

**STATE OF ILLINOIS  
SECRETARY OF STATE  
DEPARTMENT OF SECURITIES**

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**IN THE MATTER OF:** )

**LPL Financial Corporation f/k/a** )

**Linsco/Private Ledger Corporation and** ) **File No. 0800381**

its managers, officers, affiliates, )

subsidiaries, representatives, successors, )

and assigns. )

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**NOTICE OF HEARING**

**TO RESPONDENT:**

Stephanie Brown  
LPL Financial Corporation, f/k/a  
Linsco/Private Ledger Corporation  
(CRD #6413)  
One Beacon Street, 22<sup>nd</sup> Floor  
Boston, Massachusetts 02108-3106

LPL Financial Corporation, f/k/a  
Linsco/Private Ledger Corporation  
C/o its attorneys  
Charles Risch  
Michael Wise  
Lawrence, Kamin, Saunders & Uhlenhop L.L.C.  
300 South Wacker Drive, Suite 500  
Chicago, Illinois 60606

You are hereby notified in accordance with Sections 11.E and F of the Illinois Securities Law of 1953 [815 ILCS 5/11.E and F] ("the Act") and 14 Ill. Adm. Code 130, subpart K, that a public hearing will be held at the Secretary of State's office at the office of the Illinois Securities Department, 69 W. Washington Street, Suite 1220, in Chicago, Illinois 60602, on September 13, 2010 or as soon thereafter as possible before James Kopecky, or such other hearing officer who shall be presiding at that time.

Said hearing will be held to determine whether an Order shall be entered pursuant to Section 11.E of the Act sanctioning the Respondent and/or granting such other relief as may be authorized under the Act including, but not limited to, the imposition of a monetary fine in the maximum amount pursuant to Section 11.E of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for this proposed action are as follows:

**COUNT 1**  
**FAILURE TO REASONABLY SUPERVISE**

1. Respondent LPL Financial Corporation (“LPL” or “Respondent”) is a securities broker-dealer located at One Beacon Street, 22<sup>nd</sup> Floor, Boston, Massachusetts 02108-3106.
2. Stephen Walker (“Walker”) is an individual whose address is 4412 39<sup>th</sup> Avenue, Rock Island, IL 61201. Walker was registered with the Secretary of State from August 19, 1999 to July of 2007, as an investment adviser representative and securities salesperson of the Respondent.
3. Walker conducted business as an investment adviser representative and securities salesperson for the Respondent in a branch office located at 2040 Weldon Road in Sterling, Illinois.

**Aspen Exploration**

4. Aspen Exploration, Inc. (“Aspen”) is a Texas company with a last known address of 2901 Dallas Parkway, Suite 380, Plano, Texas 75093. Beginning approximately in November of 2005, Aspen sold securities in what have since been alleged to have been fraudulent offerings.

**Stephen Walker**

5. Between October of 2005 and December 2006, Walker offered and sold participations in Aspen oil and gas-drilling projects while associated with LPL as a registered representative. These securities had not been presented to or approved by LPL for sale to customers and LPL was not aware of Walker’s activities.
6. Walker did not fully disclose the risks of investing in Aspen oil and gas participations to investors.
7. Although Aspen’s offering materials disclosed some pending actions against Aspen by creditors and investors, Walker failed to disclose to investors material facts that he knew or should have known including that creditors had filed liens against Aspen, and that both creditors and investors had filed lawsuits against Aspen and its directors.
8. The activities described above constitute an offer and sale of a security, as those terms are defined in Sections 2.1, 2.5, and 2.5a of the Illinois Securities Law of 1953 [815 ILCS 5/1 *et. seq.*] (the “Act”).
9. Section 12.F of the Act provides, *inter alia*, that it shall be a violation of the Act for any person to engage in any transaction, practice or course of business in conjunction with the

sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.

10. Section 12.G of the Act provides, *inter alia*, that it shall be a violation of the Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

11. By virtue of the foregoing, Walker violated Sections 12.F and 12.G of the Act.

**AS RESULT OF OMISSIONS IN ITS SUPERVISION OF WALKER, LPL MISSED SEVERAL OPPORTUNITIES TO DETECT HIS INVOLVEMENT IN THE SALE OF ASPEN SECURITIES**

12. The Respondent had several opportunities to detect Walker's fraudulent sales of Aspen oil and gas participations.

**Walker Used His LPL E-mail Address to Conduct Business for Aspen**

13. Respondent's Written Supervisory Procedures had policies detailing its review of the email of registered representatives.

14. One email address Walker used for his LPL business was Swalker@qcbt.com. On a number of occasions, Walker used this email address to communicate with individuals about investments in Aspen oil and gas drilling projects.

15. Despite its Written Supervisory Procedures for reviewing emails, the Respondent relied on Walker to submit securities related emails to them for review. As a result, the Respondent failed to review emails sent to and from Walker regarding investments in Aspen.

**Walker Informed LPL of Possible Involvement in Oil and Gas Investments**

16. Respondent's Compliance Manual and Written Supervisory Procedures detailed the Respondent's procedures for review and approval of the proposed outside business activities of registered representatives.

17. Respondent's Compliance Manual stated that "financial advisers must give prior written notice to the LPL Compliance Department of the intended outside business activity and/or DBA name on an Outside Business Activity Notification form and await written approval from the Compliance Department before engaging in the proposed activity or using the DBA name."

18. Walker filed more than one Outside Business Activity Notification form that informed the Respondent of his desire to become involved in several outside business activities, including involvement in oil and gas participations. For example:
- a. March 5, 2000 – Walker sought approval to become involved in Investment Trend Analytics, an LLC formed to pool investment dollars to make larger investments. LPL disapproved this application for outside business activity.
  - b. December 20, 2001 – Walker sought approval to use Investment Trend Analytics, Inc. as a d/b/a name for his branch office. LPL approved this application for outside business activity.
  - c. January 10, 2004 – Walker sought approval to become involved in an LLC that invested in natural gas interests through a Regulation D offering. LPL disapproved this application for outside business activity.
  - d. December 8, 2006 – Walker sought approval to become involved in Investment Trend Analytics, an LLC formed to engage in real estate and oil and gas development. LPL disapproved this application for outside business activity.

**Walker Disclosed Some Outside Business Activities During LPL Compliance Interviews**

19. Respondent conducted compliance interviews of Walker at least once every year starting in December of 2000 until the time he was terminated from LPL in 2007.
20. As a part of these compliance interviews, Walker was required to complete a Branch Manager and Financial Advisor Questionnaire that was to be reviewed and used during the interview.
21. On multiple occasions, Walker informed the Respondent on his Branch Manager and Financial Advisor Questionnaires that he was involved in oil and gas investments despite never being approved for such activity by the Respondent's Compliance Department. For example:
- a. December 14, 2005 – Walker disclosed his involvement with “a direct participation in an oil and gas production project.”
  - b. November 12, 2006 – Walker disclosed that he was involved with a company called Investment Trend Analytics, which was described as a company that developed real estate and oil and gas properties.
  - c. June 1, 2007 – Walker once again disclosed his work with developing real estate and oil and gas properties.
22. Despite these notifications, the Respondent did not discipline Walker or otherwise direct him to stop engaging in these business activities or conduct further inquiry of these

activities, which might have led to discovery of Walker's involvement in the sale of Aspen Securities.

**Several of Walker's LPL Customers Moved Assets Out of Their LPL Accounts**

23. Several of Walker's LPL customers moved significant amounts of their assets out of their LPL accounts and into investments with Aspen.
24. For example, on October 13, 2006, an LPL customer of Walker's, submitted an IRA & ESA Distribution Request form that requested a total distribution of his LPL IRA account. This form also reflected that the assets from the customer's IRA account were to be deposited into Aspen's bank account at Plains Capital Bank with account number 3300005315.
25. Based on the facts described in Paragraphs 13-24, the Respondent should have known of facts that could have led it to discover Walker's fraudulent conduct sooner than it did.
26. Section 8.E(1)(e)(i) of the Act provides, *inter alia*, that a dealer may be subject to sanctions if the dealer has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has permitted or facilitated a violation of Section 12 of this Act.
27. Section 8.E(1)(e)(iv) of the Act provides, *inter alia*, that a dealer may be subject to sanctions if the dealer has failed to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonably designed to achieve compliance with applicable securities laws and regulations.
28. By virtue of the foregoing, the Respondent is subject to sanctions pursuant to Sections 8.E(1)(e)(i) and 8.E(1)(e)(iv) of the Act.

NOTICE: You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules and Regulations promulgated under the Illinois Securities Law and pertaining to hearings held by the Office of the Secretary of State, Illinois Securities Department, are available at the Department's website at:  
<http://www.cyberdriveillinois.com/departments/securities/lawrules.html>, or on request.

Notice of Hearing - 0800381

-6-

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 12th day of July 2010.

A handwritten signature in black ink that reads "Jesse White" with a stylized flourish at the end.

JESSE WHITE  
Secretary of State  
State of Illinois

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