

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, November 4, 2002

COMMONWEALTH OF VIRGINIA, ex rel.,

STATE CORPORATION COMMISSION

v.

WASHINGTON SQUARE SECURITIES,  
INC.,

Defendant.

CASE NO.  
SEC-2002-00037

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JUDGMENT CONTROL

**SETTLEMENT ORDER**

The Division of Securities and Retail Franchising ("Division") of the State Corporation Commission ("Commission") has instituted the above investigations of Washington Square Securities, Inc. ("Washington Square" or the "Company"), pursuant to § 13.1-518 of the Virginia Securities Act (the "Act"), § 13.1-501 et seq. of the Code of Virginia.

**ALLEGATIONS**

As a result of its investigations, the Division alleges that:

The Company was and is a broker-dealer registered under the Act and was, according to Rule 21 VAC 5-20-260A as promulgated under the Act, responsible for the actions of its registered agents, William James Guy ("Guy"), Candace Ann Bloodsworth ("Bloodsworth"), and David Hartman Henderson ("Henderson") and each of them.

Guy, in the offer and sale of (i) a promissory note issued by Yucatan Investments, and (ii) an investment contract issued by Driving Force 1:

- (a) Violated § 13.1-502(2) of the Act by omitting to disclose material facts;
- (b) Violated § 13.1-502(2) of the Act by misrepresenting material facts;

- (c) Violated § 13.1-502(2) of the Act by omitting to disclose risk warnings;
- (d) Transacted business as an unregistered agent (Yucatan and Driving Force), respectively) in violation of § 13.1-504A of the Act;
- (e) Sold unregistered securities in violation of § 13.1-507 of the Act;
- (f) Sold securities not recorded on the regular books of the Company in violation of Rule 21 VAC 5-20-280B2; and
- (g) Sold unsuitable investments violating Rule 21 VAC 5-20-280A3.

Bloodsworth, in the offer and sale of (i) promissory notes issued by AmeriTech Petroleum, and (ii) investment contracts issued by Driving Force 1:

- (a) Violated § 13.1-502(2) of the Act by omitting to disclose material facts;
- (b) Violated § 13.1-502(2) of the Act by misrepresenting material facts;
- (c) Sold unregistered securities in violation of § 13.1-507 of the Act; and
- (d) Sold unsuitable investments in violation of Rule 21 VAC 5-20-280A3.

Henderson, in the offer and sale of (i) promissory notes issued by AmeriTech Petroleum, (ii) ETS Payphones, and (iii) promissory notes issued by U.S. Capital Funding:

- (a) Violated § 13.1-502(2) of the Act by omitting to disclose material facts;
- (b) Engaged in a practice and course of business dealing that operated as a fraud and deceit upon investors in violation of § 13.1-502(3) of the Act;
- (c) Violated § 13.1-502(2) of the Act by misrepresenting material facts;
- (d) Sold unregistered securities in violation of § 13.1-507 of the Act; and
- (e) Sold unregistered, non-exempt securities investments in violation of § 13.1-507 of the Act.

The Company failed to exercise diligent supervision over the securities activities of Guy, Bloodsworth, and Henderson, in violation of Rule 21 VAC 5-20-260B.

## OFFER OF SETTLEMENT

Solely for the purpose of these proceedings, and without admitting or denying any allegations made herein, and prior to a hearing pursuant to the Virginia Securities Act and the Virginia Administrative Code, the Company has offered and agreed to comply with the following terms and undertakings:

1. Contemporaneously with the submission of this Settlement Order, the Company has submitted to the Division correspondence, papers and other documents through which the Company offers to pay six (6) residents of the state of Virginia ("Residents") fifty-five percent of the face amount of each respective investment that was placed at issue by the Division, in exchange for (i) an assignment of each Resident's claims against Henderson, Guy and Bloodsworth, respectively; (ii) an assignment of each Resident's claim or interest in and right or title to each investment at issue, including any and all claims against the issuer; and (iii) a complete, full and final release of any and all claims that each of the Residents may have against the Company ("Offer").

2. The Division has advised the Company that the instruments referenced in paragraph 1 of this Offer of Settlement are in a form and substance acceptable to the Division. The instruments will be mailed to each of the Residents within one business day after receipt of written notice from the Division that the Commission has accepted this Offer of Settlement;

3. The Company will provide the Division with written evidence of its compliance with the provisions of paragraphs 1 and 2 of this Offer of Settlement within thirty (30) days of the date the final payment is remitted to the Residents or from the date the final outstanding Offer is rejected, whichever occurs last. Such evidence will be in the form of a Declaration, executed by the Chief Compliance Officer of the Company that will contain the following information: (i) the date upon which payment was remitted to each Resident; (ii) the amount of

payment remitted to each Resident; (iii) and, if applicable, a statement identifying any Resident who refuses the Offer. The Company shall be deemed to have complied with this term of the Order upon the filing of this Declaration;

4. Contemporaneously with the Offer, the Company will provide each Resident with a copy of this Settlement Order;

5. The Company will furnish the Division with a copy of all correspondence that the Company sends to each Resident;

6. As of the date of entry of the Order, the Company will exercise reasonable and diligent supervision of its agents in accordance with the Rules of the Commission;

7. Pursuant to § 13.1-518A of the Act, the Company shall pay to the Commission fifteen thousand dollars (\$15,000) to defray the cost of the investigation. This sum will be paid within eight (8) business days after receipt by the Company of written notice that the Commission has accepted this Offer of Settlement;

8. It is recognized and understood that if the Company fails to comply with any of the foregoing terms and undertakings, then the Commission reserves the right, the exercise of which right will not be contested by the Company, to institute a show cause proceeding under the Act or other applicable statutes based on such failure to comply, on the allegations contained herein, and/or such other allegations as warranted.

The Division has recommended that the Company's Offer of Settlement be accepted pursuant to the authority granted to the Commission in § 12.1-15 of the Code of Virginia.

THEREFORE, IT IS ORDERED THAT:

(A) Pursuant to the authority granted to the Commission in § 12.1-15 of the Code of Virginia, the Company's Offer of Settlement is accepted according to its terms. The Commission

notes that this Order is entered after receiving an Offer of Settlement from the Company. The Order was not entered after hearing;

(B) The Company shall comply fully with the aforesaid terms and undertakings of its Offer of Settlement;

(C) Pursuant to § 13.1-518 A of the Act, the Company shall pay to the Commission fifteen thousand dollars (\$15,000) to defray the cost of the investigation in accordance with paragraph 7 of the Offer of Settlement;

(D) The Commission shall retain jurisdiction over this matter for all purposes, including the institution of a show cause proceeding as described above, or taking such other action it deems appropriate, on account of the Company's failure to comply with the terms and undertakings of the Settlement Order.

AN ATTESTED copy hereof shall be sent by CERTIFIED MAIL, RETURN RECEIPT REQUESTED, to: Frank A. Taylor, Esquire, Briggs and Morgan, P.A., 2400 IDS Center, 80 South Eighth Street, Minneapolis, Minnesota 55402-2157.

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**ADMISSION AND CONSENT**

The Defendant, Washington Square Securities, Inc. admits the jurisdiction of the State Corporation Commission of Virginia as to the parties and the subject matter hereof and, without admitting or denying the allegations made herein by the Division of Securities and Retail Franchising, hereby consents to the form, substance and entry of the foregoing Settlement Order.

Dated: 10.31.02

Washington Square Securities, Inc.

By: 

Title: VP - CCO

Prepared and submitted by:

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