

SEP. 1, 2006 8:18AM

LINDQUIST & VENNUM

NO. 212 P. 3

**NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E0420050103-02**

**To: Department of Enforcement
NASD**

**Re: The Oak Ridge Financial Services Group, Inc.
Member (CRD No. 42941)**

Pursuant to NASD Procedural Rule 9216, Oak Ridge Financial Services Group, Inc. (Oak Ridge), submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against Oak Ridge alleging violations based on the same factual findings.

Oak Ridge understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and the National Adjudicatory Council ("NAC") Review Subcommittee or the Office of Disciplinary Affairs ("ODA"), pursuant to NASD Procedural Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Oak Ridge; and
3. If accepted:
 - a. This AWC will become part of Oak Ridge's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against Oak Ridge;
 - b. This AWC will be made available through NASD's public disclosure program in response to public inquiries about Oak Ridge's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Procedural Rule 8310 and IM-8310-2; and
 - d. Oak Ridge may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects Oak Ridge's testimonial obligations or rights to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

SEP. 1. 2006 8:18AM LINDQUIST & VENNUM

NO. 212 P. 4

Letter of Acceptance, Waiver and Consent No. E0420050103-02
Department of Enforcement v. Oak Ridge Financial Services Group, Inc.
Page 2

Oak Ridge also understands that its experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

Oak Ridge has been a member of NASD since April 25, 1997. Oak Ridge conducts a general securities business from its main office located in Golden Valley, Minnesota. Oak Ridge has not been the subject of prior disciplinary action by NASD.

Oak Ridge was the subject of an NASD disciplinary action regarding its supervisory system in April 2004. See AWC No. C0420040016.

I. WAIVER OF PROCEDURAL RIGHTS

Oak Ridge specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

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

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

In addition, Oak Ridge specifically and voluntarily waives any right to claim that a person violated the *ex parte* prohibitions of NASD Procedural Rule 9143 or the separation of functions prohibitions of NASD Procedural Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

SEP. 1. 2006 8:19AM

LINDQUIST & VENNUM

NO. 212 P. 5

Letter of Acceptance, Waiver and Consent No. E0420056103-02
Department of Enforcement v. Oak Ridge Financial Services Group, Inc.
Page 3

II. ACCEPTANCE AND CONSENT

- A. Oak Ridge hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

CALLKEY AMERICA, INC. OFFERING

Oak Ridge participated in a private placement involving CallKey America, Inc. (CallKey) that began in November 2003. Pursuant to the offering documents, it was a contingency offering, with a minimum of \$300,000 and a maximum of \$1,000,000. In connection with the CallKey offering, a bank account was opened at M&I Bank (first bank account). The first account was to receive customer funds for the offering. However, there was no escrow agreement signed by M&I Bank, Oak Ridge or CallKey. The first account at M&I Bank received \$312,000 in customer funds for the CallKey offering between November 1, 2003 and January 28, 2004.

In January, Oak Ridge was notified by M&I Bank that M&I Bank's trust department needed to have the account set up in the M&I trust department. Consequently, a new M&I Bank account was set up for the CallKey offering (second bank account). However, funds for the offering continued to be deposited in the first bank account. Moreover, the firm did not promptly forward funds received in the first bank account to the second bank account.

At that time, Oak Ridge was a broker-dealer with a net capital requirement of \$250,000. Under the firm's NASD Membership Agreement, it claimed the exemption under SEC Rule 15c3-3(k)(2)(ii). During the period of November 2003 to January 2004, the firm had possession and control of customer funds relating to the CallKey offering. However, the firm did not conduct a Rule 15c3-3 reserve account computation and segregate funds in a Rule 15c3-3 designated account.

Such acts, practices and conduct set forth above constitute separate and distinct violations of SEC Rule 15c3-3, SEC Rule 15c2-4 and NASD Conduct Rule 2110 by Oak Ridge.

APOLLO DIAMOND, INC. JANUARY 2004 OFFERING

Oak Ridge participated in a private placement involving Apollo Diamond, Inc. (Apollo Diamond). Pursuant to the offering documents, it was a "best efforts" offering. The offering documents identify that it was for "up to 1,500,000 shares of common stock... at \$5.00 per share." Pursuant to these terms, the offering maximum was \$7,500,000. The offering documents also specified that the offering would terminate "whenever all of the

SEP. 1. 2006 8:19AM

LINDQUIST & VENNUM

NO. 212 P. 6

Letter of Acceptance, Waiver and Consent No. E0420050103-02
Department of Enforcement v. Oak Ridge Financial Services Group, Inc.
Page 4

investment is sold on March 31, 2004, whichever period is earlier; provide[d] however, [Apollo] may terminate the Offering at any time in its discretion or extend the Offering for an additional forty-five (45) days."

On or about February 13, 2004, the offering maximum of \$7,500,000 was reached. Pursuant to the terms of the offering memo, the offering should have closed. However, Oak Ridge continued to offer shares of Apollo common stock pursuant to the offering. Ultimately, Oak Ridge continued to offer shares of Apollo common stock up through and including April 8, 2004. A total of \$16,043,000 was raised pursuant to the offering.

Oak Ridge did not give notice to the original investors (those that invested before the \$7,500,000 maximum had been reached) that the offering maximum had changed. Oak Ridge also did not give the original investors the opportunity to reaffirm or rescind their purchases. Oak Ridge did not notify customers that the offering period had been extended.

Such acts, practices and conduct set forth above constitute separate and distinct violations of NASD Conduct Rules 2120 and 2110 by Oak Ridge.

APOLLO DIAMOND, INC. AUGUST 2004 OFFERING

Oak Ridge participated in another private placement involving Apollo in August 2004. Pursuant to the offering documents, it was a "best efforts" offering. The offering documents identify that it was for 1.25 million warrants, at a price of \$4.50 per share. Pursuant to these terms, the offering maximum was \$5,625,000.00.

In connection with this offering, on or about August 12, 2004, Oak Ridge opened a bank account for deposit of investor funds. The account was styled "The Oak Ridge Financial Services Group Inc (sic) Escrow Agt (sic) Apollo Diamond Warrant Exer (sic) Fd (sic)." No escrow agreement was signed with respect to this bank account.

Customer funds were received in this account beginning on or about August 19, 2004. Customer funds continued to be deposited into the account until the account balance reached \$2,072,563 on September 7, 2004, at which time transfer of funds to Apollo began. Customer deposits continued until on or about October 20, 2004, when the account balance had reached \$2,573,834.

At that time, Oak Ridge was a broker-dealer with a net capital requirement of \$250,000. Under the firm's NASD Membership Agreement, they claimed the exemption under SEC Rule 15c3-3(k)(2) (ii). During the period of at least August 2004 to at least October 2004, the firm had possession and control of customer funds relating to the Apollo August 2004 offering. However, the firm did not conduct a Rule 15c3-3 reserve account computation and segregate funds in a Rule 15c3-3 designated account.

SEP. 1. 2006 8:19AM

LINDQUIST & VENNUM

NO. 212 P. 7

Letter of Acceptance, Waiver and Consent No. E0420050103-02
Department of Enforcement v. Oak Ridge Financial Services Group, Inc.
Page 5

Such acts, practices and conduct set forth above constitute separate and distinct violations of SEC Rule 15c3-3, SEC Rule 15c2-4, and NASD Conduct Rule 2110 by Oak Ridge.

SK2, INC.

Oak Ridge participated in a private placement involving SK2, Inc. (SK2). Pursuant to the offering documents, it was a contingency offering, with a minimum of 1,500,000 shares of SK2 common stock, and a maximum of 2,250,000 shares. Each share was priced at \$1.10. Consequently, the minimum was \$1,650,000 and the maximum was \$2,475,000. The offering documents also specified that the offering would continue through August 31, 2004, "unless earlier terminated or extended to no later than September 30, 2004."

The offering document specified that all investor funds would "be deposited in an escrow account at Franklin Bank, Minneapolis, Minnesota." However, Oak Ridge opened an account for the offering at Venture Bank in Bloomington, Minnesota. The account at Venture Bank was titled "The Oak Ridge Financial Services Group, Inc. as Escrow Agent for SK2, Inc." There was no escrow agreement signed by Venture Bank, Oak Ridge or SK2.

SK2 investor funds were deposited in the Venture Bank account beginning August 27, 2004. As of August 31, 2004, \$110,006.63 in investor funds had been deposited in the Venture Bank account.

As of September 30, 2004, \$1,245,458.23 in investor funds had been deposited in the Venture Bank account. On that date, \$1,019,128.63 in investor funds was transferred out of the Venture Bank account to SK2.

Additional investor deposits were made into the Venture Bank account in October 2004. By October 15, 2004, an additional \$1,234,750 had been deposited in the account. On October 15, 2004, an additional \$1,344,770 in investor funds was transferred to SK2.

In the meantime, in mid-September 2004, SK2 and Oak Ridge sent correspondence to customers, requesting their consent to lowering the minimum contingency in the offering from \$1,650,000 to \$1,000,000. The correspondence also requested that customers consent to extending the offering period from the original date of September 30, 2004, to through October 31, 2004. SK2 and Oak Ridge did not terminate the offering. The correspondence contained a form that the customer could sign and date, thereby purportedly agreeing to the new terms.

SEP. 1. 2006 8:20AM

LINDQUIST & VENNUM

NO. 212 P. 8

Letter of Acceptance, Waiver and Consent No. E0420050103-02
Department of Enforcement v. Oak Ridge Financial Services Group, Inc.
Page 6

Further, on October 15, 2004, the original maximum contingency for the offering, \$2,475,000, had been reached. Pursuant to the terms of the offering memo, the offering should have closed. Further, the September correspondence sent by SK2 and Oak Ridge, discussing lowering the minimum contingency and extending the offering date, did not reference raising the maximum contingency for the offering. Nevertheless, Oak Ridge continued the SK2 offering. Investor funds continued to be deposited in the Venture Bank account until at least October 29, 2004. A total of \$3,563,700 was raised pursuant to the offering.

Oak Ridge did not give notice to the original investors (those that invested before the \$2,475,000 maximum had been reached) that the offering maximum had changed. Oak Ridge also did not give the original investors the opportunity to reaffirm or rescind their purchases.

At that time, Oak Ridge was a broker-dealer with a net capital requirement of \$250,000. Under the firm's NASD Membership Agreement, they claimed the exemption under SEC Rule 15c3-3(k)(2) (ii). During the period of at least August 2004 to at least October 2004, the firm had possession and control of customer funds relating to the SK2 August 2004 offering. However, the firm did not conduct a Rule 15c3-3 reserve account computation and segregate funds in a Rule 15c3-3 designated account.

Such acts, practices and conduct set forth above constitute separate and distinct violations of SEC Rule 10b-9, SEC Rule 15c3-3, SEC Rule 15c2-4, and NASD Conduct Rules 2120 and 2110 by Oak Ridge.

SANCTIONS

Oak Ridge consents to the imposition, at a maximum, to the following sanctions of:

1. A censure; and
2. A fine of \$50,000.

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

III. OTHER MATTERS

- A. Oak Ridge understands that it may attach a Statement of Corrective Action to this AWC, which is a statement of demonstrable corrective steps taken to prevent future misconduct. Oak Ridge understands that it may not deny the charges or make any statement that is inconsistent with the

SEP. 1. 2006 8:20AM

LINDQUIST & VENNUM

NO. 212 P. 9

Letter of Acceptance, Waiver and Consent No. E0420050103-02
Department of Enforcement v. Oak Ridge Financial Services Group, Inc.
Page 7

AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.

- B. Oak Ridge agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable. Oak Ridge has attached an Election of Payment form showing the method by which it proposes to pay any fine imposed.
- C. Oak Ridge specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Oak Ridge certifies that this AWC has been read and that all provisions of this AWC are understood, and that Oak Ridge has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce Oak Ridge to submit it.

OAK RIDGE FINANCIAL
SERVICES GROUP, INC.

Aug 31, 2006
Date

By: Richard D. Huseles
Richard D. Huseles, Vice President

Reviewed by:

Counsel for Oak Ridge

Accepted by NASD:

10-13-06
Date

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

Jeffrey A. Ziesman
Jeffrey A. Ziesman, Regional Counsel