



1 **STATEMENT OF CHARGES**

2 Please take notice that the Securities Administrator of the State of Washington has reason  
3 to believe that Respondents, Seattle Capital Group, Seattle Capital Group LLC, Seacap Fund LP,  
4 The Sovereign Enterprise, Jae H. Pak, Luz Valdez and Paul M. Franklin, have each violated the  
5 Securities Act of Washington and that their violations justify the entry of an order of the  
6 Securities Administrator under RCW 21.20.390 against them to cease and desist from such  
7 violations. The Securities Administrator finds that delay in ordering the Respondents to cease  
8 and desist from such violations would be hazardous to investors and to the public and that a  
9 Summary Order to Cease and Desist should be entered immediately. The Securities  
10 Administrator finds as follows:

11 **TENTATIVE FINDINGS OF FACT**

12 **RESPONDENTS**

13 1. At all times relevant to this action, Seattle Capital Group had its principal place of business at  
14 1000 Dexter Avenue North, Suite 202, Seattle, WA 98109. Jae H. Pak held Seattle Capital  
15 Group out as a Washington limited liability company, but failed to file the required  
16 documents with the Washington Secretary of State. Jae H. Pak conducted business under the  
17 name of “The Seattle Capital Group, L.L.C.,” “Seattle Capital Group” and “Seattle Capital  
18 Group LLC.” The Seattle Capital Group, L.L.C. was a Washington limited liability company  
19 registered with the Washington Secretary of State on January 9, 1998 by Nicholas Jenkins for  
20 the purpose of effecting a transfer of real property between family members. Unbeknownst  
21 to Nicholas Jenkins, on or about September 1, 1999, Jae H. Pak filed a Master Application  
22 with the Washington Department of Licensing for a business license for The Seattle Capital  
23 Group, L.L.C. Jae H. Pak has conducted business as “The Seattle Capital Group, L.L.C.,”

1 “Seattle Capital Group” and “Seattle Capital Group LLC” without the knowledge or approval  
2 of Nicholas Jenkins. Hereinafter these entities shall be referred to as “SCG.”

3 2. Seattle Capital Group LLC (“Delaware SCG”) was a Delaware limited liability company  
4 with its principal place of business at 1000 Dexter Avenue North, Suite 202, Seattle, WA  
5 98109. On or about November 21, 2000, Seattle Capital Group LLC was registered with the  
6 Delaware Secretary of State as a limited liability company. At no time has Delaware SCG  
7 been registered with the Washington Secretary of State. On May 8, 2001, Delaware SCG,  
8 through Paul M. Franklin, applied for registration as an investment adviser in the State of  
9 Washington. Due to deficiencies in the application, a license was never granted.

10 3. Seacap Fund LP (“Seacap”) was a Delaware limited partnership formed on or about  
11 November 21, 2000 by Paul M. Franklin. It was not until June 13, 2001 that Seacap  
12 registered with the Washington Secretary of State. Delaware SCG was the general partner of  
13 Seacap.

14 4. The Sovereign Enterprise (“Sovereign”) was an unincorporated business trust organization  
15 formed on December 2, 1996. Luz Valdez was the Executive Trustee of Sovereign. The  
16 creator of the trust was Luz Valdez’s uncle, Villamor O. Orcilla of Seattle, WA.

17 5. Jae H. Pak (“Pak”) was Chief Executive Manager, President and Chief Executive Officer of  
18 SCG. Pak was also Chief Investment Officer of Delaware SCG. He resides in Seattle, WA.

19 6. Luz Valdez (“Valdez”) was Administrative Executive of Washington SCG. Valdez was also  
20 Chief Operating Officer of Delaware SCG. As described above, Valdez was Executive  
21 Trustee of Sovereign. At all times relevant to this action, she resided in the State of  
22 Washington. She currently resides in Charleston, IL.

23 7. Paul M. Franklin (“Franklin”) was President and Chief Executive Officer of Delaware SCG.

1 In addition, Franklin represented himself as National Marketing Director of SCG. Franklin  
2 was a registered securities salesperson with the State of Washington while employed by  
3 Protrader Securities L.P. from April 3, 2000 through March 2, 2001. Franklin was also  
4 registered as a securities salesperson with the State of Washington from November 27, 2002  
5 through February 25, 2003 while employed by Newbridge Securities Corporation. At no  
6 time was Franklin registered as an investment adviser, investment adviser representative or  
7 securities broker-dealer. At all times relevant to this action, Franklin resided in the State of  
8 Washington. Franklin's last known residence was in San Diego, CA.

### 9 NATURE OF RESPONDENTS' CONDUCT

#### 10 *Seattle Capital Group*

- 11 8. Beginning on or about December 2000 and continuing at least to December 2002, Pak,  
12 through SCG, offered and sold securities and offered investment advice and services to the  
13 general public for a fee. Both practices were done without benefit of registration.
- 14 9. Pak formed SCG with the express purpose of trading in securities. An SCG operating  
15 agreement executed on November 10, 2000 provides, "The Partnership's (*sic*) business and  
16 purpose is to seek above average capital appreciation by investing in, and trading equities,  
17 options, private placements and other securities and instruments (collectively "Securities")."  
18 At the time the operating agreement was executed and at no time subsequent has SCG been  
19 registered with the State of Washington as an investment adviser or securities broker-dealer.  
20 At no time has Pak been registered as an investment adviser, investment adviser  
21 representative, broker-dealer or securities salesperson. At no time has Valdez been registered  
22 as an investment adviser, investment adviser representative, broker-dealer or securities  
23 salesperson.

1 10. Pak held himself and SCG out to the general public as an investment adviser through the  
2 world wide web and word of mouth solicitation. The Internet domain name of SCG,  
3 seacapgroup.com, is registered to Pak. The SCG website represented SCG as a reputable  
4 investment service for high net worth individuals and institutions. The website represented  
5 SCG as offering “high-yield sound investments” that used “high-quality technical  
6 instruments in fund management.”

7 11. SCG and Pak maintained numerous online trading accounts with Protrader Securities  
8 Corporation (“Protrader”), a registered broker-dealer headquartered in Austin, Texas.  
9 Protrader offers online trading accounts and proprietary trading software through which  
10 customers may execute trades in such accounts. Protrader markets its systems for use by  
11 “active traders” or institutions, defined by Protrader as those who place ten or more trades  
12 per day. Protrader receives a commission on every trade executed through its trading  
13 accounts. In 2000 and 2001, Protrader also operated a number of trading centers in various  
14 cities with computer workstations running Protrader proprietary software. In December  
15 2000, Protrader operated a trading center at 1000 Dexter Avenue North, Suite 202, which  
16 was located in the same office suite as SCG. Protrader and SCG shared a receptionist and  
17 telephone number. Pak’s business card represented SCG as “The Seattle Capital Group @  
18 Protrader Securities Corporation”. As of April 2001, SCG held at least nine Protrader  
19 accounts.

*Investor A<sup>1</sup>*

12. On or about January 2001, Pak solicited \$700,000 from a Washington investor (“Investor A”). Investor A is a retired Boeing engineer and was investing the proceeds of the sale of his Boeing stock options on behalf of his family limited partnership (“the Family LP”). At the time of the solicitation by Pak, Investor A had approximately ten years of investment experience with a retail brokerage. Additionally, he had approximately two years experience trading securities through an online discount brokerage.

13. On or about December 2000, after viewing a television advertisement for Protrader, Investor A contacted Protrader to set up an online trading account and obtain the Protrader trading software, as described in paragraph 11 above, to operate on his home computer (hereinafter “Protrader workstation”). Protrader’s corporate headquarters advised Investor A to contact Doug Duggan (“Duggan”), the branch manager of the Seattle Protrader trading center. Duggan has been registered as a securities salesperson with the State of Washington since 1993. At the time of his employment with Protrader, Duggan held series 63, 7, 24, 3, 4 and 55 licenses. Duggan, as branch manager, actively marketed Protrader services in the Seattle market in an effort to increase revenues for that center. Trading center revenue increased in part through opening new trading accounts and encouraging active trading by Protrader account holders. Duggan invited Investor A to visit the Seattle trading center. Investor A visited the Seattle trading center on several occasions, observing the operation of the trading software. During one of these visits, Duggan suggested to Investor A that he use an onsite computer workstation at the Seattle trading center, rather than having the Protrader

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<sup>1</sup> The full names of the investors are omitted for privacy protection purposes.

1 workstation installed at his home because of the increased customer service available onsite  
2 and the greater access to market information. Investor A declined to use an onsite  
3 workstation, preferring to trade from his home.

4 14. Duggan assigned Protrader employee Paul M. Franklin (“Franklin”) to assist Investor A in  
5 setting up a home Protrader workstation. Franklin has been a registered securities  
6 salesperson in the State of Washington since April 2000. Duggan represented that Franklin  
7 would assist Investor A in configuring and operating his Protrader workstation.

8 15. Franklin visited Investor A’s home over approximately six weeks, ostensibly to assist him  
9 with the installation and operation of the Protrader workstation. Investor A also made  
10 numerous further visits to the Protrader Seattle office for instruction on the operation of the  
11 Protrader workstation. On one of these visits, Duggan introduced Investor A to Pak.

12 16. Franklin urged Investor A to allow SCG to manage his funds instead of making his own  
13 investment decisions using the Protrader workstation and trading software. Franklin  
14 represented that SCG employed “professionals” with highly advanced investment expertise  
15 who could profitably invest Investor A’s money using low risk strategies. On one of his  
16 visits to Investor A’s house to assist with the Protrader workstation, Franklin brought Pak  
17 with him so that Pak could personally solicit Investor A to allow Pak and SCG to act as  
18 Investor A’s investment adviser.

19 17. Pak represented to Investor A that SCG was a “multi-million dollar operation” with “many”  
20 accounts under management. Pak further represented that SCG employed numerous  
21 professionals who managed investment portfolios, conducted technical analysis and provided  
22 investment advice. Pak also represented that SCG had been investing successfully for years.

1 At no time, either before, during or after his solicitation did Pak provide Investor A with  
2 proof of any of his claims regarding himself or SCG.

3 18. Pak represented to Investor A that an investment with SCG was low risk due to the utilization  
4 of a “hedging strategy.” Since Investor A was investing money on behalf of the Family LP,  
5 the promise of a low risk investment strategy was very important to his decision to invest.  
6 Pak did not disclose what the hedging strategy would be or how it would be implemented.  
7 Pak also represented to Investor A that SCG would double his original investment within one  
8 year.

9 19. On February 12, 2001, Investor A, on behalf of the Family LP, and Pak, on behalf of SCG,  
10 entered into a contract authorizing SCG to engage in transactions in securities on behalf of  
11 the Family LP in a joint investment account. The stated purpose was to “seek above average  
12 capital appreciation by investing in, and trading equities, options, private placements and  
13 other securities and instruments.” The Family LP contributed \$700,000 and SCG contributed  
14 \$300,000 to the joint investment account. Under the contract, SCG would receive a  
15 performance-based fee of 50% of any profits generated by SCG’s equity trading in the  
16 account. The contract did not provide for compensation based on total performance of the  
17 account over a definite period or as of definite dates. Under the terms of the contract, in  
18 order for Pak and SCG to double Investor A’s original investment within one year, as  
19 described in paragraph 18 above, while receiving 50% of any profits as a fee, Pak and SCG  
20 would have needed to produce at least a 200% return on Investor A’s investment, not  
21 accounting for transaction-related fees.

22 20. Investor A provided Pak two checks paid to the order of Seattle Capital Group totaling  
23 \$700,000 on February 12, 2001. That same day, Pak endorsed both checks and deposited the



1 same into a Bank of America account held jointly with his wife Dong Yen Hua (the “Joint  
2 Account”) on February 12, 2001. On February 22, 2001 Pak withdrew \$700,000 from the  
3 Joint Account in the form of a cashiers check made payable to Spear, Leeds and Kellogg, the  
4 clearing firm for Protrader. A handwritten note at the lower left hand corner of the cashiers  
5 check indicated the destination Protrader account as “4MAC.”

6 21. Pak utilized an existing Protrader account, account number 4MAC, held in the name of  
7 Seattle Capital Group for Investor A’s joint investment account (the “4MAC account”). On  
8 February 26, 2001, the existing balance in the 4MAC account was \$300,000, the amount of  
9 SCG’s contribution. On February 26, 2001, Protrader credited the 4MAC account \$700,000  
10 for the Bank of America cashiers check, the amount of Investor A’s investment. As of the  
11 close of business on February 26, 2001, the account balance in the 4MAC account was  
12 \$1,000,000, \$700,000 of which represented Investor A’s contribution and \$300,000 of which  
13 represented SCG’s contribution.

14 22. Immediately thereafter, Pak or an agent of SCG began to execute complex and risky  
15 transactions at a high velocity in the 4MAC account. The trading included high volume day  
16 trading, buying and selling options contracts and numerous short sales. A short sale is the  
17 sale of securities a seller does not own, in anticipation of a decline in the price of the  
18 securities. For the month of March 2001, 1,100 trades were executed in the 4MAC account.  
19 Through December 4, 2001, an average of 64 trades were conducted per day. Investor A  
20 received limited information on the status of his investment. For the first year of his  
21 investment, he received monthly statements prepared by SCG that showed only a total  
22 monthly profit or loss and the month ending Family LP equity. Upon Investor A’s  
23 insistence, SCG eventually provided Investor A online access through Protrader to view

1 account activity in the Family LP account. At no time did Investor A hold authority to  
2 execute transactions in the Protrader accounts that held the Family LP's investment.

3 23. The value of the 4MAC account immediately declined in the first month of SCG's trading.  
4 The account briefly regained value from March 28, 2001 to May 16, 2001, achieving a high  
5 of \$1,149,638.42 on April 26, 2001.

6 24. On May 17, 2001, Pak withdrew a \$62,000 fee from the 4MAC account. Subsequently, the  
7 4MAC account value declined dramatically, reaching a low of \$352,04.33 on June 18, 2001.

8 25. When Investor A confronted Pak with the serious losses in his account, Pak represented that  
9 the heavy losses in the 4MAC were attributable to a "bad" trader who was making the  
10 transactions in the 4MAC account. Pak told Investor A that he had fired the "bad" trader and  
11 had put "his best trader," Valdez, in charge of trading for 4MAC account.

12 26. On August 9, 2001, without the knowledge or approval of Investor A, Pak or an agent of Pak  
13 directed the transfer of \$11,000 from the 4MAC account to a Seattle Capital Group bank  
14 account held with US Bank. Four days later, on August 13, 2001, Valdez wrote a \$9,000  
15 check on that account, payable to herself. The memo portion of the check contained the  
16 notation "salary".

17 27. In December 2001, Protrader switched to a new online trading system, requiring a change in  
18 account numbers. The Family LP's account was transferred to the new system and received  
19 a new account number (hereinafter the "432 account").

20 28. As of December 31, 2001, the value of the 432 account was \$624,063, approximately 60% of  
21 its original value. Hoping to regain the value of Investor A's original investment, on January  
22 16, 2002, Investor A, on behalf of the Family LP, and Pak, on behalf of SCG, executed an  
23 amended contract to extend the investment agreement to February 12, 2003. Due to Investor

1 A's concerns about the losses in the Family LP's account, the contract included a clause that  
2 guaranteed any loss suffered by the Family LP above and beyond \$300,000, meaning SCG  
3 agreed to return at least \$400,000 of Investor A's original \$700,000 investment. On January  
4 16, 2002, the value of the 432 account was \$621,084.

5 29. Trading in the 432 account continued at a high velocity. During the first five months of  
6 2002, a total of 8,298 trades were executed in the 432 account. The account value declined  
7 precipitously such that by May 2, 2002, only \$281,487 remained in the 432 account, out of  
8 the original \$1,000,000 investment.

9 30. As a result of losses in the account and Investor A's dissatisfaction with the account's  
10 performance, on June 11, 2002 Pak and Valdez executed a promissory note in favor of the  
11 Family LP for \$462,000, payable if the 432 account suffered two consecutive weeks of  
12 equity losses.

13 31. On or about August 2002, Pak represented to Investor A that he wanted to use \$100,000 of  
14 the Family LP's money to set up a margin account for other traders affiliated with SCG. Pak  
15 assured Investor A that the margin account would be a very safe means of making money.  
16 Pak told Investor A that it would yield profit with "zero risk." Pak did not in fact create a  
17 margin account, but instead transferred \$100,000 of the Family LP's funds to another  
18 Protrader account (the "688 account"). Valdez then commenced executing transactions in  
19 the 688 account.

20 32. On November 22, 2002, Investor A issued a demand on the \$462,000 promissory note. On  
21 December 4, 2002, the Family LP received \$239,910.65, the total value of the 432 and 688  
22 accounts. To date, Investor A has not received the remaining \$222,089.35 due under the  
23 promissory note, despite Pak's assurances that he intends to repay the note.

*Investor S*

33. In approximately March 2001, Pak solicited \$30,000 from another Washington investor (“Investor S”). Investor S is a certified nurse’s assistant. Investor S holds a high school equivalency degree. She is a single mother who was investing money for her then 16 year-old daughter to attend college in the fall of 2003. At the time of the solicitation by Pak, Investor S had some investment experience trading equities through various online brokerage accounts.

34. Investor S was introduced to Pak by a friend, a day trader at Protrader Seattle. Investor S met with Pak and Valdez in the SCG office located at 1000 Dexter Avenue North in Seattle. Pak offered Investor S an opportunity to invest in SCG, which he described as a hedge fund that invested in equities, commodities, options and other products. Pak represented that a \$30,000 investment by Investor S would be worth \$100,000 in two years.

35. Pak gave Investor S a document that showed SCG investment results during the year 2000. The quarterly return varied from 130% in the first quarter of 2000 to 211.7% in the fourth quarter of 2000. Pak also provided a chart showing SCG’s quarterly investment return from the first quarter of 1999 through the third quarter of 2001. Of the eleven quarters represented on the chart, only two quarters show a loss. Gains range from approximately 40% per quarter to 125% per quarter. According to the chart, annual investment results for 1999 exceeded 250% and for 2000 exceeded 200%. Neither chart disclosed the source of the investment results.

36. Pak represented to Investor S that her investment would be pooled with other investors and that Valdez would trade Investor S’s money.

1 37. On or about March 29, 2001, Investor S gave Pak a cashier's check in the amount of \$30,000  
2 payable to "Seattle Capital." On or about April 2, 2001, Pak or an agent of Pak deposited the  
3 check into a Seattle Capital Group, LLC bank account at US Bank. Investor S did not  
4 receive a contract memorializing the terms of her investment.

5 38. There is no evidence in the US Bank bank account records that Investor S's investment was  
6 ever transferred into any trading account. Instead, it appears that Investor S's investment was  
7 used to pay the general business expenses of SCG. Pak failed to disclose to Investor S that  
8 her money was not transferred to any trading account.

9 39. Investor S received a statement from SCG dated June 30, 2001 sent by US Mail that showed  
10 an initial capital deposit of \$30,000 on April 3, 2001. The statement also showed a  
11 "quarterly credit" of \$3,600 on June 30, 2001 and a "total balance" of \$33,600.

12 40. On or about July 18, 2001, Investor S asked Pak if she could withdraw her money from SCG.  
13 Pak attempted to convince Investor S to leave her funds in SCG, in part by telling her that  
14 she would be foregoing large returns on her investment in the near future. Investor S insisted  
15 that she receive her investment from SCG. Pak wrote Investor S a check in the amount of  
16 \$33,600 from the Seacap Fund LP account held at Bank of America. Soon after, Investor S  
17 was reassured by Pak's willingness to return her money and therefore Investor S did not  
18 deposit the check. Investor S and Pak agreed that she would "reinvest" with SCG, although  
19 her funds were never in fact withdrawn from SCG.

20 41. Investor S received a statement from SCG dated October 15, 2001. The statement showed a  
21 "quarterly credit" on September 30, 2001 in the amount of \$3,696 and a total balance of  
22 \$37,296.

1 42. In approximately October 2001, Pak asked Investor S to sign a contract memorializing  
2 Investor S's investment in SCG. The contract was dated April 3, 2001. Pak and Valdez  
3 executed the contract on October 22, 2001. Investor S executed the contract on October 29,  
4 2001. The contract recited SCG's acceptance of \$30,000 from Investor S for the purpose of  
5 "seek[ing] above average capital appreciation by investing in, and trading equities, options,  
6 private placements and other securities and instruments (collectively "Securities")."  
7 Pursuant to the contract, "trading decisions will be made by Seattle Capital Group." The  
8 contract also provided for the 50/50 split of any profits earned on the invested money.  
9 However, losses were not shared and were the full responsibility of Investor S. The contract  
10 penalized withdrawal of funds prior to April 3, 2002.

11 43. In approximately January 2003, Investor S received a statement dated January 15, 2003  
12 showing seven quarters of results, five of which were gains and two of which were losses.  
13 The total balance shown on Investor S's statement was \$40,624.

14 44. On or about February 12, 2003, Pak contacted Investor S and told her that he had lost 50% of  
15 her investment, but that he could return \$20,000 to her. Investor S asked for an explanation  
16 of the circumstances that led to the loss.

17 45. On or about February 16, 2003, Pak sent a promissory note by electronic mail to Investor S.  
18 The promissory note recited a "partnership venture" between SCG and Investor S and  
19 promised a payment of \$20,000. Investor S did not execute the promissory note.

20 46. From approximately February 12, 2003 through February 20, 2003, Pak informed Investor S  
21 that her remaining account balance had declined from \$20,000 to \$10,000 to \$5,000 and then  
22 finally to a little over \$3,000.

1 47. On or about February 26, 2003, Investor S met with Valdez at a restaurant in Federal Way,  
2 WA. Valdez represented to Investor S that she had lost 48.6% of Investor S's account value  
3 in the fourth quarter of 2002. She admitted that the January 15, 2003 statement was "in  
4 error" and promised to repay Investor S.

5 48. On or about May 21, 2003, Pak deposited \$5,000 directly into Investor S's bank account with  
6 US Bank. To date, Investor S has not been repaid any additional money.

7 *Seacap Fund LP and Delaware SCG*

8 49. On or about August 1, 2000, Pak, Franklin and Valdez agreed to form Seacap to operate a  
9 hedge fund for the investment in and trading of equities, options and other securities.  
10 Delaware SCG was to be the general partner of Seacap. Franklin formed these entities at the  
11 direction of Pak.

12 50. In approximately November 2000, bank accounts were established in Seattle, WA for  
13 Delaware SCG and Seacap. Pak and Franklin were signatories on the Delaware SCG  
14 account with Bank of America. Pak was the sole signatory on the Seacap account with Bank  
15 of America.

16 51. Franklin executed the Seacap Limited Partnership Agreement dated August 1, 2000. The  
17 stated purpose of Seacap was to "seek above average capital appreciation by investing in, and  
18 trading equities, options, private placements and other securities and instruments  
19 (collectively "Securities")." The partnership agreement provided that all "trading decisions  
20 for the Partnership will be made by Seattle Capital Group, LLC, a Delaware limited liability  
21 company and General Partner of the Partnership."

22 52. From approximately December 2000 through May 2001, Franklin solicited investment in  
23 Seacap from at least sixteen investors for a total investment of approximately \$1,477,153.

1 Most investments were made by off-shore corporations and individuals who were residents  
2 of states other than Washington.

3 53. Franklin distributed business cards that read “Paul Franklin, RIA.” In addition, these  
4 business cards listed Franklin’s title as “National Marketing Director” for SCG. Franklin  
5 failed to disclose that he was not registered as an investment adviser.

6 54. Franklin represented to a number of investors that Seacap was a hedge fund formed in 1999.  
7 Franklin provided investors with various brochures on Seacap and SCG, which detailed the  
8 substantial profits SCG had earned in previous years. One brochure promoted SCG’s ability  
9 to “profit in rising and declining markets.” Franklin represented that the hedge fund would  
10 have a pool of money to utilize for trading. In addition, one of the brochures on SCG said  
11 that SCG employed “the top echelon of economists, strategist and managers” who used  
12 “market neutral investment objectives,” including “derivatives, arbitrage and leverage.” One  
13 investor, Investor H, was led to believe the risk of investing in Seacap was less than regular  
14 day-trading because the risk was purportedly “spread” among multiple traders who each  
15 specialized in a certain market sector, for example, transportation or telecommunications.  
16 Franklin did not disclose that SCG in fact employed only one or two traders and did not  
17 employ any economists.

18 55. Many Seacap investors were referred to Seacap by Ryan Landry (“Landry”) and Landry’s  
19 company, Estate Planning Consultants. Estate Planning Consultants marketed itself via the  
20 world wide web as providing estate planning services to clients who sought “greater personal  
21 and financial freedom while, at the same time, ... privacy [protection].” Estate Planning  
22 Consultants was a Nevada corporation with its principal place of business in San Diego, CA.



1 56. In a letter of intent signed by Pak on May 2, 2001, Pak acknowledges that Estate Planning  
2 Consultants had referred investments totaling \$1,200,000 to Seacap. Pursuant to the letter of  
3 intent, Estate Planning Consultants would receive a 10% referral fee. The letter also stated  
4 that Estate Planning Consultants would “place” an additional \$2,000,000 with SCG by  
5 November 1, 2001. On May 2, 2001, Pak or an agent of Pak ordered a wire transfer in the  
6 amount of \$150,000 to Landry from the Bank of America Delaware SCG account.

7 57. From approximately December 8, 2000 through May 21, 2001, Franklin deposited  
8 approximately \$1,477,153 received from sixteen different investors in the Seacap hedge fund  
9 into the Delaware SCG Bank of America account. On April 12, 2001, Pak deposited an  
10 additional \$150,000 received from one additional investor into the SCG US Bank account.

11 58. In the spring of 2001, a dispute developed between Franklin and Pak over control of investor  
12 funds and the operation of Seacap. The approximately \$1,477,153 in investor funds was  
13 disbursed as follows: approximately \$391,000 was transferred to trading accounts at  
14 Protrader; approximately \$230,005 was transferred to one or more bank accounts controlled  
15 by Franklin; approximately \$33,756 was used to fund business expenses of a new fund  
16 started by Franklin; approximately \$150,000 was transferred to Landry, as described  
17 previously; and approximately \$520,100 was transferred to various bank accounts controlled  
18 by Pak, primarily the Seacap Bank of America account. The remaining approximately  
19 \$152,292 was used to pay various business expenses. Of the \$520,100 transferred to various  
20 bank accounts controlled by Pak, only \$300,000 was transferred to a Protrader trading  
21 account. The remaining \$220,100 was used to pay various business expenses, including  
22 salaries, legal fees and marketing expenses. In 2001, Pak withdrew approximately \$69,405  
23 in salary from the Seacap Bank of America account.

1 59. Approximately 47% of the funds deposited by Seacap investors were transferred into trading  
2 accounts at Protrader. From December 11, 2000 through March 29, 2001, five transfers were  
3 made from the SCG Delaware Bank of America account into accounts at Protrader. On  
4 January 31, 2001, one transfer in the amount of \$300,000 was made from the Seacap Bank of  
5 America account to Protrader.

6 60. A number of investors contacted Franklin to inquire about the their investment in Seacap.  
7 After investing, investors did not receive any documentation regarding their investment.  
8 Franklin assured the investors that their investment had been received and would be invested  
9 at the start of the upcoming quarter. One investor, Investor H, inquired of Franklin about the  
10 status of his investment. Franklin assured Investor H that the fund was “doing great” and had  
11 posted 144% returns. Franklin represented that although the fund posted profits on a  
12 quarterly basis, statements were prepared only on an annual basis.

13 61. In January 2002, Investor H contacted Franklin and asked for a return of his investment. At  
14 that time, Franklin told him that his funds were “locked up” and could not be returned due to  
15 a dispute between Franklin and Pak.

16 62. Other investors also contacted Franklin and were told that Pak controlled their funds. When  
17 the investors contacted Pak or Pak’s attorney, they were told that Franklin controlled their  
18 funds. On October 8, 2001, Franklin filed a civil lawsuit against Pak, Valdez, Delaware SCG  
19 and Seacap for conversion, an accounting and injunctive relief. On May 14, 2002, Pak filed  
20 an answer and counterclaim against Franklin. On May 31, 2002, Franklin’s attorneys  
21 withdrew from representation of Franklin due to the fact that Franklin had purportedly  
22 moved to New York, NY.

23 63. To date, no Seacap investors have been repaid.

*The Sovereign Enterprise*

64. In approximately 1997 or 1998, Valdez solicited investment in Sovereign from a Tukwila, WA company ("Company A"). Company A is controlled by four partners ("Investor W," "Investor B," "Investor D" and "Partner 4"). Valdez represented Sovereign as a fund that used day-trading techniques to generate above average rates of return. Valdez represented that Sovereign would initiate positions when the market opened and close out all positions that day. The gains and losses would be taxable income to the investors, rather than capital gains and losses. Valdez's compensation would be a 50/50 share of any trading profits on Company A's investment.

65. In approximately 1997 or 1998, Company A invested \$150,000 with Sovereign and Valdez. No contract was signed memorializing the terms of the investment.

66. Company A received account statements showing an average of 20-30% annual returns.

67. In approximately June 2000, Valdez solicited additional investment from the principals of Company A. On or about June 6, 2000, Valdez sent an electronic mail message to the principals of Company A. In the message, Valdez thanked them for their interest in "investing" additional funds with her. She also provided the routing and account number to the Sovereign bank account at US Bank. Valdez reiterated the compensation arrangement: "a 50/50 split on the profits." She also represented that statements would be provided monthly. Valdez represented that she would engage only in intraday trading and that before entering into any trades "I will have a stop loss that will be executed like a robot if triggered because preservation of capital is the most important aspect of trading." Valdez continued by assuring them that "I will focus and dedicate my whole attention to your accounts and most of all I will practice discipline and diligence in every trade."

1 68. In addition to Company A's investment, on or about June 6, 2000, Investor D individually  
2 invested \$80,000 with Valdez and Sovereign. On or about June 7, 2000, Investor W  
3 individually invested \$150,000 with Valdez and Sovereign. On or about June 9, 2000,  
4 Investor B individually invested \$175,000 with Valdez and Sovereign. No contracts were  
5 signed memorializing the terms of their investment.

6 69. Valdez transferred funds totaling \$400,000 into two Protrader accounts which she controlled:  
7 account 4JGE (The Sovereign Enterprise) and account 4LPW (Active Trading Group LLC).  
8 Valdez began to immediately execute complex and risky transactions at a high velocity in  
9 these two accounts. The trading included high volume day trading and buying and selling  
10 options contracts. One account, account 4JGE had an approximate existing balance of  
11 \$100,000. As of June 30, 2000, the two accounts had a combined value of approximately  
12 \$529,155.

13 70. On or about December 2000, Company A requested and received its original \$150,000  
14 investment. The funds were withdrawn from account 4JGE. As of December 31, 2000, the  
15 combined balance of accounts 4JGE and 4LPW was approximately \$391,701.

16 71. From approximately August 1, 2000 through May 18, 2001, Valdez ordered numerous wire  
17 transfers from the trading accounts 4JGE and 4LPW to bank accounts she controlled. These  
18 funds were used to pay various business expenses, including salaries and tax payments.  
19 These funds were also used to purchase meals and to provide cash for Valdez. Valdez failed  
20 to disclose or account for these withdrawals to Investor W, Investor B or Investor D.

21 72. Investor D requested and received a total of \$39,000 from her investment in Sovereign. On  
22 or about July 18, 2001, Valdez repaid Investor D \$20,000. On or about August 6, 2001,  
23

1 Valdez repaid Investor D \$15,000. On or about October 2, 2001, Valdez repaid Investor D  
2 \$4,000.

3 73. On or about May 14, 2001, Valdez transferred the remaining balance in the two Protrader  
4 accounts to other Protrader accounts. She transferred \$300,000 to Protrader account 4MAC,  
5 the account containing Investor A's funds, as described above. She also transferred \$150,000  
6 to Protrader account 4MWL, an account held in the name of Seacap and controlled by Pak.

7 74. Valdez failed to regularly provide individualized statements to Investors W, B and D. At  
8 Investor D's request, Valdez provided statements via electronic mail. The "consolidated"  
9 statement dated December 31, 2001 showed a total account balance of \$1,460,626.03 and a  
10 total profit for the month of \$13,069.60. The statement allocated the total account balance  
11 and profit/loss among various parties: Company A, SCG, "J.P.", Investor D, Investor W and  
12 Investor B.

13 75. The final statement provided by Valdez was dated May 30, 2002 and showed a total balance  
14 of \$1,588,794.99 and a total gain of \$30,053.01 for the month of May. Investor D's balance  
15 was \$70,161.82. Investor W's balance was \$211,336.63. Investor B's balance was  
16 \$246,641.62.

17 76. In approximately July 2002, Investor B believed his original investment of \$175,000 had  
18 grown to over \$246,000 based on the statements provided by Valdez. Investor B requested a  
19 withdrawal from Valdez of \$25,000 to pay his son's college tuition. Valdez delayed in  
20 giving him the requested funds. On or about July 18, 2002, Investor B received a wire  
21 transfer from Sovereign in the amount of \$25,000.

22 77. Soon after Investor B requested the \$25,000 payment, Investor W was contacted by a former  
23 business associate and trader for Valdez. Investor W was warned that he should check on the

1 status of his investment. A few days later, Valdez contacted Investor W and told him that all  
2 the funds invested in Sovereign had been “lost or embezzled by Paul Franklin.” In a  
3 subsequent meeting between the investors and Valdez, Valdez told them that she was  
4 engaged in a lawsuit in an attempt to get their money back from Franklin. Valdez  
5 represented to the investors that she would repay them with proceeds from the lawsuit against  
6 Franklin. Valdez failed to disclose the fact that Franklin did not have access or control over  
7 the account purportedly containing the investor’s funds. Valdez also failed to disclose the  
8 fact that Franklin’s transfer of funds, which she called his “embezzlement,” took place much  
9 earlier, in approximately May 2001.

10 78. On or about December 2, 2002, Valdez gave Investor W, Investor B and Investor D checks in  
11 the amounts of \$656.48, \$663.07 and \$180.45 respectively. These checks were drawn on an  
12 account held at Bank of America in the name of Bethel Investments, Inc. The signatory on  
13 the checks was Brent Zabka, Valdez’s husband.

14 79. To date, Valdez has paid the three investors a total of \$3,190 of the \$341,000 unpaid  
15 remainder of their original investment.

16 **REGISTRATION STATUS**

17 80. Seattle Capital Group is not currently registered under the Securities Act of Washington,  
18 RCW chapter 21.20, as an investment adviser or broker-dealer in the State of Washington  
19 and has not been previously so registered. Seattle Capital Group is not currently registered to  
20 offer or sell securities in the State of Washington and has not been previously so registered.

21 81. Seattle Capital Group LLC (Delaware) is not currently registered under the Securities Act of  
22 Washington, RCW chapter 21.20, as an investment adviser or broker-dealer in the State of  
23 Washington and has not been previously so registered. On May 8, 2001, Seattle Capital

1 Group LLC (Delaware) applied for registration as an investment adviser in the State of  
2 Washington. Due to deficiencies in the application, a license was never granted. Seattle  
3 Capital Group LLC (Delaware) is not currently registered to offer or sell securities in the  
4 State of Washington and has not been previously so registered.

5 82. Seacap Fund LP is not currently registered under the Securities Act of Washington, RCW  
6 chapter 21.20, as an investment adviser or broker-dealer in the State of Washington and has  
7 not been previously so registered. Seacap Fund LP is not currently registered to offer or sell  
8 securities in the State of Washington and has not been previously so registered.

9 83. The Sovereign Enterprise is not currently registered under the Securities Act of Washington,  
10 RCW chapter 21.20, as an investment adviser or broker-dealer in the State of Washington  
11 and has not been previously so registered. The Sovereign Enterprise is not currently  
12 registered to offer or sell securities in the State of Washington and has not been previously so  
13 registered.

14 84. Jae H. Pak is not currently registered under the Securities Act of Washington, RCW chapter  
15 21.20, as an investment adviser, investment adviser representative, broker-dealer or securities  
16 salesperson in the State of Washington and has not been previously so registered.

17 85. Luz Valdez is not currently registered under the Securities Act of Washington, RCW chapter  
18 21.20, as an investment adviser, investment adviser representative broker-dealer or securities  
19 salesperson in the State of Washington and has not been previously so registered.

20 86. Paul M. Franklin was registered as a securities salesperson with the State of Washington  
21 from April 3, 2000 through March 2, 2001 and also from November 27, 2002 through  
22 February 25, 2003. At no time has Franklin been registered as an investment adviser,  
23 investment adviser representative or broker-dealer.

1 **EMERGENCY**

2 The Securities Administrator finds that an emergency exists because Respondents Seattle  
3 Capital Group, Seattle Capital Group LLC (Delaware), Seacap Fund LP, The Sovereign  
4 Enterprise, Jae H. Pak, Luz Valdez and Paul M. Franklin continue to knowingly and  
5 intentionally engage in dishonest and unethical practices by acting as investment advisers,  
6 investment adviser representatives, broker-dealers or securities salespersons without benefit  
7 of registration, engage in discretionary, unauthorized and unsuitable high-risk trading without  
8 notice to investors, and present a continuing threat to the investing public.

9  
10 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are  
11 made:

12 **CONCLUSIONS OF LAW**

- 13 1. Seattle Capital Group, Seattle Capital Group LLC (Delaware), Seacap Fund LP, The  
14 Sovereign Enterprise, Jae H. Pak, Luz Valdez and Paul M. Franklin have each violated  
15 RCW 21.20.040 by offering and/or selling said securities while not registered as  
16 investment advisers, investment adviser representatives, broker-dealers or securities  
17 salespersons in the State of Washington.
- 18 2. The offer and/or sale of said securities was made in violation of RCW 21.20.010 because, as  
19 set forth in the Tentative Findings of Fact above, Respondents Seattle Capital Group, Seattle  
20 Capital Group LLC (Delaware), Seacap Fund LP, The Sovereign Enterprise, Jae H. Pak, Luz  
21 Valdez and Paul M. Franklin have each engaged in a scheme or artifice to defraud, made  
22 untrue statements of material fact, or omitted to state material facts necessary in order to



1 make the statements made, in light of the circumstances under which they were made, not  
2 misleading.

3 3. Seattle Capital Group, The Sovereign Enterprise, Jae H. Pak and Luz Valdez have each  
4 violated 21.20.030 by accepting compensation on the basis of a share of capital gains or  
5 capital appreciation of the funds of a client.

### 6 **SUMMARY ORDER**

7 Based on the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY  
8 ORDERED that Seattle Capital Group, Seattle Capital Group LLC (Delaware), Seacap Fund  
9 LP, The Sovereign Enterprise, Jae H. Pak, Luz Valdez and Paul M. Franklin, and their agents  
10 and employees, each cease and desist from violation of RCW 21.20.040, the section of the  
11 Securities Act of Washington requiring registration of persons acting as investment advisers,  
12 investment adviser representatives, broker-dealers or securities salespersons.

13 It is further SUMMARILY ORDERED that Seattle Capital Group, Seattle Capital Group  
14 LLC (Delaware), Seacap Fund LP, The Sovereign Enterprise, Jae H. Pak, Luz Valdez and  
15 Paul M. Franklin, and their agents and employees, each cease and desist from violation of  
16 RCW 21.20.010, the anti-fraud section of the Securities Act.

17 It is further SUMMARILY ORDERED that Seattle Capital Group, The Sovereign  
18 Enterprise, Jae H. Pak and Luz Valdez, and their agents and employees, each cease and desist  
19 from violation of RCW 21.20.030, prohibiting certain performance-based investment advisory  
20 contracts.

### 21 **NOTICE OF INTENT TO IMPOSE FINES**

22 Based on the foregoing Tentative Findings of Fact and Conclusions of Law, the Securities  
23 Administrator finds that Respondents have knowingly and recklessly violated the registration

24 **AMENDED SUMMARY ORDER TO CEASE AND  
DESIST AND NOTICE OF INTENT TO IMPOSE FINES  
AND ORDER AFFIRMATIVE RELIEF**

1 and anti-fraud provisions of the Securities Act, and that the imposition of fines under RCW  
2 21.20.395 is required in light of the severity of violations. A fine, in an amount of not less  
3 than \$70,000, should be imposed against Respondents Seattle Capital Group, Seattle Capital  
4 Group LLC (Delaware), Seacap Fund LP, The Sovereign Enterprise, Jae H. Pak, Luz Valdez  
5 and Paul M. Franklin, jointly and severally.

6 **NOTICE OF INTENT TO ORDER AFFIRMATIVE RELIEF**

7 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and  
8 Conclusions of Law, the Securities Administrator finds that affirmative action is warranted to  
9 correct the conditions resulting from Respondents' violations. Therefore, the Securities  
10 Administrator intends to order that Respondents Seattle Capital Group, Seattle Capital Group  
11 LLC (Delaware), Seacap Fund LP, The Sovereign Enterprise, Jae H. Pak, Luz Valdez and Paul  
12 M. Franklin shall be jointly and severally liable for and shall provide appropriate affirmative  
13 action, including, without limitation, a requirement to provide restitution to all Washington  
14 investors and to pay the costs, fees, and other expenses incurred in the conduct of this  
15 investigation.

16 **AUTHORITY AND PROCEDURE**

17 This Order is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.395, and  
18 is subject to the provisions of Chapter 34.05 RCW. The Respondents, Seattle Capital Group,  
19 Seattle Capital Group LLC (Delaware), Seacap Fund LP, The Sovereign Enterprise, Jae H. Pak,  
20 Luz Valdez and Paul M. Franklin, may each make a written request for a hearing as set forth in  
21 the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING  
22 accompanying this order.

1 If a Respondent does not make a timely hearing request, the Securities Administrator intends  
2 to adopt the foregoing Tentative Findings of Fact and Conclusions of Law as final and make the  
3 Summary Order to Cease and Desist permanent as to that Respondent imposing the fines and  
4 affirmative relief as described above.

5 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

6 Dated this 26th day of January, 2004.

8 Order Entered by:

9 

10 DEBORAH R. BORTNER

11 Securities Administrator

12 Approved by:

12 Presented by:

13  
14 

15 Michael E. Stevenson  
16 Chief of Enforcement

17  
18 

19 Andrea Y. Sato  
20 Enforcement Attorney