

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Stuart G. Dickinson
(CRD No. 1047824)

and

Trent W. Schneiter
(CRD No. 3175324),

Respondents.

DISCIPLINARY PROCEEDING
NO. 2012033286901

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between October 2007 and December 2007, and while associated with FINRA member firm WFG Investments, Inc. (“WFG”), Respondent Stuart G. Dickinson sold limited partnership interests in ATMA, LP (“ATMA”), a private placement securities offering that offered investors the opportunity to acquire an income stream derived from the acquisition and operation of automated teller machines (“ATMs”), to seven customers. Dickinson, however, failed to conduct adequate and reasonable due diligence on ATMA and, therefore, did not have a reasonable basis to recommend ATMA to any of the seven customers who purchased it upon his recommendation. Had Dickinson conducted adequate and reasonable due diligence on ATMA,

he would have detected multiple red flags indicating that the underlying purchase and operation of the ATMs was fraudulent. Dickinson's seven customers suffered a total loss of over a million dollars because the underlying business scheme of the offering was a fraud and most of the ATMs were fictional. Through his conduct, Dickinson violated NASD Rule 2310 and 2110.

2. Respondent Trent W. Schneider, a supervising principal and compliance officer in charge of alternative investments at WFG, was responsible for supervising Dickinson's due diligence for ATMA and for conducting his own due diligence of the "alternative investment" that was ATMA. Schneider, however, failed to adequately supervise Dickinson and to ensure that Dickinson conducted reasonable due diligence on ATMA, and he did not conduct his own adequate due diligence. Through his conduct, Schneider violated NASD Rules 3010 and 3040(c)(2) and 2110.

3. Schneider also violated NASD Rules 3030 and 2110, in that he failed to provide prompt written notice to WFG that he owned a 5% interest in ATMI, LLC ("ATMI"), the general partner of ATMA, and also was the chief compliance officer of ATMI.

RESPONDENTS AND JURISDICTION

4. Dickinson entered the securities industry in 1982. He received his Series 7 license and registered with FINRA as a general securities representative in 1987 and worked for various FINRA member firms through 2005. Dickinson associated with WFG in October 2005, and remained associated with WFG until September 25, 2013, when WFG terminated his registration. Although Dickinson is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the effective date of termination of Respondent's registration with WFG, namely, September 25,

2013, and (2) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

5. Schneiter entered the securities industry in 1999. He obtained his Series 7 and 24 licenses that same year and was registered with FINRA as a general securities representative and a general securities principal. In May 2004, he associated with WFG as a general securities representative and as a general securities principal. Schneiter remained associated with WFG until February 25, 2013, when WFG terminated his registration. Since May 2013, Schneiter has been associated with another FINRA member firm as a general securities representative and as a general securities principal. FINRA has jurisdiction over Schneiter because he is currently associated with a FINRA member firm and the misconduct alleged in the Complaint occurred while he was associated with WFG.

FIRST CAUSE OF ACTION

SUITABILITY – NO REASONABLE BASIS (DICKINSON)

(Violations of NASD Rule 2310 and 2110)

6. The Department realleges and incorporates by reference paragraphs 1-5 above.

7. NASD Rule 2310 requires FINRA registered broker-dealers and their associated persons to have reasonable basis to believe that the recommendation of a security could be suitable for at least some customers. A recommendation lacks a reasonable basis where a registered representative fails to understand the transaction, which can result from, among other things, a failure to conduct a reasonable investigation concerning the security, or if the registered representative recommends a security that is not suitable for any investors.

ATMA

8. In the fall of 2006, after hearing a tip from a golf acquaintance, Dickinson personally invested approximately \$200,000 to buy 10 ATMs from RK for the purpose of generating revenue from their usage fees. At the time he invested, Dickinson knew “very little” about the background of RK, and “nothing” about the entity that he operated through. He did very limited due diligence when he made his personal investment.

9. In reality, RK brokered the purchase and servicing of the ATMs from other persons and entities, specifically WN and 36 MS and VM and ATMFS. WN owned and operated 36 MS, a company that purported to sell ATMs to investors. VM owned and operated ATMFS, a company that purported to manage ATMs sold to investors and maintain the retail space lease for the ATM to be in a particular location.

10. In early 2007 and while registered with WFG, Dickinson approached Schneider and proposed creating a private placement designed to offer an income stream to investors based on the acquisition and operation of ATMs, similar to his personal investment.

11. Dickinson, under Schneider’s supervision, began to form the offering that would become ATMA. The intent was to offer ATMA to WFG’s customers.

12. Throughout 2007, Dickinson had ongoing discussions related to additional ATM purchases with various persons and/or entities, including RK, VM, WN, 36 MS and ATMFS. Dickinson also met with DJ, the daughter of WN and the bookkeeper for ATMFS and 36 MS.

13. For his due diligence, Dickinson spoke with several purported investors who had purchased ATMs through ATMFS, specifically BO, HB, and GW, but he did not otherwise verify their actual ownership.

14. Dickinson also placed a call to an ATM service entity referred to him by BO, HB, or GW, and spoke to “a girl” working there, although he never confirmed any details of their conversation.

15. Dickinson also spoke to several other individuals, including clients and an acquaintance he met at a golf club, whom he deemed generally knowledgeable on investments, but none with specific knowledge of ATMFS.

16. Dickinson also spoke with two attorney acquaintances of RK who claimed to be setting up similar offerings.

17. Dickinson also reviewed documents provided by VM, WN, ATMFS, and 36 MS, but did not conduct adequate and reasonable due diligence in this review and missed key red flags.

18. Had Dickinson conducted adequate and reasonable due diligence, he would have detected multiple red flags in the materials he was provided relating to ATMFS, including the following: (i) most of the ATM retail space lease agreements were at least partially handwritten, and in some cases the signatures did not match the printed names, information was partially blank, or the handwriting of the merchant signatories was strikingly similar to that of VM; (ii) the Offering Memorandum (“OM”) required a minimum five-year term for ATM retail lease agreements, but in 6 of the 25 lease agreements, the lease terms were shorter than five years; (iii) the OM required a minimum of six months verifiable performance history, but the performance history for the ATMs purchased from ATMFS was stale, sometimes dating back as far as 2005, and did not contain the performance history for the six months prior to their purchase by ATMA; (iv) the OM required each ATM to have a minimum average of 400 transactions per month in the six months prior to purchase by ATMA, but, in addition to being stale, the performance history

provided by ATMFS showed that 10 of the 45 ATMs purchased averaged fewer than 400 transactions per month; (v) six of the retail space lease agreements were with an entity known as ATMU, whose relationship to ATMFS was never questioned by Dickinson or Schneider; (vi) the average transaction performance history for the ATMs included on a processing report spreadsheet provided by ATMFS was inconsistent with the underlying processing reports in 43 out of 45 cases, and in 38 of those 43 cases, the average performance history was overstated on the spreadsheet; and (vii) several of the ATM surcharges reflected on the processing reports provided by ATMFS were handwritten and inconsistent with the surcharges set forth in the lease agreements.

19. In late 2007, Dickinson formed ATMA as a limited partnership.

20. Dickinson had no prior experience in structuring or drafting private placement offerings.

21. Dickinson retained a law firm, WP, to assist in drafting the offering memorandum (“OM”) for ATMA, but the law firm did not conduct any due diligence on the specific offering.

22. According to the OM, the general partner of ATMA was ATMI. Dickinson owned 90% of ATMI and Schneider owned 5%.

23. According to the OM, ATMA would “acquire and operate automated teller machines.” Investors would derive income from the operations of the ATMs, specifically a portion of the fees charged to the individuals using the ATMs for banking transactions. The OM further stated that ATMA intended to outsource the maintenance, monitoring, and day-to-day operation of the ATMs in the pool to ATMFS and VM.

24. The OM also stated that the “initial minimum operating criteria will require that each ATM in the ATM Pool”:

- have at least six months of verifiable performance history prior to the date such ATM is acquired by the Partnership;
- have a minimum average of 400 withdrawals per month for the six month period prior to the date such ATM is acquired by the Partnership;
- have a minimum of five years remaining on the space lease agreement with the Merchant;
- be Triple DES compliant;
- be Visa Electronic Pin Pad compliant; and
- comply with the Americans with Disabilities Act requirements for wheelchair and handicapped access.

25. WFG authorized Dickinson to offer ATMA for sale away from WFG as a private securities transaction.

SALES OF ATMA

26. In mid-to late 2007, Dickinson made recommendations to seven WFG customers that they invest in ATMA.

27. Between October and December 2007, Dickinson sold limited partnership interests in ATMA to seven customers of WFG for \$1,024,000.

28. The ATMA limited partnership interests sold to these customers are securities.

THE ENTERPRISE UNDERLYING ATMA WAS A FRAUD

29. Beginning in October 2007, ATMFS purportedly entered into agreements using ATMA investor funds to purchase ATMs from 36MS, the company owned by WN.

30. In reality, however, VM, WN, ATMFS, and 36MS, were all engaged in fraudulent business practices, and over 90% of the ATMs it sold to investors, including ATMA, were fictional. By January 2008, Dickinson learned that ATMFS had not used ATMA funds to purchase ATM machines and that the investment was actually a Ponzi Scheme, where investors

were paid fictitious returns with money obtained from new investors. The seven investors that Dickinson solicited to invest in ATMA suffered a total loss.

31. VM and WN were indicted in September, 2009, in the United States District Court for the Southern District of New York on conspiracy to commit wire fraud (18 U.S.C. § 371) and nine counts of wire fraud (18 U.S.C. § 1343) in connection with fraudulently raising over \$80,000,000 from investors from 2005 through January, 2008, to buy fictitious ATMs. The fraud was uncovered, in part, after one ATM purchaser visited the purported location of his ATM and found it was not there. VM later pled guilty in 2011 to conspiracy to commit wire fraud (§ 371) and wire fraud (§ 1343) and was sentenced to 97 months in prison. WN was convicted of conspiracy to commit wire fraud (§ 371) and wire fraud (§ 1343) after a three-week trial, also in 2011, and was sentenced to 100 months in prison.

32. At the time he recommended and sold ATMA to the seven customers, Dickinson failed to conduct adequate and reasonable sufficient due diligence regarding ATMA, including the persons and entities that were responsible for purchasing and operating the ATMs on which ATMA's returns were entirely based, to have a reasonable basis to make a suitable recommendation to his customers.

33. As discussed in greater detail above, Dickinson's due diligence was limited to receiving documents provided by ATMFS, internet research, and speaking with ATMFS or 36MS representatives, such as VM, WN, and DJ, or speaking to the above mentioned prior investors and other individuals referred to Dickinson by ATMFS's representatives. He did not independently verify any of the information in the documents or that was provided verbally in speaking with VM, WN, or the customers and other individuals referred by them. Moreover, he

did not conduct reasonable and sufficient due diligence regarding the documents he was provided by ATMFS and missed key red flags.

34. In failing to conduct reasonable and adequate due diligence of ATMA, Dickinson did not understand the risks of investing in ATMA and therefore did not have a reasonable basis to recommend an investment in ATMA to any person, including the seven customers to whom he successfully recommended ATMA.

35. Those seven customers lost their entire investments in ATMA, totaling \$1,024,000.

36. By engaging in the foregoing conduct, Dickinson violated NASD Rule 2310 and 2110.

SECOND CAUSE OF ACTION

FAILURE TO SUPERVISE (SCHNEITER)

(Violations of NASD Rules 3010 and 3040(c)(2), and 2110)

37. The Department realleges and incorporates by reference paragraphs 1-36 above.

38. NASD Rule 3010(a) requires member firms to establish and maintain a supervisory system to supervise the activities of each registered representative that is reasonably designed to achieve compliance with applicable securities laws and regulations.

39. NASD Rule 3040(a) prohibits associated persons from participating in a “private securities transaction” except in accordance with the requirements of Rule 3040. A private securities transaction is “any securities transaction outside the regular course or scope of an associated person’s employment with a member.”

40. NASD Rule 3040(c)(2) requires a member that has approved an associated person’s participation in a private securities transaction in which the associated person has

received or may receive selling compensation, to record the transaction on its books and records and “supervise the person’s transaction as if the transaction were executed on behalf of the member.”

41. Dickinson provided notice to WFG of ATMA. Indeed, WFG affirmatively authorized his sale of interests in ATMA as private securities transactions.

42. Dickinson was entitled to receive selling compensation in connection with his sale of interests in ATMA and WFG approved his participation. Accordingly, WFG was required to supervise and record these private securities transactions as if they were executed on behalf of WFG.

43. In his role as supervising principal and the compliance officer in charge of alternative investments at WFG, Schneider was responsible for supervising Dickinson’s due diligence on ATMA and for conducting his own due diligence of the “alternative investment” that was ATMA.

44. Schneider had a clear conflict of interest in his responsibilities and an interest in approving ATMA. He owned a 5% interest in ATMI, the general partner of ATMA, and also was the chief compliance officer of ATMI.

45. WFG would have taken additional steps to ensure that adequate and reasonable sufficient due diligence was performed if they had known of these conflicts, but Schneider never disclosed them to WFG.

46. Schneider worked with Dickinson to set up ATMA. Schneider attended at least one meeting with Dickinson and WN, ran various internet searches for general information on ATMs, and spoke to a registered representative at WFG who had also invested directly in ATM machines in the past.

47. In addition to supervising the due diligence and offering of ATMA, Schneider also received and approved the subscription agreements sent in by investors for ATMA as the principal in charge of alternative investments at WFG.

48. Schneider failed to adequately supervise Dickinson to ensure that adequate and reasonable due diligence was conducted on ATMA before WFG approved Dickinson's participation in the private placement. Schneider also failed to conduct adequate and reasonable due diligence of ATMA before WFG approved Dickinson's participation in ATMA and before Schneider, as the responsible supervising principal, approved the subscription agreements for the seven WFG customers who invested.

49. Had Schneider adequately supervised Dickinson to ensure that Dickinson conducted adequate and reasonable due diligence, and/or conducted reasonable due diligence himself, the multiple red flags with ATMA outlined above would have been detected and the investment would not have been offered to WFG customers. Instead, seven WFG customers purchased interests in ATMA and collectively lost \$1,024,000.

50. By engaging in the foregoing conduct, Schneider violated NASD Rules 3010 and 3040(c)(2), and 2110.

THIRD CAUSE OF ACTION

FAILURE TO DISCLOSE OUTSIDE BUSINESS ACTIVITIES (SCHNEITER)

((Violations of NASD Rules 3030 and 2110))

51. The Department realleges and incorporates by reference paragraphs 1-50 above.

52. NASD Rule 3030 governs outside business activities. It provides that no registered person shall be employed by, or accept compensation from, any other person as a result of any business activity, other than a passive investment, outside the scope of his

relationship with his employer firm, unless he or she has provided prompt written notice to the member.

53. Schneiter owned a 5% interest in ATMI, the general partner of ATMA, and also was the chief compliance officer of ATMI. Schneiter never disclosed these business activities to WFG.

54. By failing to provide any written notice to WFG of his ownership and employment with ATMI in 2007 and 2008, Schneiter violated NASD Rule 3030. As a result of violating NASD Rule 3030 Schneiter also violated NASD Rule 2110.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondents be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest; and
- C. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: September 22, 2015



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