGI, Wilson and Fenn, failed to reasonably supervise the operation of Malory, 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. Malory failed to have any written policies relating to anti-money laundering procedures.
- C. Malory failed to have any procedures for reviewing correspondence.
- D. Malory failed to maintain incoming and outgoing correspondence.
- E. Malory failed to have any system to archive e-mail relating to the operation of Malory.
- F. Malory failed to maintain client account records.
- G. Malory registered offerings as a broker-dealer of record, without conducting any due diligence.
- H. Malory allowed Wilson and Fenn, neither of whom was registered with Malory, to negotiate underwriting agreements on behalf of Malory.

- I. Malory failed to conduct background investigations on new employees, as required by their own supervision procedures.
- J. Malory allowed Respondents Wilson and Fenn to hire new agents on behalf of Malory, despite Wilson and Fenn not being registered with Malory.
- K. Malory allowed Wilson and Fenn to make regulatory and registration filings on behalf of Malory, with little or no review by a designated Principal.
- L. Malory failed to conduct compliance reviews of it's branch offices, as required by their own supervision procedures.
- M. Malory failed to conduct a pre-employment interview prior to registering Kirk Devon Smith.
- N. Malory failed to conduct any inquiry into the activities of Kirk Devon Smith, after his previous employer was named in a SEC enforcement case.
- O. Malory failed to conduct any inquiry into the activities of 14 agents that had dual registration with Malory and North American Resources, after North American Resources was named in an Alabama Cease and Desist Order.
- P. Malory failed to conduct a due diligence review in any of the offerings for which it acted as the associated broker-dealer.
- Q. In offerings in which it was listed as the broker-dealer, Malory failed to ensure that Private Placement Memoranda associated with the offerings disclosed the principals' prior criminal convictions.
- R. In offerings in which Malory was listed as the broker-dealer, it failed to ensure that Private Placement Memoranda did not contain false or misleading statements.
- S. In offerings in which Malory was listed as the broker-dealer, it failed to ensure that the offerings were sold in a manner consistent with exemptions claimed in the Private Placement Memoranda.

In violation of 8-6-3(j)(1) Code of Alabama, 1975, Respondents made or caused to made, statements to the Alabama Securities Commissson, which were false or misleading, in that:

- A. Respondents Malory, Stein, Strauss, Zellmer, Zarinegar, CGI, Wilson, and Fenn filed a false broker-dealer application for Malory Investments, LLC that failed to disclose the true address for Malory.

B. Respondent Malory, by and through respondents Stein, Strauss, Zellmer, Zarinagar, CGI, Wilson, and Fenn, filed false financial statements that incorrectly identified underwriting fees as commissions earned.

In violation of 830-x-3-15 Code of Alabama, 1975, Malory acting through Respondents Stein, Strauss, Zellmer, Zarinagar, GCI, Wilson, and Fenn, failed to allow required books and records to be examined during an audit, in that:

- A. Malory failed to produce and/or maintain accurate financial statements.
- B. Malory failed to produce and/or maintain financial records including check books, bank statements, cancelled checks and cash reconciliations.
- C. Malory failed to produce and/or maintain incoming and outgoing correspondence, including e-mail.
- D. Malory failed to have any system to archive e-mail relating to the operation of Malory.
- E. Malory failed to produce and/or maintain client files.
- F. Malory failed to produce and/or maintain employment records for certain registered representatives.
- G. Malory failed to produce and/or maintain records in regard to disciplinary actions against registered representatives registered with Malory.
- H. Malory failed to produce and/or maintain due diligence files relating to its underwriting clients.
- I. Malory failed to produce and/or maintain notice filings filed on behalf of its underwriting clients.
- J. Malory failed to produce and/or maintain subscription agreements, indications of interest, escrow agreements, banks records, sales blotters, and certain broker-dealer agreements for transactions relating to the sale of the securities of its underwriting clients.

This Order does not prevent the Alabama Securities Commission from seeking such other civil or criminal remedies that are available to it under the Alabama Securities Act.

This Order is appropriate in the public interest for the protection of investors and consistent with the purpose of the Title 8, Chapter 6, Code of Alabama 1975.

ACCORDINGLY, IT IS HEREBY ORDERED that, RESPONDENTS immediately CEASE AND DESIST from further offers or sales of any security into, within, or from the Alabama.

Entered at Montgomery, Alabama, this 5th day of July, 2007.



Alabama Securities Commission
770 Washington Ave Suite 570
Montgomery, Alabama 36130

BY:

JOSEPH P. BORG
DIRECTOR