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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:

Alternative Capital, LLC.; Bradford Vorhees,
Respondents.

Order Number S-05-236-06-SC01

STATEMENT OF CHARGES AND NOTICE
OF INTENT TO ENTER AN ORDER TO
CEASE AND DESIST, IMPOSE FINES AND
COSTS, AND TO DENY REGISTRATION

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THE STATE OF WASHINGTON TO: Alternative Capital, LLC. (IARD# 120000);
Bradford Vorhees (CRD #1275034)

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STATEMENT OF CHARGES

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Please take notice that the Securities Administrator of the State of Washington has reason to believe that the Respondents, Alternative Capital, LLC. and Bradford Vorhees, have each violated the Securities Act of Washington. The Securities Administrator believes those violations justify the entry of an order against each under RCW 21.20.110 to deny registration and RCW 21.20.390 to cease and desist and to impose fines and costs. The Securities Administrator finds as follows:

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TENTATIVE FINDINGS OF FACT

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Respondents

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1. Alternative Capital, L.L.C. (“Alternative Capital”) is a Nevada limited liability corporation with its principal place of business in Mukilteo, Washington. The National Association of Securities Dealers investment adviser registration number (“IARD #”) for Alternative Capital is 120000.

1 through Vorhees, managed and operated the partnership by investing and trading in securities and other
2 financial instruments. Alternative Capital and Vorhees were compensated for performing these services.

3 7. The hedge fund received its first investment on April 15, 2002, and had less than \$25 million
4 in assets under management.

5 8. Investment adviser and investment adviser representative licenses must be renewed by
6 December 31 each year by submitting a registration renewal fee. An application for renewal is not
7 considered filed until the required fee has been received. If an investment adviser or an investment adviser
8 representative does not submit a registration renewal fee by December 31, the registration is deemed
9 delinquent. An investment adviser or investment adviser representative may still renew until March 1 by
10 submitting the registration renewal fee and a late fee. If the registration renewal fee is not received by
11 March 1, the investment adviser or investment adviser representative license is terminated. The investment
12 adviser or investment adviser representative may no longer renew. Instead, the investment adviser or
13 investment adviser representative must reregister. An investment adviser representative cannot register or
14 renew his or her registration if the investment adviser has not renewed its registration.

15 9. In December 2002, the Department of Financial Institutions (“DFI”) notified Alternative
16 Capital by electronic mail (“email”) that the 2003 investment adviser registration renewal fee was due. DFI
17 did not receive the registration renewal fee.

18 10. In February 2003, DFI again notified Alternative Capital, this time by telephone, that the
19 2003 registration renewal fee was due. DFI did not receive the registration renewal fee.

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1 11. On June 23, 2003, Vorhees submitted the investment adviser and investment adviser
2 representative registration renewal fee to DFI. DFI processed the registration renewal fee and granted
3 registration.

4 12. From January 2003 until June 2003, despite failing to properly renew, Alternative Capital
5 and Vorhees continued to conduct business as an investment adviser and investment adviser representative
6 by selling two new investments in the hedge fund and accepting additional contributions by existing
7 investors. In addition, Vorhees continuously maintained the hedge fund and performed trades in the hedge
8 fund account each month.

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10 *Description of the Conduct*

11 13. In early November 2004, DFI sent an investment adviser registration renewal package to
12 Alternative Capital by mail. The registration renewal package instructed Alternative Capital to submit the
13 registration renewal fee for the 2005 calendar year. DFI did not receive the registration renewal fee.

14 14. On or about December 8, 2004, DFI notified Alternative Capital by email that the 2005
15 registration renewal fee was due. DFI did not receive the registration renewal fee.

16 15. On or about December 10, 2004, DFI again notified Alternative Capital by email that the
17 2005 registration renewal fee was due. DFI did not receive the registration renewal fee.

18 16. In mid December 2004, DFI attempted to notify Alternative Capital by telephone that the
19 2005 registration renewal fee was due. However, DFI was not able to contact Alternative Capital.
20 Alternative Capital's status in the Investment Adviser Registration Depository ("IARD") was changed to

1 “failure to renew”. IARD is an electronic filing system that facilitates investment adviser registration and
2 regulatory review.

3 17. In February 2005, Vorhees contacted DFI by telephone about the failure to renew status.
4 DFI instructed Vorhees to submit the 2005 registration renewal fee and a late fee. DFI did not receive the
5 registration renewal fee or the late fee.

6 18. In October 2005, a DFI examiner attempted to contact Alternative Capital by telephone to
7 schedule an examination of its books and records. The examiner was not able to contact Alternative Capital
8 by telephone. The examiner sent an email message to Alternative Capital. When Vorhees responded to the
9 email, the examiner discovered that despite failing to renew Alternative Capital and Vorhees had
10 continuously maintained the hedge fund and performed trades in the hedge fund each month.

11 19. On October 27, 2005, Vorhees submitted a registration renewal payment; however, the
12 renewal period had expired March 1. Vorhees has not submitted an application for registration.

13 20. Alternative Capital and Vorhees have continued to manage the hedge fund and conduct
14 trades in the hedge fund’s brokerage account despite not being registered.

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16 *Non-disclosure of Custody of Client Funds*

17 21. An investment adviser with custody over client funds or securities must meet requirements
18 not imposed on other investment advisers. An investment adviser who has custody of client funds must
19 have an examination by an independent certified public accountant at least once a year and must maintain a
20 net worth of at least \$35,000. An adviser with discretionary authority over customer funds but without
21 custody must maintain a net worth of \$10,000. If an investment adviser does not meet the net worth
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1 requirements, the investment adviser must be bonded for the amount of the deficiency. Any changes that
2 would cause the investment adviser's Form ADV to be inaccurate, including a change in whether the
3 investment adviser has custody of client funds, must be noted by filing an amended Form ADV within thirty
4 (30) days of the change.

5 22. On January 31, 2004, the independent administrator resigned as the administrator of the
6 hedge fund. Alternative Capital did not engage with another independent third party as the administrator of
7 the hedge fund. Instead, Alternative Capital through Vorhees administered the hedge fund and had custody
8 of client funds.

9 23. Alternative Capital did not have an independent certified public accountant examine its
10 books and records in 2004.

11 24. Alternative Capital did not meet the net worth requirements for investment advisers who
12 have custody of client funds. Alternative Capital was not bonded for the amount of the deficiency.

13 25. In addition, Form ADV Part 1B, Item 2(I)(3)(d) asks if an attorney or an independent
14 certified public accountant had been engaged to provide authority permitting each direct payment of any
15 transfer of funds or securities from the partnership account. In its original April 2002 filing and its amended
16 May 2002 filing of Form ADV, Alternative Capital answered "yes" to Item 2(I)(3)(d). Within thirty days of
17 the resignation of the independent administrator, Alternative Capital was required to file an amended Form
18 ADV and respond "no" to Item 2(I)(3)(d). However, Alternative Capital did not file an amended Form A.

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1 **REGISTRATION STATUS**

2 26. Alternative Capital was registered as an investment adviser in Washington State from March
3 2002 until December 2002 and from June 2003 until December 2004.

4 27. Vorhees was registered in Washington State as an investment adviser representative through
5 Alternative Capital from March 2002 until December 2002 and from June 2003 until December 2004.
6 Vorhees is not presently registered with any other state or federally covered investment adviser or broker-
7 dealer.

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

10 **CONCLUSIONS OF LAW**

11 1. Respondents, Alternative Capital and Bradford Vorhees, acted as an investment adviser and
12 an investment adviser representative as defined in RCW 21.20.005 (6) and (14) by maintaining the hedge
13 fund.

14 2. Respondent, Alternative Capital, has knowingly and/or recklessly violated RCW 21.20.040
15 and RCW 21.20.110 by transacting business as an investment adviser while not registered as an investment
16 adviser in the State of Washington.

17 3. Respondent, Bradford Vorhees, has knowingly and/or recklessly violated RCW 21.20.040
18 and RCW 21.20.110 by transacting business as an investment adviser representative while not registered as
19 an investment adviser representative in the State of Washington.

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1 4. Respondent, Alternative Capital, has knowingly and/or recklessly violated WAC 460-24A-
2 105 and RCW 21.20.110 by failing to have an independent certified public accountant examine its books
3 and records in 2004 while having custody of client funds or securities.

4 5. Respondent, Alternative Capital, has knowingly and/or recklessly violated WAC 460-24A-
5 170 and RCW 21.20.110 by failing to maintain the minimum net worth of \$35,000 or be bonded for the
6 amount of the deficiency while having custody of client funds or securities.

7 6. Respondent, Alternative Capital, has knowingly and/or recklessly violated WAC 460-24A-
8 205 and RCW 21.20.110 by failing to file an amended Form ADV notifying the State within thirty (30) days
9 of receiving custody of client funds.

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11 **NOTICE OF INTENT TO ORDER RESPONDENT TO CEASE AND DESIST**

12 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and
13 Conclusions of Law, the Securities Administrator intends to order that the Respondent permanently cease
14 and desist from violations of RCW 21.20.110.

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16 **NOTICE OF INTENT TO IMPOSE FINES AND COSTS**

17 Pursuant to RCW 21.20.110, RCW 21.20.390, and RCW 21.20.395, and based upon the above
18 Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that
19 Respondents, Alternative Capital, L.L.C. and Bradford Vorhees, shall be liable for and pay to the Securities
20 Division (1) a fine of \$1,000 and (2) the costs, fees, and other expenses incurred in the conduct of
21 investigating this matter in an amount not less than \$500.

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2 **NOTICE OF INTENT TO DENY ADVISER REGISTRATION**

3 Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and
4 Conclusions of Law, the Securities Administrator intends to order that any application for registration or
5 renewal of Respondents, Alternative Capital, L.L.C. and Bradford Vorhees, be denied.

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7 **AUTHORITY AND PROCEDURE**

8 This Statement of Charges is entered pursuant to the provisions of RCW 21.20.110 and RCW
9 21.20.390, and is subject to the provisions of RCW 21.20.120 and Chapter 34.05 RCW. The
10 Respondents, Alternative Capital, L.L.C. and Bradford Vorhees, may each make a written request for a
11 hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR
12 HEARING accompanying this order. If a Respondent does not request a hearing, the Securities
13 Administrator intends to adopt the foregoing Tentative Findings of Fact and Conclusions of Law as final,
14 and enter a permanent cease and desist order against that Respondent imposing the costs and fines sought
15 and deny any future application for registration or renewal.

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17 DATED AND ENTERED this 19th day of June, 2006.

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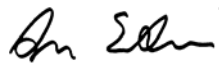
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MICHAEL E. STEVENSON
Securities Administrator

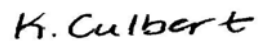
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Approved by:



Suzanne Sarason
Chief of Compliance

Presented by:



Kristen Culbert
Financial Legal Examiner