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

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

Adams Financial Concepts, LLC,  
Alexander Michael Adams,  
Respondents.

NO. S-13-1221-14-CO01  
CONSENT ORDER

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THE STATE OF WASHINGTON TO: Adams Financial Concepts, LLC (IARD #134545)  
Alexander Michael Adams (CRD #1492147)

**INTRODUCTION**

Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Administrator of the Securities Division of the Department of Financial Institutions ("Securities Division") and the Respondents, Adams Financial Concepts, LLC and Alexander Michael Adams ("the Respondents"), do hereby enter into this CONSENT ORDER in the settlement of the matters alleged herein. Respondents neither admit nor deny the Findings of Fact and Conclusions of Law as stated below.

**FINDINGS OF FACT**

Respondents

1. Adams Financial Concepts, LLC ("AFC") is a Washington limited liability company that was formed on December 28, 2004. AFC is a Washington registered investment

1 adviser. AFC was initially registered as an investment adviser with the state of Washington in  
2 August 2005. In August 2007, AFC became a federally registered investment adviser. In June  
3 2008, AFC again became and has continued to be a Washington registered investment adviser.  
4 AFC's principal place of business is located in Seattle, Washington.  
5

6 2. Alexander Michael Adams ("Adams") is a Washington registered investment  
7 adviser representative. Adams has been an investment adviser representative since 1992. From  
8 May 2005 to present, Adams has been a registered investment adviser representative for AFC.  
9 Adams is also the managing member and the sole owner of AFC.

#### 10 Related Company

11 3. Adams Financial Partners, L.P. (hereinafter, "Adams Financial Partners" or "the  
12 fund") is a private investment fund that was formed as a Washington limited partnership on  
13 September 23, 2005. AFC is the managing member of Adams Financial Partners. In addition to  
14 investing in publicly traded stocks, Adams Financial Partners invested in several promissory  
15 notes that were issued by closely held companies related to Adams. The promissory notes were  
16 to be repaid from three real estate development projects for properties located in Kitsap County,  
17 Washington.  
18

#### 19 Fiduciary Duty to Clients

20 4. As set forth in WAC 460-24A-220, an investment adviser "is a fiduciary and has  
21 a duty to act primarily for the benefit of its clients. In particular, under WAC 460-24A-220(11),  
22 it is a dishonest or unethical practice for an investment adviser to fail "to disclose to clients in  
23 writing before any advice is rendered a material conflict of interest which could reasonably be  
24 expected to impair the rendering of unbiased and objective advice." AFC repeatedly failed to  
25 advise the limited partners in Adams Financial Partners in writing about material conflicts of  
26

1 interest between Adams, the managing member of AFC, and Adams Financial Partners. As  
2 described below, Adams acted primarily for his own interest and his son's interest, instead of the  
3 best interest of his client, Adams Financial Partners, and its limited partners.  
4

5  
6 Offer and Sale of Limited Partnership Interests in Adams Financial Partners

7 5. Between December 2005 and June 2007, Adams offered and sold limited  
8 partnership interests in Adams Financial Partners to four Washington investors ("fund  
9 investors") who were also investment advisory clients of AFC. The limited partners invested  
10 approximately \$500,000 each, for a total of approximately \$2 million, in Adams Financial  
11 Partners. Each fund investor had a net worth greater than \$1 million when they invested. The  
12 investors expected to earn a profit from the pooling of their funds. The four fund investors  
13 comprise all of the limited partners in Adams Financial Partners. The fund investors relied on  
14 Adams and AFC to generate a return on the investments. AFC charged Adams Financial  
15 Partners a management fee and a performance fee for managing the fund's assets.  
16

17 6. According to the Limited Partnership Agreement, dated October 17, 2005 (the  
18 "Limited Partnership Agreement"), the fund's initial purpose was to invest or trade in securities.  
19 Adams represented that he would use his expertise and experience in the securities industry to  
20 generate a profit for fund investors using a "long/short" trading strategy.  
21

22 7. The Private Placement Memorandum, dated November 7, 2005 ("Private  
23 Placement Memorandum"), stated that AFC, the General Partner of the fund, was authorized to  
24 lend money or borrow money from entities in which the AFC or one or more of its affiliates  
25 serves as a manager, sponsor, administrator, investment adviser or otherwise, provided that such  
26 arrangements are disclosed within 90 days of consummation. The Private Placement

1 Memorandum also stated that AFC, as the General Partner, was authorized to enter into  
2 transactions with other entities controlled by AFC, even if such transactions were not negotiated  
3 at arms-length.

4 8. In December 2005, Adams sold his first \$500,000 limited partnership interest in  
5 Adams Financial Partners. In January 2006, contrary to what he represented in the fund's  
6 Limited Partnership Agreement, Adams used 40% of the initial investor's funds (\$200,000) to  
7 purchase an unsecured promissory note issued by Schipper, L.L.C. After purchasing this first  
8 Schipper, L.L.C. note, Adams sold a total of approximately \$1.5 million worth of limited  
9 partnership interests in Adams Financial Partners to three other investors.  
10

11 Failure to Disclose Material Information Regarding the \$200,000 Promissory Note Investment

12 9. When offering and selling limited partnership interests in Adam Financial  
13 Partners, the Respondents failed to disclose within 90 days of completing the loan to Schipper,  
14 L.L.C. material information to fund investors concerning the \$200,000 Schipper, L.L.C.  
15 promissory note (the "Schipper Note"), as required by the fund's Private Placement  
16 Memorandum. The Respondents, in a sworn statement filed with the Securities Division (the  
17 "Sworn Statement") assert that the Schipper Note was disclosed orally to fund investors.  
18 However, no written disclosure regarding the Schipper Note was provided to fund investors at  
19 the time of their investment.  
20

21 10. Specifically, the Respondents failed to disclose in writing to fund investors that  
22 Adams and Adams's son were both members of Schipper, L.L.C. when the investment was  
23 made. The Respondents failed to disclose that at the time the promissory note was purchased by  
24 the fund it was unsecured, did not have a fixed due date, and was a balloon payment promissory  
25 note with no periodic interest payments. The Respondents failed to disclose Schipper, L.L.C.'s  
26

1 operating history or provide any financial information for Schipper, L.L.C. The Respondents  
2 also failed to disclose that there was no market for trading the note and that it could not be  
3 readily resold.

4  
5 11. The Respondents failed to disclose to fund investors that the \$70,000 interest on  
6 the investment was to be paid from revenues earned by a different company, Poulsbo BOM  
7 Developers, LLC. The Respondents failed to disclose that company's operating history or  
8 provide any financial information regarding the company, or disclose in writing that Adams had  
9 a financial interest in the Liberty Bay project. The Respondents failed to disclose that Schipper,  
10 L.L.C. was a minority member in Poulsbo BOM Developers, LLC. The Respondents represented  
11 to fund investors that the Schipper Note would be repaid through the development of a  
12 condominium project known as Liberty Bay Landing.

13  
14 12. The Respondents each failed to disclose to fund investors the risks of real estate  
15 development activities. The Respondents failed to disclose the general risks of developing real  
16 property, including inadequate capitalization, economic and market risks, regulatory risks,  
17 environmental risks, and operational risks. The Respondents also failed to disclose specific risks  
18 about the Liberty Bay Landing project, including the projected costs of the project, the  
19 development requirements from the City of Poulsbo, and the identity, prior experience, and  
20 project history of the developer.

#### 21 Misleading Quarterly Reports to Fund Investors

22  
23 13. From 2006 to 2008, Adams Financial Partners sent quarterly reports to fund  
24 investors. The reports incorrectly described the \$200,000 promissory note investment as a "real  
25 estate investment trust" that was owned by Poulsbo One, LLC. Adams and AFC each failed to  
26

1 disclose in writing to fund investors that Poulsbo One, LLC was never legally formed and did  
2 not own any real property.

3 14. Adams Financial Partners had audited financial statements for 2006. Those  
4 statements reclassified the \$200,000 “real estate investment trust” investment as a loan  
5 receivable. However, the 2006 audited financial statements were not completed and delivered to  
6 the limited partners until June 2008.  
7

8  
9 Failure to Disclose Material Information When  
10 Purchasing Additional Promissory Note Investments

11 *Purchase of Additional Schipper, L.L.C. Promissory Note Investments*

12 15. In 2007, Adams Financial Partners purchased two additional promissory note  
13 investments issued by Schipper, L.L.C. The first promissory note was dated July 2, 2007 and  
14 had a principal amount of \$103,000 with 4.5% annual interest. The second promissory note was  
15 dated August 12, 2007 and had a principal amount of \$45,000 with 5% monthly interest in an  
16 amount not to exceed \$18,000.  
17

18 16. When purchasing the additional promissory note investments, the Respondents  
19 failed to disclose to fund investors material information regarding the transactions within 90 days  
20 of the investment as required by the Private Placement Memorandum. In the Sworn Statement,  
21 the Respondents assert that the promissory notes issued by Schipper, L.L.C. were disclosed  
22 orally to fund investors. However, no written disclosures regarding these promissory notes were  
23 provided to fund investors within the required 90 day period after each promissory note  
24 investment was made.  
25  
26

1           17.    Among other things, the Respondents failed to disclose the company's operating  
2 history or any financial information regarding Schipper, L.L.C. The Respondents failed to  
3 disclose that both of the notes were balloon payment promissory notes with no fixed due date  
4 and no periodic interest payments. The Respondents failed to disclose that there was no market  
5 for trading the notes and the notes could not be readily resold.  
6

7           18.    The Respondents failed to disclose that Adams's son was by then the sole  
8 member and 100% owner of Schipper, L.L.C. The Respondents failed to disclose in writing that  
9 Adams's son was the developer for the Liberty Bay Landing real property. The Respondents  
10 failed to disclose that, although Adams's son had participated in a European real estate venture,  
11 he had no prior real estate development experience in the United States. The Respondents also  
12 failed to disclose that the promissory notes were unsecured at the time the promissory notes were  
13 purchased by the fund. The Respondents failed to disclose that Schipper, L.L.C. was a minority  
14 member in Poulsbo BOM Developers, LLC, and the company that owned the land to be  
15 developed.  
16

17           19.    In the 2008 audited financial statements for Adams Financial Partners,  
18 management stated that the fair value of the land to be developed for Liberty Bay Landing was  
19 \$635,000, as of December 31, 2008. The Respondents failed to disclose that this amount was  
20 less than a \$700,000 note and deed of trust granted to Pacific First Financial, Inc., which  
21 encumbered the land.  
22

23           20.    In January 2013, Adams signed a promissory note addendum on behalf of Adams  
24 Financial Partners, which increased the amount of principal and interest that was due for the  
25 Schipper, L.L.C. promissory notes that were previously issued in 2006 and 2007. The interest  
26 and rate of return was changed to require Schipper, L.L.C. to "pay an interest and principal total

1 for the three promissory notes of \$650,000 plus one half of the profits due Schipper, LLC of the  
2 build out of the property.” However, before signing the addendum, the Respondents failed to  
3 disclose to fund investors the financial condition of Schipper, L.L.C. The Respondents failed to  
4 disclose the projected cost of building out the property and the source of funds for completing  
5 the build-out.  
6

7 *Purchase of Eton Developments, LLC Promissory Note Investments*

8 21. In 2007, the fund purchased a \$161,419 promissory note investment from Eton  
9 Developments LLC (“Eton”), which was supposed to be repaid through the development of a  
10 mixed-use condominium and retail/commercial project known as Harbor Lights.

11 22. When purchasing the investment, the Respondents failed to disclose material  
12 information to fund investors within 90 days after making the loan to Eton, as required under the  
13 Private Placement Memorandum. In the Sworn Statement, the Respondents assert that the Eton  
14 promissory note was disclosed orally to fund investors. However, no written disclosure  
15 regarding the Eton promissory note was provided to fund investors within the required 90 day  
16 period. The Respondents failed to disclose that Eton was 100% owned by Adams’s son, and  
17 failed to provide the operating history or any financial information regarding Eton. The  
18 Respondents failed to disclose to fund investors that the note had no fixed due date and was a  
19 balloon payment promissory note with no periodic interest payments. The Respondents further  
20 failed to disclose that there was no market for trading the note and that it could not be readily  
21 resold.  
22

23  
24 23. The Respondents also failed to disclose material information regarding the Harbor  
25 Lights property. The Eton note was due and payable “at the time of the sale of the property  
26 owned by Harbor Lights Development, LLC commonly known as Harbor Lights.” Respondents



1 failed to disclose to fund investors that the Eton note was unsecured at the time the Eton note  
2 was purchased by the fund. The Respondents failed to disclose in writing that Adams and  
3 Adams's son each had an ownership interest, through their holdings in affiliated companies, in  
4 Harbor Lights. Adams and AFC each failed to disclose that Eton was a minority member in  
5 Harbor Lights. Adams and AFC each failed to disclose that while the property was purchased by  
6 Harbor Lights in November 2006 for \$1,457,000, it was subject to a \$600,000 note and deed of  
7 trust to the seller of the property.  
8

9 24. The Respondents failed to disclose to fund investors the general risks of real  
10 property development, including inadequate capitalization, economic and market risks,  
11 regulatory risks, environmental risks, and operational risks. The Respondents also failed to  
12 disclose to fund investors the specific risks of developing the Harbor Lights mixed-use  
13 condominium and retail/commercial project, including the projected development costs, the  
14 development requirements from the City of Poulsbo, and the identity, prior experience, and  
15 project history of the developer.  
16

17 25. In December 2011, Adams signed a promissory note addendum on behalf of  
18 Adams Financial Partners, which changed the amount of interest that was due on the Eton note.  
19 The interest and rate of return was changed from an initial return of 35% per annum up to a  
20 maximum of \$100,000, to interest "at 35% per annum up to the full amount due to Eton  
21 Developments, LLC or \$500,000 whichever is the lesser from the Harbor Lights project."  
22

23 26. Prior to signing the addendum, the Respondents failed to disclose to fund  
24 investors the financial condition of Eton. Before signing the addendum, the Respondents also  
25 failed to disclose the projected cost of building out the property, the source of funds for  
26

1 completing any build-out, and the basis for calculating any amount that would be due to Eton  
2 from the Harbor Lights project.

3 *Purchase of Stonecreek Land Development, LLC Promissory Note Investments*

4 27. In September 2008, Adams Financial Partners purchased a \$50,000 promissory  
5 note issued by "Stonecreek, LLC" and signed by Adams and by Adams's son. The note  
6 incorrectly identified the borrower as "Stonecreek, LLC", instead of Stonecreek Land  
7 Development, LLC. The Respondents failed to disclose that Adams and Adams's son owned  
8 100% of the membership interests in Stonecreek Land Development, LLC ("Stonecreek"), a  
9 Washington limited liability company that was formed in 2007, within 90 days of the fund's  
10 investment in Stonecreek as required under the Private Placement Memorandum.  
11

12 28. In their Sworn Statement, the Respondents assert that the promissory note issued  
13 by Stonecreek was disclosed orally to fund investors. However, no written disclosure regarding  
14 the Stonecreek promissory note was provided to fund investors within the required 90 day period  
15 after the promissory note investment was made.  
16

17 29. When purchasing the \$50,000 Stonecreek promissory note, the Respondents  
18 failed to disclose Stonecreek's operating history or provide any financial information regarding  
19 Stonecreek. Adams and AFC each failed to disclose to fund investors that the balloon payment  
20 promissory note was "due and payable at the time of final plat of the Stonecreek Property,"  
21 which might never occur. Adams and AFC each failed to disclose that the return on the note was  
22 5% that was payable "upon or before the final plat of the Stonecreek Property," which might  
23 never occur. Adams and AFC each failed to disclose that an additional \$25,000 was to be paid  
24 "from profits if the Adams' are successful in obtaining a loan under favorable conditions to build  
25 out the property," which might never occur.  
26





1 obligation to pay their capital calls, Adams borrowed money from his client, Adams Financial  
2 Partners, to pay for his own and/or his son's obligations to pay capital calls from Harbor Lights  
3 Development, LLC. The Respondents failed to disclose this capital call within 90 days of its  
4 funding as required under the Private Placement Memorandum.

5  
6 39. Similarly, in 2012, Adams personally received a capital call letter from Poulsbo  
7 BOM Developers, LLC that was signed by Adams's son. In December 2012, Poulsbo BOM  
8 Developers, LLC issued a capital call letter that was addressed to Adams personally. Adams  
9 withdrew \$25,000 from Adams Financial Partners to pay the capital call. Adams Financial  
10 Partners did not have an ownership interest in Poulsbo BOM Developers, LLC and had no  
11 obligation to pay their capital call. Adams borrowed money from Adams Financial Partners to  
12 pay for his own and/or his son's obligation to pay a capital call from Poulsbo BOM Developers,  
13 LLC. The Respondents failed to disclose this capital call within 90 days of its funding as  
14 required under the Private Placement Memorandum.  
15

16 *Promissory Note Transactions*

17 40. The Respondents, in their Sworn Statement, assert that the fund had accrued and  
18 owed AFC \$158,607 in incentive fees and that AFC made a cash capital contribution of \$75,000  
19 to the fund.

20  
21 41. According to their Sworn Statement, the Respondents, from 2011 through 2013,  
22 borrowed in the aggregate \$202,633 from Adams Financial Partners, a client of AFC, and issued  
23 balloon payment promissory notes to the fund to memorialize the transactions. The Respondents  
24 failed to disclose to fund investors in writing the nature of these transactions within 90 days of  
25 each borrowing, as required under the Private Placement Memorandum.  
26

1 *Additional Payments for Real Estate Projects*

2 42. Adams made additional withdrawals in the aggregate amount of \$130,130 from  
3 Adams Financial Partners. Although the promissory notes for Liberty Bay were amended in  
4 January 2013 and the promissory notes for Harbor Lights were amended in December 2011 to  
5 increase the amount payable under each of these promissory notes, the Respondents failed to  
6 disclose potential conflict of interest transactions in writing to the fund investors as required  
7 under the Private Placement Memorandum.  
8

9 43. Between 2009 and 2013, Adams withdrew \$46,000 from Adams Financial  
10 Partners to pay Poulsbo BOM Developers, LLC.  
11

12 44. Between March 2010 and May 2012, Adams withdrew a total of \$57,250 for  
13 payments to Pacific First Financial, Inc., for its \$700,000 loan that was secured by the Liberty  
14 Bay Landing property.

15 45. Between 2010 and 2012, Adams withdrew a total of at least \$26,880 from Adams  
16 Financial Partners on five occasions to pay Harbor Lights Development, LLC. There was no  
17 obligation for Adams Financial Partners to make these payments.

18 Based upon the above Findings of Fact, the following Conclusions of Law are made:  
19

20 **CONCLUSIONS OF LAW**

21 1. As set forth in the Findings of Fact, the offer and sale of the limited partnership  
22 interests and the promissory note investments described above constitute the offer and sale of a  
23 security, as defined in RCW 21.20.005(14) and RCW 21.20.005(17).

24 2. As set forth in the Findings of Fact, in connection with the offer and sale of  
25 limited partnership interests in Adams Financial Partners, LLC and the purchase of the Schipper  
26 Note issued by Schipper, L.L.C., the Respondents each violated RCW 21.20.010, by omitting to

1 state a material fact necessary in order to make the statements made, in light of the circumstances  
2 under which they were made, not misleading.

3 3. As set forth in the Findings of Fact, while receiving consideration for advising  
4 another person as to the value of securities or their purchase or sale, AFC violated RCW  
5 21.20.020, by engaging in an unethical practice for an investment adviser.  
6

7 4. As set forth in the Findings of Fact, AFC violated WAC 460-24A-107, the  
8 additional custody requirements for an investment adviser that manages a pooled investment  
9 vehicle, by failing to provide copies of the annual audited financial statements of Adams  
10 Financial Partners, L.P. to the limited partners within 120 days of the limited partnership's fiscal  
11 year-end.

12 5. As set forth in the Findings of Fact, AFC violated WAC 460-24A-220(11) by  
13 failing to disclose to clients in writing before any advice was rendered any material conflict of  
14 interest relating to the adviser of any of its employees which could reasonably be expected to  
15 impair the rendering of unbiased and objective advice.  
16

17 6. As set forth in the Findings of Fact, AFC violated RCW 21.20.010, RCW  
18 21.20.020, and WAC 460-24A-107, in violation of RCW 21.20.110(1)(b). AFC violated or  
19 failed to comply with WAC 460-24A-220(11), in violation of RCW 21.20.110(1)(g). Such  
20 conduct constitutes a ground for the entry of an order under RCW 21.20.110(1) to restrict or  
21 condition the investment adviser registration of AFC and to impose a fine.  
22

23 7. As set forth in the Findings of Fact, Adams violated RCW 21.20.010. Pursuant to  
24 RCW 21.20.110(6), as the sole control person of AFC, Adams is also responsible for AFC's  
25 violations of RCW 21.20.020, WAC 460-24A-107, and WAC 460-24A-220(11). Such conduct  
26

1 constitutes a ground for entry of an order under RCW 21.20.110(1) to restrict or condition the  
2 investment adviser representative registration of Adams and to impose a fine.

3  
4 **CONSENT ORDER**

5 Based upon the foregoing and finding it in the public interest:

6  
7 IT IS AGREED AND ORDERED that Respondents, Adams Financial Concepts, LLC  
8 and Alexander Michael Adams, each shall cease and desist from any violation of Chapter 21.20  
9 RCW, the Securities Act of Washington.

10 IT IS FURTHER AGREED AND ORDERED that the Respondents, Adams Financial  
11 Concepts, LLC and Alexander Michael Adams, shall be liable for and pay a fine of \$10,000.

12 IT IS FURTHER AGREED AND ORDERED that the Respondents, Adams Financial  
13 Concepts, LLC and Alexander Michael Adams, shall be liable for and shall pay the costs, fees,  
14 and other expenses incurred in the administrative investigation and hearing of this matter, in an  
15 amount of \$5,000.

16  
17 IT IS FURTHER AGREED AND ORDERED that Alexander Michael Adams and his  
18 agents and employees shall not offer, sell or recommend securities issued by any person, as  
19 defined at RCW 21.20.005(12), that is owned, controlled, or managed, directly or indirectly, by  
20 Alexander Michael Adams or his agents or employees, or by any of his relatives, as defined at  
21 RCW 21.20.005(13), without providing all material disclosures in writing prior to offering,  
22 selling or recommending such security.

23  
24 IT IS FURTHER AGREED AND ORDERED that for a period of 10 years from the date  
25 of entry of this Consent Order Alexander Michael Adams may not be a principal, officer, or  
26 owner of an investment adviser, unless any such investment adviser files with the Securities



1 Division a written statement that the investment adviser shall be prohibited from having custody,  
2 as defined at WAC 460-24A-005(1), of any client's funds or securities. This provision shall not  
3 apply to the investment adviser's ability to directly deduct advisory fees from client accounts, as  
4 long as the investment adviser complies with all applicable custody requirements.

5  
6 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this  
7 Consent Order.

8 IT IS FURTHER AGREED that Respondents, Adams Financial Concepts, LLC and  
9 Alexander Michael Adams, entered into this Consent Order freely and voluntarily and with a full  
10 understanding of its terms and significance.

11 IT IS FURTHER AGREED that in consideration of the foregoing, Respondents, Adams  
12 Financial Concepts, LLC and Alexander Michael Adams, each waived their right to a hearing  
13 and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.  
14

15  
16 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE

17  
18 SIGNED this <sup>th</sup> 20 day of February, 2014.

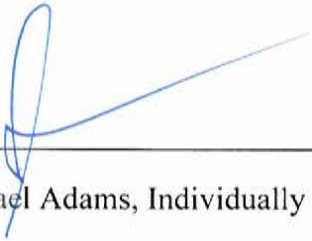
19  
20 Signed by:

21 ADAMS FINANCIAL CONCEPTS, LLC

22  
23 By: \_\_\_\_\_

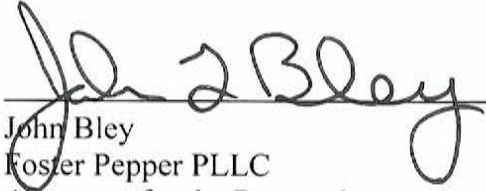
24 A. Michael Adams, Manager  
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Alexander Michael Adams, Individually

Approved for entry by:



John Bley  
Foster Pepper PLLC  
Attorneys for the Respondents

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SIGNED AND ENTERED this 26<sup>th</sup> day of February, 2014.



WILLIAM M. BEATTY  
Securities Administrator

Approved by:

Presented by:

Suzanne E. Sarason  
Chief of Enforcement

Janet So  
Financial Legal Examiner

Reviewed by:

Robert Kondrat  
Financial Legal Examiner Supervisor