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**STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING  
whether there has been a violation of the  
Securities Act of Washington by:

FINANCIAL & ESTATE STRATEGIES,  
INC., CRD# 118167, and RANDALL T.  
BECKER, CRD# 2706294,

Respondents.

Order No. S-02-316-03-SC01

**STATEMENT OF CHARGES AND NOTICE OF  
INTENT TO ENTER AN ORDER TO CEASE AND  
DESIST; TO REVOKE INVESTMENT ADVISER  
AND INVESTMENT ADVISER REPRESENTATIVE  
REGISTRATIONS; AND TO IMPOSE FINES AND  
COSTS**

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THE STATE OF WASHINGTON TO:

Financial & Estate Strategies, Inc.  
Randall T. Becker, President  
411 108<sup>th</sup> Avenue NE, Suite 120  
Bellevue, WA 98004

Randall T. Becker  
4414 230<sup>th</sup> Way SE  
Sammamish, WA 98006

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**STATEMENT OF CHARGES**

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, Financial & Estate Strategies, Inc. and Randall T. Becker, have each violated the Securities Act of Washington. The Securities Administrator believes those violations justify the revocation of both Randall T. Becker's investment adviser representative registration and Financial & Estate Strategies, Inc.'s investment adviser registration pursuant to RCW 21.20.110(1), and the entry of an order against the Respondent to cease and desist from such violations pursuant to RCW 21.20.390. The Securities Administrator further finds that an order to cease and desist from those violations, and the revocation of Randall T. Becker's investment adviser representative registration and Financial & Estate Strategies, Inc.'s

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Department of Financial Institutions  
Securities Division - B/D IA Enforcement Unit  
PO Box 9033 Olympia, WA 98507-9033  
360-902-8700

1 investment adviser registration are in the public interest and necessary for the protection of the investing  
2 public. The Securities Administrator finds as follows:

3 **TENTATIVE FINDINGS OF FACT**

4 ***I. RESPONDENTS***

5 1. Financial & Estate Strategies, Inc. ("FES") is a Washington for-profit corporation incorporated on  
6 September 24, 1999. FES has been registered as an investment adviser in Washington since December  
7 1999. Its principal place of business is in Bellevue, Washington. Randall T. Becker is the sole officer and  
8 director of FES.

9 2. Randall T. Becker ("Becker") has been registered in Washington as an investment adviser  
10 representative for FES since December 1999. Becker was registered as a securities salesperson in  
11 Washington with SunAmerica Securities, Inc. ("SAS"), a registered broker-dealer, from December 1999  
12 through March 2002. He was a general principal for SAS. Before his employment with SAS, Becker was  
13 registered as a securities salesperson in Washington from March 1996 through November 1999 with  
14 Sentra Securities Corporation, a registered broker-dealer. Becker is also licensed as an insurance  
15 salesperson. Becker resides in Sammamish, Washington. From May 2 through June 20, 2001, Becker  
16 was the sole managing director of Cascade Pointe, LLC, a Washington Limited Liability Company formed  
17 on May 2, 2001.

18 ***II. BACKGROUND***

19 3. From 1995 through 2001, Health Maintenance Centers, Inc. ("HMC"), Znetix, Inc., ("Znetix"), and  
20 Cascade Pointe, LLC ("Cascade"), and their principals, agents, and employees offered and sold more than  
21 \$90,000,000 in fraudulent securities. The companies claimed that investors who purchased HMC stock  
22 for \$1.00 per share, would, after an initial public offering ("IPO") by Znetix, receive four shares of Znetix

1 stock for each share of HMC. The companies further represented that Znetix would imminently conduct  
2 the IPO, that Znetix shares would be freely traded on stock exchanges such as NASDAQ, and that the  
3 Znetix stock would be worth as much as \$20 to \$100 a share.

4 4. On April 9, 2001, the Securities Division entered a Summary Order to Cease and Desist against HMC  
5 and its founder and president, Kevin L. Lawrence (“Lawrence”). A Division investigation had revealed  
6 that neither the stock nor the offering was registered as required, and that the representations made  
7 concerning the offering were false. The Division’s Order enjoined Lawrence, HMC, their agents, and  
8 employees from violating the registration and anti-fraud sections of the Securities Act (“the Act”).

### 9 ***III. NATURE OF THE VIOLATIONS***

#### 10 **A. Offer and Sale of HMC Stock**

11 5. On or about November 21, 2000 Kevin McCarthy (“McCarthy”), an HMC insider, asked Becker to  
12 open an investment advisory account for him with FES. McCarthy explained that his HMC stock was not  
13 registered, but that a related company, Znetix, was going to do an IPO early in 2001. Once the Znetix  
14 stock was issued, Znetix would acquire HMC, and investors would get four shares of Znetix for each share  
15 of HMC. McCarthy stated that he held 240,000 HMC shares with an estimated valued of \$30 a share, for  
16 a total of \$7,200,000.

17 6. On or about January 5, 2001, Becker opened a SAS brokerage account for McCarthy. No stock or  
18 other assets were deposited to the account. Though SAS required that the account be funded, they agreed  
19 to open the account based on Becker’s representation that the account would eventually be funded with  
20 the deposit of McCarthy’s Znetix stock.

21 7. By at least late January 2001, Becker was involved in offering HMC stock. On or about January 25,  
22 2001, Becker participated in a presentation in Arizona to potential investors concerning HMC. Becker

1 claimed to have acquired significant wealth through IPOs and endorsed the investment in HMC. He stated  
2 that though his company only dealt with high net worth clients, based on the prospect of future profits  
3 from the sale of Znetix stock, FES would act as investment adviser for clients who purchased HMC stock.

4 8. Between January and May 2001, Becker and FES opened approximately 30 brokerage accounts for  
5 HMC investors. These accounts were to be used to hold investors' Znetix stock, when issued, and to  
6 manage the proceeds of any future sales. Becker and FES communicated regularly with these advisory  
7 clients, providing them with information and news articles regarding HMC, Znetix, and the pending IPO.

8 9. By late March 2001, Becker was aware that HMC was under investigation by the Securities Division  
9 for violation of the securities laws. On March 19, 2001, Becker attended a presentation for HMC  
10 shareholders put on by McCarthy. After providing some background on HMC and Lawrence, McCarthy  
11 disclosed that HMC was being investigated by the State of Washington, and that HMC might have to do a  
12 rescission offering. On March 21, 2001, Becker called the Securities Division to inquire about the status  
13 of HMC. He spoke with a DFI enforcement attorney who confirmed that the State was investigating  
14 HMC and Znetix for alleged violations of the Securities Act of Washington.

15 10. On April 9, 2001, the Securities Division issued a Summary Cease and Desist Order ("the Division's  
16 Order") against HMC and Lawrence enjoining the continued sale of HMC stock.

#### 17 B. Offer and Sale of Cascade Membership Units

18 11. Shortly after the entry of the Division's order, Lawrence and McCarthy devised a plan to evade the  
19 order. The plan called for the creation of a "white knight" entity, purportedly with no connection to HMC  
20 or Znetix, to continue to sell HMC stock under the direction of Lawrence. Becker assisted in the creation  
21 of and agreed to become the manager of the new entity. In doing so, Becker became an employee and  
22 agent of HMC, Lawrence, or Lawrence or HMC's agents.

1 12. A Certificate of Formation for the new entity, Cascade Pointe, LLC, was filed with the State of  
2 Washington Secretary of State's Office on May 2, 2001. On or about the same date, Becker entered into  
3 an agreement with McCarthy to become the Manager of Cascade. Becker did not advise SAS that he had  
4 entered into an employment agreement with Cascade.

5 13. Becker participated in the drafting of a document to be used in the sale of membership units in  
6 Cascade. This document was called "Cascade Pointe Private Placement Memorandum" ("PPM") and was  
7 dated May 15, 2001. According to the PPM, Becker was the sole Executive Officer and Manager of the  
8 company. It did not disclose that Becker would be acting at the direction of HMC, Lawrence, or  
9 McCarthy. The PPM described a private offering of \$15,000,000 in Cascade membership units. Cascade  
10 was described in the PPM as a development stage company formed for the purpose, among other things,  
11 of funding a rescission offer to be made by HMC to its investors. According to the PPM, Cascade  
12 intended to purchase up to 15,000,000 shares of HMC from existing shareholders, "strictly pursuant to the  
13 terms of any rescission offer made to such shareholders by HMC." Becker caused the distribution of the  
14 PPM through existing HMC sales agents.

15 14. According to the PPM, the offering was to commence on or about May 15, 2001 and terminate,  
16 unless extended, on June 30, 2001. In fact, the offering continued until January 2002.

17 15. According to the PPM, the offering was limited to accredited investors, required a minimum  
18 investment of \$50,000, and required investors to complete a subscription agreement, accredited investor  
19 questionnaire, and financial profile. In fact, Becker was aware that non-accredited investors were pooling  
20 funds to meet the \$50,000 minimum.

1 16. According to the PPM, total offering expenses were limited to \$250,000. In fact, between May 2,  
2 2001 and June 21, 2001, Becker, on behalf of Cascade, paid more than \$400,000 to sales agents promoting  
3 the Cascade offering.

4 17. During his tenure as Manager, Becker deposited more than \$1,300,000 of investors' money into the  
5 Cascade bank accounts. Cascade eventually received more than \$17,000,000 from investors. Of that  
6 money, approximately \$7,500,000 was transferred directly to HMC, approximately \$1,500,000 was paid  
7 to Cascade employees and sales agents, and the remainder was used for other purposes.

#### 8 C. Embezzlement of Investor Funds

9 18. In May 2001, Becker was aware of the risks involved in his participation in circumventing the  
10 Division's Order. He therefore negotiated a salary and bonus of \$60,000 for two months of part-time  
11 work, and entered into an employment agreement as Manager of Cascade. Under the agreement, Becker  
12 was employed on a part-time basis, could work in any location he chose, and would receive \$15,000 a  
13 month for two months. Though the employment agreement did not provide for any bonus, the PPM stated  
14 that Becker was to receive \$15,000 a month for two months plus a \$30,000 bonus.

15 19. Becker worked for Cascade from May 2 through June 20, 2001. Between May 2 and June 1, 2001,  
16 Becker withdrew \$62,000 of Cascade funds for his own accounts, presumably compensation pursuant to  
17 his employment agreement and the PPM. During the 13 days from June 8 through June 20, Becker  
18 withdrew an additional \$170,000 of Cascade funds for his own accounts.

19 20. On June 20, 2001, McCarthy confronted Becker about the Becker's embezzlement of investor funds.  
20 Becker claimed that he was entitled to the money due to the risks he was taking. Based in part on what he  
21 considered theft, McCarthy terminated Becker's employment agreement with Cascade.

1 D. Transactions with Equity Systems

2 21. On or about June 26, 2001, Becker, as officer of FES, entered into a contract with Equity System  
3 (“Equity”), a California firm. Under the contract, Equity agreed to pay FES \$100 for every brokerage  
4 account for Equity customers opened at SAS to hold their shares of Znetix stock when issued. On or  
5 about July 3, 2001, Equity mailed a letter to their clients instructing them to open brokerage accounts with  
6 FES and SAS. According to the letter, FES would be able to “separate each of our limited partners [sic]  
7 shares of Znetix once the HMC shares are converted.” The shares needed to be separated because money  
8 from non-accredited investors, unable to meet the minimum investment requirement, had been pooled  
9 with other investors. The letter describes Becker and FES, and states that they were selected due to their  
10 familiarity with HMC and Znetix.

11 22. On or about July 9, 2001, Becker mailed a letter to the Equity clients announcing the agreement  
12 between FES and Equity. In the letter, Becker claimed that the purpose of the account was to allow for  
13 “the eventual trading of your [Znetix] shares.” The letter included background information on FES and  
14 instructions on opening a SAS account.

15 23. On or about July 10, 2001, Becker and FES received a check from Equity for \$14,200 as  
16 compensation for opening SAS accounts for 142 Equity clients invested in HMC. Becker did not advise  
17 SAS that he had entered into the contract with Equity, and did not remit the check to SAS.

18 24. Becker and FES communicated regularly with these new advisory clients, providing them with  
19 information and news articles regarding HMC, Znetix, and the pending IPO.

20 25. On November 1, 2001, a Senior Compliance Examiner from SAS conducted a special examination  
21 of Becker’s office. During the examination, Becker’s contract with Equity, his correspondence promoting  
22 HMC, and unusual bank deposits to the FES account were noted.

1 26. In January 2002, Becker was instructed by SAS to close the Equity/HMC accounts and refund the  
2 money paid to open the accounts. On April 22, 2002, Becker was permitted to resign from SAS due to his  
3 failure to disclose his outside business activities with Equity.

4 E. NASD Conduct Rule Violations

5 27. The Securities Act of Washington (“the Act”) provides that violations of Conduct Rules  
6 promulgated by the National Associations of Securities Dealers (“NASD”) constitute grounds for action  
7 under the Act. NASD Conduct Rule 3040 forbids any person associated with a member broker-dealer  
8 from participating in a private securities transaction except in accordance with the requirements of the  
9 rule. A private securities transaction is a securities transaction outside the regular course and scope of the  
10 associated person’s employment with the member broker-dealer. The rule requires that the associated  
11 person provide advance notice in writing of the person’s proposed role in the transaction and whether that  
12 person will receive selling compensation in connection with that role. The member broker-dealer must  
13 then advise the associated person in writing whether it approves or disapproves the associated person’s  
14 participation. If the member broker-dealer approves participation, the transaction must be recorded on the  
15 books and records of the member broker-dealer and the member broker-dealer is to supervise the  
16 transaction as if it were executed on behalf of the member broker-dealer.

17 28. On or about March 5, 2001, Becker asked SAS for permission to purchase 5,000 shares of HMC  
18 stock for his own account. SAS approved the investment on March 7, 2001, but prohibited Becker from  
19 “soliciting, discussing or recommending the offering to any prospect, securities client or investment  
20 advisory client.” Becker did not disclose to SAS that he had already been engaging in those activities  
21 since January 2001. On or about March 15, 2001, Becker purchased 5,000 shares of HMC for \$5,000.  
22 Becker continued to offer and sell or recommend unregistered HMC and Cascade securities to investors in



1 Washington, Arizona, California, and elsewhere through November 2002. Becker failed to provide  
2 written notice to SAS that he was participating in those activities in connection with private securities  
3 transactions. The HMC and Cascade securities sales were not recorded on the books of SAS.

4 29. NASD Conduct Rule 3030 forbids any registered person associated with a member broker-dealer  
5 from being employed by or accepting compensation from any other person as a result of business activity  
6 unless the registered person has provided prompt written notice to the member broker-dealer.

7 30. On or about May 1, 2001, Becker entered into an employment agreement with Cascade. Becker  
8 failed to provide prompt written notice of this outside business activity to his employer, SAS.

9 31. On or about June 26, 2001, on behalf of FES, Becker entered into a contract with Equity in which  
10 Equity agreed to pay FES \$100 for every brokerage account opened at SAS. Becker failed to provide  
11 prompt written notice of this outside business activity to his employer, SAS.

12 32. SAS was and is an NASD member broker-dealer. Becker was a registered person associated with  
13 SAS from December 1999 through April 2002.

#### 14 F. Registration of Offerings

15 33. Neither HMC nor Znetix nor Cascade ever registered to sell their securities in the state of  
16 Washington.

17 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

#### 18 **CONCLUSIONS OF LAW**

19 1. The offer and sale of HMC stock, Znetix stock, and Cascade membership units described above  
20 constitute securities as defined in RCW 21.20.005(10) and (12).

1 2. Respondents Financial & Estate Strategies, Inc. and Randall T. Becker have each willfully violated  
2 RCW 21.20.140 by offering or selling said securities while no registration for such offer or sale was on  
3 file with the Securities Division.

4 3. Respondents Financial & Estate Strategies, Inc. and Randall T. Becker, as described in Tentative  
5 Findings of Fact paragraphs 5-10 and 11-17, have each willfully violated RCW 21.20.010, the anti-fraud  
6 provision of the Securities Act of Washington, by making, in connection with the offer or sale of HMC  
7 and Cascade securities, untrue statements of material fact and by omitting to state material facts necessary  
8 in order to make the statements, in light of the circumstances under which they were made, not  
9 misleading. Pursuant to RCW 21.20.110(1)(b), willful violations of the anti-fraud provision provides  
10 grounds for the revocation of Respondents' investment adviser and investment adviser representative  
11 registrations.

12 4. Respondent Randall T. Becker has engaged in one or more dishonest or unethical practices in the  
13 securities business, as defined by WAC 460-22B-090 and described in Tentative Findings of Fact  
14 paragraphs 18-20, by embezzling investor funds. Such practice is grounds for the revocation and  
15 subsequent denial of Respondent's investment adviser representative and securities salesperson  
16 registrations pursuant to RCW 21.20.110(1)(g).

17 5. Respondent Randall T. Becker has engaged in one or more dishonest or unethical practices in the  
18 securities business, as defined by WAC 460-22B-090(19) and described in Tentative Findings of Fact  
19 paragraphs 21-26 and 27-32, by failing to comply with NASD Conduct Rules 3030 (Outside Business  
20 Activities) and 3040 (Private Securities Transactions). Such practices are grounds for the revocation and  
21 subsequent denial of Respondent's investment adviser representative and securities salesperson  
22 registrations pursuant to RCW 21.20.110(1)(g).

1 6. Pursuant to RCW 21.20.110(1), Respondent Randall T. Becker 's violations of the securities  
2 registration and anti-fraud provisions of the Securities Act, as described in Tentative Findings of Fact  
3 paragraphs 5-10 and 11-17, and his dishonest or unethical business practices, described in Tentative  
4 Findings of Fact paragraphs 18-32, constitutes grounds for revocation of the investment adviser  
5 registration of Financial & Estate Strategies, Inc., of which Respondent Becker is the sole officer and  
6 director.

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8 **NOTICE OF INTENT TO ORDER RESPONDENTS TO CEASE AND DESIST**

9 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions  
10 of Law, the Securities Administrator intends to order that Respondents, Financial & Estate Strategies, Inc.  
11 and Randall T. Becker, their officers, directors, employees, partners, agents, affiliates, subsidiaries,  
12 predecessors, and successors, shall each cease and desist from violation of RCW 21.20.010, the anti-  
13 fraud section of the Securities Act.

14 Furthermore, pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and  
15 Conclusions of Law, the Securities Administrator intends to order that Respondents, Financial & Estate  
16 Strategies, Inc. and Randall T. Becker, their officers, directors, employees, partners, agents, affiliates,  
17 subsidiaries, predecessors, and successors, shall each cease and desist from offering and/or selling  
18 securities in any manner in violation of RCW 21.20.140, the securities registration section of the Act

19  
20 **NOTICE OF INTENT TO REVOKE REGISTRATIONS**

21 Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and Conclusions  
22 of Law, the Securities Administrator intends to order that the investment adviser registration of

23 STATEMENT OF CHARGES AND NOTICE OF INTENT TO  
24 ENTER AN ORDER TO CEASE AND DESIST; TO REVOKE  
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1 Respondent Financial & Estate Strategies, Inc., and the investment adviser representative registration of  
2 Respondent Randall T. Becker, shall be revoked.

3  
4 **NOTICE OF INTENT TO IMPOSE FINES**

5 Pursuant to RCW 21.20.110(4) and RCW 21.20.395(1), and based upon the above Tentative Findings  
6 of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents Financial  
7 & Estate Strategies, Inc. and Randall T. Becker shall be jointly and severally liable for and shall pay a fine  
8 of two hundred fifty thousand dollars (\$250,000).

9  
10 **NOTICE OF INTENT TO IMPOSE COSTS**

11 Pursuant to RCW 21.20.110(7) and RCW 21.20.390(5), and based upon the above Tentative Findings of  
12 Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents Financial &  
13 Estate Strategies, Inc. and Randall T. Becker shall be jointly and severally liable for and shall pay the costs,  
14 fees, and other expenses incurred in the conduct of the administrative investigation, hearing or court  
15 proceeding relating to this matter. As of October 1, 2004, these costs total approximately seventy-five  
16 thousand dollars (\$75,000).

17  
18 **AUTHORITY AND PROCEDURE**

19 This Order is entered pursuant to the provisions of RCW 21.20.110, RCW 21.20.390, and RCW  
20 21.20.395 and is subject to the provisions of RCW 21.20.120 and Chapter 34.05 RCW. Respondents may  
21 make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND  
22 OPPORTUNITY FOR HEARING accompanying this Order. If a Respondent does not request a hearing,

1 as to that Respondent, the Securities Administrator intends to adopt the foregoing Tentative Findings of  
2 Fact and Conclusions of Law as final, and enter a final order against that Respondent enjoining future  
3 violations of the Securities Act, revoking registrations, and imposing fines of \$250,000 and costs of  
4 \$75,000.

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7 DATED and ENTERED this 25th day of October 2004.

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9 Entered by:

10 

11 Michael E. Stevenson  
12 Securities Administrator

13 Approved by:

14 

15 Martin Cordell  
16 Chief of Enforcement

17 Presented by:

18 

19 Anthony W. Carter  
20 Financial Legal Examiner

21 

22 Bernadette McBride  
23 Senior Financial Examiner