

Consent Order
07-00319

WHEREAS, by means of the Stipulation, Respondents Malory and Stein have admitted to the jurisdiction of the Secretary of State and service of the Notice of Hearing of the Secretary of State, Securities Department, dated July 6, 2007, in this proceeding (the "Notice") and Respondent has consented to the entry of this Consent Order ("Consent Order").

WHEREAS, by means of the Stipulation, Respondents Malory and Stein have acknowledged that the following Findings of Fact are intended to be a final determination of the issues and Respondents Malory, Stein, and Strauss agree that they shall be estopped from making arguments contrary to the Findings of Fact in any collateral proceeding(s).

WHEREAS, by means of the Stipulation, Respondents Malory and Stein have acknowledged that the following shall be adopted as the Secretary of State's Findings of Fact, and have admitted to the truth thereof:

FACTS COMMON TO ALL COUNTS

1. From March 12, 2003 until December 18, 2006, Malory Investments, L.L.C., Central Registration Depository ("CRD") #110936, was a registered securities dealer in the state of Illinois pursuant to the Act with a current business address of 10937 Wilkins Avenue, #304, Los Angeles, CA 90024
2. Ronald Stein (CRD# 434761), is the reported "owner" (75%+ ownership) of Malory. From March 12, 2003 until December 18, 2006, Stein was a registered securities Salesperson in the state of Illinois. CRD records indicate that Stein holds series 1, 27, 40, and 63 designations.
3. Stephen Strauss ("Strauss") (CRD# 4446296), a member of Malory, is reported to own 10% but not more than 25% of Malory. CRD records indicate that he holds no securities designations.

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4. Kenneth Eugene Zellmer (“Zellmer”) (CRD# 476238) is a principal with Malory. His last known residential address is 40204 N. Hickcock Trail, Phoenix, AZ, 85086.
5. Sean Zarinigar (AKA Bejahn Zarinigar) (“Zarinigar”) (CRD # 2244373), a principal of Malory, was employed with Malory from July 9, 2001 through April 8, 2005.
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.
7. Blake William Wilson (AKA Arnold Kramer, Arnold Cramer, and Irv Kranberg) (CRD # 1390808) is the owner of CGI. He has a last known business address of 155 East El Roblar Drive, Ojai, CA 93023 and a last known home address of 419 Tico Blvd., Ojai, CA. 93023.
8. 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.
9. Christine Fenn (aka Christine Ann Gilbert) (“Fenn”) is an employee of CGI and is the administrator/administrative assistant for Malory.
10. A review of the files of the Illinois Securities Department did not disclose any record of the registrations of Respondents CGI as either a Broker-Dealer and/or Agent in the state of Illinois. In fact, if Wilson attempted to register as such, his prior criminal conviction for securities fraud would act as a disqualification.

Failure to Keep Records and Maintain Client Files

11. Malory was the Broker-Dealer of record for all of the offerings attached hereto as Exhibit A.
12. Malory received \$2,000 per private placement offering (“PPO”) for which it was the Broker-Dealer of record. In many instances, CGI collected this amount from the issuer and forwarded it to Malory.
13. 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.
14. The examiners found that Malory and its employees did not maintain client files. Rather, these files were maintained by Blake Wilson, Christine Fenn, and CGI.
15. Despite making regulatory filings claiming that Malory was the Broker-Dealer of record, Malory was not primarily engaged in the selling efforts of any PPOs for which the firm was the Broker-Dealer of record. Stein knew or should have known that the sales of the PPOs were largely conducted by unregistered Broker-Dealers.
16. Stein never spoke to the issuer of a PPO. CGI, acting by and through Fenn and Wilson, negotiated the Broker-Dealer agreement for Malory with respect to these PPOs.
17. During the audit, the examiners found one hundred and seven private placement memoranda (“PPMs”) for which Malory was the Broker-Dealer of record.

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18. In relation to the PPOs, Malory did not perform due diligence investigations, but rather relied on CGI and Wilson to perform due diligence.
19. Wilson's involvement, felony conviction, and bar from association with Broker-Dealers was never disclosed to investors by any of the PPOs 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.
20. Section 2.21.4 of the Malory's Written Supervisory Procedures ("WSP") requires that a background investigation be conducted on all new employees. No individual who was registered as a principal of Malory or listed as an employee of Malory interviewed the Malory agents prior to hiring them, or conducted a background investigation on them. On several occasions, Wilson directed Stein to register certain individuals with Malory.
21. 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.
22. On July 6, 1987, Strauss was convicted in Alabama of Theft of Services 1st degree for which he was sentenced to 24 months. 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, Inc. 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.
23. Malory delegated 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

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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.

24. Fenn, acting at the direction of Wilson, signed as the administrator on many documents that were printed on Malory letterhead. Fenn conducted numerous activities on behalf of Malory, including filing the registrations of registered representatives and making notice filings. Fenn received no compensation from Malory for these activities, but rather was compensated by Wilson and CGI.
25. 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.
26. 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"

27. Stein did not conduct internal audits or visits as is required in the firm's WSP.

28. Stein stated that Wilson and CGI marketed Malory's services to the issuers. Stein further stated that the only sources of revenue for Malory were the Broker-Dealer agreements with issuers that were brought to Malory by Wilson and CGI.

Operations at Malory Investments

29. 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.
30. The offering materials for issuers in which Malory was the Broker-Dealer of record failed to disclose: (1) any involvement by Wilson and (2) Wilson's 1992 conviction of securities fraud in the state of California.
31. Records of Malory were being kept at CGI. However, during a visit to CGI conducted in order to retrieve Malory records, Fenn told 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.

Coomer Energy

32. In June of 1997, Pennsylvania issued Cease and Desist Order against Coomer Energy and Carlos Sandoval.
33. At the direction of Blake Wilson, Malory entered a Broker-Dealer agreement with Coomer Energy, despite the fact that it had been previously issued a Cease and Desist Order by the Pennsylvania Securities Commission.

Cherokee Energy, LLC

34. On April 16, 2003 Pennsylvania drafted a Order against Cherokee Energy, LLC (“Cherokee”) and Martin Twist.
35. At the direction of Blake Wilson, Malory entered a Broker-Dealer agreement with Cherokee, despite the fact that the Pennsylvania Securities Commission and the West Virginia Securities Commission had previously issued Cherokee Cease and Desist Orders.
36. On March 1, 2004, CGI issued a PPM for Cherokee Energy, failing to disclose the regulatory history of either Cherokee or Martin Twist.

AVM Capital Group, Advanced Corporate Enterprises, Inc., and Stanley Fortenberry

37. At the direction of Blake Wilson, Malory entered a Broker-Dealer agreement with Advanced Corporate Enterprises, Inc. (“ACE”).
38. On March 1, 2005, CGI drafted a PPM for Advanced Corporate Enterprises. The PPM lists AVM Capital Group as a “reputable intermediary, with extensive broker-dealer

network, providing marketing exposure for corporate clients, searching for private placement capital.”

39. Wilson and CGI had knowledge of at least two administrative actions against the owner of AVM Capital, Stanley Fortenberry, and did not include that information in the PPM. In a Client Services Order Form prepared by CGI for AVM Capital Group, there is a notation of litigation by both Texas and Pennsylvania.
40. The examiners received a document from Malory containing a list of the undercover names and/or names of regulators for eleven states and the FBI that purportedly posed as potential investors.
41. Malory was listed as the Broker-Dealer of record on at least 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.

PRIVATE PLACEMENTS AND ISSUERS

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.

42. 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.
43. 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.

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44. 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."
45. 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.
46. The PPM referred to in Paragraph 67 failed to name CGI as the compliance service provider and failed to disclose Wilson's criminal record and administrative sanction.
47. 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 of 1999.
48. 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.
49. 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.

50. Due to Malory's and CGI's failures to conduct due diligence on the issuers referred to in Paragraph 48 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.
51. 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 69 and 70. 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

52. Beginning in December of 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."
53. On December 8, 2005, NARG drafted a check (#9243) in the amount of \$6,300.00 to the NASD. The description on the corresponding check stub reads "Legal and Professional Expense."
54. 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 [Fenn], my administrator on my account.”

55. 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.
56. 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

57. 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 Ds that 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.¹
58. 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 PPOs.
59. CGI, Wilson, and Fenn took all actions to register the representatives referred to in Paragraph 58 as Malory agents.
60. 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.

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

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61. Stein never had any contact with Morton or anyone associated with LifeLine Imaging. Rather, Stein's only contact regarding Lifeline Imaging was with Wilson.
 62. Wilson and Fenn, acting on behalf of Malory, hired and registered at least four Pacific Network and Consulting Salespeople.
 63. On February 2, 2005, the Alabama Securities Commission issued a Cease and Desist Order (CD-2005-0004) against LifeLine Imaging, LLC. CHIP sent him a letter requesting all the documents, and he said "we had a best efforts agreement with Lifeline" in his letter to Chip.
 64. On June 3, 2003, the Kansas Office of the Securities Commissioner issued a Cease and Desist Order (2002-4477) against LifeLine Imaging, LLC.
 65. On January 28, 2003, the State of Missouri issued a Stipulation and Consent Order (#AO-03-02) against LifeLine Imaging, LLC.
 66. On October 1, 2003, the California Department of Corporations issued a Desist and Refrain Order against LifeLine Imaging Systems, Inc.
 67. On June 3, 2005, the State of Nebraska issued a Cease and Desist Order against LifeLine Imaging, LLC.
 68. 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.
 69. In August of 2005, Morton resigned and appointed Stanley Johnson, who formerly acted as an unregistered Salesperson of Pacific Network and Consulting, as the general partner
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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.

70. Stanley Johnson (“Johnson”), an admitted closer for the LifeLine offerings, stated that while he was an unregistered Salesperson 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 an additional 2 to 3% from each sale.
71. 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.
72. 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.”

Consulting Dynamics Inc./Advance Body Imaging, LP

73. 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.

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74. 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.
75. At least one sales agent for Consulting Dynamics was a registered Salesperson of Malory at the time he received commission checks from Consulting Dynamics.
76. 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 Salespeople.

The Loan Shoppe, Inc.

77. 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/CGI negotiated with Charles Carver of The Loan Shoppe to provide Broker-Dealer services for The Loan Shoppe, Inc.'s corporate bond offering.
78. 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.
79. 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.

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80. 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. Despite this Alabama Order, Respondents failed to conduct any review of their involvement in the Loan Shoppe offering.

Amerivet Securities

81. 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.
82. 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.
83. On June 26, 2006, three complainants filed an NASD Dispute Resolution Arbitration (06-02978) against Michael Jones for misrepresentations made during the sale of "pre IPOs." The sale took place on May 18, 2006 while Michael Jones was a registered agent of Malory.
84. 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 Salespeople 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.

85. Wilson, Stein, and Johnson knew each other from the “chop shops” (boiler rooms) that were located in the Los Angeles, California area.

VIOLATIONS OF THE ILLINOIS SECURITIES ACT

86. Section 12.F of the Act provides that it shall be a violation of the Act for any person to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof. Respondents violated Section 12.F of the Act, in that:
- A. Respondents allowed Wilson to act as an undisclosed principal of Malory, despite the fact that as a result of his earlier securities fraud conviction Wilson was barred from any association with a Broker/Dealer.
 - B. Respondents failed to disclose prior criminal and regulatory actions against the principals of Malory.
 - C. Respondents represented to investors that the securities of 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 failed to disclose to investors that CGI was the firm providing “subscription tracking services” and that CGI was operated by Wilson, a person with a prior conviction for securities fraud.
 - E. 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.
 - F. 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.
87. Section 12.G of the Act provides 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

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statements made, in the light of the circumstances in which they were made, not misleading. Respondents violated Section 12.G of the Act, in that:

- A. Respondents received money from the sale of securities issued by Malory's underwriting clients without disclosing the involvement of Wilson and his prior criminal conviction.
- B. Respondents received money from the sale of securities issued by Malory's underwriting clients, claiming the securities of 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.

88. Section 12.E of the Act states, *inter alia*, that it shall be a violation of the provisions of the Act for any person to make, or cause to be made, in any application, report or document filed under the Act or any rule or regulation made by the Secretary of State

pursuant to the Act, any statement which was false or misleading with respect to any material fact. Respondents violated Section 12.E of the Act, in that:

- A. Respondents Malory, Stein, Strauss Zellmer, Zarinigar, CGI, Wilson, and Fenn filed a false Broker-Dealer application for Malory that failed to disclose the true address for Malory.
- B. Respondent Malory, by and through respondents Stein, Strauss, Zellmer, Zarinigar, CGI, Wilson, and Fenn, filed false financial statements that incorrectly identified underwriting fees as commissions earned.

GROUND FOR REVOCATION

89. Section 8.E(1)(b) states, *inter alia*, that the registration of a salesperson or dealer may be revoked if the Secretary of State finds that the salesperson has engaged in any unethical practice in connection with any security, the offer or sale of securities, or in any fraudulent business practice. Respondents Malory and Stein are subject to revocation pursuant to Section 8.E(1)(b) of the Act, in that:

- A. Respondents Malory, Stein, Strauss, Zellmer, CGI, Wilson and Fenn filed a Broker-Dealer application for Malory that failed to disclose the true address for Malory.
- B. Respondents Malory, Stein, Strauss, Zellmer, Zarinigar, 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, Zarinigar, Zellmer, 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' 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.

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- F. Respondent Malory, by and through Respondents Stein, Strauss, Zellmer, Zarinegar, 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, Zarinegar, CGI, Wilson, and Fenn filed notice filings with the Illinois Securities Department which claimed that Respondent Malory was an associated Broker/Dealer of the offering, when Malory failed to conduct any due diligence.

90. Section 8.E(1)(e) states, *inter alia*, that the registration of a salesperson or dealer may be revoked if the Secretary of State finds that the salesperson or dealer has (i) 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 the Act, or (ii) is offering or selling or has offered or sold securities in this state through a salesperson other than a registered salesperson, or in the case of a salesperson is selling or has sold securities in this state for a dealer with knowledge that the dealer has not complied with the provisions of this Act or (iii) has failed reasonably to supervise the implementation of compliance measures following notice by the Secretary of State of noncompliance with the Act or with the regulations promulgated thereunder or both or (iv) 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. Malory and Stein are subject to revocation pursuant to Section 8.E(1)(e) of the Act, in that they:

- A. 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.

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- B. failed to have any written policies relating to anti-money laundering procedures.
- C. failed to have any procedures for reviewing correspondence.
- D. failed to maintain incoming and outgoing correspondence.
- E. failed to have any system to archive e-mail relating to the operation of Malory.
- F. failed to maintain client account records.
- G. registered offerings as a Broker-Dealer of record, without conducting any due diligence.
- H. allowed Wilson and Fenn, neither of whom was registered with Malory, to negotiate underwriting agreements on behalf of Malory.
- I. failed to conduct background investigations on new employees, as required by their own supervision procedures.
- J. allowed Wilson and Fenn to hire new agents on behalf of Malory, despite Wilson and Fenn not being registered with Malory.
- K. allowed Wilson and Fenn to make regulatory and registration filings on behalf of Malory, with little or no review by a designated Principal.
- L. failed to conduct compliance reviews of its branch offices, as required by their own supervision procedures.
- M. failed to conduct a pre-employment interview prior to registering Kirk Devon Smith.
- N. failed to conduct any inquiry into the activities of Kirk Devon Smith, after his previous employer was named in a SEC enforcement case.
- O. failed to conduct any inquiry into the activities of fourteen (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. failed to conduct a due diligence review in any of the offerings for which it acted as the associated Broker-Dealer.
- Q. failed to conduct reasonable review to confirm that the Private Placement Memoranda associated with the offerings disclosed the principals' prior criminal convictions.

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- R. failed to conduct reasonable review to confirm that the Private Placement Memoranda did not contain false or misleading statements.
 - S. failed to conduct reasonable review to confirm that the offerings were sold in a manner consistent with exemptions claimed in the Private Placement Memoranda.
91. Section 8.E(1)(q) of the Act states, *inter alia*, that the registration of a Salesperson may be revoked if the Secretary of State finds that the Salesperson has failed to maintain the books and records required under the Act or rules or regulations promulgated under the Act or under any requirements established by the Securities and Exchange Commission or a self-regulatory organization. Malory and Stein are subject to revocation pursuant to Section 8.E(1)(q) of the Act, in that they:
- A. failed to produce and/or maintain accurate financial statements.
 - B. failed to produce and/or maintain financial records including check books, bank statements, cancelled checks and cash reconciliations.
 - C. failed to produce and/or maintain incoming and outgoing correspondence, including e-mail.
 - D. failed to have any system to archive e-mail relating to the operation of Malory.
 - E. failed to produce and/or maintain client files.
 - F. failed to produce and/or maintain employment records for certain registered representatives.
 - G. failed to produce and/or maintain records in regard to disciplinary actions against registered representatives registered with Malory.
 - H. failed to produce and/or maintain due diligence files relating to its underwriting clients.
 - I. failed to produce and/or maintain notice filings filed on behalf of its underwriting clients.
 - J. 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.

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92. Section 8.E(1)(g) of the Act states, *inter alia*, that the registration of a Salesperson may be revoked if the Secretary of State finds that the Salesperson has violated any provisions of the Act.
93. Section 8.E(3) of the Act provides, *inter alia*, that the Secretary of State may institute a revocation proceeding within two years one year after withdrawal became effective and enter a revocation order as of the last date on which registration was effective.
94. By virtue of the foregoing, the Broker-Dealer and Salesperson registrations of Respondents Malory and Stein in the State of Illinois are subject to revocation as of the last date on which registration was effective, pursuant to Section 8.E(1)(b), 8.E(1)(e), 8.E(1)(q), 8.E(1)(g) and 8.E(3) of the Act.

WHEREAS, by means of the Stipulation, Ronald Stein, and Malory Investments (through Ronald Stein in his capacity as owner) acknowledge that the following are true and shall be adopted as the Secretary of State's Conclusion of Law:

1. By virtue of the foregoing violations of sub-sections Sections 12.F, 12.G, and 12.E of the Act, Respondent Ronald Stein is permanently prohibited from:
 - a) offering or selling any securities in or from the State of Illinois pursuant to Section 11.E(2) of the Act.
 - b) engaging in the business of offering investment advice in or from the State of Illinois.
2. By virtue of the foregoing violations of sub-sections Sections 12.F, 12.G, and 12.E of the Act, Respondent Malory Investments is permanently prohibited from:
 - a) offering or selling any securities in or from the State of Illinois pursuant to Section 11.E(2) of the Act.
 - b) engaging in the business of offering investment advice in or from the State of Illinois.
3. The activities set forth above constitute the offer and sale of an investment contract, and therefore a security as those terms are defined at Sec. 2.1, 2.5, and 2.5a of the Illinois Securities Law of 1953 (815 ILCS 5) (the "Act").

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By virtue of the foregoing, Respondents violated Sections 12.F, 12.G, and 12.E of the Act.

WHEREAS, by means of the Stipulation, Respondents Stein and Malory have acknowledged and agreed that they shall be permanently prohibited from offering or selling any securities in or from the State of Illinois.

WHEREAS, by means of the Stipulation, Respondents Stein and Malory have acknowledged and agreed that they shall be permanently prohibited from engaging in the business of offering investment advice in or from the State of Illinois.

WHEREAS, by means of the Stipulation Respondents Stein and Malory have acknowledged and agreed that they will cooperate in any future investigations and proceedings, which can include but is not limited to giving testimony and providing documents to the Department.

WHEREAS, the Secretary of State, by and through his duly authorized representative, has determined that the formal hearing as it relates to Respondents Stein and Malory may be dismissed upon full satisfaction of all obligations set forth in the Limited Consent Order issued by the Alabama Securities Commission (CO-2007-019) with regard to Respondents Malory Investments and Ronald Stein.

NOW THEREFORE IT SHALL BE AND IS HEREBY ORDERED THAT:

1. Respondent Ronald Stein is permanently prohibited from offering or selling securities.²

²“Offering” shall be construed to mean issuing, engaging in the business of selling, negotiating for the sale of, or otherwise in any way dealing or participating, arranging for the sale of, or otherwise assisting any individual or entity in the distribution of securities.

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2. Respondent Ronald Stein is permanently prohibited from securing any position of management or control (either directly or indirectly) of any entity engaged in the offer or sale of securities.
3. Respondent Ronald Stein is permanently prohibited from securing any position of employment, management, or control (either directly or indirectly) of any entity engaged in the business of a Broker-Dealer.
4. Respondent Ronald Stein is permanently prohibited from engaging in the business of offering investment advice.
5. Respondent Ronald Stein is permanently prohibited from securing any position of employment, management, or control (either directly or indirectly) of any entity engaged in the business of an Investment Adviser.
6. Respondent Ronald Stein's registration as a salesperson in the State of Illinois is revoked.
7. Respondent Ronald Stein is permanently prohibited from securing any position of employment, management, or control, including but not limited to, any officer, director, partner, agent, consultant, employee, or person performing similar functions, of any issuer engaged in the offer of securities.
8. Malory Investments' registration as a Broker-Dealer in the State of Illinois is revoked.
9. Malory Investments is permanently prohibited from issuing, engaging in the business of selling, negotiating for the sale of, or otherwise in any way dealing or participating, with respect to the public or to other persons, offering, selling, arranging for the sale, employing, directly or indirectly, any device, scheme, or artifice in connection with the offer, purchase, or sale of any security, aiding and abetting any other persons or business engaged in the purchase or sale of a security, or otherwise dealing or participating with any securities.
10. Respondents Ronald Stein and Malory will cooperate in any future investigations and proceedings, which can include but is not limited to giving testimony and providing documents to the Department.

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11. The Notice of Hearing dated July 7, 2007, as it relates to Respondents Stein and Malory will be dismissed without further proceedings upon full satisfaction of all obligations set forth in the Limited Consent Order issued by the Alabama Securities Commission (CO-2007-019) with regard to Respondents Malory Investments and Ronald Stein. The Department will retain the right to vacate this Order should any provision herein be violated.

A handwritten signature in cursive script that reads "Jesse White". To the right of the signature, there is a small, stylized mark that appears to be "JW".

JESSE WHITE
Secretary of State
State of Illinois

Dated: December 22, 2008

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