BEFORE THE COMMISSIONER OF COMMERCE AND INSURANCE OF THE STATE OF TENNESSEE AT NASHVILLE

TENNESSEE SECURITIES DIVISION,	)	
TENNESSEE INSURANCE DIVISION,	)	
Petitioners.	)	**Docket # 12.06-108775J**
	)	**Securities 11-004**
vs.	)	**Insurance 11-016**
	)	
AARON DONALD VALLETT,	)	
Respondent.	)	

NOTICE OF DEFAULT AND INITIAL ORDER

This matter came to be heard on March 15, 2011, before the Hon. Joyce Grimes Safley, Administrative Judge, assigned to the Secretary of State, Administrative Procedures Division, and sitting for the Commissioner of the Tennessee Department of Commerce and Insurance in Nashville, Tennessee. Ms. Barbara A. Doak, Chief Counsel, Department of Commerce and Insurance, and Mr. Matthew McCarthy, Assistant General Counsel, Department of Commerce and Insurance, represented the Petitioners. The Respondent, Mr. Aaron Donald Vallett ("Vallett"), was not present at the hearing and no one appeared on his behalf.

ORDER OF DEFAULT

This matter was heard upon the Petitioners' Motion for default due to the failure of Respondent Vallett to appear or be represented at the hearing on March 15, 2011, after receiving proper notice of the hearing and the rights of the respondents. The record indicates that Respondent Vallett was properly served under the provisions of TENN. CODE ANN. § 48-2-124 and TENN. CODE ANN. § 56-6-112. After consideration of the record, it was determined that the Petitioners' motion for a default judgment was well taken. Respondent Vallett was held in

DEFAULT and the Petitioners were permitted to proceed with an uncontested case and were allowed to introduce proof in support of their case.

INITIAL ORDER

The subject of this hearing was the proposed permanent revocation of Respondent Vallett's registration as an agent of a broker-dealer in Tennessee, the proposed permanent revocation of Respondent Vallett's registration as an investment adviser representative in Tennessee, and the permanent revocation of Respondent Vallett's insurance producer license in Tennessee. After consideration of the argument of counsel and the entire record in this matter, it is the determination of this administrative judge that Respondent Vallett's securities registrations and his insurance producer license are **PERMANENTLY REVOKED**; Respondent Vallett is **PERMANENTLY BARRED** from seeking a securities registration as an agent of a broker-dealer, or as an investment adviser representative in Tennessee or seeking a license as an insurance producer in Tennessee; and Respondent Vallett **IS ORDERED** to pay **THREE HUNDRED AND FIFTY-FIVE THOUSAND DOLLARS ($355,000) IN CIVIL PENALTIES**. This decision is based upon the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. Title 48 of the Tennessee Code Annotated, the Tennessee Securities Act (the "Act"), as amended, TENN. CODE ANN. §§ 48-2-101, *et seq.* places the responsibility for the administration of the Act on the Commissioner.

2. Title 56 of the Tennessee Code Annotated, the Tennessee Insurance Law (the "Law"), TENN. CODE ANN. §§ 56-1-101 *et seq.*, places the responsibility of the administration of the Law on the Commissioner.

3. The Tennessee Securities Division ("TSD") and the Tennessee Insurance Division ("TID") (collectively the "Divisions") are the lawful agents through which the Commissioner administers the Act and the Law.

4. This action is in the public interest, necessary for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Act and the Law. TENN. CODE ANN. §§ 4-5-320(c), 48-2-116(e)(2)(A) and 56-2-304.

5. Respondent Aaron Donald Vallett ("Vallett") (CRD # 4421122) is a citizen and resident of Davidson County Tennessee, residing at 1714 Temple Avenue, Nashville, TN 37215. Vallett is a licensed insurance producer (License # 857611) in the State of Tennessee; however his insurance license was summarily suspended by Order of the Commissioner on September 20, 2010. (Hearing Exhibit 11, Sept. 20, 2010 Summary Order). Vallett is currently registered with the TSD as an investment adviser representative through his associated investment adviser, A.D. Vallett & Co., LLC, and at all relevant times, until June 11, 2010, he was registered with the TSD as a broker-dealer agent through his associated broker-dealer, Institutional Capital Management, Inc. ("ICM") (CRD # 41055). Vallett's securities registrations and the registration of his investment adviser firm were summarily suspended by Order of the Commissioner on September 20, 2010. (Hearing Exhibit 11, Sept. 20, 2010 Summary Order).

6. A.D. Vallett & Co., LLC ("Vallett & Co.") (CRD # 144065) is a Tennessee limited liability company which, for all times relevant to these matters, maintained its principal place of business at 5141 Virginia Way, Suite 460, Brentwood, TN 37027. Vallett & Co. is

currently controlled by a court appointed Receiver. On September 20, 2010, the Commissioner issued an Order summarily suspending Vallett & Co.'s registration as an investment adviser with the TSD. On February 14, 2011, the Commissioner entered an Order **PERMANENTLY REVOKING** the investment adviser registration of Vallett & Co. (Technical Record, February 14, Consent Order).

7. A.D. Vallett & Company ("A.D. Vallett & Company") (CRD # 144271) is a doing-business-as designation used by Vallett for A.D. Vallett & Co., LLC and likewise its principal place of business was located at 5141 Virginia Way, Suite 460, Brentwood, TN 37027. This business, likewise, is currently controlled by the court appointed Receiver.

8. A.D. Vallett Collateral Fund I, LLC ("Collateral Fund I") is a Delaware limited liability company, as of June 3, 2010, with its registered office located at 1201 Orange Street, Suite 600, Wilmington, DE 19801 and for all times relevant to these matters it maintained its principal place of business at 5141 Virginia Way, Suite 460, Brentwood, TN 37027. Collateral Fund I is a wholly owned subsidiary of Vallett & Co. and is currently controlled by the court appointed Receiver.

9. A.D. Vallett Collateral Fund II, LLC ("Collateral Fund II") is a Delaware limited liability company, as of June 3, 2010, with its registered office located at 1201 Orange Street, Suite 600, Wilmington, DE 19801 and for all times relevant to these matters it maintained its principal place of business at 5141 Virginia Way, Suite 460, Brentwood, TN 37027. Collateral Fund II is a wholly owned subsidiary of Vallett & Co. and is currently controlled by the court appointed Receiver.

10. A.D. Vallett Income and Opportunity Fund I, LLC ("I&O Fund") is a Delaware limited liability company, as of February 12, 2010, which for all times relevant to these matters

maintained its principal place of business at 5141 Virginia Way, Suite 460, Brentwood, TN 37027. I&O Fund is a wholly owned subsidiary of Vallett & Co. and is currently controlled by the court appointed Receiver.

11. At all relevant times, Vallett conducted business through his companies, Vallett & Co., A.D. Vallett & Company, Collateral Fund I, Collateral Fund II, and I&O Fund. Vallett is the sole owner of Vallett & Co. and A.D. Vallett & Company, and also created and owns Collateral Fund I, Collateral Fund II, and I&O Fund.

Vallett Violated the June 16, 2008 Consent Order Entered into with the Tennessee Securities Division

12. On June 16, 2008, Vallett entered into a Consent Order with the Commissioner whereby he agreed to fully comply with the Act and to be suspended from acting as a broker-dealer agent or investment adviser representative from or in the State of Tennessee for a four-month period beginning on June 16, 2008 and ending October 15, 2008. (Hearing Exhibit 11, Accompanying Exhibit 1).

13. During the suspension period covered by the Consent Order, from July 16, 2008 through October 6, 2008, Vallett executed no fewer than eight (8) separate investment advisory agreements as President of Vallett & Co. which required the company and Vallett to provide investment advisory services and assessed a one percent (1%) annual fee based on the market value of the client's account. (Hearing Exhibit 10, Pocchiari Affidavit). Three (3) of the investment advisory agreements that Vallett executed during his suspension period are dated July 17, 2008 (Hearing Exhibit 10, Rackley Affidavit), August 1, 2008 (Hearing Exhibit 10, Boswell Affidavit) and October 6, 2008 (Hearing Exhibit 10, Broadaway Affidavit) respectively.

Vallett Sold Unregistered Securities in Tennessee and Acted as an Unregistered Broker-Dealer

14. Between January 2008 and April 2010, Vallett raised approximately $5.5 million from approximately twenty (20) investors through three (3) unregistered securities offerings: Collateral Fund I, Collateral Fund II, and the I&O Fund (collectively, the "Funds"). (Hearing Exhibit 10, Pocchiari Affidavit).

15. From January 2008 through February 2010, Vallett offered and sold investments in Collateral Fund I, eventually raising approximately $1.5 million from eighteen (18) investors, many of whom were investment advisory clients of Vallett & Co. (Hearing Exhibit 10, Pocchiari Affidavit).

16. In February 2010, Vallett sold a single interest in Collateral Fund II to one investor, an advisory client of Sailer Financial, Inc., for $2.5 million. (Technical Record, February 14, Consent Order). Sailer Financial, Inc. is an Investment Advisory firm (CRD# 127411) owned by Amy Sailer. (Technical Record, February 14, Consent Order). The interest sold in Collateral Fund II was not registered with the TSD for sale within the State of Tennessee, and despite representations made in the private placement memorandum ("PPM ") for the Fund, and by Vallett to the investor, that the transaction was exempted from federal and state registration requirements under SEC Rule 506 of Regulation D, 17 C.F.R. § 230.506, and TENN. CODE ANN. § 48-2-125, the transaction was not so exempted because Vallett did not file the necessary documents with the SEC and the TSD to qualify for the exemption. In addition, Collateral Fund II, LLC did not legally exist until June 3, 2010 and therefore could not have been registered with the SEC or the TSD at the time that the interest in the Collateral Fund II was sold. (Technical Record, February 14, Consent Order).

17. In April 2010, Vallett sold an additional $1.5 million interest in the I&O Fund to the same investor who invested in Collateral Fund II. (Technical Record, February 14, Consent Order). The interest in the I&O Fund was not registered with the TSD for sale within the State of Tennessee, and despite representations made to the investor that the transaction was exempted from federal and state registration requirements under SEC Rule 506 of Regulation D, 17 C.F.R. § 230.506, and TENN. CODE ANN. § 48-2-125, the transaction was not so exempted because Vallett did not file the necessary documents with the SEC and the TSD to qualify for the exemption. (Technical Record, February 14, Consent Order).

18. Vallett failed to record any of the sales of these funds on the regular books and records of ICM, Vallet's associated broker-dealer. (Technical Record, February 14, Consent Order). Vallett failed to obtain written authorization for these sales from ICM. Vallett's failure to properly record these transactions on the books and records of ICM or notify and receive written authorization from ICM constitutes selling away from his broker-dealer. (Technical Record, February 14, Consent Order).

19. The interests sold in Collateral Fund I were not registered with the TSD for sale within the State of Tennessee, and despite representations made in the PPM for the Fund, and by Vallett to investors, that the transactions were exempted from federal and state securities registration requirements under Securities and Exchange Commission ("SEC") Rule 504 of Regulation D, 17 C.F.R. § 230.504, and TENN. CODE ANN. § 48-2-125, the transactions were not so exempted because Tennessee does not recognize the Rule 504 exemption and even if it did Vallett did not file the necessary documents with the SEC and the TSD to qualify for the exemption. (Technical Record, February 14, Consent Order; Hearing Exhibit 10, Vernon Affidavit). In addition, Collateral Fund I, LLC did not legally exist until June 3, 2010 and

therefore could not have been registered with the SEC or the TSD at the time that interests in the Collateral Fund I were sold. (Technical Record, February 14, Consent Order; Hearing Exhibit 10, Vernon Affidavit).

Vallett Engaged in Securities Fraud

20. The PPM for Collateral Fund I misrepresented the following: that investors would receive "secured notes" in return for their investments, the collateral being the personal assets of Vallett and his affiliated entities; that Vallett and his affiliated entities guaranteed the payments required under the secured notes; and that investor funds would be used to make various investments selected by Vallett, including real estate investments. (Hearing Exhibit 10, Pocchiari Affidavit).

21. Vallett failed to adequately disclose how invested funds would be used. (Hearing Exhibit 10, Pocchiari Affidavit). Vallett, through the PPM, told investors that they would receive secured notes, guaranteed by Vallett's assets and the assets of his various business entities, in return for their investments and that investor money would be used to fund various investments, including real estate ventures. (Hearing Exhibit 10, Pocchiari Affidavit). Brokerage statements obtained from Vallett show, however, that instead Vallett engaged in high-risk, speculative trading with investor funds. (Hearing Exhibit 10, Pocchiari Affidavit).

22. Vallett defrauded investors by representing the offerings of the Funds as private placements exempted from any state securities registration requirements under SEC Rules 504 or 506 of Regulation D, 17 C.F.R. §§ 230.504, 230.506. (Hearing Exhibit 10, Vernon Affidavit). Vallett failed to make the necessary filings with the SEC to qualify for the Rule 504 or Rule 506 exemption, and likewise failed to make the requisite notice filings with the TSD as required by

TENN. CODE ANN. § 48-2-125(b) in order to exempt the securities from state registration. (Hearing Exhibit 10, Vernon Affidavit). Tennessee does not recognize the Rule 504 exemption and in addition, Collateral Funds I and II did not legally exist at the time that interests in them were sold. Collateral Funds I and II did not legally exist until June 3, 2010. (Hearing Exhibit 10, Vernon Affidavit).

23. On April 14, 2010, two of Vallett's investment advisory clients discovered that in 2008 Vallett had liquidated some of the holdings in their investment accounts and invested the proceeds into an investment called Collateral Fund I (an investment fund created and wholly owned by Vallett), without their knowledge or consent. (Hearing Exhibit 10, Rackley Affidavit). In addition, Vallett did not provide his clients with any offering materials or tell them about the liquidation and transfer of assets to Collateral Fund I at any time after making the investment. (Hearing Exhibit 10, Rackley Affidavit). On April 14, 2010, Vallett's clients received an Internal Revenue Service Interest Income 1099 form from Vallet & Co. that indicated that they were receiving interest income from an investment in Collateral Fund I. (Hearing Exhibit 10, Rackley Affidavit). Vallett's clients did not know anything about this investment prior to receiving this 1099 form. (Hearing Exhibit 10, Rackley Affidavit). The clients had never heard of the Collateral Fund I, had no knowledge of investing in such a fund and to their knowledge had never received any interest payments from the fund. (Hearing Exhibit 10, Rackley Affidavit).

Vallett Unlawfully Forged His Clients' Names to a Document Related to an Insurance Transaction

24. In August 2009, Vallet fraudulently cashed out an annuity, held by two (2) of his investment advisory clients (Ms. Salter N. Rackley ("Rackley") and her husband, William R.

Rackley) (collectively the "Rackleys") as joint policyholders, without their knowledge or consent and without disclosing to his clients that there would be an early termination fee charged. (Hearing Exhibit 10, Rackley Affidavit). The signatures used to make the redemption and appearing on page two (2) of the Withdrawal Request Form for Annuity Contract # 70428616 are not the Rackleys' signatures. (Hearing Exhibit 10, Rackley Affidavit). The Rackleys do not know who signed their names and they did not grant permission for anyone to sign their names on their behalf. (Hearing Exhibit 10, Rackley Affidavit).

25. At the time of full surrender, the annuity from Allianz Life Insurance Company of North America was valued at five hundred seven thousand seven hundred and seven dollars ($507,707.00). (Hearing Exhibit 10, Rackley Affidavit). Thirty one thousand eighty two dollars ($31,082.00) was paid as an early termination fee for cashing out the annuity prior to the maturity date. (Hearing Exhibit 10, Rackley Affidavit). The Rackleys do not know what happened to the balance of the proceeds or four hundred seventy-six thousand six hundred and twenty-five dollars ($476,625) on or about September 3, 2009; however, seven (7) months later on April 13, 2010, Rackley contacted Vallett and asked for their money. (Hearing Exhibit 10, Rackley Affidavit). On April 14, 2010, Vallett wire transferred two hundred fifty thousand dollars ($250,000) to the Rackleys' personal bank account, and on April 14, 2010, Vallett deposited one hundred thousand dollars ($100,000) into Mr. Rackley's brokerage account (to cover a margin balance before the account was transferred to a new broker). (Hearing Exhibit 10, Rackley Affidavit). The balance of the annuity proceeds, one hundred twenty-six thousand six hundred twenty-five dollars ($126,625) has still not been recovered. (Hearing Exhibit 10, Rackley Affidavit).

The SEC Barred Vallett from Association with any Broker or Dealer and any Investment Adviser

26. On September 15, 2010, the SEC barred Vallett from association with any broker- or dealer and from association with any investment adviser. (Technical Record, February 14, Consent Order). The SEC based its September 15, 2010 Order on a complaint alleging that Vallett and his firm misrepresented that investor funds would be secured and would be used to make various investments, including investments in various real estate ventures. (Technical Record, February 14, Consent Order). According to the complaint, Vallett used substantial investor funds to pay prior investors or to pay personal or business expenses. The complaint alleged these actions operated as a fraud or deceit on investors. (Technical Record, February 14, Consent Order).

CONCLUSIONS OF LAW

1. TENN. CODE ANN. § 48-2-116 provides that the Commissioner may make, promulgate, amend, and rescind such Orders as are necessary to carry out the provisions of the Tennessee Securities Act of 1980, as amended, upon a finding that such Order is in the public interest, necessary for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Act.

Pertaining to the Commissioner's Authority to Revoke Vallett's Securities Registration

2. TENN. CODE ANN. § 48-2-112(a)(2)(B) provides, in pertinent part, that (a) [t]he commissioner may by order ... revoke ... any registration under this part if the commissioner finds that: (2) [t]he ... registrant (B) [h]as willfully violated or willfully failed to comply with

any provision of this part or a predecessor chapter or any rule or **order** under this part or a predecessor chapter[ ] .... [Emphasis added]

3. TENN. CODE ANN. § 48-2-112(d) provides, in pertinent part, that in any case in which the Commissioner is authorized to deny, revoke or suspend the registration of a broker-dealer, broker-dealer agent, investment adviser, or investment adviser representative, the Commissioner may, in lieu of or in addition to such disciplinary action, impose a civil penalty not to exceed five thousand dollars ($5,000) for all violations for any single transaction. Each transaction constitutes a separate violation for which the civil penalty may be assessed.

Pertaining to the Commissioner's Authority to Revoke Vallett's Insurance Producer License

4. TENN. CODE ANN. § 56-6-112(a)(8) provides, in pertinent part, that the commissioner may ... revoke ... a license issued under this part ... for ... (8) [u]sing fraudulent, coercive, or dishonest practices, or demonstrating incompetence, untrustworthiness, or financial irresponsibility in the conduct of business in this state or elsewhere[ ]....

5. TENN. CODE ANN. § 56-6-112(a)(10) provides, in pertinent part, that the commissioner may ... revoke ... a license issued under this part ... for ... (10) [f]orging another's name to an application for insurance or to any document related to an insurance transaction[ ]....

6. TENN. CODE ANN. § 56-6-112(a) further provides that, in addition to or in lieu of any of the aforementioned disciplinary actions, the Commissioner may levy a civil penalty in accordance with TENN. CODE ANN. § 56-2-305 which, in turn, provides that if the Commissioner, after notice and opportunity for a contested case hearing, finds a licensee has violated any statute, rule, or order, the Commissioner may order such person to cease and desist from

engaging in the act or practice giving rise to the violation, and payment of a monetary penalty of not more than one-thousand dollars ($1,000) per violation, but not to exceed an aggregate penalty of one-hundred-thousand dollars ($100,000). However, if such person knowingly committed a violation, the penalty shall not be more than twenty-five-thousand dollars ($25,000) per violation, not to exceed an aggregate penalty of two-hundred-fifty-thousand dollars ($250,000). TENN. CODE ANN. § 56-2-305(a)(2). For purposes of imposing monetary penalties, each day of continued violation shall constitute a separate violation. TENN. CODE ANN. § 56-2-305(a)(2).

Vallett Violated the June 16, 2008 Consent Order with the Tennessee Securities Division

7. **IT IS CONCLUDED** that Vallett executed no fewer than eight (8) separate investment advisory agreements as President of Vallett & Co. while he was serving an agreed suspension from providing investment advisory services and other related services. This conduct was in direct violation of the June 16, 2008 Consent Order with the TSD. During his suspension, Vallett served as an investment adviser representative (as defined by (TENN. CODE ANN. § 48-2-102(11)(D)). During his suspension, Vallett solicited, offered and negotiated for the sale of and sold investment advisory services.

8. **IT IS CONCLUDED** that Vallett's willful violations of the June 16, 2008 Consent Order with the Securities Division provides adequate grounds under TENN. CODE ANN. § 48-2-112(a)(2)(B) for the entry of an Order revoking Vallett's registrations with the TSD.

9. **IT IS CONCLUDED** that Vallett's willful violations of the June 16, 2008 Consent Order with the Securities Division provides adequate grounds for the imposition of a civil penalty not to exceed five thousand dollars ($5,000) for all violations for any single transaction under TENN. CODE ANN. § 48-2-112(d).

10. It is **CONCLUDED** that the Commissioner may order payment of civil penalties for eight (8) violations of TENN. CODE ANN. § 48-2-112(d). The TSD and TID have shown by a preponderance of the evidence that Vallett executed no fewer than eight (8) separate investment advisory agreements as President of Vallett & Co. while he was serving an agreed suspension from providing investment advisory services and other related services in violation of the Act. As such, the imposition of five thousand dollars ($5,000) per violation or **FORTY THOUSAND ($40,000) IN CIVIL PENALTIES** is ordered under TENN. CODE ANN. § 48-2-112(d).

11. **IT IS CONCLUDED** that Vallett's willful violations of the June 16, 2008 Consent Order with the Securities Division demonstrates incompetence, untrustworthiness, and financial irresponsibility in the conduct of business in this state and provides adequate grounds under TENN. CODE ANN. §§ 56-6-112(a)(8) for the entry of an Order revoking Vallett's insurance producer license.

Vallett Sold Unregistered Securities

12. It is **CONCLUDED** that Vallett willfully engaged in the act of making unregistered sales of unregistered securities in Tennessee and is subject to a permanent bar from the securities industry under TENN. CODE ANN. §§ 48-2-112(a)(1)(B). Further, by failing to disclose all material information to his investors, Vallett deprived his clients the right to make an informed decision about their investments. The actions of Vallett taken together as a whole establishes unlawful conduct that subjects a securities registration to revocation, and gives the Commissioner sufficient grounds to deny any new application for such a securities registration in the future. As such, Vallett is **PERMANENTLY BARRED** from the securities industry.

13. TENN. CODE ANN. § 48-2-102(16) provides, in pertinent part, that: "[s]ecurity"

means any **note**, stock, treasury stock, bond, debenture, **evidence of indebtedness** ... [emphasis supplied]

14. TENN. CODE ANN. § 48-2-104(a) provides that: it is unlawful for any person to sell any security in this state unless: (1) It is registered under this part; (2) (t)he security or transaction is exempted under § 48-2-103; or (3) (t)he security is a covered security.

15. It is **CONCLUDED** that Vallett's conduct violated TENN. CODE ANN. § 48-2-104, as Vallett sold unregistered securities from and into Tennessee. The TSD and TID have shown by a preponderance of the evidence that Vallett's sales constituted three (3) violations of TENN. CODE ANN. § 48-2-104(a).

16. TENN. CODE ANN. § 48-2-104(b) provides that the commissioner may, after notice and opportunity for a hearing under the Uniform Administrative Procedures Act, compiled in title 4, chapter 5, impose a civil penalty against any person found to be in violation of this section, or any regulation, rule or order adopted or issued under this section, in an amount not to exceed ten thousand dollars ($10,000) per violation.

17. It is **CONCLUDED** that the Commissioner may order payment of civil penalties for three (3) violations of TENN. CODE ANN. § 48-2-104(a). The TSD and TID have shown by a preponderance of the evidence that Vallett made three (3) sales of unregistered securities in violation of the Act. As such, the imposition of ten thousand dollars ($10,000.00) per violation or **THIRTY THOUSAND ($30,000) IN CIVIL PENALTIES** is ordered under TENN. CODE ANN. § 48-2-104(b).

18. TENN. CODE ANN. § 48-2-102(3) defines an "agent" as any individual, other than a broker-dealer, who represents a broker-dealer in effecting or attempting to effect purchases or sales of securities from, in or into this state.

19. TENN. CODE ANN. § 48-2-102(4) defines a "broker-dealer" as any person engaged in the business of effecting transactions in securities for the account of others....

20. TENN. CODE ANN. § 48-2-109(a) provides that it is unlawful for any person to transact business from or in this state as a broker-dealer or agent unless such person is registered as a broker-dealer or agent under this part.

21. TENN. CODE ANN. § 48-2-112(a)(2)(G) provides that the commissioner may by order deny, suspend, or revoke any registration under this part if the commissioner finds that: (2) the applicant or registrant ... (G) has engaged in dishonest or unethical practices in the securities business.

22. TENN. COMP. R. & REGS. 0780-4-3-.02(6)(b) states that it shall be deemed a "dishonest or unethical business practice" by an agent under TENN. CODE ANN. § 48-2-112(a)(2)(G) to engage in the activity of: (3) Effecting securities transactions with a customer not recorded on the regular books or records of the broker-dealer which the agent represents, unless the transactions are disclosed to, and authorized in writing by, the broker-dealer prior to execution of the transactions; ....

23. It is **CONCLUDED** that the sales of the Collateral Funds and the I&O Fund that were not properly recorded on the books of Vallett's broker-dealer while he was registered as a broker-dealer agent with ICM were conducted as an unregistered broker-dealer, not as a registered broker-dealer agent of ICM. Selling away from his broker-dealer is an unethical and dishonest business practice and such unlawful conduct is grounds for the revocation of a securities registration under TENN. CODE ANN. § 48-2-112(a)(2)(G). Vallett's securities registration is invalid for any sales he did not properly record with his broker-dealer and those sales are deemed to have been made by an unregistered broker-dealer in violation of TENN. CODE

ANN. § 48-2-109(a).

24. It is **CONCLUDED** that Vallett's conduct violated TENN. CODE ANN. § 48-2-109(a), as Vallett's securities registration was not effective for the sales of the Collateral Funds and the I&O Fund from and into Tennessee. The TSD and TID have shown by a preponderance of the evidence that Vallett was not registered to sell interests in the Collateral Funds or the I&O Fund and that these sales by an unregistered individual constitute three (3) violations of TENN. CODE ANN. § 48-2-109(a).

25. TENN. CODE ANN. § 48-2-109(e) provides that the commissioner may, after notice and opportunity for a hearing under the Uniform Administrative Procedures Act, compiled in title 4, chapter 5, impose a civil penalty against any person found to be in violation of this section, or any regulation, rule or order adopted or issued under this section, in an amount not to exceed ten thousand dollars ($10,000) per violation.

26. It is **CONCLUDED** that the Commissioner may order payment of civil penalties for three (3) violations of TENN. CODE ANN. § 48-2-109(a). The TSD and TID have shown by a preponderance of the evidence that Vallett made three (3) unregistered sales in violation of the Act. As such, the imposition of ten thousand dollars ($10,000.00) per violation or **THIRTY THOUSAND ($30,000) IN CIVIL PENALTIES** is ordered under TENN. CODE ANN. § 48-2-109(e).

27. **IT IS CONCLUDED** that Vallett's unregistered sales of unregistered securities demonstrates incompetence, untrustworthiness, and financial irresponsibility in the conduct of business in this state and provides adequate grounds under TENN. CODE ANN. §§ 56-6-112(a)(8) for the entry of an Order revoking Vallett's insurance producer license.

Vallett Engaged in Securities Fraud

28. TENN. CODE ANN. § 48-2-121(a) provides that it is unlawful for any person, in connection with the offer, sale or purchase of any security within the State of Tennessee, directly or indirectly, to: (1) Employ any device, scheme, or artifice to defraud; (2) Make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading; or (3) Engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

29. **IT IS CONCLUDED** that Vallett fraudulently misrepresented the investments he was selling, failed to adequately disclose how invested funds would be used, and defrauded investors by misrepresenting the offerings of the Funds as private placements exempted from any state securities registration requirements under SEC Rules 504 or 506 of Regulation D, 17 C.F.R. §§ 230.504, 230.506 when they were not so exempted.

30. **IT IS CONCLUDED** that each of Vallett's fraudulent acts provides adequate grounds under TENN. CODE ANN. § 48-2-112(a)(2)(B) for the entry of an Order revoking Vallett's registrations with the TSD.

31. **IT IS CONCLUDED** that each of Vallett's fraudulent acts demonstrates incompetence, untrustworthiness, and financial irresponsibility in the conduct of business in this state and provides adequate grounds under TENN. CODE ANN. §§ 56-6-112(a)(8) for the entry of an Order revoking Vallett's insurance producer license.

Vallett Unlawfully Forged His Clients' Names to a Document Related to an Insurance Transaction

32. **IT IS CONCLUDED** that Vallett knowingly and fraudulently cashed out an annuity, held by two (2) of his investment advisory clients.

33. **IT IS CONCLUDED** that Vallett's forgery and fraudulent redemption of the Rackleys' annuity provide adequate grounds under TENN. CODE ANN. §§ 56-6-112(a)(10) for the entry of an Order revoking Vallett's insurance producer license.

34. **IT IS CONCLUDED** that Vallett's forgery and fraudulent redemption of the Rackleys' annuity provide adequate grounds under TENN. CODE ANN. §§ 56-6-112(a) for the commissioner to levy a civil penalty in accordance with TENN. CODE ANN. § 56-2-305.

35. **IT IS CONCLUDED** that Vallett's knowing and fraudulent forgery of his clients names to a document related to an insurance transaction provides the Commissioner with adequate grounds to impose the maximum aggregate penalty for a violation of the law that has not been remedied or **TWO HUNDRED FIFTY THOUSAND ($250,000)**.

Vallett was Barred from Association with any Broker or Dealer and from Association with any Investment Adviser by the SEC

36. **IT IS CONCLUDED** that Vallett was barred from association with any broker or dealer and from association with any investment adviser by the SEC.

37. **IT IS CONCLUDED** that an Order by the SEC barring Vallett from association with any broker or dealer and from association with any investment adviser provides adequate grounds under TENN. CODE ANN. § 48-2-112(a)(2)(F)(i) for the entry of an Order revoking Vallett's registrations with the TSD.

38. **IT IS CONCLUDED** that the entry of an Order by the SEC barring Vallett from association with any broker or dealer and from association with any investment adviser provides adequate grounds for the imposition of a civil penalty of **FIVE THOUSAND DOLLARS ($5,000)** under TENN. CODE ANN. § 48-2-112(d).

ORDER

NOW, THEREFORE, in consideration of the foregoing, it is **ORDERED** pursuant to TENN. CODE ANN. § 48-2-116(a) of the Act and TENN. CODE ANN. §§ 56-6-101, et seq., the Law, that:

1. Respondent Aaron Donald Vallett shall fully **COMPLY** with the Act, the Law, and all rules promulgated thereunder;

2. Respondent Aaron Donald Vallett's registrations as a broker-dealer agent and investment adviser representative with the TSD are **REVOKED.**

3. Respondent Aaron Donald Vallett is **PERMANENTLY BARRED** from any further conduct as a broker-dealer, agent of a broker-dealer, investment adviser, or investment adviser representative from or in the State of Tennessee, and is **PERMANENTLY BARRED** from seeking any securities registrations authorized by the Act, as of the date of this Initial Order.

4. Respondent Aaron Donald Vallett is **PERMANENTLY BARRED** from conducting securities transactions on behalf of others from, in, or into the State of Tennessee.

5. Respondent Aaron Donald Vallet's insurance producer license (License # 857611) is **REVOKED**.

6. Respondent Aaron Donald Vallett is **PERMANENTLY BARRED** from any further conduct as an insurance producer from or in the State of Tennessee and is **PERMANENTLY BARRED** from seeking licensure as an insurance producer in Tennessee, as of the date of this Initial Order.

7. All persons in any way assisting, aiding, or helping the aforementioned Respondent in any of the aforementioned violations of the Tennessee Securities Act of 1980, as amended, TENN. CODE ANN. §§ 48-2-101 *et seq.* shall **CEASE AND DESIST** all such activities in violation of the Tennessee Securities Act of 1980, as amended.

8. Respondent Aaron Donald Vallett is **ORDERED TO PAY** three hundred and fifty-five thousand dollars **($355,000) IN CIVIL PENALTIES:** ten thousand dollars ($10,000) per violation for each violation of TENN. CODE ANN. §§ 48-2-104 and 48-2-109 or SIXTY THOUSAND DOLLARS ($60,000); five thousand dollars ($5,000) per violation for each violation of TENN. CODE ANN. § 48-2-112 or FORTY-FIVE THOUSAND DOLLARS ($45,000); and TWO HUNDRED FIFTY THOUSAND DOLLARS ($250,000) for his knowing and fraudulent forgery of a document related to an insurance transaction in violation of TENN. CODE ANN. § 56-6-112. Said civil penalties are hereby **ORDERED**, with the agreement of the Petitioners, to be **SUBORDINATED** to the restitution to be paid by the Receivership Estate to the investors/victims of Respondent's fraud, so that the civil penalties assessed as a result of the execution of this Order shall only become due and payable by Respondent upon the payout of all Receivership assets to the investors and closure of the Receivership Estate. Once the civil penalties become due and payable, payment, in the form of a cashier's check or money order, ***made payable to the State of Tennessee***, shall be mailed, to:

State of Tennessee
Department of Commerce and Insurance
Legal Section
Attention: Barbara A. Doak, Chief Counsel for Securities
2nd Floor, Davy Crockett Tower
500 James Robertson Parkway
Nashville, Tennessee 37243.

This Initial Order entered and effective this 30TH day of MARCH, 2011.

Joyce Grimes Safley

Hon. Joyce Grimes Safley
Administrative Judge

Filed in the Administrative Procedures Division, this 30TH day of MARCH, 2011.

Thomas C Stovall

Tom Stovall, Director
Administrative Procedures Division

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of this document has been served upon all parties, by delivering the same to them, or to their counsel, at their address of record, or by placing a true and correct copy of same in the United States mail, postage prepaid.

This 30th day of March, 2011.

Administrative Procedures Division
Office of the Secretary of State

SUBMITTED FOR ENTRY:

Barbara A. Doak (BPR # 015802)
Chief Counsel for Securities
Department of Commerce and Insurance
500 James Robertson Parkway
Davy Crockett Tower, Second Floor
Nashville, Tennessee 37243
(615) 741-9467

Matthew McCarthy (BPR# 025550)
Assistant General Counsel
Department of Commerce and Insurance
500 James Robertson Parkway
Davy Crockett Tower, Second Floor
Nashville, Tennessee 37243
(615) 253-1378

BEFORE THE COMMISSIONER OF THE TENNESSEE DEPARTMENT OF COMMERCE AND INSURANCE

IN THE MATTER OF:

DOCKET NO.: 12.06-108775J

ORDER

THIS ORDER IS AN INITIAL ORDER RENDERED BY AN ADMINISTRATIVE JUDGE WITH THE ADMINISTRATIVE PROCEDURES DIVISION.

THE INITIAL ORDER IS NOT A FINAL ORDER BUT SHALL BECOME A FINAL ORDER UNLESS:

1. THE ENROLLEE FILES A WRITTEN APPEAL, OR EITHER PARTY FILES A PETITION FOR RECONSIDERATION WITH THE ADMINISTRATIVE PROCEDURES DIVISION NO LATER THAN **April 14, 2011.**

YOU MUST FILE THE APPEAL, PETITION FOR RECONSIDERATION WITH THE ADMINISTRATIVE PROCEDURES DIVISION. THE ADDRESS OF THE ADMINISTRATIVE PROCEDURES DIVISION IS:

SECRETARY OF STATE
ADMINISTRATIVE PROCEDURES DIVISION
WILLIAM R. SNODGRASS TOWER
312 EIGHTH AVENUE NORTH, 8th FLOOR
NASHVILLE, TENNESSEE 37243-0307

IF YOU HAVE ANY FURTHER QUESTIONS, PLEASE CALL THE ADMINISTRATIVE PROCEDURES DIVISION, **615/741-7008 OR 741-5042, FAX 615/741-4472.** PLEASE CONSULT APPENDIX A AFFIXED TO THE INITIAL ORDER FOR NOTICE OF APPEAL PROCEDURES.

APPENDIX A TO INITIAL ORDER
NOTICE OF APPEAL PROCEDURES

Review of Initial Order

This Initial Order shall become a Final Order (reviewable as set forth below) fifteen (15) days after the entry date of this Initial Order, unless either or both of the following actions are taken:

(1) A party files a petition for appeal to the agency, stating the basis of the appeal, or the agency on its own motion gives written notice of its intention to review the Initial Order, within fifteen (15) days after the entry date of the Initial Order. If either of these actions occurs, there is no Final Order until review by the agency and entry of a new Final Order or adoption and entry of the Initial Order, in whole or in part, as the Final Order. A petition for appeal to the agency must be filed within the proper time period with the Administrative Procedures Division of the Office of the Secretary of State, 8th Floor, William R. Snodgrass Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee, 37243-1102. (Telephone No. (615) 741-7008). See Tennessee Code Annotated, Section (T.C.A. §) 4-5-315, on review of initial orders by the agency.

(2) A party files a petition for reconsideration of this Initial Order, stating the specific reasons why the Initial Order was in error within fifteen (15) days after the entry date of the Initial Order. This petition must be filed with the Administrative Procedures Division at the above address. A petition for reconsideration is deemed denied if no action is taken within twenty (20) days of filing. A new fifteen (15) day period for the filing of an appeal to the agency (as set forth in paragraph (1) above) starts to run from the entry date of an order disposing of a petition for reconsideration, or from the twentieth day after filing of the petition, if no order is issued. See T.C.A. §4-5-317 on petitions for reconsideration.

A party may petition the agency for a stay of the Initial Order within seven (7) days after the entry date of the order. See T.C.A. §4-5-316.

Review of Final Order

Within fifteen (15) days after the Initial Order becomes a Final Order, a party may file a petition for reconsideration of the Final Order, in which petitioner shall state the specific reasons why the Initial Order was in error. If no action is taken within twenty (20) days of filing of the petition, it is deemed denied. See T.C.A. §4-5-317 on petitions for reconsideration.

A party may petition the agency for a stay of the Final Order within seven (7) days after the entry date of the order. See T.C.A. §4-5-316.

YOU WILL NOT RECEIVE FURTHER NOTICE OF THE INITIAL ORDER BECOMING A FINAL ORDER

A person who is aggrieved by a final decision in a contested case may seek judicial review of the Final Order by filing a petition for review in a Chancery Court having jurisdiction (generally, Davidson County Chancery Court) within sixty (60) days after the entry date of a Final Order or, if a petition for reconsideration is granted, within sixty (60) days of the entry date of the Final Order disposing of the petition. (However, the filing of a petition for reconsideration does not itself act to extend the sixty day period, if the petition is not granted.) A reviewing court also may order a stay of the Final Order upon appropriate terms. See T.C.A. §4-5-322 and §4-5-317.