

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

SPENCER EDWARDS, INC.
(CRD No. 22067), and

GORDON DIHLE
(CRD No. 1851834),

Respondents.

DISCIPLINARY PROCEEDING
No. 2013035865303

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between January 2011 and December 2012 (the “relevant period”), Spencer Edwards, Inc. (“SEI”), acting through two registered representatives, liquidated approximately 4 billion shares of six penny stocks in seven customer accounts at the firm. The shares were not registered with the SEC, nor were the transactions exempt from registration.

2. The activity in each of the seven customer accounts generally followed the same pattern. The customers would receive shares from a debt conversion, deposit those shares into their SEI accounts, liquidate the shares shortly thereafter, and then have SEI issue checks from the accounts to distribute the liquidation proceeds. Several of the customer accounts, three of which were under common control, acted in concert by alternating accounts for liquidating the same penny stocks. Other red flags were also present for some of the transactions, including that

the customers deposited recently-issued physical share certificates that lacked restrictive legends, that the sales occurred around the time of promotional press releases, and that the shares being deposited represented a large percentage of the float.

3. None of the penny stock sales at issue qualified for an exemption under Section 4(1) of the Securities Act of 1933, and the associated safe harbor contained in Rule 144, because (i) the sales were part of plans or schemes to evade the registration requirements of Section 5 of the Act; (ii) five of the seven customers were affiliates of the issuers but failed to comply with Rule 144's volume limitations; (iii) one of the issuers failed to provide current publically-available information as required by Rule 144; (iv) two of the customers received their shares from affiliates but failed to comply with Rule 144's holding period requirements; and, (v) one of the issuers was a shell company.

4. Likewise, the transactions by SEI did not qualify for the Section 4(4) exemption under the Act for brokers' transactions because SEI failed to conduct adequate due diligence into the circumstances surrounding the sales, including whether the transaction satisfied the conditions of Rule 144. This was the case despite the presence of obvious "red flags," many of which were identified by SEI's own written supervisory procedures ("WSPs") as indicative of a possible unregistered distribution.

5. By selling unregistered shares of penny stocks that were not exempt from registration, SEI acted in contravention of Section 5 of the Securities Act of 1933, and thus violated FINRA Rule 2010.

6. In addition, during the relevant period, SEI, as well as Gordon Dihle ("Dihle"), the firm's President, Chief Compliance Officer ("CCO") and AML Compliance Officer ("AMLCO"), failed to establish, maintain, and enforce a supervisory system, including WSPs,

reasonably designed to achieve compliance with Section 5 of the Securities Act of 1933 for sales of unregistered shares of penny stocks.

7. SEI and Dihle failed to conduct, and ensure that registered representatives conducted, reasonable and meaningful inquiries of the circumstances surrounding the illicit sales of six penny stocks in seven customer accounts at the firm. They performed inadequate inquiries into the supposed registration exemptions for sales of the six penny stocks, despite obvious indications that the sales were or could be illicit distributions of unregistered stocks. Although Respondents collected some documents and information about the transactions, they failed to adequately and meaningfully analyze the collected documents and information, and to independently verify the information provided. In reality, their collection efforts merely served to “paper the file” for SEI’s questionable penny stock liquidation business. As a result of the foregoing, SEI and Dihle violated NASD Rule 3010(a) and (b) and FINRA Rule 2010.

8. During the relevant period, SEI, as well as Dihle, the firm’s AMLCO, also failed to adequately establish and implement the Firm’s anti-money laundering (“AML”) program. SEI and Dihle failed to reasonably detect and investigate “red flags” indicative of potentially suspicious transactions, namely: deposits of billions of unregistered shares of penny stocks of six issuers in seven accounts, liquidations of the shares shortly after their deposits, sometimes amidst periods of suspicious promotional activity; and transfers of the resulting proceeds out of the accounts shortly after the liquidations. Because of these failures, Respondents did not make a reasoned determination whether or not to report the suspicious transactions to the Financial Crimes Enforcement Network (“FinCEN”) by filing a Suspicious Activity Report (“SAR”), as appropriate. As a result of the foregoing, SEI and Dihle violated FINRA Rules 3310(a) and 2010.

9. Finally, during the relevant period, SEI registered representatives used personal email accounts for business communications, resulting in the Firm failing to retain certain business related records. As a result, SEI violated NASD Rule 3110(a),¹ FINRA's Rule 4511 and 2010 and Exchange Act Rule 17a-4.

RESPONDENTS AND JURISDICTION

Spencer Edwards, Inc.

10. SEI is a retail broker-dealer. It is a FINRA member and has been since November 1988.

11. The firm is headquartered in Denver, Colorado. It maintains three branch offices and has approximately 24 registered persons, most of whom work from its Denver home office.

12. SEI was sanctioned by the SEC in a July 18, 2005 decision for failing to supervise two of its registered representatives with respect to unregistered stock transactions.

13. The financial sanctions imposed against SEI included \$759,204.54 in disgorgement and a \$200,000 civil penalty, although the sanctions were reduced based on inability to pay.

14. Under Article IV of the FINRA By-Laws, FINRA possesses jurisdiction over SEI because: (a) the firm currently is a FINRA member; and (b) the Complaint charges the firm with securities-related misconduct committed while it was a FINRA member.

¹ NASD Rule 3310(a) was replaced by FINRA Rule 4511 effective December 5, 2011.

Gordon Dihle

15. Dihle was first associated with SEI in January 2003. He became the Chairman of the Board and CFO of SEI in February 2003 and the Chief Compliance Officer (“CCO”), CEO and President of SEI in September 2005.

16. Dihle remained the CCO, CFO, CEO, President and Chairman of the Board for SEI until at least June 2012.

17. Dihle’s association with SEI was terminated on November 7, 2013.

18. Dihle is not presently associated with a FINRA member firm.

19. Although Dihle is no longer associated with a FINRA member firm, 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 date upon which he ceased to be associated with a FINRA member firm and (2) the Complaint charges him with misconduct committed while he was associated with a FINRA member firm.

FACTS COMMON TO ALL CAUSES OF ACTION

SEI Engaged in a Significant Penny Stock Liquidation Business

20. During the relevant period, SEI earned over \$1.6 million in commissions from the sale of approximately 16.5 billion penny stock shares.

21. The customer proceeds from these sales was over \$40 million.

22. The over \$1.6 million in commissions SEI received was significant to its overall business, representing approximately 38% of its revenues during the relevant period.

In Early 2011, Seven New Customers Open Accounts at SEI

Customers A, B & C (the “RD Accounts”)

23. In January and February 2011, three entities -- Customer A, Customer B, and Customer C -- opened accounts at SEI.

24. Each of the accounts was referred to the firm by RD.

25. RD controlled and otherwise acted on behalf of the accounts, despite the fact that his name did not appear on the account paperwork as an authorized person.

26. Significantly, RD was the former CEO of one of the penny stock issuers involved in this matter, Encounter Technologies, Inc. (ENTI) and his brother, AD, was at that time its current CEO.

27. Broker A was the broker of record on each of the RD Accounts.

28. As alleged above, RD exercised control over the RD accounts.

29. For example, for Customer A, RD provided the new account paperwork, penny stock deposit paperwork, and distribution requests to SEI and Broker A by email using the email address [RD]@[Customer A].com.

30. Likewise, RD used an email address associated with Customer B to provide information relating to penny stock deposits to SEI and Broker A. The same email address was used to provide information to SEI and Broker A about a penny stock deposit into Customer A's account.

31. In addition, Customer C's physical address on the account paperwork was the same address used by RD as RD's contact information at Customer A.

32. RD also took other steps indicating he was acting on behalf of the RD accounts. For example, he pressured Broker A to make penny stocks deposited into the RD Accounts available for liquidation quickly.

33. Dihle was aware of RD's involvement with the RD Accounts, including his efforts to pressure SEI to make penny stock deposited in the account available for liquidation quickly.

34. The RD Accounts all engaged in the same type of activity at SEI—deposits and liquidations of shares of penny stocks, including shares of several of the same penny stocks, with the resulting proceeds being distributed out of the accounts shortly after the liquidations.

35. When aggregated together, the RD Accounts owned more than 10% of the outstanding shares of each of four penny stocks (discussed further below in paragraphs 63, 73, 91 and 101) that were deposited and liquidated through SEI.

36. From January through April 2011, the RD Accounts generated approximately \$1.6 million in proceeds from their liquidations of the three billion-plus unregistered shares of Encounter Technologies, Inc. (ENTI), Strategic Management & Opportunity Corp. (SMPP), All-State Properties Holdings Inc. (ATPT), Greene Concepts, Inc. (LKEN). SEI collected nearly \$80,000 in commissions from the liquidations.

Customer D

37. In February 2011, an entity -- Customer D -- opened an account at SEI.

38. Customer D was referred to SEI by JM.

39. Significantly, JM was the president of a transfer agent that provided services to several penny stock issuers whose stock was liquidated through SEI.

40. JM, the primary authorized person on the Customer D account, used the account at SEI to deposit and liquidate penny stocks. Broker A was the representative of record for the account.

41. Customer D received penny stock shares of Encounter Technologies, Inc. (ENTI) from Customer C, one of the RD Accounts, and subsequently liquidated those shares.

42. Between April and November 2011, Customer D liquidated over 400 million penny stock shares, resulting in proceeds of over \$57,000 to Customer D and over \$3,000 in commissions to SEI.

Customers E and F

43. In March 2011, individual customers E and F opened accounts with SEI.

44. Broker B was the representative of record for both accounts.

45. Customers E and F engaged in the same type of activity at SEI—deposits and liquidations of penny stocks shares, with the resulting proceeds being distributed out of the accounts shortly after the liquidations.

46. Between March 2011 and January 2012, Customer E deposited and liquidated over 77 million shares of Healthnostics, Inc. (HNSS), generating approximately \$150,000 in proceeds; and, Customer F deposited and liquidated over nine million shares of the same penny stock, generating approximately \$17,600 in proceeds. SEI collected approximately \$9,000 in commissions from the liquidations.

Customer G

47. In March 2011, an entity – Customer G – opened an account with SEI.

48. AS was the primary authorized person on the account.

49. Broker B was the representative of record for the account.

50. AS's father had been Broker B's customer at a prior FINRA member firm.

51. Broker B knew that AS's father had had problems regarding penny stock liquidations in the past. Specifically, a clearing firm had refused to accept any more business from AS's father during Broker B's association with another FINRA member firm.

52. Customer G engaged in deposits and liquidation of penny stock shares, with the resulting proceeds being distributed out of the account shortly after the liquidations.

53. Between April and August 2011, Customer G deposited and liquidated approximately 280 million penny stock shares of Eastern Asteria, Inc. (EATR), generating approximately \$28,000 in proceeds from the liquidations. SEI collected approximately \$1,700 in commissions from the liquidations.

The Suspicious Pattern of Activity in SEI Accounts

54. Customers A through G all engaged in a similar pattern of activity involving unregistered shares of penny stocks. The customers generally: (a) deposited large blocks of penny stocks shortly after the share certificates were issued; (b) liquidated the shares shortly after the deposits, sometimes around the publication of promotional press releases; and (c) distributed the sales proceeds out of their accounts shortly after the liquidations.

55. This activity involved the unregistered shares of six issuers—Encounter Technologies, Inc., Strategic Management & Opportunity Corp., All-State Properties Holdings Inc., Greene Concepts, Inc., Eastern Asteria, Inc., and Healthnostics, Inc., described immediately below.

The Sales of Unregistered Shares of Encounter Technologies, Inc.

56. Encounter Technologies, Inc. ("ENTI") is a Colorado corporation headquartered in Fort Myers, FL. In December 2009, the company changed its name from Encounter.com, Inc. to Encounter Technologies, Inc.

57. According to its 2010 Annual Report dated March 29, 2011, ENTI “provides end-to-end technology and online marketing services, including design, build, hosting, and online marketing support.” In its 2010 Annual Report, ENTI reported revenues of \$25,482 and expenses of \$337,766.

58. As previously alleged, RD had been the CEO of ENTI and his brother, AD, was the then current CEO.

59. Between January and November 2011, the RD Accounts, as well as Customer D, engaged in a pattern of depositing shares of ENTI stock into their accounts shortly after the share certificates were issued, liquidating the shares shortly after depositing them, and distributing the proceeds out of their accounts shortly after the sales.

60. Approximately 30 press releases addressing ENTI were issued between January and November 2011.

61. The pattern of depositing shares of ENTI, liquidating them, including around press releases, and distributing out the proceeds were red flags indicative of a possible unregistered distribution.

62. Each of the RD Accounts provided documents to SEI reflecting that they generally acquired their shares of ENTI stock after the conversion of debt or preferred stock into common stock.

63. When aggregated, the RD Accounts owned over 10% of the outstanding shares of ENTI.

64. Customer D acquired the shares of ENTI it deposited with SEI in June 2011 from Customer C, one of the RD Accounts, in exchange for another penny stock.

65. In total, the RD Accounts and Customer D deposited and liquidated over 2 billion shares of ENTI through their accounts at SEI from January through November 2011.

66. The dates and amounts of the sales of ENTI are set forth on Exhibit A hereto.

67. The foregoing shares of ENTI stock were not registered with the SEC.

68. From their liquidations of the foregoing shares of ENTI stock, the RD Accounts and Customer D collectively generated approximately \$645,000 in proceeds and SEI collected approximately \$32,000 in commissions.

The Sales of Unregistered Shares of Strategic Management & Opportunity Corp.

69. Strategic Management & Opportunity Corp. ("SMPP") was a Nevada corporation headquartered in Clinton, Washington. According to the Initial Company Information and Disclosure Statement filed on November 2, 2010, SMPP "is a technology driven, internet based marketing and advertising company..."

70. In January through March 2011, Customers A and B, two of the RD Accounts, engaged in a pattern of depositing shares of SMPP stock into their accounts shortly after the share certificates were issued, liquidating the shares shortly after depositing them, and distributing the proceeds out of their accounts shortly after the sales.

71. The pattern of depositing shares of SMPP, liquidating them and distributing out the proceeds were red flags indicative of a possible unregistered distribution.

72. Customers A and B acquired their shares in SMPP from EXV, an account controlled by RD's wife, which received the shares through a debt conversion.

73. When aggregated, the Customer A and B accounts liquidated over 16% of the outstanding shares of SMPP between January and March 2011.

74. In total, Customers A and B deposited and liquidated approximately 780 million shares of SMPP stock through their accounts at SEI from January through March 2011.

75. The dates and amounts of the sales of SMPP are set forth on Exhibit A hereto.

76. The foregoing shares of SMPP were not registered with the SEC.

77. From their liquidations of the foregoing shares of SMPP stock, Customers A and B collectively generated approximately \$123,000 in proceeds, and SEI collected approximately \$6,200 in commissions.

The Sales of Unregistered Shares of All-State Properties Holdings, Inc.

78. All-State Properties Holdings, Inc. ("ATPT") was a Nevada corporation headquartered in Lexington, Kentucky. According to its Form 10-Q for the quarter ending December 31, 2010 filed on February 14, 2011, ATPT was "attempting to locate and negotiate with eligible portfolio companies to acquire an interest in them."

79. The publically-available data on ATPT indicated it was a shell company.

80. Specifically, according to its Form 10-Q for the quarter ending March 31, 2011 filed in July 2011, ATPT has not had any revenue since before July 2007.

81. In addition, the ATPT Form 10-Q for the quarter ending December 31, 2010 filed on February 14, 2011 did not contain a Balance Sheet. The ATPT Form 10-Q for the quarter ending September 30, 2010 filed on November 2, 2010 indicated ATPT had total assets of \$5,043, comprised of \$43 in cash and \$5,000 in prepaid expenses, up from \$622 in total assets comprised of only cash as of June 30, 2010.

82. Also, the ATPT Form 10-Q for the quarter ending March 31, 2009 filed on May 18, 2009 expressly stated that ATPT was then a shell company.

83. In January through March 2011, Customers A and B, two of the RD Accounts, engaged in a pattern of depositing shares of ATPT stock into their accounts shortly after the share certificates were issued, liquidating the shares shortly after depositing them, and distributing the proceeds out of their accounts shortly after the sales.

84. The pattern of depositing shares of ATPT, liquidating them and distributing out the proceeds were red flags indicative of a possible unregistered distribution.

85. Customers A and B acquired their shares of ATPT from RG who received the shares through a debt conversion.

86. According to the Nevada Secretary of State website, RG was the President, Director, Secretary and Treasurer of ATPT.

87. The ATPT Form 10-Q for the quarter ending December 31, 2010 filed on February 14, 2011 stated that 400 million shares were issued to Customer A on January 19, 2011. There was no reference to Customers B or RG receiving any shares in this filing.

88. Customer B (not Customer A) deposited 400 million shares in its SEI account that were issued by certificate dated January 19, 2011.

89. Customer A deposited 400 million shares in its SEI account that were issued by certificate dated February 3, 2011.

90. There was no reference to shares being issued to Customer A during February 2011 in the Subsequent Events section or elsewhere in ATPT's Form 10-Q for the quarter ending December 31, 2010 filed on February 14, 2011.

91. When aggregated, Customers A and B owned over 10% of the outstanding shares of ATPT.

92. In total, Customers A and B deposited and liquidated approximately 600 million shares of ATPT stock through their accounts at SEI from January through March 2011.

93. The dates and amounts of the sales of ATPT are set forth on Exhibit A hereto.

94. The foregoing shares of ATPT were not registered with the SEC.

95. From their liquidations of the foregoing shares of ATPT stock, Customers A and B collectively generated approximately \$57,000 in proceeds, and SEI collected approximately \$2,900 in commissions.

The Sales of Unregistered Shares of Greene Concepts, Inc.

96. Greene Concepts, Inc. ("LKEN") is a New York corporation headquartered in Fresno, CA.

97. According to its Quarterly Report dated December 14, 2010, LKEN "manufactures and distributes a line of 25 high quality consumer focused inkjet kits."

98. In January through March 2011, Customers A and B, two of the RD Accounts, engaged in a pattern of depositing shares of LKEN stock into their accounts shortly after the share certificates were issued, liquidating the shares shortly after depositing them, and distributing the proceeds out of their accounts shortly after the sales.

99. The pattern of depositing shares of LKEN, liquidating them and distributing out the proceeds were red flags indicative of a possible unregistered distribution.

100. Customers A and B acquired their shares of LKEN stock from MC who received the shares through a debt conversion.

101. When aggregated, Customers A and B owned over 10% of the outstanding shares of LKEN.

102. In total, Customers A and B deposited and liquidated approximately 500 million shares of LKEN stock through their accounts at SEI from January through March 2011.

103. The dates and amounts of the sales of LKEN are set forth on Exhibit A hereto.

104. The foregoing shares of LKEN were not registered with the SEC.

105. From their liquidations of the foregoing shares of LKEN stock, Customers A and B collectively generated approximately \$788,000 in proceeds, and SEI collected approximately \$40,900 in commissions.

The Sales of Unregistered Shares of Healthnostics, Inc.

106. Healthnostics, Inc. (“HNSS”) is a Delaware corporation headquartered in Annapolis, MD. There were no filings with OTC Markets or the SEC in 2011 or 2012 that provided a narrative of HNSS’s business model.

107. In April 2011 through January 2012, Customers E and F engaged in a pattern of depositing shares of HNSS stock into their accounts shortly after the share certificates were issued, liquidating the shares shortly after depositing them, and periodically distributing the proceeds out of their accounts.

108. The pattern of depositing shares of HNSS, liquidating them and distributing out the proceeds were red flags indicative of a possible unregistered distribution.

109. Customer E acquired the shares of HNSS he deposited and liquidated through his SEI account through a debt conversion.

110. Customer F acquired the shares of HNSS he deposited and liquidated through his SEI account from Customer E.

111. An entity that Customer E controlled, CNC, received 145 million shares of HNSS from the issuer in the first quarter of 2011 and 146.7 million shares of HNSS from the issuer in the first quarter of 2012.

112. CNC did not liquidate its HNSS shares through SEI.

113. When including shares owned through CNC, Customer E owned over 10% of the outstanding shares of HNSS.

114. In total, Customers E and F deposited and liquidated approximately 87 million shares of HNSS stock through their accounts at SEI from April 2011 through January 2012.

115. The dates and amounts of the sales of HNSS are set forth on Exhibit A hereto.

116. The foregoing shares of HNSS were not registered with the SEC.

117. From their liquidations of the foregoing shares of HNSS stock, Customers E and F collectively generated approximately \$169,000 in proceeds, and SEI collected approximately \$9,100 in commissions.

The Sales of Unregistered Shares of Eastern Asteria, Inc.

118. Eastern Asteria, Inc. (“EATR”) is a Florida corporation headquartered in Boca Raton, FL. According to its Annual Report dated March 30, 2011, EATR is involved in the “finishing and marketing of gemstone material and finished jewelry through our Internet website at www.thegemstore.com.”

119. In April through August 2011, Customer G engaged in a pattern of depositing shares of EATR stock into its accounts shortly after the share certificates were issued, liquidating the shares shortly after depositing them, and distributing the proceeds out of its accounts shortly after the sales.

120. The pattern of depositing shares of EATR, liquidating them and distributing out the proceeds were red flags indicative of a possible unregistered distribution.

121. According to the EATR 2010 Annual Report, there were 2,217,296,912 shares outstanding of EATR as of December 31, 2010.

122. AS was the primary authorized person on the Customer G account.

123. The number of EATR shares outstanding increased to approximately 3.5 billion shares when GS, AS's father, issued approximately 1.29 billion shares of EATR to himself on January 30, 2011.

124. The Deposit Securities Request Form ("DSR Form") signed by AS on March 15, 2011 on behalf of Customer G and by Broker B states that there are over 5.5 billion shares of EATR outstanding.

125. However, according to its 2010 Annual Report, EATR was only authorized to issue 5 billion shares.

126. Prior to AS's father issuing shares to himself on January 30, 2011, AS, through Customer G, owned over 10% of the outstanding shares of EATR.

127. AS through Customer G began liquidating EATR shares in his SEI account less than 90 days after his father, GS, increased the number of outstanding shares on January 30, 2011 as alleged above.

128. In total, Customer G deposited and liquidated approximately 280 million shares of EATR stock through its accounts at SEI from April through August 2011.

129. The dates and amounts of the sales of EATR are set forth on Exhibit A hereto.

130. The foregoing shares of EATR were not registered with the SEC.

131. From its liquidation of the foregoing shares of EATR stock, Customer G generated approximately \$28,000 in proceeds, and SEI collected approximately \$1,700 in commissions.

SEI Failed To Adequately Supervise Penny Stock Deposits & Sales

132. Throughout the relevant period, SEI's WSPs required each registered representative to make a reasonable inquiry into penny stock deposits by their customers.

133. The DSR Form required registered representatives to sign, affirming their review of the Form and supporting documentation.

134. The WSPs included, among others, the following "red flags" that indicated a possible illegal and unregistered distribution of securities requiring the registered representative to make an inquiry:

- a. Customer opens a new account and delivers physical certificates representing a large block of thinly traded or low priced securities;
- b. Customer has a pattern of depositing physical share certificates, immediately selling the shares and then wiring out the proceeds of the resale;
- c. Customer deposits share certificates that are recently issued or represent a large percentage of the float for the security;
- d. The lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities or the nature of the transaction in which the securities were acquired;
- e. Issuer has been through several recent name changes, business combinations or recapitalizations, or the company's officers are also officers of numerous similar companies; and

f. Issuer's SEC filings are not current, are incomplete, or nonexistent.

135. Despite the presence of red flags identified in the WSPs, Broker A and Broker B did not fulfill their duty to inquire into possible unregistered distributions of ENTI, SMPP, ATPT, LKEN, HNSS and EATR stock.

136. Broker A and Broker B only reviewed information submitted with the deposits of ENTI, SMPP, ATPT, LKEN, HNSS and EATR stock for completeness and not for accuracy.

137. Broker A and Broker B's reviews for completeness failed to catch incomplete paperwork for deposits of ENTI, SMPP, ATPT, LKEN and HNSS stock.

138. DSR Forms for ENTI, SMPP, ATPT and LKEN were missing information on market value and average volume over the past three months.

139. A DSR Form for an HNSS deposit by Customer E was missing an answer to Question 15 regarding the ownership history of the stock being deposited.

140. Broker A and Broker B's review failed to catch inaccurate statements and inconsistencies regarding penny stock deposits in ENTI, SMPP, ATPT, LKEN, HNSS and EATR.

141. For example:

- a. The DSR Form for Customer G's deposit of EATR shares overstates the shares outstanding, stating that EATR had issued more shares than it was authorized to issue.
- b. Customer E indicated in the DSR Forms accompanying his deposits of HNSS that he acquired the shares from himself.

- c. The DSR Form for a Customer F deposit of HNSS indicated he acquired the shares in February 2008 while the attached support indicates Customer F acquired the shares in August 2010.
- d. DSR Forms for ENTI, SMPP, ATPT and LKEN indicate on their face that the customers own over 5% of the issuer despite the customer indicating in response to Question 9 on the form that they do not own over 5% of the issuer.
- e. DSR Forms for ATPT indicate, to the customers' knowledge, that the issuer was not a shell company despite SEC filings by the issuer indicating that it was previously a shell company.

142. Throughout the relevant period, SEI's WSPs required the Firm's CCO to review and approve all penny stock deposits.

143. Dihle was the CCO from January 2011 to at least June 2012.

144. According to the WSPs, for penny stock deposits, Dihle was supposed to:

- a. Investigate the customer's and issuer's background;
- b. Confirm the seller's affiliation status and the conditions upon which the shares can be resold;
- c. Verify that the issuer is current in its filings and the issuer's information is publicly available;
- d. Review the opinion of counsel, restricted stock legend, offering materials or prospectus, and other documents for reasonableness of the information and representations;

- e. Analyze any previous sales by the customer through any accounts at the Firm;
and
- f. Specify whether there are any conditions to the resale, such as volume,
manner of sale or other applicable requirements.

145. Dihle did not fulfill these inquiry obligations outlined in SEI's WSPs.

146. Dihle approved deposits of ENTL, SMPP, ATPT, LKEN, HNSS and EATR accompanied by incomplete or inconsistent DSR Forms and supporting documentation.

SEI Failed to Establish and Implement Adequate Systems and Procedures to Detect and Cause the Reporting of Suspicious Activity Relating to the Sale of Unregistered Penny Stocks

147. From January 2011 to at least June 2012, Dihle was the Anti-Money Laundering Compliance Officer ("AMLCO").

148. According to SEI's written AML procedures, Dihle had "full responsibility for the firm's AML Program."

149. SEI's written AML procedures identify a number of red flags that required follow-up by the AMLCO, including:

- a. The information provided by the customer turns out to be false, misleading, or substantially incorrect; and
- b. The customer, for no apparent reason or in conjunction with other red flags, engages in transactions involving certain types of securities, such as penny stocks, Regulation S stocks, and bearer bonds, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity.

150. As discussed in more detail above, SEI customers provided inaccurate and facially inconsistent information to the firm on DSR Forms for at least six penny stocks.

151. SEI and Dihle did not identify these inaccurate and inconsistent statements through required due diligence or otherwise.

152. Consequently, there was no follow-up to ensure compliance with AML rules or consideration of whether it was necessary to file a Suspicious Activity Report.

**FIRST CAUSE OF ACTION
SALE OF UNREGISTERED SECURITIES
(VIOLATIONS OF FINRA RULE 2010 BY VIRTUE OF ACTING IN
CONTRAVENTION OF SECTION 5 BY SEI)**

153. The Department realleges and incorporates by reference paragraphs 1 through 152 above.

SEI Sold Unregistered Securities in Contravention of Section 5

154. Section 5 of the Securities Act of 1933 provides in relevant part that, unless a registration statement is in effect, it is unlawful to sell a security through the use of any means or instrumentality of transportation or communication in interstate commerce or of the mails.

155. As alleged above, SEI, acting through Broker A and Broker B, sold shares of ENTI, SMPP, ATPT, LKEN, HNSS and EATR for the accounts of Customers A through G.

156. At the time of the sales, no registration statements were in effect for ENTI, SMPP, ATPT, LKEN, HNSS and EATR.

157. SEI and its agents, Broker A and Broker B, used the means or instruments of transportation or communication in interstate commerce and the mails in effecting such sales, including by selling the shares through the over-the-counter (“OTC”) market and by using the mail, email, phones, and facsimiles in connection with the sales.

158. Accordingly, SEI, by reason of the foregoing sales of ENTI, SMPP, ATPT, LKEN, HNSS and EATR, contravened Section 5, and thus violated FINRA Rule 2010, which

requires members to observe high standards of commercial honor and just and equitable principles of trade.

None of the Transactions Qualified for an Exemption under Section 4 of the Securities Act

159. Section 4 of the Securities Act identifies certain exempted transactions to which the provisions of Section 5 do not apply. Exemptions from registration are affirmative defenses that must be established by the person claiming the exemption.

160. Section 4(1) of the Securities Act (n/k/a/ Section 4(a)(1)) exempts “transactions by any person other than an issuer, underwriter, or dealer” from the registration requirements of Section 5.

161. Rule 144 (“Persons Deemed Not to Be Engaged in a Distribution and Therefore Not Underwriters”), in turn, provides a safe harbor from the statutory definition of the term “underwriter,” compliance with which establishes that a person or entity is not an “underwriter,” and thus has the ability to claim the Section 4(1) exemption.

162. The penny stock sales by Customers A through G did not qualify for the Rule 144 safe harbor for multiple independent reasons, including but not limited to the following:

- a. The sales were part of plans or schemes to evade the registration requirements of Section 5 and thus the Rule 144 safe harbor was not available;
- b. Customers A through C, E and G were affiliates of the issuers but failed to comply with the 1% volume limitations contained in Rule 144;
- c. Customers D and F failed to comply with the holding period requirements contained in Rule 144;
- d. Specified company information for HSNN was not publically available as required by Rule 144; and,

- e. ATPT was a shell company and thus the Rule 144 safe harbor was not available. ATPT had not had any revenue since before July 2007 and held assets of \$43 in cash and \$5,000 in prepaid expenses as of September 30, 2010.

163. A second exemption, Section 4(4) of the Securities Act (n/k/a/ Section 4(a)(4)), exempts from the registration requirements of Section 5 brokers' transactions executed upon customers' orders on any exchange or in the over-the-counter market but not solicited orders

164. In order to satisfy this exemption, a broker must, among other things, conduct a reasonable inquiry, the result of which is that the broker is unaware of circumstances indicating that the customer is an underwriter of the securities sold or that the transaction is part of a distribution of the issuer's securities.

165. SEI, Broker A, and Broker B failed to conduct reasonable inquiries of the circumstances surrounding the sales by Customers A through G of ENTI, SMPP, ATPT, LKEN, HNSS and EATR and thus the sales did not qualify for the Section 4(4) exemption.

166. Accordingly, and as alleged above, because no exemption applied and because the shares were not registered, SEI contravened Section 5 thereby violating FINRA Rule 2010.

**SECOND CAUSE OF ACTION
FAILURE TO SUPERVISE AND DEFICIENT WRITTEN SUPERVISORY PROCEDURES
(VIOLATIONS OF NASD RULE 3010 AND FINRA RULE 2010 BY SEI AND DIHLE)**

167. The Department realleges and incorporates by reference paragraphs 1 through 166 above.

168. NASD Rule 3010(a)² required members to "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other

² NASD Rule 3010(a) was replaced by FINRA Rule 3110(a) effective December 1, 2014.

associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules.”

169. NASD Rule 3010(b) required members to “establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD.” The procedures must be tailored to the business lines in which the firm engages, and they also must set out mechanisms for ensuring compliance and detecting violations, not merely set out what conduct is prohibited.

170. In January 2009, FINRA issued Regulatory Notice 09-05 (“RN 09-05”), entitled “Unregistered Resales of Restricted Securities,” wherein FINRA reminded firms and associated persons of their obligation to determine whether securities are eligible for public sale because “[f]irms that do not adequately supervise or manage their role in such distributions run the risk of participating in an illegal, unregistered distribution.”

171. In RN 09-05, FINRA identified ten examples of “situations in which firms should conduct a searching inquiry to comply with their regulatory obligations under the federal securities laws and FINRA rules.” The non-exhaustive, illustrative list of “red flags” situations, which also were set forth in SEI’s WSPs, included, among others:

- a. A customer opens a new account and delivers physical certificates representing a large block of thinly traded or low-priced securities;
- b. A customer has a pattern of depositing physical share certificates, immediately selling the shares and then wiring out the proceeds of the resale;

- c. A customer deposits share certificates that are recently issued or represent a large percentage of the float for the security;
- d. The lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities or the nature of the transaction in which the securities were acquired;
- e. The issuer has been through several recent name changes, business combinations or recapitalizations, or the company's officers are also officers of numerous similar companies; and
- f. Issuer's SEC filings are not current, are incomplete or nonexistent.

172. In RN 09-05, FINRA provided guidance on conducting a searching inquiry and establishing supervisory procedures and controls for unregistered resales of securities. FINRA advised that as part of the "reasonable steps" a firm must take to ensure a resale of unregistered securities is not an illegal distribution, firms should ask, at a minimum: how long a customer held the security; how did the customer acquire the security; does the customer intend to sell additional shares of the same class of securities through other means; and how many shares or other units of the class are outstanding, and what is the relevant trade volume.

173. RN 09-05 reiterated that "firms that accept delivery of large quantities of low-priced OTC securities, in either certificate form or by electronic transfer, and effect sales in these securities, should have written procedures and controls in place to prevent participation in an illegal, unregistered distribution of securities." RN 09-05 further advised that proper supervisory procedures should include a "mandatory standardized process" that clearly communicates each step in the review, approval, and post-approval process, clearly assigns ownership of each step in the process, and is easily accessible to the people involved in the process.

SEI and Dihle Failed to Adequately Supervise SEI's Penny Stock Business

174. During the relevant period, SEI, as well as Dihle during his tenure as the firm's CCO, failed to establish, maintain, and enforce a supervisory system designed to achieve compliance with Section 5 for sales of unregistered penny stocks.

175. While serving as CCO, from January 2011 to at least June 2012, Dihle was responsible for supervising sales of control and restricted securities to ensure that SEI did not sell unregistered, non-exempt securities for its customers, including sales that were part of a plan or scheme to evade the registration requirements of Section 5.

176. From January 2011 to at least June 2012, Dihle was also the direct supervisor of Broker A and Broker B.

177. SEI and Dihle failed to ensure that Broker A and Broker B conducted the inquiry outlined in the firm's WSPs regarding Rule 144 transactions, including in the face of red flags identified in SEI's WSPs indicating possible unregistered distribution of securities.

178. As discussed above, Broker A and Broker B did not conduct the requisite inquiry.

179. Broker A and Broker B signed DSR Forms on behalf of customer deposits that were incomplete, inconsistent and/or inaccurate.

180. Dihle did not make the supervisory inquiries required by SEI's WSPs, approving penny stock deposits with DSR Forms that were incomplete, inconsistent and inaccurate.

181. SEI, through Dihle, Broker A and Broker B, unreasonably relied upon representations from customers or their counsel that shares of stock were freely tradable, without fully evaluating the circumstances behind the deposits and liquidations and without conducting meaningful, independent inquiries on the transactions.

182. SEI, through Dihle, Broker A and Broker B, “papered” the file for penny stock deposits without substantively reviewing the underlying documentation.

183. SEI and Dihle’s failures to reasonably supervise the sales of the aforementioned six penny stocks and enforce SEI relevant procedures resulted in numerous “red flags” going undetected and unheeded. SEI, through Dihle, Broker A and Broker B, failed to make the necessary searching inquiry required to detect and/or prevent illegal distributions of unregistered securities.

SEI and Dihle Failed to Adequately Supervise Use of Personal Email Accounts

184. SEI’s WSPs prohibited registered representatives from using personal email for business purposes.

185. Despite this prohibition, Broker A and Broker B used personal email accounts to communicate with SEI customers, including about the deposit and liquidation of penny stocks.

186. According to the WSPs, Dihle was responsible for reviewing emails of SEI registered representatives.

187. Dihle received emails indicating that Broker A and Broker B were using personal email accounts for business communications.

188. SEI, including through Dihle, failed to enforce its own written procedures relating to the use of personal email accounts for business communications.

SEI’s Had Inadequate Written Procedures

189. Prior to September 2011, SEI’s written procedures did not mention the DSR Form used for penny stock deposits or address how the form should be used.

190. The DSR Form, including accompanying attachments, was the primary way that SEI collected information from customers about potentially restricted penny stock.

191. It was unreasonable for SEI's written procedures to not address the DSR Form and its use.

Summary of Supervisory Violations

192. During the relevant period, SEI, and Dihle during his tenure as CCO, failed to establish, maintain, and enforce a supervisory system reasonably designed to achieve compliance with Section 5 for sales of penny stocks and also failed to conduct reasonable and meaningful inquiries of the circumstances surrounding the aforementioned sales of the six identified unregistered, penny stocks by SEI customers.

193. During the relevant period, SEI, and Dihle during his tenure as CCO, failed to establish, maintain and enforce a supervisory system reasonably designed to ensure that business related email communications were retained and reviewed by the firm despite clear indications registered representatives were using personal email accounts for business related communications.

194. From January 2011 through August 2011, SEI failed to have adequate written supervisory procedures addressing the DSR Form and its use with penny stock deposits.

195. As a result of the foregoing, SEI violated NASD Rule 3010(a) and (b) and FINRA Rule 2010 and Dihle violated NASD Rule 3010(a) and FINRA Rule 2010.

**THIRD CAUSE OF ACTION
AML VIOLATIONS
(VIOLATIONS OF FINRA RULES 3310 AND 2010 BY SEI AND DIHLE)**

SEI's AML Obligations

196. The Department realleges and incorporates by reference paragraphs 1 through 195 above.

197. FINRA Rule 3310(a) requires members to “[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under [the Bank Secrecy Act] and the implementing regulations thereunder.”

198. The implementing regulation issued by the U.S. Department of the Treasury, 31 C.F.R. § 1023.320 (recodified from 31 C.F.R. § 103.19 on March 1, 2011), requires broker-dealers to file with FinCEN “a report of any suspicious transaction relevant to a possible violation of law or regulation.” The regulation further provides that:

A transaction requires reporting under the terms of this section if it is conducted or attempted by, at, or through a broker-dealer, it involves or aggregates funds or other assets of at least \$ 5,000, and the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):

(i) Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any Federal law or regulation or to avoid any transaction reporting requirement under Federal law or regulation;

(ii) Is designed, whether through structuring or other means, to evade any requirements of this chapter or of any other regulations promulgated under the Bank Secrecy Act;

(iii) Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the broker-dealer knows of no reasonable explanation

for the transaction after examining the available facts, including the background and possible purpose of the transaction; or

(iv) Involves use of the broker-dealer to facilitate criminal activity.

199. In NASD Notice to Members 02-21 (“NTM 02-21”), the NASD provided guidance for AML compliance programs. NTM 02-21 set forth a non-exhaustive list of examples of “red flags” indicative of potential money laundering and suspicious activity and advised that if firms detect “red flags,” they should perform additional due diligence before proceeding with a transaction.

SEI’s AML Deficiencies

200. SEI’s AML policies and procedures provided that its AMLCO was responsible for overseeing and implementing the firm’s AML program, investigating suspected money laundering activities, and taking corrective action when necessary.

201. Dihle was the AMLCO from January 2011 to at least June 2012.

202. During the relevant period, SEI did not have any specific exception reports that addressed transactions in penny stocks, nor did it have any exception reports or other systems that adequately monitored for patterns of deposits and liquidations of unregistered securities necessary to adequately detect, investigate, and report, if applicable, suspicious activity.

203. As detailed above, the foregoing activity in the six penny stocks by SEI’s customers should have raised “red flags” indicative of potential suspicious activity related to unregistered distributions and market manipulation.

204. SEI and Dihle, however, did not identify red flags associated with the aforementioned activity involving the deposits of shares of penny stocks, including but not limited to (i) the pattern of depositing large blocks of shares, liquidating them shortly thereafter, and then distributing out the proceeds; (ii) sales occurring around the time of promotional press

releases; (iii) having multiple accounts controlled by one person, involved in large-scale sales of the same penny stocks; and, (iv) having multiple instances where the information provided by the customer on DSR forms turned out to be false, misleading, or substantially incorrect.

205. Therefore, SEI and Dihle failed to detect the potentially suspicious nature of the aforementioned activity and surrounding circumstances for AML suspicious activity monitoring purposes, failed to adequately investigate the activity for AML suspicious activity monitoring purposes, and also failed to consider whether or not to report the activity by filing a SAR, as appropriate.

206. SEI and Dihle should have detected the potentially suspicious nature of the aforementioned activity and surrounding circumstances, adequately investigated the activity, and considered whether or not to report the activity by filing a SAR, as appropriate.

207. In sum, SEI through Dihle, failed to adequately implement the firm's AML program and AML policies and procedures reasonably expected to detect and cause the reporting of suspicious transactions under the Bank Secrecy Act and its implementing regulations.

208. As a result of the foregoing, SEI and Dihle violated FINRA Rules 3310(a) and 2010.

**FOURTH CAUSE OF ACTION
BOOKS AND RECORDS VIOLATIONS
(VIOLATIONS OF NASD RULE 3110, FINRA'S 4511 AND RULE 2010
AND EXCHANGE ACT RULE 17a-4 BY SEI)**

209. The Department realleges and incorporates by reference paragraphs 1 through 208 above.

210. NASD Rule 3110, followed by FINRA Rule 4511 effective December 5, 2011, and Exchange Act Rule 17a-4 require the retention of certain business related records, including business related email communications.

211. During the relevant period, Broker A and Broker B used personal email accounts to conduct firm-related business.

212. SEI personnel including the CCO, Dihle, were aware that Broker A and Broker B were using personal email to conduct firm-related business and did not stop the practice.

213. The personal email accounts used by Broker A and Broker B were not hosted by SEI or retained.

214. By virtue of this conduct, SEI violated NASD Rule 3110, FINRA Rules 4511 and 2010 and Exchange Act Rule 17a-4.

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 SEI be required to disgorge fully any and all ill-gotten gains, 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: November 2, 2015



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Exhibit A

DOE v. Spencer Edwards, Inc. and Gordon Dible

Date	Security	Shares Liquidated	Customer
<u>All-State Properties Holdings, Inc. (ATPT)</u>			
2/15/2011	ATPT	50,000,000	Customer B
2/15/2011	ATPT	100,000,000	Customer B
2/16/2011	ATPT	250,000,000	Customer B
3/3/2011	ATPT	200,000,000	Customer A
<u>Eastern Asteria, Inc. (EATR)</u>			
4/26/2011	EATR	21,814,302	Customer G
4/28/2011	EATR	50,000,000	Customer G
5/24/2011	EATR	10,000,000	Customer G
5/24/2011	EATR	10,000,000	Customer G
5/24/2011	EATR	10,000,000	Customer G
6/7/2011	EATR	20,000,000	Customer G
6/8/2011	EATR	10,000,000	Customer G
6/8/2011	EATR	10,000,000	Customer G
6/10/2011	EATR	10,000,000	Customer G
6/13/2011	EATR	20,000,000	Customer G
6/13/2011	EATR	20,000,000	Customer G
6/13/2011	EATR	10,000,000	Customer G
6/27/2011	EATR	40,000,000	Customer G
6/29/2011	EATR	10,000,000	Customer G
8/19/2011	EATR	18,185,698	Customer G
11/11/2011	EATR	12,696,299	Customer G
12/15/2011	EATR	7,303,701	Customer G
<u>Encounter Technologies, Inc. (ENTI)</u>			
2/9/2011	ENTI	5,000,000	Customer B
2/9/2011	ENTI	10,000,000	Customer B
2/9/2011	ENTI	20,000,000	Customer B
2/9/2011	ENTI	20,000,000	Customer B
2/9/2011	ENTI	5,000,000	Customer B
2/9/2011	ENTI	30,000,000	Customer B
2/9/2011	ENTI	5,000,000	Customer B
2/9/2011	ENTI	30,000,000	Customer B
2/9/2011	ENTI	30,000,000	Customer B
2/9/2011	ENTI	50,000,000	Customer B
2/9/2011	ENTI	50,000,000	Customer B

Date	Security	Shares Liquidated	Customer
2/9/2011	ENTI	45,000,000	Customer B
2/9/2011	ENTI	50,000,000	Customer B
2/9/2011	ENTI	50,000,000	Customer B
2/9/2011	ENTI	20,000,000	Customer B
2/9/2011	ENTI	20,000,000	Customer B
2/10/2011	ENTI	30,000,000	Customer B
2/10/2011	ENTI	85,000,000	Customer B
2/10/2011	ENTI	45,000,000	Customer B
2/28/2011	ENTI	100,000,000	Customer A
3/15/2011	ENTI	21,000,000	Customer C
3/15/2011	ENTI	20,000,000	Customer C
3/15/2011	ENTI	20,000,000	Customer C
3/16/2011	ENTI	200,000,000	Customer C
3/16/2011	ENTI	90,000,000	Customer C
3/16/2011	ENTI	249,000,000	Customer C
4/4/2011	ENTI	10,000,000	Customer D
4/5/2011	ENTI	1,000,000	Customer B
4/6/2011	ENTI	10,624,655	Customer B
4/7/2011	ENTI	6,000,000	Customer B
4/7/2011	ENTI	6,258,678	Customer B
4/12/2011	ENTI	10,000,000	Customer D
4/13/2011	ENTI	20,000,000	Customer B
4/13/2011	ENTI	20,000,000	Customer B
4/13/2011	ENTI	40,000,000	Customer B
4/13/2011	ENTI	70,000,000	Customer B
4/13/2011	ENTI	75,000,000	Customer B
4/13/2011	ENTI	75,000,000	Customer B
4/15/2011	ENTI	10,000,000	Customer D
4/15/2011	ENTI	10,000,000	Customer D
4/15/2011	ENTI	10,162,390	Customer D
4/27/2011	ENTI	3,000,000	Customer B
4/27/2011	ENTI	3,000,000	Customer B
4/27/2011	ENTI	3,000,000	Customer B
4/28/2011	ENTI	27,500,000	Customer B
7/5/2011	ENTI	100,000,000	Customer D
7/7/2011	ENTI	50,000,000	Customer D
7/7/2011	ENTI	30,000,000	Customer D
7/8/2011	ENTI	50,000,000	Customer D
7/8/2011	ENTI	32,500,000	Customer D
7/26/2011	ENTI	30,000,000	Customer D
7/29/2011	ENTI	30,000,000	Customer D
9/30/2011	ENTI	10,000,000	Customer D
10/5/2011	ENTI	2,410,000	Customer D
10/6/2011	ENTI	2,999,998	Customer D

Date	Security	Shares Liquidated	Customer
10/20/2011	ENTI	2,839,134	Customer D
10/24/2011	ENTI	3,000,000	Customer D
10/26/2011	ENTI	2,370,529	Customer D
10/28/2011	ENTI	9,600,000	Customer D
11/4/2011	ENTI	1,000,100	Customer D
<u>Healthnostics, Inc. (HNSS)</u>			
4/29/2011	HNSS	180,000	Customer E
4/29/2011	HNSS	250,000	Customer E
5/6/2011	HNSS	500,000	Customer E
5/6/2011	HNSS	500,000	Customer E
5/6/2011	HNSS	200,000	Customer E
5/9/2011	HNSS	500,000	Customer E
5/9/2011	HNSS	500,000	Customer E
5/10/2011	HNSS	250,000	Customer E
5/12/2011	HNSS	38,000	Customer E
5/16/2011	HNSS	300,000	Customer E
5/17/2011	HNSS	500,000	Customer E
5/17/2011	HNSS	250,000	Customer E
5/18/2011	HNSS	750,000	Customer E
5/18/2011	HNSS	500,000	Customer E
5/18/2011	HNSS	500,000	Customer E
5/23/2011	HNSS	500,000	Customer E
5/23/2011	HNSS	38,000	Customer E
5/24/2011	HNSS	500,000	Customer E
5/24/2011	HNSS	300,000	Customer E
5/25/2011	HNSS	6,200	Customer E
5/26/2011	HNSS	500,000	Customer E
5/26/2011	HNSS	600,000	Customer E
5/31/2011	HNSS	500,000	Customer E
5/31/2011	HNSS	400,000	Customer E
6/2/2011	HNSS	380,000	Customer E
6/3/2011	HNSS	557,800	Customer E
6/3/2011	HNSS	750,000	Customer E
6/6/2011	HNSS	500,000	Customer E
6/10/2011	HNSS	1,250,000	Customer E
6/10/2011	HNSS	945,914	Customer E
6/10/2011	HNSS	1,000,000	Customer E
6/13/2011	HNSS	554,086	Customer E
6/16/2011	HNSS	138,500	Customer F
6/20/2011	HNSS	500,000	Customer F
6/24/2011	HNSS	1,000,000	Customer F
6/24/2011	HNSS	1,000,000	Customer F
6/30/2011	HNSS	1,000,000	Customer F

Date	Security	Shares Liquidated	Customer
7/1/2011	HNSS	861,500	Customer F
7/5/2011	HNSS	1,000,000	Customer E
7/5/2011	HNSS	500,000	Customer E
7/6/2011	HNSS	1,000,000	Customer E
7/7/2011	HNSS	1,000,000	Customer E
7/8/2011	HNSS	500,000	Customer E
7/11/2011	HNSS	1,000,000	Customer E
7/12/2011	HNSS	1,000,000	Customer E
7/12/2011	HNSS	1,000,000	Customer E
7/12/2011	HNSS	1,000,000	Customer E
7/13/2011	HNSS	1,000,000	Customer E
7/15/2011	HNSS	1,000,000	Customer E
7/18/2011	HNSS	519,100	Customer E
7/19/2011	HNSS	3,000,000	Customer E
7/20/2011	HNSS	1,430,900	Customer E
7/20/2011	HNSS	2,000,000	Customer E
7/20/2011	HNSS	2,000,000	Customer E
7/21/2011	HNSS	2,000,000	Customer E
7/26/2011	HNSS	1,500,000	Customer E
7/28/2011	HNSS	2,500,000	Customer E
8/3/2011	HNSS	2,000,000	Customer E
8/4/2011	HNSS	2,000,000	Customer E
8/5/2011	HNSS	1,000,000	Customer E
9/14/2011	HNSS	2,000,000	Customer E
9/15/2011	HNSS	2,000,000	Customer E
9/16/2011	HNSS	550,000	Customer E
9/19/2011	HNSS	670,000	Customer E
9/20/2011	HNSS	730,040	Customer E
9/21/2011	HNSS	2,750,000	Customer E
9/22/2011	HNSS	3,000,000	Customer E
9/23/2011	HNSS	842,150	Customer E
9/26/2011	HNSS	226,985	Customer E
9/27/2011	HNSS	685,000	Customer E
9/28/2011	HNSS	2,000,000	Customer E
10/3/2011	HNSS	1,589,451	Customer E
10/6/2011	HNSS	2,700,000	Customer E
10/10/2011	HNSS	2,025,549	Customer E
10/25/2011	HNSS	2,000,000	Customer E
10/26/2011	HNSS	4,000,000	Customer F
11/11/2011	HNSS	2,000,000	Customer E
12/2/2011	HNSS	550,000	Customer E
12/20/2011	HNSS	311,000	Customer E
12/21/2011	HNSS	5,000,000	Customer E
12/21/2011	HNSS	1,139,000	Customer E

Date	Security	Shares Liquidated	Customer
1/17/2012	HNSS	750,000	Customer F
<u>Greene Concepts, Inc. (LKEN)</u>			
2/7/2011	LKEN	20,000,000	Customer A
2/7/2011	LKEN	11,754,749	Customer A
2/7/2011	LKEN	14,360,000	Customer A
2/8/2011	LKEN	20,000,000	Customer A
2/8/2011	LKEN	20,000,000	Customer A
2/8/2011	LKEN	522,650	Customer A
2/8/2011	LKEN	10,000,000	Customer A
2/8/2011	LKEN	20,000,000	Customer A
2/8/2011	LKEN	483,200	Customer A
2/9/2011	LKEN	550,000	Customer A
2/9/2011	LKEN	570,000	Customer A
2/9/2011	LKEN	540,000	Customer A
2/9/2011	LKEN	5,000,000	Customer A
2/9/2011	LKEN	5,000,000	Customer A
2/9/2011	LKEN	5,000,000	Customer A
2/9/2011	LKEN	5,000,000	Customer A
2/9/2011	LKEN	518,000	Customer A
2/9/2011	LKEN	20,000,000	Customer A
2/9/2011	LKEN	30,000,000	Customer A
2/10/2011	LKEN	570,000	Customer A
2/10/2011	LKEN	20,000,000	Customer A
2/10/2011	LKEN	20,000,000	Customer A
2/11/2011	LKEN	40,131,401	Customer A
3/18/2011	LKEN	49,965,000	Customer A
3/23/2011	LKEN	50,000,000	Customer B
3/23/2011	LKEN	50,000,000	Customer B
3/23/2011	LKEN	100,000,000	Customer B
<u>Strategic Management & Opportunity Corp. (SMPP)</u>			
2/15/2011	SMPP	40,000,000	Customer A
2/16/2011	SMPP	40,000,000	Customer A
2/17/2011	SMPP	6,855,000	Customer A
2/18/2011	SMPP	40,000,000	Customer A
2/22/2011	SMPP	40,000,000	Customer A
2/22/2011	SMPP	40,000,000	Customer A
2/22/2011	SMPP	50,000,000	Customer A
2/22/2011	SMPP	143,145,000	Customer A
3/25/2011	SMPP	150,000,000	Customer B
3/25/2011	SMPP	230,000,000	Customer B