

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Peter S. Chung,
CRD No. 1700865,

Respondent.

Disciplinary Proceeding
No. 2008011675301

Hearing Officer - MAD

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: July 19, 2013

INTRODUCTION

Disciplinary Proceeding No. 2008011675301 was filed on September 25, 2012, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). A hearing on the merits was held from May 14, 2013 to May 17, 2013. On May 14, 2013, shortly after the hearing commenced, Respondent Peter S. Chung submitted an Offer of Settlement (Offer) to Complainant dated May 12, 2013. On June 18, 2013, Hearing Officer Maureen A. Delaney issued an Order Approving Uncontested Offer of Settlement, approving the Offer on behalf of the Hearing Panel in this matter. Pursuant to FINRA Rule 9270(e), the Complainant, the Hearing Panel, and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint (as amended by the Offer of Settlement) and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of findings and violations consistent with the allegations of the Complaint (as amended by the Offer of Settlement), and to the imposition of the sanction set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Brookshire Securities Corporation ("Brookshire") became a registered broker-dealer in 1998. FINRA canceled Brookshire's registration, effective March 26, 2009, for failure to pay renewal fees. Effective May 27, 2009, the Firm canceled its broker-dealer registration with the Securities and Exchange Commission ("SEC").

Peter S. Chung entered the securities industry in 1990. Chung became a registered representative with Brookshire Securities Corporation in 2002. Subsequently, Chung became the owner of a substantial minority interest in Brookshire Holdings, Inc., the parent firm of Brookshire Securities.

In early 2009, shortly prior to the time that Brookshire's registrations were canceled, Chung moved to another FINRA registrant firm, SEG LLC, and remained there until on or about December 31, 2010. FINRA canceled SEG LLC's registration on December 30, 2010.

Since leaving SEG at the end of 2010, Chung has not been employed in the securities industry.

Chung remains subject to FINRA's jurisdiction pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) this Complaint was filed within two years after the effective termination of Chung's registration with SEG LLC, and (2) the Complaint charges Chung with misconduct committed while he was registered or associated with a FINRA member.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that the findings be made as follows. The findings herein are pursuant to Respondent Peter S. Chung's Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding:

Between February 2006 and October 2007, TBR, who was the CEO of Brookshire, and Respondent Peter S. Chung, a registered representative of Brookshire who indirectly held a substantial minority interest in the firm, engaged in manipulative trading of two stocks for which Brookshire was running PIPE offerings ("Private Offerings of Public Equity"). With other persons associated with Brookshire, Chung bought shares and placed orders to manipulate the inside bid price of one stock, in violation of SEC Rule 10b-5 and NASD Rule 2120. During both PIPE offerings, when such trading was prohibited, Chung bought shares and solicited bids, in violation of SEC Regulation M.

FIRST CAUSE OF ACTION

**Securities Exchange Act of 1934, Section 10(b) and SEC Rule 10b-5,
FINRA Rule 2120 and NASD Rule 2110 – Manipulation of Securities Prices**

Section 10(b) of the Exchange Act makes unlawful the use or employment of "any manipulative or deceptive device or contrivance" in contravention of SEC Rules. 15 U.S.C

/s)(b). Exchange Act Rule 10b-5 prohibits, in addition to nondisclosure and misrepresentation, “any device, scheme, or artifice to defraud” or any practice “which operates or would operate as a fraud or deceit upon any person.” 17 C.F.R. 240.10b-5.

FINRA Rule 2120 states that “[no] member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.”

NASD Rule 2110 requires that FINRA registrants observe high standards of commercial honor and just and equitable principles of trade.

Brookshire assisted private companies in going public by reverse mergers with publicly-held shell corporations. During the period from 2006 through 2007, these transactions included PIPE offerings for shares of Visual Management Systems, Inc., (VMSY) and MDWerks, Inc. (MDWK), both OTC Bulletin Board securities.

As more particularly set forth below, during the period of the PIPE offerings for VMSY and MDWK, Chung entered securities purchases and limit orders that manipulated the price of both stocks, in violation of federal securities anti-fraud laws and NASD Rules 2120 and 2110.

Background: The VMSY PIPE Offering

The PIPE offering for VMSY shares was effective (open) from March 30, 2007 through October 25, 2007. Pursuant to the terms of the PIPE, an investor who subscribed to the offering purchased units consisting of one share of Series A convertible preferred stock and a warrant to purchase 1,000 shares of common stock. The share of convertible preferred stock was initially convertible into shares of VMSY common stock at a rate of \$2.50 per share.

On or about July 17, 2007, a reverse merger was effected between two predecessor corporations of VMSY, Visual Management Systems Holding, Inc. and Wildon Management Systems, Inc., with the surviving corporation taking the name of VMSY. In connection with this merger, VMSY began to trade on the OTCBB under the symbol VMSY.OB.

Beginning on or about July 17, 2007, investors could purchase VMSY shares either in the market at the prevailing market price, or via the PIPE offering at \$2.50 per share. If the market price for VMSY fell below \$2.50, the PIPE would be unattractive to potential investors, but if the market price rose above the PIPE conversion price of \$2.50, potential investors would have an incentive to purchase via the PIPE offering.

During this period, VMSY traded at prices set by a relatively small number of market-making firms. VMSY's market price was determined by these market-makers' inside bid prices (the highest price at which they were willing to purchase the stock) and inside ask prices (the lowest price at which they were willing to sell the stock). In this trading environment, a limit order to purchase shares could affect the level at which a market-maker set its inside bid price. Thus, a purchaser's limit order to purchase VMSY shares, above the current inside bid price, would likely cause the market-makers to set a higher inside bid price – and could drive the inside bid price above the PIPE conversion price, making the PIPE an attractive option and likely affecting sales of the PIPE offering.

Because TBR and Chung controlled Brookshire, the placement agent for the VMSY PIPE offering, Chung stood to benefit from placement agent fees, stock, and warrants if the PIPE were successful.

**Manipulative Orders Raise
The Inside Bid Price of VMSY**

During the VMSY PIPE offering, Chung entered orders that manipulated the inside bid price for VMSY shares, in order to make the PIPE offering price more attractive. Chung entered orders that raised the inside bid price of VMSY – sometimes when VMSY’s CEO requested that he take action to keep up the market price, or at times when low inside prices in the market threatened to undercut the VMSY PIPE offering.

In September 2007, when VMSY’s CEO, JG, asked him to drive up the stock price, Chung entered orders to artificially raise the inside bid price for VMSY shares.

On September 7, 2007, at 10:39 a.m., JG sent an e-mail to Chung:

- (a) **“Can you please make sure that there at least 2-300 share on the bid at 3.50-3.75 for the duration of our raise, the 3.50 spread is detrimental for our efforts”** [sic]. At the time JG sent this e-mail, the inside ask price for VMSY was \$5.00. A \$3.50 spread reflected that the inside bid price had fallen to \$1.50, a price below the \$2.50 price of the PIPE offering. Therefore, “the \$3.50 spread” was “detrimental” to VMSY’s efforts to sell shares via its PIPE offering.
- (b) Two minutes later, Chung entered a limit order to buy 1,000 VMSY shares at \$3.90. Closely following Chung’s order, the market-making firm that executed Brookshire orders updated and raised its quotation on the inside bid from \$1.50 to \$3.80 – from significantly below the PIPE offering price to significantly above it.

At the end of September, JG turned once more to Chung, with another request to manipulate the price of VMSY.

- (a) On September 28, 2007, at 2:30 p.m., JG sent an e-mail to Chung. JG began, **“please keep us up. . .”** [ellipsis in original], and then continued:

"I need a little bit of support at \$3.00 or so. I'm still talking to [another investment banker]. If you can't fly cover I gotta start looking for some help. J." Twenty minutes later, at 2:50 p.m., Chung wrote back: "Got it." JG then replied, "thank you. let me know if I need to call around. I'm trying to discourage trading for the next two weeks so that we don't need to fly tight cover I know we can get this fixed" [ellipsis in original].

- (b) At 3:53 p.m., Chung placed a limit order to purchase 1,000 shares of VMSY at \$3.00. Following on this order, Brookshire's market-maker raised its inside bid price for VMSY from \$2.10 to \$2.75, above the PIPE offering price.**

Chung's orders artificially generated increases in the inside bid price for VMSY. They sent false or misleading signals to potential investors by creating the illusion that the market placed a higher value on VMSY, misleading investors into purchasing VMSY shares via the PIPE offering.

In total, Chung and other persons associated with Brookshire solicited 70 limit orders to purchase VMSY shares. Each of these limit orders was entered at a price above, and often substantially above, the standing inside bid for VMSY. In each case, Brookshire's purchase limit order was routed to the Firm's market-maker, which updated and raised its market-maker inside bid quotation for VMSY after receiving the Brookshire order. Most of these limit orders submitted by Chung and other persons associated with Brookshire were followed by the market-maker's raising its inside bid. As more particularly set forth in Exhibit A (attached):

- (a) For approximately 46 out of the 70 solicited limit orders submitted by Brookshire , or 65.7% overall, Brookshire's market-maker followed the Firm's order by establishing one or more new, higher bids displayed to the market.**

(b) Chung solicited approximately 32 limit orders to purchase VMSY shares. In approximately 27 cases, after receiving one of these limit orders, Brookshire's market-maker established a new, higher inside bid displayed to the market.

(c) Another Brookshire registered representative solicited approximately 15 limit orders to purchase VMSY shares. In approximately 10 cases, after receiving one of these limit orders, Brookshire's market-maker established a new, higher inside bid displayed to the market.

(d) Chung was actively engaged in and responsible for the submission of these orders. Of the 15 limit orders solicited by this Brookshire registered representative, Chung processed and submitted 13 to Brookshire's clearing firm.

These solicited limit orders established the majority of upward movements in VMSY's inside bid from during the period from July 17, 2007 (when VMSY shares began to trade publicly) to October 25, 2007 (when the VMSY PIPE closed). As set forth more particularly below in Exhibit B (attached):

(a) In this period, there were approximately 81 upward movements in the inside bid price for VMSY stock throughout the market as a whole. Of these upward movements in the inside bid price, 66 were made by the market-maker executing Brookshire's orders. This represented approximately 81% of all upward movements in VMSY's inside bid price.

(b) Of the 66 upward movements in the inside bid price for VMSY made by Brookshire's market-maker during this period, approximately 49 were the result of Brookshire's solicited buy orders.

(c) Thus, during this period, Brookshire's limit orders to purchase VMSY caused 75% of the upward movements in the inside bid price made by Brookshire's market-maker (49 out of

65) and 60% of the upward inside bid movements for VMSY in the overall market (49 out of 81).

Brookshire's purchase limit orders in this period artificially inflated the inside bid price of VMSY, and the majority affected the inside bid price by material amounts. As set forth more particularly in Exhibit A (attached):

- (a) Thirteen of Brookshire's limit orders moved the VMSY inside bid upward by 20%-29%.
- (c) Ten of Brookshire's limit orders moved the VMSY inside bid upward by 30%-38%.
- (d) Six of Brookshire's limit orders moved the VMSY inside bid price upward by 50%-67%.
- (e) Occasionally, even larger upticks were generated. Four Brookshire limit orders resulted in the VMSY inside bid price moving upward by 70%-79%, and one bid lifted the inside bid price from \$2.30 to \$3.80, a rise of 153%.
- (f) Of the remaining 15 Brookshire limit orders that impacted the inside bid, seven moved the VMSY inside bid price upward by 12% to 17%, six moved the VMSY inside bid price upward by 5% to 7%, and two moved the VMSY inside bid upwards by 1% to 2%.

Brookshire's limit orders to purchase VMSY shares artificially generated increases in the inside bid price for VMSY shares.

These limit orders sent false or misleading information to the marketplace because they raised the inside bid price at which VMSY shares could be purchased in the market and made it appear to investors that the market placed a higher value on VMSY shares and that it would be more attractive to purchase VMSY shares via the PIPE offering. In soliciting these orders, Chung and other persons associated with Brookshire created the misleading appearance of heightened market activity or interest in VMSY.

By engaging in the conduct set forth above, Chung willfully violated Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5, in that he knowingly or recklessly employed devices, schemes or artifices to defraud, and also induced the purchase or sale of securities by means of manipulative, deceptive, or other fraudulent devices or contrivances, in violation of NASD Rule 2120. Moreover, by engaging in the conduct set forth above, Chung did not comply with high standards of commercial honor and just and equitable principles of trade, and thereby violated NASD Rule 2110. Accordingly, Chung violated Section 10(b) and Rule 10b-5, FINRA Rule 2120, and NASD Rule 2110 by submitting limit orders that were intended to, and did, artificially increase the inside bid price and made the competing PIPE offering appear more attractive to potential investors.

SECOND CAUSE OF ACTION

Rule 101 of SEC Regulation M and NASD Rule 2110 – Unlawful Trading in VMSY and MDWK Stock During PIPE Offerings

Under SEC Regulation M, 17 C.F.R. §242.100 *et seq.*, distribution participants in a securities offering are prohibited from trading in that security beginning five business days before the offering price is set in the offering memorandum, until the close of the offering.

- (a) Regulation M, Rule 101, 17 C.F.R. §242.101, provides that in connection with a distribution of securities, it is unlawful for a distribution participant “to bid for, purchase, or attempt to induce any person to bid for or purchase,” a security during the applicable restricted period.

- (b) SEC Regulation M, Rule 100, C.F.R. §242.100, defines a “distribution participant” as an underwriter, broker, dealer, or other person who is participating in a distribution of securities.
- (c) SEC Regulation M, Rule 100, C.F.R. §242.100, defines a “securities distribution” as an offering of securities for which special selling efforts, *e.g.*, written offering materials and/or compensation, are employed, and for which the magnitude of the offering is sufficient (measured in terms of the number of shares to be registered for sale by the issuer and the percentage of the outstanding shares, public float and trading volume that those shares represent).
- (d) SEC Regulation M, Rule 100, C.F.R. §242.100, defines the restricted period of a securities offering as beginning on the later of five business days prior to the determination of the offering price or such time that a person becomes a distribution participant, and ending upon that person’s completion of participation in the distribution.

During the period of the PIPE offering for VMSY, when Brookshire and its registered representatives were prohibited from soliciting limit orders to purchase VMSY stock, Chung violated Regulation M. Chung personally solicited limit orders for VMSY, in violation of Regulation M.

Violations of SEC Regulation M
During the VMSY PIPE Offering

Brookshire acted as private placement agent in VMSY’s PIPE offering pursuant to a Confidential Private Placement Memorandum.

During the period of the PIPE offering, as more particularly set forth below, Chung violated Regulation M by purchasing and/or inducing customers to purchase VMSY shares during the offering period.

The PIPE offering was of sufficient magnitude to be covered by Regulation M. As of July 17, 2007, the number of VMSY shares outstanding was 6,825,405. The private offering was designed to sell 1,000 to 2,000 Units that would be convertible into 1,000,000 to 2,000,000 shares of VMSY common stock, approximately 14% to 29% of the VMSY shares outstanding, and in fact resulted in the issuance of 616,000 VMSY shares, approximately 9% of the outstanding stock.

The PIPE offering was also a “securities distribution” under Regulation M, because Brookshire employed special selling efforts in connection with the PIPE offering. The PIPE offering was conducted pursuant to a Confidential Private Placement Memorandum and therefore involved special written sales material. Brookshire also received special compensation in connection with the PIPE offering – for serving as placement agent, Brookshire Securities received \$123,091 in commissions, \$112,436 in expenses, 61,600 shares of VMSY common stock and warrants to purchase an additional 61,600 shares (at an original exercise price of \$1.75 per share).

As a person associated with or controlling Brookshire, the placement agent for the VMSY PIPE offering, Chung was a distribution participant.

The restricted period for the VMSY PIPE offering ran from March 23, 2007 (five business days prior to the private placement memorandum of March 30, 2007) to October 27, 2007 (when the PIPE offering closed). During this period, Regulation M prohibited Brookshire registered representatives from soliciting purchases of VMSY stock.

During the restricted period, however, Chung violated Regulation M by personally entering numerous solicited purchase limit orders for VMSY stock. As more particularly set forth in Exhibit A, Chung personally solicited 32 purchase limit orders for VMSY shares during the restricted period.

Brookshire submitted bids for a total of 74,050 shares of VMSY. The total value of these 70 bid orders was approximately \$216,700. The 52 executed limit orders had a total value of approximately \$157,850.

Because Brookshire and its personnel were prohibited from soliciting any purchase of VMSY shares during the restricted period of the PIPE offering, each of these orders represented a violation of Regulation M.

By personally soliciting purchases of VMSY shares, Chung purchased and/or induced others to purchase VMSY shares during the restricted offering period. These transactions violated Rule 101 of SEC Regulation M and NASD Rule 2110.

Violations of SEC Regulation M During the MDWK PIPE Offering

Chung also violated Regulation M by purchasing shares of MDWK stock during an offering period when such transactions were forbidden.

In 2006, Brookshire undertook a PIPE offering for MDWK shares pursuant to a Confidential Private Placement Memorandum. The offering began on February 1, 2006, and closed on June 28, 2006. Brookshire acted as placement agent.

The PIPE offering for MDWK securities was of sufficient magnitude to be covered by Regulation M. During the offering period, MDWK reported that it had 11,732,415 shares

outstanding. The PIPE offering involved the sale of units that each contained one share of preferred stock and one warrant, each representing 20,000 shares of MDWK common stock. In total, 28.33 units were sold during the PIPE offering, requiring MDWK to register 566,000 MDWK shares for the preferred stock conversions and another 566,000 shares for the warrant conversions. This total of 1,132,000 shares represented approximately 9.6% of the 11,732,415 MDWK shares outstanding.

The PIPE offering for MDWK stock involved the use of special selling efforts, both written sales materials and compensation. The PIPE offering involved special written sales materials in that it was conducted pursuant to the Confidential Private Placement Memorandum of February 1, 2006. The PIPE offering involved special compensation in that, for serving as lead placement agent, Brookshire received \$170,000, 170,000 shares of MDWK common stock and a warrant to purchase 56,667 shares of common stock at \$1.50 per shares, via a cashless exercise provision.

As a person associated with or controlling Brookshire, the placement agent for the MDWK PIPE offering, Chung was a distribution participant.

Under Regulation M, the restricted period for the MDWK PIPE offering ran from January 25, 2006 (five business days prior to the private placement memorandum of February 1, 2006) to June 28, 2006, when the PIPE offering closed.

During the restricted period, Chung violated Regulation M on numerous occasions by purchasing MDWK stock. In particular, these violations included the following transactions:

- (a) On **February 2, 2006**, in a personal transaction, Chung purchased 5,000 MDWK shares, for a total of approximately \$17,475.

(b) On **February 16, 2006**, in a personal transaction, Chung purchased 1,000 MDWK shares, for a total of approximately \$3,000.

(c) On **February 22, 2006**, in personal transactions in two separate accounts, Chung purchased a total of 5,500 MDWK shares, for a total of approximately \$18,625.

(d) On **April 11, 2006**, in a personal transaction, Chung purchased 1,000 MDWK shares, for approximately \$3,000.

(e) On **April 12, 2006**, in a personal transaction, Chung purchased 8,500 MDWK shares, for approximately \$27,445.

(f) Between **May 3, 2006 and June 7, 2006**, in four separate personal transactions, Chung purchased approximately 44,000 MDWK shares from a Brookshire customer, SG.

Specifically, Chung purchased 10,000 shares on May 3; 19,000 shares on May 8; 10,000 shares on May 10; and 5,000 shares on June 7. Chung paid a total of approximately \$186,810 for these shares.

By personally purchasing MDWK shares during the restricted offering period, Chung violated Rule 101 of SEC Regulation M and NASD Rule 2110.

Based on the foregoing, Respondent Chung willfully violated Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5, NASD Rule 2120, Rule 101 of SEC Regulation M, and NASD Rule 2110.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTION

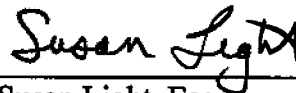
It is ordered that Respondent be barred from association in any capacity with any FINRA registrant.

The sanction imposed herein shall be effective on a date set by FINRA staff. Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA

Signed on behalf of the
Director of ODA, by delegated authority



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