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

IN THE MATTER OF DETERMINING ) Order No.: S-13-1332-14-SC01  
Whether there has been a violation of the )  
Securities Act of Washington by: ) STATEMENT OF CHARGES AND NOTICE OF  
 ) INTENT TO ENTER ORDER TO CEASE AND  
Donald Alan Kernan, Jr.; ) DESIST, TO IMPOSE A FINE, AND TO CHARGE  
Donald Kernan, LLC f/k/a DreamerTopia, ) COSTS  
LLC )  
Respondents. )

**THE STATE OF WASHINGTON TO:** Donald Alan Kernan, Jr.  
Donald Kernan, LLC f/k/a DreamerTopia, LLC

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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 Donald Alan Kernan, Jr. and Donald Kernan, LLC formerly known as DreamerTopia, LLC have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against them to cease and desist from such violations and to charge costs, and under RCW 21.20.395 to impose a fine. The Securities Administrator finds as follow:

**TENTATIVE FINDINGS OF FACT**

Respondent

1. Donald Alan Kernan, Jr. ("Kernan") is a resident of Brown Deer, Wisconsin and a manager of Donald Kernan, LLC.
2. Donald Kernan, LLC is an inactive Wisconsin limited liability company that was known as DreamerTopia, LLC during the period relevant to this Statement of Charges. In August 2011, DreamerTopia, LLC changed its name to Donald Kernan, LLC. In March 2013, the Wisconsin Department of Financial Institutions administratively dissolved Donald Kernan, LLC.

Related Entity

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2 3. Safe Deposit, S.A. is a Panamanian corporation that did business as Safe Depositary during  
3 the period relevant to this Statement of Charges. Safe Depositary is believed to maintain a place of business  
4 in Panama City, Panama.

Nature of the Offering

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6 4. In May 2011, a Washington resident began searching the Internet for investments that would  
7 deliver high returns in a short period of time. The resident was hoping to raise \$75,000 to pay for a medical  
8 treatment.

9 5. The Washington resident focused his attention on so-called high yield investment programs  
10 (“HYIPs”) after reading online newsletters that purported to review HYIPs. HYIPs are generally  
11 unregistered investments sold by unlicensed individuals that promise high returns with little or no risk to the  
12 investor.

13 6. The Washington resident read a newsletter that provided multiple positive testimonials from  
14 investors regarding Safe Depositary. Safe Depositary purportedly engages in speculative stock trading and  
15 makes daily interest payments to investors. Safe Depositary offers investments in various funds (including  
16 the Virtax Fund, the Rovasion Fund, the Orston Fund, and the Grand Fund) that offer different returns and  
17 minimum investment amounts.

18 7. The newsletter listed Kernan as a successful HYIP investor and a representative of Safe  
19 Depositary. Shortly thereafter, the Washington resident contacted Kernan who agreed to explain HYIPs.  
20 Kernan and the Washington resident engaged in a lengthy exchange of emails, text messages, and phone  
21 calls about HYIPs and Kernan’s prior success. Kernan told the Washington resident that he had previously  
22 invested \$100,000 in Safe Depositary, and that he expected to receive a return of \$3,000,000 on that  
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1 investment over the following year. During these exchanges, Kernan also claimed to have close ties with  
2 other wealthy investors who successfully invested in HYIPs.

3 8. After the Washington resident expressed interest in investing in Safe Depository, Kernan  
4 solicited the Washington resident to invest \$20,000 in Safe Depository by “piggybacking” the Washington  
5 resident’s investment onto Kernan’s existing account with Safe Depository. Kernan explained that this was  
6 the quickest way for the Washington resident to invest in Safe Depository because of the time required to  
7 establish a new account with Safe Depository and to secure a money transfer service. Kernan told the  
8 Washington resident that this arrangement would double the Washington resident’s investment in no more  
9 than twenty-three business days.

10 9. At this time, Kernan also offered the Washington resident one share in DreamerTopia for  
11 \$1,000. Kernan did not disclose any information about DreamerTopia to the Washington resident. The  
12 Washington resident declined the offer of DreamerTopia stock, but agreed to increase his investment in Safe  
13 Depository through Kernan by \$1,000.

14 10. In approximately July 2011, the Washington resident took a \$21,000 cash advance on a credit  
15 card at twenty-seven percent interest and wired the funds to business bank account controlled by Kernan in  
16 Wisconsin.

17 11. Kernan did not provide the Washington resident with any written offering material or any  
18 written evidence of their investment.

### 20 Misrepresentations and Omissions

21 12. Kernan told the Washington resident that there were no appreciable risks in investing in Safe  
22 Depository or in the “piggybacking” arrangement. In fact, Kernan claimed the piggybacking arrangement  
23 was safer than establishing an account with Safe Depository, in part because of a “special guarantee fund”  
24 Kernan claimed to maintain. Kernan failed to disclose the risks resulting from the highly speculative nature  
25

1 of investing in Safe Depositary, such as significant risk of a total loss. Kernan also failed to disclose the risks  
2 presented by the “piggybacking” arrangement, such as Kernan commingling investment funds with Kernan’s  
3 personal funds and using the investment funds for personal expenses.

4 13. Kernan made material misstatements concerning his overall financial condition. Despite  
5 representing to the Washington resident that he was a successful investor, Kernan’s business bank account  
6 had a negative balance when the Washington resident invested.

7 14. Kernan failed to fully disclose the basis and assumptions underlying his claim that the  
8 Washington resident would receive a one hundred percent return on his investment in no more than twenty-  
9 three business days.

10 15. Kernan made material misstatements concerning the intended use of the Washington  
11 resident’s funds. The Washington investor’s funds were not transferred to Safe Depositary. Furthermore, the  
12 majority of the Washington resident’s funds were used for Kernan’s personal expenses.

13 16. Kernan failed to disclose material information concerning DreamerTopia, including, but not  
14 limited to, the nature of its business and its financial condition.

15  
16 Additional funds obtained by Kernan from the Washington resident

17 17. The Washington resident did not receive the promised return in the time period Kernan had  
18 represented. Kernan provided a number of excuses as to why the Washington resident had not received his  
19 return such as having to wait for a broker, misdirecting the Washington resident’s investment, and that Safe  
20 Depositary’s website had been hacked.

21 18. In October 2011, Kernan solicited the Washington resident to fund an attempt to recover his  
22 original investment. Kernan stated that he planned to hire a “Credit Number Profile Number” specialist for  
23 \$3,500 which Kernan would match and return to the Washington investor one week later. Kernan claimed  
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1 that this specialist would enable Kernan to secure financing for Kernan’s other business which would, in  
2 turn, allow Kernan to pay the Washington resident the promised \$42,000.

3 19. When the Washington resident told Kernan that he had no further funds, Kernan urged the  
4 Washington resident to use any available credit. At or around this time, Kernan increased the amount  
5 required to hire the specialist by \$500 due to a “handling fee.”

6 20. The Washington resident transferred an additional \$4,000 to Kernan, via PayPal, which he  
7 had borrowed from his elderly parents. Kernan did not return either the \$4,000 after one week as promised  
8 or the originally promised \$42,000. In approximately December 2011, the Washington resident recovered  
9 his \$4,000 after filing a claim with PayPal.

10 Enforcement Action by Wisconsin Securities Division

11 21. Between approximately July 2011 and the date of this Statement of Charges, Kernan has  
12 raised at least \$500,000 by means similar to those used by Kernan to acquire the Washington resident’s  
13 funds. In or about June 2012, Kernan offered and sold \$12,500 worth of interests in DreamerTopia  
14 Investments, LP (“DTILP”), a private equity fund formed by Kernan, to two Wisconsin residents. These two  
15 Wisconsin residents also allowed Kernan to obtain credit cards in their names, ostensibly to obtain funds that  
16 Kernan would contribute to DTILP on their behalf.

17 22. On or around December 27, 2013 the Division of Securities of the Wisconsin Department of  
18 Financial Institutions entered a Cease and Desist Order against Kernan and various entities under his  
19 control, including DreamerTopia (the “Wisconsin order”). The Wisconsin order ordered Kernan to cease  
20 and desist from violating the sections of the Wisconsin Uniform Securities Law mandating the registration  
21 of offerings of securities, and of broker-dealers and investment advisers, as well as the Wisconsin Uniform  
22 Securities Law’s anti-fraud section.  
23

24 Registration Status

1 23. Kernan is not currently and has not previously been registered to sell his securities in the  
2 State of Washington and has not filed a claim of exemption.

3 24. DreamerTopia is not currently and has not previously been registered to sell its securities in  
4 the State of Washington and has not filed a claim of exemption.

5 25. Kernan is not currently registered as a securities salesperson or broker-dealer and has not  
6 previously been so registered in the State of Washington.

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8 **CONCLUSIONS OF LAW**

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

- 10 1. The offer or sale of investments as described above constitute the offer and/or sale of a  
11 security as defined in RCW 21.20.005(14) and (17).  
12  
13 2. The offer and/or sale of said securities is in violation of RCW 21.20.140 because no  
14 registration for such an offer and/or sale is on file with the Securities Administrator.  
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16 3. The offer and/or sale of said securities is in violation of RCW 21.20.040 because Kernan was  
17 not registered as a securities salesperson or broker-dealer at the time of the offer and/or sale of said  
18 securities.  
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20 4. The offer or sale of said securities were in violation of RCW 21.20.010 because  
21 Respondents, as set forth above, made misstatements of material fact or omitted to state facts necessary to  
22 make the statements made, in light of the circumstances under which they were made, not misleading.  
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24 **NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST**  
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1 Pursuant to RCW 21.20.390(1) and based upon the above Tentative Findings of Fact and  
2 Conclusions of Law, the Securities Administrator intends to order that Respondents, Donald Alan Kernan,  
3 Jr. and Donald Kernan, LLC f/k/a DreamerTopia, LLC and their agents and employees each cease and  
4 desist from violations of RCW 21.20.010 and 21.20.140 and that Respondent Donald Kernan and his agents  
5 and employees each cease and desist from violations of RCW 21.20.040.

6 **NOTICE OF INTENT TO IMPOSE A FINE**

7 Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions  
8 of Law, the Securities Administrator intends to order that Respondent Donald Alan Kernan, Jr. shall be  
9 liable for and shall pay a fine of \$10,000.

10 **NOTICE OF INTENT TO CHARGE COSTS**

11 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of  
12 Law, the Securities Administrator intends to order that Respondent Donald Alan Kernan, Jr. shall be liable  
13 for and shall pay investigative costs of \$1,000.

14 **AUTHORITY AND PROCEDURE**

15 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is  
16 subject to the provisions of Chapter 34.05 RCW. The Respondent, may make a written request for a hearing  
17 as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING  
18 accompanying this Order. If a respondent does not make a hearing request in the time allowed, the  
19 Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as  
20 final and to enter a permanent order to cease and desist as to that respondent, to impose any fines sought  
21 against that respondent, and to charge any costs sought against that respondent.  
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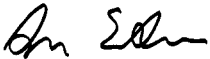
1 Signed and Entered this 12th day of February 2014.

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6 William M. Beatty  
Securities Administrator

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8 Approved by:

Presented by:

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11 

12 Suzanne Sarason  
Chief of Enforcement

13 Edward R. Thunen  
Financial Legal Examiner

14 Reviewed by:

15 

16 Robert Kondrat  
17 Financial Legal Examiner Supervisor