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

TO: CAPITAL GUARDIAN, INC.
BLAKE WILLIAM WILSON, aka Arnold Kramer,
Arnold Cramer, Irv Kranberg
CHRISTINE FENN, aka Christine Ann Gilbert
155 E. El Roblar Drive
Ojai, California 93023

DESIST AND REFRAIN ORDER

(For violations of Sections 25210 and 25401 of the California Corporations Code)

The California Corporations Commissioner finds that:

1. 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*
2 *document is required in all cases. You are required to inform the investor of certain risks and other*
3 *not-so-obvious information."*

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

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

27 4. CHRISTINE FENN (aka Christine Ann Gilbert) ("Fenn") is an employee of CGI and
28 was listed in public documents as the administrator/administrative assistant for Malory. She has a

1 business address of 155 East El Roblar Drive, Ojai, CA, 93023.

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

9 6. The controlling principal of Malory is RONALD STEIN ("Stein") (CRD #34761). At
10 all times relevant, Stein has been a registered securities broker in the state of California. CRD
11 records indicate that Stein holds series 1, 27, 40, and 63 designations. Stein's residential address is
12 10937 Wilkins Avenue #304, Los Angeles, CA, which is also the business address for Malory.

13 7. Review of the files of the California Department of Corporations disclosed no record
14 of the registrations of Respondents CGI, BLAKE WILLIAM WILSON, or CHRISTINE FENN as
15 securities dealers in the state of California.

16 I.

17 NATURE OF THE CASE

18 8. Capital Guardian, Inc., Blake Wilson and Christine Fenn ("Respondents") engaged in
19 a wide range of fraudulent securities offerings in which they conspired to sell over one hundred
20 offerings raising hundreds of millions of dollars through the use of the federal Regulation D, Rule
21 506 exemption, acting through the licensed broker-dealer, Malory, with the cooperation of Stein.
22 Among other acts, Respondents employed unregistered sales agents, paid undisclosed sales
23 commissions, fraudulently overstated potential returns on investments, failed to disclose criminal
24 backgrounds of principals, and failed to accurately disclose use of proceeds, assets of the issuers and
25 other material information. In fact, Malory conducted private offerings at an average of one per
26 week, despite Malory operating from a residential apartment, not advertising, and not even
27 maintaining a Yellow Pages listing.

28 9. As set forth more fully below, the Commissioner is of the opinion that Malory and

1 Stein failed to perform the essential functions required of Malory and, instead, permitted those
2 functions to be performed by Respondents named herein, specifically, BLAKE WILSON and his
3 company, CAPITAL GUARDIAN, INC., and CHRISTINE FENN, an employee of Wilson and CGI,
4 acting as undisclosed principals in control of Malory. As set forth herein, Wilson has been barred
5 from any association with a broker-dealer, i.e. Malory, and the history of the action that led to the bar
6 is publicly available. In addition, the Commissioner is informed that Malory and Stein permitted
7 Wilson, Fenn and CGI to use the broker-dealer certificate of Malory to engage in the offer and sale of
8 securities that were neither qualified in the state of California, nor did they meet any exemption to
9 qualification, and, further, that those offers and sales were accompanied by misrepresentations or
10 omissions of fact, all in violation of the California Corporate Securities Law.

11 10. In order to facilitate their conduct, Respondents formed shell companies, acted under
12 false names, used names of individuals without their knowledge, and failed to disclose the
13 involvement of key individuals. They engaged in this conduct by controlling a broker-dealer that
14 failed to maintain books and records, ignored its obligations to perform due diligence, and repeatedly
15 filed regulatory filings containing false statements.

16 II.

17 STATEMENT OF FACTS

18 THE MALORY INVESTMENTS, LLC AUDIT

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

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

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

28 14. The books and records of Malory were located at 10937 Wilkins Avenue #304, Los

1 Angeles, CA, 90024, which is located in a restricted access apartment building and is the residential
2 address of Stein and his wife.

3 15. During the October audit of Malory, examiners located a Written Supervisory
4 Procedure manual (“WSP”) dated July 27, 2001. The document appeared to be generic in form and
5 had been downloaded from the Internet. The document had been trademarked *Books on Screen*, and
6 appears to have been published by Compliance International, Inc. No updates have been made to the
7 WSP since July 2001.

8 16. The WSP did not contain Anti-Money Laundering procedures.

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

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

16 19. Stein stated that Malory received no commission on any sales of PPOs for which the
17 firm was the broker-dealer of record.

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

22 21. During the audit, the examiners found one hundred and seven private placement
23 memoranda (“PPMs”) for which Malory was the broker-dealer of record. Written broker-dealer
24 contracts were found for sixty-four of these offerings. Many of those PPMs contained a copyright
25 notation in the bottom margin announcing a copyright claim (and by implication, authorship) by
26 CAPITAL GUARDIAN, INC. Stein stated that since the inception of the firm in 2002, no Malory
27 agent ever sold a PPO.

28 22. Section 16.1.2.1 of Malory’s WSP explains Section 4(2) of the Securities Act of 1933

1 as follows:

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

6 *-There may be no general solicitation of purchasers.*

7 *-Offerees and purchasers must have access to information about the issuer and must be able*
8 *to comprehend and evaluate the information.*

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

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

16 24. Wilson’s involvement, felony conviction, and bar from association with broker-dealers
17 was never disclosed to investors by any of the PPOs reviewed for which Malory was the broker-
18 dealer of record and for which CGI performed due diligence, subscription tracking services, PPM
19 preparation and other services.

20 25. Section 2.21.4 of Malory’s WSP requires that a background investigation be
21 conducted on all new employees. Stein admitted that neither he nor any of the other partners or
22 principals involved with Malory ever interviewed the Malory sales agents prior to hiring them and no
23 Malory employee conducted a background investigation on them. Further, Stein was informed by
24 Wilson which agent was to be registered with Malory, and on at least two occasions, Wilson
25 instructed that Stein allow two agents to park their license with Malory. Stein submitted to Wilson’s
26 instructions and that on August 26, 2004, he hired Michael Jones (CRD #2157872) and that on June
27 6, 2006, he hired Jeremy Dane Jobe (“Jobe”) (CRD #4271958).

28 26. Sections 2.21.5 and 4.0 of the WSP identified Stein as the designated principal on

1 regulatory filings, requiring Stein to make all regulatory filings for Malory and its employees,
2 including U-4 filings and fingerprints. In reality, Wilson, Fenn and CGI made all filings for Malory
3 with little or no review by Stein. In a number of instances, checks were sent to Stein at Malory by
4 Fenn and CGI for payment to NASD of registration fees for a registered representative to work for
5 Malory. Since Malory was to be the employing broker-dealer, there is no explanation for this
6 payment coming from CGI except that CGI was the undisclosed manager for Malory.

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

10 28. Fenn signed as the administrator on many documents that were printed on Malory
11 letterhead. Fenn conducted numerous activities on behalf of Malory, CGI and the issuers to include
12 filing of registrations for broker-dealer agents for Malory and making notice filings for the issuers.

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

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

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

27 31. Jobe was hired by Malory on June 6, 2006, as a registered representative. On
28 February 28, 2006, Jobe was issued a summary Order to Cease and Desist (2006-02-06) by the

1 Pennsylvania Securities Commission regarding an offering named “504 Fund Inc.”

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

7 33. Wilson, Fenn and CGI marketed Malory’s services to the issuers. Stein acknowledged
8 that the only source of revenue for Malory was the fee that accompanied the broker-dealer
9 agreements with issuers that were brought to Malory by Wilson and CGI. In that regard, however,
10 the examiners discovered that Malory filed financial statements with regulators which falsely
11 categorized underwriting fees as commissions earned.

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

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

19 *“Dear Mr. Mayfield, thank you for contacting us. We are a full service compliance company*
20 *as our website states. For a 506 PPM, a 25102 (n) California PPM (if applicable), SEC filing of the*
21 *Form D, our fee’s are \$18,000. Blue sky doc’s and fee’s are mandatory in each state where there is*
22 *an investor. We strongly recommend using a Broker dealer to underwrite the project. We can*
23 *recommend. There is a \$2,000 fee paid directly to the BD. We also do all the clearing and tracking,*
24 *verify if investor is accredited or not, send out certificate and keep you posted on keeping your non-*
25 *accreds under 35. State blue sky fee’s are \$1,350 per state (including state fees). California (if*
26 *25102(n) and NY are \$2,350..... Thank you. Christine Fenn”*

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

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

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

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

11 **RESPONDENTS, ACTING THROUGH CAPITAL GUARDIAN, INC., PERFORMED**
12 **ESSENTIAL BROKER-DEALER SERVICES FOR MALORY FOR A FEE**

13 38. CGI, Wilson and Fenn drafted and/or filed the PPM and/or allegedly conducted
14 subscription tracking for at least one hundred and seven offerings for which Malory was broker-
15 dealer of record. In some, but not all offerings, CGI is noted as providing subscription tracking
16 services. Representatives of CGI stated to state examiners that the firm had worked exclusively with
17 Malory as the broker-dealer for several years.

18 39. CGI charged some issuers a commission of as much as 6.5%. CGI attempted to
19 disguise these commissions as “subscription tracking fees” or “clearing fees.”

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

24 \$20,000 to \$30,000 – Capital Guardian

25 \$15,000 to \$20,000 – State registration and filing

26 \$2,000 to \$3,000 – Broker dealer + 6 ½ % of each sale/so that’s \$65,000 or more

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

28 41. An example of CGI receiving commissions is found on a September 14, 2005, check

1 that was issued by Kentucky Mountain View Petroleum Inc. to “Mallory Investments or Capital
2 GuardI” [sic] for “3.5% broker dealer agreement.” The check was deposited in a CGI bank account
3 at Washington Mutual Bank, FA.

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

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

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

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

1 listed as the broker-dealer, including any books, papers, correspondence, memoranda, agreements, or
2 other documents maintained in electronic format of any type. In response to the court order, CGI
3 produced approximately 19,000 documents for review and copying.

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

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

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

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

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

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

27 52. The Commissioner is in receipt of information that Malory and Respondents CGI,
28 Wilson, and Fenn, utilizing the cover of a licensed broker-dealer, Malory Investments, LLC, engaged

1 in the offer and/or sale of securities to California residents, that were neither qualified nor exempt
2 from qualification in the state of California.

3 **PRIVATE PLACEMENTS AND ISSUERS**

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

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

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

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

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

20 57. On July 25, 2006, Mercer Capital Management, Inc., issued a check to Malory for
21 \$2,000. The notation in the memo line was “Tri-State II.”

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

28 59. The PPM failed to name CGI as the compliance service provider and failed to disclose

1 Wilson's criminal conviction and bar or the administrative sanction.

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

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

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

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

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

22 **North American Resource Group**

23 65. Beginning in December 2005 and continuing to March of 2006, Malory hired at least
24 fourteen agents who had previously been employed by North American Resource Group ("NARG").
25 A review of CGI records revealed that NARG paid CGI for the NASD registration fees for the
26 NARG agents that were hired by Malory. A fax cover sheet dated June 19, 2006, from Stein to Fenn
27 discussed the increased premium for Malory's fidelity bond renewal. It states that "NARG is causing
28 a large increase in the premium. I believe NARG should pay for the increase." A letter from

1 Candace D. Shirley of NARG to Fenn states “I am enclosing a check in the amount of \$294 payable
2 to Malory Investments, LLC for the fidelity bond renewal.”

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

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

9 68. On December 12, 2005, Stein wrote a letter to the NASD CRD-IARD regarding the
10 renewal of Malory’s registration. In the letter, Stein references two checks in the amount of
11 \$6,300.00 and \$3,490.00. “Enclosed are two checks for \$6,300.00 and \$3,490.00 toward my 2006
12 renewal. If you have any questions, please [call] give Christine, my administrator on my account”
13 referring to Respondent, Christine Fenn.

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

16 70. Despite the dual employment of agents by Malory and NARG, Malory and
17 Respondents failed to conduct any review of the activities of the NARG employees following the
18 Alabama cease and desist order.

19 **Lifeline Imaging, LLC**

20 71. Lifeline Imaging, LLC (“Lifeline”) is a California Limited Liability Company and is
21 owned and operated by Randy Morton (“Morton”). Since 2001, Lifeline has sold securities in at least
22 8 separate offerings that Lifeline claimed to be exempt from securities registration. In connection
23 with these offerings, Lifeline filed Form D’s which it had reason to know would be available to the
24 investing public. Malory was the broker-dealer of record on at least three (3) Lifeline Reg. D, Rule
25 506 filings with the SEC and with the states.¹

26 72. Malory hired at least four former sales employees of Pacific Network and Consulting.
27

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

1 Pacific Network and Consulting was the call center that marketed only the Lifeline PPOs.

2 73. CGI, Wilson, and Fenn took all actions to register the sales representatives as Malory
3 agents.

4 74. Respondents drafted and filed each of the PPMs on behalf of the Lifeline securities
5 offerings. CGI, Wilson, Fenn, and Morton failed to disclose on these PPMs Morton's felony
6 convictions for transporting narcotics and possession of a controlled substance.

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

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

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

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

26 79. On December 27, 2006, the Commissioner of the California Department of
27 Corporations obtained a Final Judgment in a civil case, No. 02CC15333, Orange County Superior
28 Court, against, among others, Daniel A. Caterino, that included a permanent injunction against any

1 unqualified, non-exempt sales of securities, unlicensed broker-dealer activity, and the offer or sale of
2 securities in the state by means of material misrepresentations or omissions of fact. This Final
3 Judgment was obtained in conjunction with a civil action filed by the Commissioner against Heart
4 Scan, LLC and others involved in that operation.

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

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

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

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

22 84. Wilson, Fenn and CGI, acting on behalf of Malory, hired and registered at least four
23 Pacific Network and Consulting sales agents to work for Malory.

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

1 Pacific Network and Consulting call center on multiple occasions.

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

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

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

8 89. On June 3, 2005, the State of Nebraska issued a Cease and Desist Order against
9 Lifeline Imaging, LLC.

10 90. On February 26, 2003, the State of Pennsylvania issued a Cease and Desist Order
11 (2003-02-32) against Lifeline Imaging of Long Beach Unit Investment Partnership, which is an
12 offering made by issuer Lifeline Imaging, LLC.

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

17 92. Stanley Johnson (“Johnson”), an admitted closer for the Lifeline offerings, stated that
18 while he was an unregistered sales agent for Pacific Network and Consulting, “fronters” were paid on
19 an hourly rate plus a 2% commission if a sale was made from one of their contacts. He further stated
20 that the closers received an 18% commission on each sale. Johnson said that each manager received
21 2 to 3% from each sale.

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

1 94. The Lifeline PPMs failed to disclose that CGI was the compliance service/tracking
2 service and failed to disclose Wilson’s criminal record and administrative sanctions. They also failed
3 to disclose the commissions paid to CGI, which were described as “subscription tracking fees.”

4 95. An analysis of the bank accounts for Lifeline revealed that investors’ funds from the
5 offerings were co-mingled. The co-mingling of funds makes the identifying, measuring, interpreting
6 or recording of the economic results of the separate Lifeline offerings inaccurate.

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

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

12 97. The Form D filing by Advance Body Imaging, LP, dated July 13, 2004, indicated that
13 Malory was the broker-dealer of record. However, in regards to Malory’s participation as the broker-
14 dealer, the offering never disclosed that Stanley Johnson negotiated only with Wilson, an individual
15 not registered with Malory, and who was a convicted felon and prohibited from any association with
16 a broker-dealer.

17 98. Johnson admitted to the examiners that he operated a call center utilizing unregistered
18 sales agents to sell the PPO for Advance Body Imaging, LP. The PPM for that offering failed to
19 disclose these unregistered sales agents. Malory failed to perform any review of how the sales were
20 being conducted.

21 99. Johnson met Wilson while Johnson was working as an unregistered sales agent for
22 Lifeline.

23 100. Johnson stated to examiners that Wilson and CGI wrote the PPM and filed the Form D
24 and notice filings for Advance Body Imaging.

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

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

1 103. At least one sales agent for Consulting Dynamics was a registered agent of Malory at
2 the same time the agent received commission checks from Consulting Dynamics.

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

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

9 **The Loan Shoppe, Inc.**

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

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

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

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

27 110. In October 2006, the principals of The Loan Shoppe, Charles Carver and Mario Robert
28 Naranjo, were indicted by a Federal Grand Jury in the Southern District of Florida for criminal

1 activity related to the sale of securities issued by The Loan Shoppe, including wire fraud, mail fraud
2 and money laundering.

3 **Amerivet Securities**

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

10 112. The principal of Phase Two Value Creating Fund is Michael Andre Jones (CRD
11 #2157872). He was employed by Malory from August 26, 2004 to June 9, 2006. CGI arranged for
12 Jones to take the licensing examination so that he could then work for Malory. Jones is also a former
13 employee of Amerivet Securities (CRD #34786), a NASD registered broker-dealer, which is owned
14 by Elton Johnson.

15 113. On June 26, 2006, three complainants filed a NASD Dispute Resolution Arbitration
16 (06-02978) against Michael Jones for misrepresentations made during the sale of “pre IPO’s.” The
17 sales took place on May 18, 2006, while Michael Jones was a registered agent of Malory.

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

23 115. Elton Johnson knew both Wilson and Stein from the “chop shops” (boiler room sales
24 operations) that were located in the Los Angeles, California area.

25 **III.**

26 **CONCLUSIONS OF LAW**

27 In violation of Corporations Code sections 25210 and 25401, Respondents, Capital Guardian,
28 Inc., Blake William Wilson and Christine Fenn, engaged in fraudulent business practices in

1 connection with the offer, sale, or purchase of securities, and in unlicensed broker-dealer activity, in
2 that:

- 3 1. Respondents filed a broker-dealer application for Malory Investments, LLC that failed
4 to disclose the true address for Malory.
- 5 2. Respondents Wilson, Fenn and CGI acted as an undisclosed principal of Malory, despite
6 the fact Wilson's prior felony conviction for securities fraud barred him from any
7 association with a broker-dealer, and Fenn was not licensed by any securities regulatory
8 agency.
- 9 3. Respondents filed a broker-dealer application for Malory Investments that failed to
10 disclose Respondent Wilson's involvement in Malory.
- 11 4. Respondents, acting on behalf of Malory, filed a false U-4 application in that the
12 application failed to disclose prior criminal convictions of a purported principal and co-
13 owner of Malory, Steven Strauss ("Strauss"; CRD #446296), who reportedly owned
14 10%, but not more than 25% of Malory. Strauss holds no securities designations or
15 licenses. Strauss was convicted in Alabama of one felony count of Theft of Services 1st
16 Degree.
- 17 5. Respondents, acting on behalf of Malory, filed a false U-4 application in that the
18 application failed to disclose that Strauss was the Chief Operating Officer, Stovact, Inc.,
19 at the time a Desist and Refrain Order was issued by the State of California, for
20 violations of the California Corporate Securities Law of 1968.
- 21 6. Respondents, acting on behalf of Malory, filed false financial statements that incorrectly
22 identified underwriting fees as commissions earned.
- 23 7. Respondents affiliated themselves with Malory and held themselves out to the public as
24 a "broker dealer," while they were not registered as such, and Wilson was barred from
25 any affiliation with a broker-dealer.
- 26 8. Respondents, acting on behalf of Malory, offered their clients a list that disclosed the
27 covert names and telephone numbers used by the FBI and state securities regulators,
28 indicating an intent to engage in business practices that violated the securities laws.

- 1 9. Respondents, acting on behalf of Malory, filed notice filings with the California
2 Department of Corporations which claimed that Malory was an associated broker-dealer
3 of the securities offerings, when Malory failed to perform any of the services normally
4 conducted by a licensee.
- 5 10. Respondents represented to investors that the securities of issuers underwritten by
6 Malory were exempt from registration, while in fact Respondents knew or should have
7 known that the securities were being sold in a manner inconsistent with claimed
8 exemptions.
- 9 11. Respondents circulated private placement memoranda knowing or having reasonable
10 grounds to know that the memoranda contained false or untrue material representations
11 and omissions of material facts.
- 12 12. Respondents failed to disclose to investors that they were providing “subscription
13 tracking services” and that Capital Guardian, Inc. was operated by Blake Wilson, a
14 person with a prior conviction for securities fraud who was barred from any affiliation
15 with a broker-dealer.
- 16 13. Respondents participated as the undisclosed principal and control persons of Malory, the
17 broker-dealer of record in the offer and sale of Lifeline securities, while the Respondents
18 knew or should have known that the criminal background of officers of Lifeline was not
19 disclosed to investors.
- 20 14. Respondents participated as the undisclosed principal and control persons of Malory, the
21 broker-dealer of record in the offer and sale of Lifeline securities while the Respondents
22 knew or should have known that unregistered salespeople were selling the securities.
- 23 15. Respondents participated as the undisclosed principal and control persons of Malory, the
24 broker-dealer of record in the offer and sale of the securities issued by Advance Body
25 Imaging, LP; while the Respondents knew or should have known that the proceeds of
26 the offerings were being co-mingled with that of the accounts of the general partner.
- 27 16. Respondents participated as the undisclosed principal and control persons of Malory, the
28 broker-dealer of record in the offer and sale of Advance Body Imaging, LP, securities

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

3 17. Respondents participated as the undisclosed principal and control persons of Malory, the
4 broker-dealer of record in the offer and sale of securities issued by The Loan Shoppe,
5 Inc., while the Respondents knew or should have known that the criminal background of
6 The Loan Shoppe's owner and operator was not disclosed to investors.

7 18. Respondents participated as the undisclosed principal and control persons of Malory, the
8 broker-dealer of record in the offer and sale of securities issued by Phase Two Value
9 Creating Fund, while the Respondents knew or should have known that the fund used
10 the name of the proposed fund manager without his knowledge or consent.

11 19. Respondents participated as the undisclosed principal and control persons of Malory, the
12 broker-dealer of record in the offer and sale of securities issued by Phase Two Value
13 Creating Fund, while the Respondents knew or should have known that the proposed
14 fund manager for the fund was in the military and deployed overseas.

15 20. Respondents held themselves out as a broker-dealer and acted as a broker-dealer, while
16 not registered as such.

17 21. Respondents received money from the sale of securities issued by Malory's
18 underwriting clients without disclosing the involvement of Blake Wilson and his prior
19 criminal conviction and related bar from any association with a broker-dealer.

20 22. Respondents received money from the sale of securities issued by Malory's
21 underwriting clients, claiming the securities were exempt from registration, while in
22 fact, Respondents knew or should have known that the securities were being sold in a
23 manner inconsistent with claimed exemptions.

24 23. Respondents received money from the sale of securities issued by Malory's
25 underwriting clients, knowing or having reasonable grounds to know that private
26 placement memorandums used to market the securities contained false representations
27 and material omissions.

28 24. Respondents received money from the sale of securities issued by Lifeline, while the

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- Respondents knew or should have known that the criminal backgrounds of Lifeline officers were not disclosed to investors.
25. 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 the owner and operator of The Loan Shoppe was not disclosed to investors.
26. 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.
27. Respondents 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.
28. Respondents acted as an undisclosed principal of Malory, despite the fact that as a result of Wilson’s earlier securities fraud conviction, Wilson was barred from any association with a broker-dealer, and Fenn was not licensed by any securities regulatory agency.
29. Respondents failed to ensure that Malory had written policies relating to anti-money laundering procedures.
30. Respondents failed to ensure that Malory maintained incoming and outgoing correspondence.
31. Respondents failed to ensure that Malory maintained client account records.
32. Respondents, acting on behalf of Malory, registered offerings as a broker-dealer of record, without conducting any due diligence.
33. Respondents, none of whom was registered with Malory, negotiated underwriting agreements on behalf of Malory.
34. Respondents failed to ensure that Malory conducted background investigations on new employees, as required by Malory’s own written supervision procedures.
35. Respondents hired new registered representatives to work for Malory, despite Wilson and Fenn not being registered with Malory.
36. Respondents made regulatory and registration filings on behalf of Malory, with little or

- 1 no review by a designated Principal.
- 2 37. Respondents failed to ensure that Malory conducted an inquiry into the activities of 14
- 3 agents that had dual registration with Malory and North American Resources Group,
- 4 after North American Resources Group was named in an Alabama Cease and Desist
- 5 Order.
- 6 38. In offerings in which Malory was listed as the broker-dealer, Respondents failed to
- 7 ensure that Private Placement Memoranda associated with the offerings disclosed the
- 8 principals' prior criminal convictions.
- 9 39. In offerings in which Malory was listed as the broker-dealer, Respondents failed to
- 10 ensure that Private Placement Memoranda did not contain false or misleading
- 11 statements.
- 12 40. In offerings in which Malory was listed as the broker-dealer, Respondents failed to
- 13 ensure that the offerings were sold in a manner consistent with exemptions claimed in
- 14 the Private Placement Memoranda.
- 15 41. Respondents failed to produce and/or maintain accurate financial statements on behalf
- 16 of Malory.
- 17 42. Respondents failed to produce and/or maintain Malory's financial records including
- 18 check books, bank statements, cancelled checks and cash reconciliations.
- 19 43. Respondents failed to produce and/or maintain Malory's incoming and outgoing
- 20 correspondence, including e-mail.
- 21 44. Respondents failed to have any system to archive e-mail relating to the operation of
- 22 Malory.
- 23 45. Respondents failed to produce and/or maintain Malory's client files.
- 24 46. Respondents failed to produce and/or maintain employment records for certain
- 25 registered representatives of Malory.
- 26 47. Respondents failed to produce and/or maintain records in regard to disciplinary actions
- 27 against registered representatives registered with Malory.
- 28 48. Respondents failed to produce and/or maintain due diligence files relating to Malory's

1 underwriting clients.

2 49. Respondents failed to produce and/or maintain notice filings filed on behalf of Malory's
3 underwriting clients.

4 50. Respondents failed to produce and/or maintain subscription agreements, indications of
5 interest, escrow agreements, banks records, sales blotters, and certain broker-dealer
6 agreements for transactions relating to the sale of the securities of Malory's
7 underwriting clients.

8 51. Respondents, all unlicensed individuals and entities, whose principal, Blake Wilson,
9 was a convicted felon and barred from any association with a broker-dealer to perform a
10 variety of broker-dealer activities, performed services for Malory including negotiating
11 broker-dealer agreements, maintaining books and records, due diligence, subscription
12 tracking, and sales activities, without disclosing the true nature of their involvement.

13 Based upon the foregoing, the California Corporations Commissioner is of the opinion that
14 CAPITAL GUARDIAN, INC., BLAKE WILLIAM WILSON and CHRISTINE FENN have acted as
15 undisclosed principals and control persons of Malory Investments, LLC, and in that capacity, have
16 effected transactions in securities as broker-dealers without having first applied for and secured from
17 the Commissioner a certificate, authorizing these person(s) to act in that capacity, in violation of
18 section 25210 of the Corporate Securities Law of 1968.

19 Pursuant to section 25532 of the Corporate Securities Law of 1968, CAPITAL GUARDIAN,
20 INC., BLAKE WILLIAM WILSON and CHRISTINE FENN, are hereby ordered to desist and
21 refrain from effecting any transaction in, or inducing or attempting to induce the purchase or sale of,
22 any security in this state, unless and until they have applied for and secured from the Commissioner a
23 certificate, then in effect, authorizing these persons to act in that capacity, or unless exempt.

24 Further, the California Corporations Commissioner is of the opinion that the securities
25 referred to herein, namely, Mercer Capital, Inc., Mercer Capital Management, Inc., Tri-State Energy
26 Group, LLC, Tri-State Energy Group I, LTD., Tri-State Energy Group I, LP and Tri-State Energy
27 Group II, LTD; Lifeline Imaging, LLC, Consulting Dynamics, Inc, Advance Body Imaging LP, and
28 The Loan Shoppe, Inc., were offered or sold in or from this state by Respondents by means of written

1 or oral communications which included an untrue statement of a material fact or omitted to state a
2 material fact necessary in order to make the statements made, in the light of the circumstances under
3 which they were made, not misleading, in violation of section 25401 of the Corporate Securities Law
4 of 1968. Pursuant to section 25532 of the Corporate Securities Law of 1968, CAPITAL
5 GUARDIAN, INC., BLAKE WILLIAM WILSON AND CHRISTINE FENN, are hereby ordered to
6 desist and refrain from offering or selling or buying or offering to buy any security in the State of
7 California, including Mercer Capital, Inc., Mercer Capital Management, Inc., Tri-State Energy
8 Group, LLC, Tri-State Energy Group I, LTD., Tri-State Energy Group I, LP and Tri-State Energy
9 Group II, LTD; Lifeline Imaging, LLC, Consulting Dynamics, Inc, Advance Body Imaging LP, and
10 The Loan Shoppe, Inc., by means of any written or oral communication which includes an untrue
11 statement of a material fact or omits to state a material fact necessary in order to make the statements
12 made, in the light of the circumstances under which they were made, not misleading.

13 This Order is necessary, in the public interest, for the protection of investors and consistent
14 with the purposes, policies, and provisions of the Corporate Securities Law of 1968.

15 Dated: July 26, 2007

16 Sacramento, California

17 PRESTON DuFAUCHARD
18 California Corporations Commissioner

19 By _____
20 SHARON LUERAS
21 Lead Corporations Counsel
22 Enforcement Division
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