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REGISTRATION DISCLOSURE

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008013575101**

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

RE: Brett S. Kleese, Respondent
CRD No. 3012167

Pursuant to Rule 9216 of FINRA Code of Procedure, Respondent, Brett S. Kleese (Kleese) submits 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 Kleese alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Kleese hereby accepts and consents, 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 AND RELEVANT DISCIPLINARY HISTORY

Kleese was associated with World Group Securities, Inc. (WGS) from on or on or about April 12, 2002 through on or about May 22, 2008. From February 9, 1998 through April 12, 2002, Kleese was associated with WGS's predecessor-in-interest, WMA Securities, Inc. At both WGS and WMA, Kleese was registered as an investment company products and variable contracts representative and as an investment company products and variable contracts principal.

Kleese was terminated from WGS for selling away. The Form U5 filed by WGS on Kleese's behalf provides: "Kleese using his company BSK Enterprises sold investment contracts to investors totaling \$2.9 million. The investment contracts were not approved by World Group Securities, Inc." Kleese has not been associated with a FINRA member since his termination from WGS.

On February 2, 2009, the Arizona Corporation Commission ("ACC") issued Kleese (and Kleese's limited liability company, BSK Enterprises (BSK)) an Order to Cease and

Desist, for Restitution, of Revocation, and for Administrative Penalties. The ACC determined that Kleese offered and sold private loan agreements to 57 investors. Kleese was ordered to pay restitution in the amount of \$2,439,255.00 and an administrative penalty in the amount of \$100,000.00. Pursuant to A.R.S. §§ 44-1962 and 44-3201, Kleese's securities salesman and investment adviser representative licenses were revoked.

OVERVIEW

During the period of May 2007 through May 2008, Kleese, while associated with WGS, participated in private securities transactions involving company "X". The private securities transactions involved two "levels" of investment. First, Kleese, acting through his limited liability company, BSK, entered into eight loan agreements with X, pursuant to which BSK loaned money to X. The funds BSK/Kleese provided to X were not BSK's funds, however; the funds originated with various individuals, many of whom were friends of Kleese, Kleese family members or customers of WGS. BSK then memorialized the contributions of these investors, all of whom were promised investment returns in the form of monthly interest payments generally ranging from seven to fifteen percent, by providing them with private loan agreements. Kleese did not disclose his participation in the transactions involving X securities to WGS and WGS never authorized Kleese to engage in such conduct. Accordingly, Kleese's conduct violated NASD Conduct Rules 3040 and 2110. Kleese further failed to disclose to WGS that he was a member, manager and sole operator of BSK, in violation of NASD Conduct Rules 3030 and 2110. Kleese/BSK raised over \$2,900,000.00 from the investors and received compensation in the approximate amount of \$107,150.00.

FACTS AND VIOLATIVE CONDUCT

1. Private Securities Transactions

From May 2007 through May 2008, Kleese participated, outside the scope of his employment with WGS, in several private securities transactions involving company X. Specifically, Kleese, acting through BSK, entered into a total of eight investment contracts with REI. Each of these contracts was titled "[X] Private Loan Agreement" and designated BSK as the lender. The contracts were typically for a twelve month term and provided for monthly interest payments ranging from 10% - 15%. As part of and in conjunction with each agreement, BSK was given a promissory note for the investment principal.

The investment funds did not belong to Kleese/BSK. Rather, Kleese obtained funds from various individuals, including friends, family members and customers. The funds were pooled and deposited into BSK's bank account. Kleese would then send the investment funds to X.

Upon receipt of the funds, BSK/Kleese would receive the signed investment contract from X. Kleese, acting through BSK, would then send investment contracts, generally titled "BSK Private Loan Agreement," with an accompanying promissory note for the investment principal to the investors. Any interest and principal payments that X made to BSK/Kleese would then be distributed to the investors in accordance with the BSK contracts.

Approximately 54 investors provided funds totaling approximately \$2,900,000.00 to Kleese. The investments were made with the expectation that the investors would receive monthly interest payments, generally ranging from 7% to 15%, and the return of their principal at the end of the contract term. Kleese, who received compensation for his participation, failed to provide WGS with prior written notice of his proposed participation in these transactions and failed to receive prior written approval from WGS.

The aforementioned acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 3040 and 2110.

2. Outside Business Activities

While Kleese was engaged in the above-referenced selling away activities, he was employed as a member, manager and sole operator of BSK. Kleese, however, failed to provide WGS with prompt written notice of his outside business activities with and on behalf of this company.

The aforementioned acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 3030 and 2110.

B. Kleese also consents to the imposition of the following sanctions:

- A bar from association with any member of FINRA in any capacity.

Kleese understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, Kleese may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (*see* FINRA Rules 8310 and 8311).

Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this AWC.

II.

WAIVER OF PROCEDURAL RIGHTS

Kleese specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against him;
- B. To be notified of the Formal 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, Kleese specifically and voluntarily waives 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.

Kleese further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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

Kleese understands 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 him; and
- C. If accepted:
1. this AWC will become part of Kleese's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against him;
 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Kleese's disciplinary record;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rules 8313; and
 4. Kleese 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. Nothing in this provision affects Kleese's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

Kleese certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Kleese has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce him to submit this AWC.

11-10-09
Date

Brett S. Kleese
Brett S. Kleese

12/2/09
Date

Accepted by FINRA:

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

Heather Hawker/cx
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