

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008013079801**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Finance 500, Inc., Respondent
Member Firm
CRD No. 12981

Paul J. Savage, Respondent
Registered Options Principal, General Securities Representative, General Securities
Principal, Municipal Securities Representative, and Limited Representative – Investment
Banking
CRD No. 1722830

Thomas J. Harm, Respondent
General Securities Representative and Equity Trader Limited Representative
CRD No. 2093335

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents Finance 500, Inc., Paul J. Savage, and Thomas J. Harm submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, without admitting or denying the findings, 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, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Finance 500, Inc. ("Finance 500" or "the Firm") is based in Irvine, CA and has been a FINRA member since December 1982. It engages in a general securities business and employs about 72 registered individuals who operate from the Firm's home office and its eight branch offices.

Paul J. Savage entered the securities industry in 1988 and has been associated with the Firm since September 28, 1995. He is registered with FINRA as a Registered Options Principal; General Securities Representative; General Securities Principal; Municipal Securities Representative; and Limited Representative – Investment Banking. He has no disciplinary history.

Thomas J. Harm entered the securities industry in 1990. He has been associated with Finance 500 since September 28, 1995. He is registered with FINRA as a General Securities Representative and an Equity Trader Limited Representative. He has no disciplinary history.

RELEVANT DISCIPLINARY HISTORY

On August 7, 2008, the Securities and Exchange Commission instituted and settled a Cease-and-Desist Proceeding in which it found that from October 2002 through August 2005, Finance 500 violated Sections 5(a) and 5(c) of the Securities Act by selling shares in unregistered offerings under employee stock option programs implemented by 35 issuer/customers. The programs functioned as public distributions of securities using the Issuers' employees as conduits so that the Issuers could raise capital without complying with the registration requirement of the federal securities laws. The Issuers improperly registered the shares sold on Form S-8 registration statements and received the bulk of the shares' sales proceeds. Finance 500, through one of its registered representatives, administered the brokerage aspects of the programs despite red flags suggesting that the shares it sold were issued through unregistered offerings. As a sanction for the violation, Finance 500 was ordered to cease and desist from committing or causing future violations of Sections 5(a) and 5(c) of the Securities Act; censured; and ordered to pay disgorgement of \$271,484.00 and prejudgment interest of \$74,015.00. (Securities Act Release No. 8950; Exchange Act Release No. 58325; and Administrative Proceeding File No. 3-13122)

OVERVIEW

Between March 2008 and May 2009, Finance 500 liquidated about 8.5 billion shares of unregistered stock on behalf of a single customer, Gendarme Capital Corporation. Gendarme had obtained large blocks of shares from companies whose shares were traded over-the-counter and who had recently conducted private offerings under Rule 504 of Regulation D. Those shares were neither registered with the Commission nor exempt from the Securities Act's registration requirements. By participating in distributions of unregistered securities, Finance

500 and Thomas Harm, the representative assigned to the Gendarme account, violated NASD Conduct Rule 2110 and FINRA Rule 2010.

Finance 500 had no procedures to detect and prevent participation in unregistered distributions of securities. In particular, it had no procedures addressing the acceptance of securities in certificate or electronic form and the corresponding sale of those securities. By failing to establish and maintain an adequate supervisory system and procedures designed to detect and prevent unregistered distributions of securities, Finance 500 violated NASD Rules 3010(a) and (b), NASD Rule 2110 and FINRA Rule 2010.

Paul Savage was Thomas Harm's direct supervisor and was responsible for approving the opening of his customer accounts and reviewing his trades on a daily and monthly basis. Although Savage was aware that Gendarme was repeatedly depositing and then rapidly liquidating large blocks of over-the-counter stocks, Savage failed to inquire about any of the transactions. By ignoring red flags that suggested Gendarme was using Finance 500 to engage in unregistered distributions, Savage failed to supervise Thomas Harm adequately and thereby violated NASD Conduct Rules 3010(a) and 2110 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Background

On February 13, 2008, Finance 500 Customers ER and IL opened an account for Gendarme Capital Corporation at Finance 500. Gendarme was a Minnesota corporation, incorporated in March 2007. Its Client Account Agreement identified ER as its President, claimed a net worth of "\$1,000,000+" and an annual income of "\$500k+." Although ER was only 23 years old and the company had been incorporated for less than one year, it reported "7+" years of investing experience. Paul Savage approved the opening of the account.

Account Activity

About one month after opening its account, Gendarme began bringing to the Firm large blocks of stock of little known companies whose shares traded over-the-counter and were quoted on Pink OTC Markets' electronic quotation and trading system. All of the companies had recently issued shares in private offerings pursuant to Rule 504 of Regulation D. Gendarme immediately sold the shares after they had been deposited. Thereafter, Gendarme typically deposited another block of shares from the same issuer and the shares would again be immediately sold. During the succeeding 15 months, this pattern was repeated multiple times with the shares of six companies. Ultimately, Finance 500 sold about 8.5 billion shares on Gendarme's behalf. The net liquidation proceeds amounted to about \$1.2 million.

Perihelion Global, Inc.

Perihelion Global, Inc. was incorporated in Delaware in September 2007 and was based in Florida. It has never filed a registration statement. In a Form D filed in December 2007, Perihelion described its business as “Biofuel refining, Mining, Communications” and stated that it intended to solicit purchasers for a \$1 million equity offering under Rule 504.

Between March 17, 2008 and April 3, 2008, Gendarme deposited four certificates certifying that it owned 350 million shares of Perihelion’s common stock. Each time a certificate arrived, the shares were immediately sold. Thereafter, another certificate was deposited and the pattern repeated.

On April 8, 2008, Perihelion began electronically transferring large blocks of shares to Gendarme’s account. From April 8, 2008 through July 11, 2008, Perihelion transferred 1.502 billion shares to Gendarme’s account in eight transactions. After each transfer, Gendarme promptly liquidated the shares.

From March 17, 2008, through March 9, 2009, Gendarme deposited 1.852 billion shares and liquidated 1,798,343,625 shares, at prices ranging between \$0.05 and \$0.0001 per share. The net liquidation proceeds amounted to \$287,286.63.

RCC Holdings Corp.

RCC Holdings Corp. was incorporated in Colorado in March 2003 and based in California. In October 2003, it registered its shares with the Commission pursuant to Section 12(g) of the Exchange Act. In January 2006, it requested the withdrawal of its shares’ registration. In September 2008, it filed a Form D, describing its business as “Waste Water treatment and solution,” and reporting an equity offering, pursuant to Rule 504, of up to \$1 million of common stock.

Between September 8, 2008 and February 4, 2009, Gendarme deposited six certificates each representing 250 million RCC shares. After each certificate was deposited, the shares were immediately liquidated.

In total, Gendarme deposited 1.5 billion shares. Between September 15, 2008 and May 18, 2009, it liquidated 1,420,449,145 shares at prices ranging between \$0.0001 and \$0.00035 per share. The net liquidation proceeds amounted to \$186,837.58.

WGL Entertainment Holdings, Inc.

WGL Entertainment Holdings, Inc.’s predecessor, Asia Pacific Trading, Inc., was incorporated in Delaware in September 1998. In April 2002, after it had merged with Novus Laboratories, Inc., it characterized itself as a development stage company and shell corporation whose principal business purpose was to locate and consummate merger or acquisition with a private entity that had a viable business plan. At that time, it voluntarily registered its shares with the

Commission because its “[m]anagement believe[d] that this may make Registrant more attractive to an operating business opportunity as a potential combination candidate.” In 2006, the company, then known as “World Golf League, Inc.,” reported that it had changed its name to WGL Entertainment Holdings, Inc. On October 18, 2007, WGL filed a Form 15 to terminate its registration and suspend its obligation to file reports. Five months later, in March 2008, WGL filed a Form D announcing that it would be offering \$1 million of common stock in a Rule 504 offering. There, WGL, which was based in Lake Mary, Florida, described its business as “Producer of sports based content for television distribution.”¹

Between March 4, 2008 and May 11, 2009, WGL electronically transferred about 4.8 billion shares to Gendarme’s account in 48 separate transactions, involving between 3 million and 500 million shares. The shares were immediately liquidated at prices ranging between \$0.081 per share and \$0.00007 per share. The net proceeds from these transactions amounted to \$703,471.57.

Russell Industries, Inc.

Russell Industries, Inc. (currently known as “Algae Farm (USA), Inc.”) is based in Texas and was incorporated in Nevada in 1997. It has never registered any shares with the Commission. Between August 2006 and November 2008, Russell filed multiple Forms D. Its business descriptions included “Financial software” (Form D filed September 26, 2006), “Oil and Gas Industries Services” (Form D filed September 7, 2006), and “Uranium and Vanadium Mining and Exploration” (Form D filed September 17, 2007).

On May 14, 2008, Gendarme deposited a certificate for 750,000 Russell shares. By May 29, 2008, nearly all of the shares had been liquidated. On June 3, 2008, Gendarme deposited a certificate for 2,500,000 Russell shares. All of the Russell shares were sold by October 30, 2008. In total, Gendarme received \$17,615.37 from the liquidation of its Russell shares at prices ranging between \$0.04544 and \$0.0002 per share.

Tidalwave Holdings, Inc.

Tidalwave Holdings, Inc., originally known as Novus Anderson Computers/Tidalwave Corp, was incorporated in Florida in April 1996. On May 25, 1999, it registered its shares with the Commission pursuant to Section 12(g) of the Exchange Act. On October 5, 2007, Tidalwave filed a Form 15 to terminate its registration. On December 10, 2007, Tidalwave, based in Florida, filed a Form D, announcing a Rule 504 equity offering of common stock. There, it described itself as a “holding Company focused on hospitality, food service, entertainment and media industries in tourist related destinations.”

¹ In early 2009, WGL changed its name to “Heathrow Natural Food & Beverage, Inc.”

On October 7, 2008, Gendarme deposited 10,050,000 shares of Tidalwave stock. Between December 5, 2008 and January 7, 2009, Gendarme liquidated 1,477,530 shares of Tidalwave stock at prices ranging between \$0.02188 and \$0.02 per share, generating proceeds of \$26,173.57.

ZCOM Networks, Inc.

ZCOM Networks, Inc. was incorporated in Nevada in 1988, based in California, and originally known as Sports Time, Inc.² ZCOM has never registered its shares with the Commission. On September 12, 2008, it filed a Form D, reporting an offering of securities pursuant to Rule 504 of Regulation D. There, ZCOM described its business as “telecommunications and broadcast media.”

On September 3, 2008, Gendarme deposited ten million certificated shares. Those shares were liquidated 19 days later. From October 14, 2008 through May 15, 2009, an additional 472,250,000 ZCOM shares were electronically transferred to Gendarme’s account in six transactions. Between November 5, 2008 and May 20, 2009, Gendarme liquidated a total of 163,260,349 ZCOM shares on the same day that shares were deposited or shortly thereafter. The total proceeds from the ZCOM liquidations amounted to \$47,595.89.

No Supervision/Investigation of the Gendarme Transactions

Between March 2008 and May 2009, Finance 500 had no system or procedures to detect and prevent unregistered distributions of securities. The Firm made no inquiry when a customer brought in a certificate or alternatively received a block of shares by electronic transfer. Absent a restricted notation on a physical certificate, there was essentially no investigation to ascertain whether shares were freely tradable. The Firm simply gathered and forwarded documents that it believed its clearing firm required.

Thomas Harm believed that Finance 500’s clearing firm required legal opinions to process transactions involving certificates that represented shares worth more than over \$100,000.00 or more than one million shares. Accordingly, Harm requested, and Gendarme provided, eight opinion letters addressing most of its certificated deposits. All of the letters were written by the issuers’ counsel. No letters were requested or obtained with respect to the shares that were transferred to Gendarme’s account electronically, including the 4.798 billion WGL shares.

Neither Harm nor anyone else at Finance 500 inquired how or why the unrelated and geographically disparate issuers had the same counsel, an individual located in Manchester, Vermont. Nor did anyone question the substantively identical letters which opined that the certificated shares were unrestricted because they had been issued pursuant to Rule 504(b)(1)(iii) and a Minnesota state statute that purportedly permitted a general solicitation and general advertising. In fact,

² ZCOM Networks, Inc. is currently known as “Global Gateway Media & Communications, Inc.”

neither the cited statute nor any other Minnesota statute permits a general solicitation in a Regulation D offering.

Paul Savage, Thomas Harm's direct supervisor who was responsible for approving his new accounts and reviewing his trades, never questioned or investigated any of Gendarme's transactions.

The Violations

a. Sale of Unregistered Securities

Section 5 of the Securities Act of 1933 prohibits the offer or sale of any security unless there is a registration statement in effect for the security or there is an exemption available for the securities transaction. It requires registration for any sale by any person of any security, unless there is a specific exemption from the registrations provisions. The statute is intended to protect investors by promoting full disclosure of information thought necessary for informed investment decisions.³

Brokers have responsibility for ensuring that unregistered securities are not illegally sold to the public. A registered representative holding potentially restricted securities must investigate whether the shares are freely tradable and take all reasonable steps to avoid participation in an illegal and unregistered distribution of securities. That responsibility may *not* be shifted to others including the issuer or its attorneys, the transfer agent, the clearing firm.

Nearly fifty years ago, the Commission noted that brokers who are asked to sell substantial blocks of a "little-known security," have a duty to make a "searching inquiry" to ensure the shares are freely tradable. The Commission stated:

a dealer who . . . is asked to sell a substantial amount of securities must take whatever steps are necessary to be sure that this is a transaction not involving an issuer, a person in a control relationship with an issuer or an underwriter. For this purpose, it is not sufficient for him merely to accept 'self-serving statements of his sellers and their counsel without reasonably exploring the possibility of contrary facts' . . . [W]hen a dealer is offered a substantial block of a little-known security, either by persons who appear reluctant to disclose exactly where the securities came from, or where the surrounding circumstances raise question as to whether or not the ostensible sellers may be

³ SEC v. *Ralston Purina Co.*, 346 U.S. 119, 124 (1953).

intermediaries for controlling persons or statutory underwriters, then searching inquiry is called for.⁴

The Commission reiterated this obligation to the broker-dealer community in 1971 and again in 1991.⁵

Between March 2008 and May 2009, Finance 500, through representative Thomas Harm, sold about 8.5 billion shares of unregistered securities on Gendarme's behalf. By selling securities that were neither registered with the Commission nor exempt from registration, Finance 500 and Harm participated in unregistered distributions of securities and thus violated NASD Conduct Rule 2110 for the period March 2008 through December 14, 2008 and FINRA Rule 2010 for the period December 15, 2008 through May 2009.

b. Failing to Establish and Maintain an Adequate Supervisory System and Procedures

NASD Notice to Members 99-45 reminded members that they are required to specifically tailor their supervisory systems to address the various types of business that they conduct. NASD Rule 3010 requires a firm to establish a supervisory system and corresponding written procedures to supervise its businesses and associated persons' activities. A failure to establish a supervisory system that includes appropriate written procedures violates the Rule.

During the period at issue, Finance 500 had no system designed to detect and prevent participation in an unregistered distribution of securities. In particular, it had no written procedures addressing the acceptance of securities in either certificate or electronic form and the corresponding sales of those securities.

In practice, the Firm relied primarily on transfer agents and its clearing firm to determine whether the securities were free trading. Upon receipt of a large block of an unregistered low price stock, Finance 500's due diligence was essentially limited to assembling documents that its clearing firm required to process the transaction. To the extent that any additional investigation was undertaken, none was documented. Among other things, Finance 500 failed to inquire about (i) the length of time the securities had been held; (ii) how, when, and under what circumstances the securities had been acquired; (iii) the relationship, if any, between the customer and the issuer; and/or (iv) how much stock was owned by or under the customer's control.

Reliance on others, including transfer agents and clearing firms, does not adequately discharge a firm's supervisory obligations. Firms that accept delivery

⁴ *Distribution by Broker-Dealers of Unregistered Securities*, Securities Act Rel. No. 4445, 1962 SEC LEXIS 74 (Feb. 2, 1962).

⁵ *See Sales of Unregistered Securities by Broker-Dealers*, Exchange Act Release No. 9239, 1971 SEC LEXIS 19, at *3-4 (July 7, 1971) and *Transactions in the Securities of Laser Arms Corp. by Certain Broker-Dealers*, 50 S.E.C. 489 (1991).

of shares electronically or in certificate form, and effect sales in those securities, must have systems and procedures in place that are reasonably designed to prevent participation in distributions of unregistered securities.

By failing to have an adequate supervisory system and procedures designed to avoid participating in an unregistered distribution of securities, Finance 500 violated NASD Rules 3010(a) and (b), and 2110 for the period March 2008 through December 14, 2008, and NASD Rules 3010(a) and (b) and FINRA Rule 2010 for the period December 15, 2008 through May 2009.

c. Failing to Supervise

NASD Rule 3010(a) requires that each member establish and maintain a system to supervise the activities of each registered representative “that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD rules.” A supervisory system must include, among other things, the assignment of each registered representative to an appropriately registered representative or principal who is responsible for supervising that person’s activities. When indications of irregularity arise, a supervisor must respond promptly and appropriately; he must investigate red flags that suggest that misconduct may be occurring and act upon the results of that investigation.

There were red flags that should have prompted Savage to investigate a possible illegal distribution of unregistered securities and/or a plan or scheme to evade the registration provisions of the Securities Act including: (i) the repeated deposits of large blocks of unregistered shares of little known issuers followed by immediate liquidations and the deposits of additional blocks of shares; (ii) multiple unrelated and geographically disparate issuers who produced substantively identical letters written by the same counsel that opined that the shares were unrestricted pursuant to a purported Minnesota state exemption; and (iii) the deposits of huge blocks of shares by a newly incorporated entity, purportedly worth more than \$1 million, operated by a 23-year-old principal with no known experience and who had listed his occupation as “consulting.”

A supervisor must take decisive action when there are suspicious circumstances that have a potential for violations. By failing to take appropriate action to detect and prevent the misconduct, Savage violated NASD Conduct Rules 3010(a) and 2110 for the period March 2008 through December 14, 2008, and NASD Conduct Rule 3010(a) and FINRA Rule 2010 for the period December 15, 2008 through May 2009.

B. Respondents also consent to the imposition of the following sanctions:

1. Finance 500 is censured;
2. Savage is suspended from associating with any FINRA member in any principal capacity for 10 business days;
3. Harm is suspended from associating with any FINRA member in any capacity for one month;
4. Finance 500 is fined \$50,000.00;
5. Savage is fined \$10,000.00; and
6. Harm is fined \$10,000.00.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have each submitted an Election of Payment form showing the method by which they propose to pay the fines imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondents further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondents understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against them; and
- C. If accepted:
 - 1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against them;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondents' disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313;
 - 4. Respondents may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondents may not take any position in any proceeding brought by or on behalf of FINRA, or to which

FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondents' right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party; and

- D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

Respondents Harm and Savage certify that they have read and understand and Robert L. Hicks, on behalf of Finance 500, certifies that a person duly authorized to act on the firm's behalf has read and understands all of the provisions of this AWC and the Respondents have been given a full opportunity to ask questions about it; that they have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce them to submit it.

11-16-2011
Date (mm/dd/yyyy)

11/16/2011
Date (mm/dd/yyyy)

11-16-2011
Date (mm/dd/yyyy)

Robert L. Hicks
Finance 500, Inc. Respondent
By: Robert L. Hicks, Chief Executive Officer

Paul J. Savage
Paul J. Savage

Thomas L. Harm
Thomas L. Harm

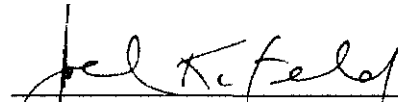
Reviewed by:

Arrin D. Langdon
Arrin D. Langdon, Esq.
Counsel for Respondents
Oswald and Yap, LLP
16148 Sand Canyon Ave.
Irvine, CA 92618

Accepted by FINRA:

12/19/11
Date

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



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