

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

Department of Enforcement,

Complainant,

v.

Arthur Albert Halleen
CRD No. 842624,

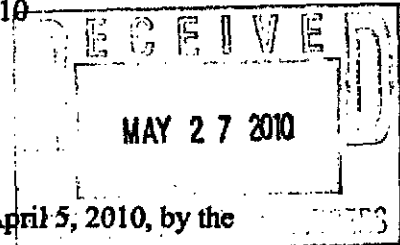
Respondent.

Disciplinary Proceeding
No. 2008014611101

Hearing Officer Sara Nelson Bloom

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: May 26, 2010



INTRODUCTION

Disciplinary Proceeding No. 2008014611101 was filed on April 5, 2010, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Arthur Albert Halleen submitted an Offer of Settlement (Offer) to Complainant dated May 14, 2010. Pursuant to FINRA Rule 9270(e), the Complainant 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, 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

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findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions 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

Arthur Albert Halleen was a registered representative with Waddell & Reed in its Pottsboro, TX branch from February 17, 1984 to September 12, 2008. Since September 12, 2008, Halleen has not been associated with any FINRA member. FINRA retains jurisdiction over Halleen pursuant to Art. 5, § 4, of the FINRA By-Laws because the conduct that serves as the basis for this action commenced prior to his termination from a member firm and this action is filed within two years after the effective date of his termination from Waddell & Reed.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

A. Halleen Borrowed Approximately \$337,000 from Fourteen Customers and Failed to Repay Approximately \$260,000

Since the early 1980s, Halleen borrowed money from approximately 14 customers of Waddell & Reed without getting permission from or informing Waddell & Reed. By the time he was terminated from Waddell & Reed when the firm discovered Halleen's actions, Halleen had taken more than \$300,000 in total from these customers by telling them he would invest in unspecified products and unspecified ways outside of their accounts at Waddell & Reed, and then repay them at a specified rate of interest, usually between 5 and 12 percent. Halleen also provided promissory notes to several of the customers, setting forth the terms by which Halleen was to repay the customers for the money they gave to him.

At the time of his termination from Waddell & Reed, and by his own estimation, Halleen had repaid only approximately \$70,000 of the money he had taken from customers. Halleen did not repay more than \$260,000 from what the customers provided to him.

Halleen's transactions with PC are an example of his private transactions with Waddell & Reed customers. Halleen solicited periodic loans from PC since approximately 1984, in the total amount of approximately \$44,000. Halleen executed a series of promissory notes with PC over that time, by which Halleen promised to pay back PC amounts ranging from approximately \$17,500 to \$2,000, at rates ranging from 10 percent to 15 percent per year. Halleen also provided a loan payment schedule to PC that provided that Halleen would repay PC \$80,799.97, which consisted of \$44,339 in principal and \$36,460.97 in interest. At first, Halleen repaid PC by sending her payments from his personal checking account at periodic intervals, for a total of \$4,400. In approximately January 2008, however, Halleen stopped repaying PC and told her he would be unable to send her a payment because he was experiencing financial problems.

As another example, in approximately 2007, CG, another Waddell & Reed customer, loaned Halleen approximately \$12,000 in exchange for three promissory notes at approximately seven percent interest. As with PC, Halleen did not tell CG where he was investing the money he borrowed from CG, but emphasized that the transaction was not conducted through his broker-dealer. Halleen did not repay CG and, when she asked him about repayment in the Fall of 2008, told her he could not talk to her.

Halleen also borrowed approximately \$14,000 from JS and his wife, Waddell & Reed customers, in approximately 2005. Halleen executed two promissory notes with JS and his wife and told them it was a way for them to make extra money outside of Halleen's broker-dealer.

Halleen did not repay JS and his wife and stopped returning JS' calls when he was terminated by Waddell & Reed.

TG is another Waddell & Reed customer who gave money to Halleen. TG and his wife had known Halleen for over 25 years. In early 2008, Halleen convinced TG and his wife to give him \$24,000. In return, Halleen provided TG with an unsecured promissory note. Under the terms of the promissory note, Halleen agreed to repay TG and his wife at the rate of five percent within five years of the execution of the note unless otherwise determined by mutual agreement. As with PC, CG, and JS, Halleen did not tell TG where he was investing the money he borrowed from TG and his wife. Halleen made no payments under the note and, when TG asked Halleen to return his money, Halleen apologized "for the mess" and said "it's out of my control," but refused to repay TG and his wife.

On September 3, 2008, in response to a request from Waddell & Reed investigating a customer complaint, Halleen faxed a schedule of customers to the firm's Compliance Department. The schedule purported to list, among other things, the fourteen Waddell & Reed customers from whom Halleen took money, the amount of money that Halleen took from each customer and the "current value" of the "account" for each customer. According to Halleen's schedule, fourteen customers had "invested" approximately \$337,000 with him, of which he claimed to have returned approximately \$70,000. In his schedule, Halleen estimated the "current value" of his customers' "accounts" to be approximately \$726,000. A list of the fourteen customers and the amounts that Halleen stated that he borrowed from them follows:

Customer (by initials)	Amount Borrowed
HB	\$26,000
JB	\$14,000
PC	\$20,000
JD	\$8,000
DG	\$12,000
TG	\$54,000
LG	\$15,413
MJ	\$8,000
DM	\$9,500
DeM	\$74,000
KO	\$20,000
PS	\$41,861
JS	14,000
LT	\$20,000
TOTAL	\$336,774

B. Hallee Failed to Respond to Two 8210 Requests from FINRA

On or about September 30, 2008, FINRA sent a letter to Hallee requesting: (1) a signed statement regarding the allegations of executing promissory notes in favor of clients set forth in his Form U5; (2) copies of all correspondence and memoranda relating to those transactions; (3) information regarding the use of the promissory notes; (4) information regarding whether he disclosed the loans or received approval for them from Waddell & Reed; (5) information concerning whether he solicited clients of Waddell & Reed to provide loans; and (6) any other customer complaints he received in the previous three years. FINRA issued these requests pursuant to Rule 8210.

The September 30, 2008 letter was sent by certified mail and first class mail to Hallee's home address listed in the Central Registration Depository ("CRD") System maintained by FINRA. As set forth in the letter, the deadline for Hallee to respond to the 8210 requests was October 14, 2008. According to the signed return receipt, the letter was delivered on October 7 by the United States Postal Service (USPS). The signature on the return receipt was not legible.

On or about October 20, 2008, Enforcement sent another letter to Hallee requesting the same items requested in the September 30 letter. The October 20, 2008 letter also enclosed a copy of the September 30 letter. As with the prior letter, FINRA sent the October 20, 2008 letter pursuant to Rule 8210 by certified mail and first class mail to Hallee's home address listed in CRD. In the October 20, 2008 letter, FINRA asked Hallee to respond to the original requests by November 3, 2008. According to the signed return receipt, the letter was received by "A HALLEEN" on October 24, 2008.

Hallee has not responded in any way to either of Enforcement's requests for documents and information.

C. Hallee Pleds Guilty to Misappropriating Funds from TG

On August 5, 2009, Hallee was indicted in the District Court for Grayson County, Texas, for unlawfully appropriating money in the amount of \$20,000 to \$100,000 from TG, by deception and with an intent to deprive TG of his property. On October 15, 2009, Hallee pled guilty before the Grayson County, Texas Justice of the Peace to violations of Title 7, Chapter 31.03(e)(5) of the Texas Penal Code, a third-degree felony, for theft of property with a value between \$20,000 and \$100,000. Hallee was sentenced to five years in the Texas state penitentiary, ordered to pay \$25,000 in restitution, and fined \$2,500. Hallee is currently serving his prison sentence in the Texas state penitentiary.

**FIRST CAUSE OF ACTION
VIOLATION OF NASD RULES 2370 AND 2110**

NASD Rule 2370 provides that no person associated with a member in a registered capacity may borrow money from any customer unless certain conditions are met. First, the member must have written procedures allowing such persons to borrow money from customers. Second, the borrowing must meet one of the following conditions: (1) the customer is a member of the person's immediate family; (2) the customer is a financial institution regularly engaged in the business of providing credit, financing, or loans, or other entity or person that regularly arranges or extends credit in the ordinary course of business; (3) the customer and registered person are registered at the same firm; (4) the lending arrangement is based upon a personal relationship with the customer, such that the loan would not have been given had the customer and associated person not maintained a relationship outside of the broker/customer relationship; or (5) the lending arrangement is based upon a business relationship outside of the broker-customer relationship.

From 1985 until February 2004, Waddell & Reed prohibited its registered representatives from borrowing money from customers, without exception. This complete prohibition was contained in the firm's Compliance Manual. During the period from February 2004 until Halleen's termination, Waddell & Reed allowed its registered representatives to borrow money from customers only after they first obtained written authorization from the Compliance Department of the firm. This amended policy was contained in the firm's Compliance Manual during this time period. Halleen's borrowing from customers was not authorized by Waddell & Reed and was in direct violation of the firm's prohibition on such activities. In addition, Halleen's loans from his customers also failed to meet any of the other four conditions of NASD Rule 2370. As a result, by borrowing approximately \$337,000 from approximately fourteen customers, Halleen violated NASD Rule 2370. By violating Rule 2370, Halleen also violated NASD Rule 2110.

**SECOND CAUSE OF ACTION
CONVERSION OF FUNDS
VIOLATION OF NASD RULE 2110**

In early 2008, Halleen persuaded TG to provide him with \$24,000 in return for an unsecured promissory note. Halleen made no payments under the note and refused to return the \$24,000 to TG when TG requested it.

Halleen was indicted and charged with unlawfully appropriating between \$20,000 and \$100,000 from TG, by use of deception and with intent to deprive TG of his property.

Halleen pled guilty in the District Court for Grayson County, Texas to a third-degree felony, misappropriating property from TG, from whom he had taken \$24,000, through the use of deception and with the intent to deprive TG of his property. Halleen was ordered to pay TG

restitution in the amount of \$25,000, fined \$2,500, and sentenced to five years in the Texas state penitentiary.

By converting \$24,000 from TG, Halleen violated NASD Rule 2110.

**THIRD CAUSE OF ACTION
FAILURE TO RESPOND TO FINRA INVESTIGATIVE REQUESTS
VIOLATION OF NASD RULES 8210 AND 2110**

NASD Rule 8210 requires that members and persons associated with members provide documents and information requested by FINRA in connection with an examination or investigation.

On or about September 30, 2008, FINRA Enforcement issued, pursuant to Rule 8210, a letter requesting that Halleen produce documents and information relating to his borrowing of funds from clients of Waddell & Reed. The request letter was sent by certified mail and first class mail to Halleen's address listed in CRD. USPS returned a signed receipt showing that delivery had been made of the certified letter on October 7, 2008.

On or about October 20, 2008, FINRA sent a second letter pursuant to Rule 8210, asking that Halleen respond to FINRA's original request for documents and information relating to his borrowing of funds from clients of Waddell & Reed. As with the prior letter, FINRA sent the October 20, 2008 letter via certified and first class mail to Halleen's home address listed in CRD. USPS returned a receipt signed by "A HALLEEN" showing that delivery had been made of the certified letter on October 24, 2008.

Halleen failed to respond to either of Enforcement's requests. By failing to provide documents and information requested by Enforcement pursuant to Rule 8210, Halleen violated NASD Rule 8210. By virtue of these violations, Halleen also violated NASD Rule 2110.

Based on the foregoing, Respondent violated NASD Rules 2370 and 2110, NASD Rule 2110, and NASD Rule 8210 and 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.

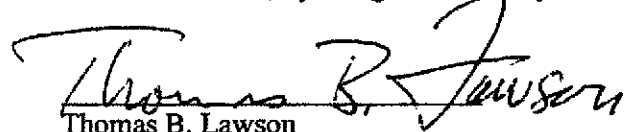
SANCTIONS

It is ordered that Respondent be barred from associating with any FINRA member. The sanctions 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

A handwritten signature in black ink, appearing to read "Thomas B. Lawson", is written over a horizontal line.

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