

OPEN MEETING ITEM

3/18/10



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COMMISSIONERS
KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP



ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

SECURITIES DIVISION
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ARIZONA CORPORATION COMMISSION

ORIGINAL

MEMORANDUM

TO: Kristin K. Mayes, Chairman
Gary Pierce, Commissioner
Paul Newman, Commissioner
Sandra D. Kennedy, Commissioner
Bob Stump, Commissioner

Arizona Corporation Commission

DOCKETED

MAR - 8 2010

FROM: Matthew J. Neubert *[Signature]*
Director of Securities

DOCKETED BY *[Signature]*

DATE: March 2, 2010

RE: Proposed Order to Cease and Desist, Order for Administrative Penalties and Consent to Same by Douglas Cottle and Kyla Cottle, husband and wife
Docket No. S-20677A-09-0256

CC: Ernest G. Johnson, Executive Director

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AZ CORP COMMISSION
DOCKET CONTROL

Please find attached a proposed Order to Cease and Desist, Order for Administrative Penalties and Consent to Same ("Consent Order") executed by Douglas Cottle and Kyla Cottle, husband and wife, collectively the "Respondents." The Consent Order requires Respondents to cease and desist from violating the Securities Act, pay restitution in an amount of \$2,637,880 plus \$897,773 of accrued interest and pay an administrative penalty in the amount of \$150,000.

During the relevant timeframe, Douglas Cottle was the president, chief executive officer (CEO), and/or director of Secure Resolutions, Inc. ("SRI"). Kyla Cottle was a director of SRI. The Cottles stepped down from their positions with SRI in 2009. SRI had its principal place of business in Arizona. The Cottles, on behalf of SRI, engaged unlicensed salesmen to offer and sell company stock, promissory notes and options. Investors were told that SRI was an up and coming software company, was profitable, and would be taken public in the future. Over 100 people invested from multiple states, with approximately 20 investors located in Arizona. To date, SRI has not been taken public, has outstanding tax liens and loan balances, and ceased operations.

The Consent Order finds that Respondents violated A.R.S. §§44-1841 and 44-1842 by selling unregistered securities while being unlicensed. In addition, the Consent Order finds that Respondents violated A.R.S. §44-1991 because there were untrue statements or misleading

omissions of material facts. The Division believes that this Consent Order is appropriate to protect the public welfare. Due to an outstanding bankruptcy petition by SRI, the entity is being addressed separately and is not a part of this Order.

Originator: Phong (Paul) Huynh

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KRISTIN K. MAYES, Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

8 In the matter of:

9 SECURE RESOLUTIONS, INC., an
10 Arizona Corporation;

11 DOUGLAS COTTLE and KYLA COTTLE,
12 husband and wife,

13 Respondents.

) DOCKET NO. S-20677A-09-0256

) DECISION NO. _____

) **ORDER TO CEASE AND DESIST, ORDER
FOR RESTITUTION, ORDER FOR
ADMINISTRATIVE PENALTIES AND
CONSENT TO SAME**

) **BY: RESPONDENT DOUGLAS COTTLE
AND KYLA COTTLE**

14 Respondents Douglas Cottle, Kyla Cottle (“Respondents”) elect to permanently waive any
15 right to a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. §
16 44-1801 *et seq.* (“Securities Act”) with respect to this Order To Cease And Desist, Order for
17 Restitution, Order for Administrative Penalties and Consent to Same (“Order”). Respondents
18 admit the jurisdiction of the Arizona Corporation Commission (“Commission”); neither admit nor
19 deny the Findings of Fact and Conclusions of Law contained in this Order; and consent to the entry
20 of this Order by the Commission.

21 **I.**

22 **FINDINGS OF FACT**

23 1. Secure Resolutions, Inc. (“SRI”) is a corporation incorporated in Arizona on May
24 17, 2004, to conduct business in the state of Arizona. SRI’s headquarters was located in Arizona for
25 all relevant times.
26

1 2. Pursuant to public records of the Commission, Douglas Cottle (“COTTLE”) was
2 president, chief executive officer (CEO), and director of SRI¹. COTTLE, on behalf of SRI,
3 conducted business and/or did business as and through SRI, as president, chief executive officer,
4 or director of SRI and was a controlling person of SRI. At all times relevant, COTTLE was a
5 married man, spouse of Kyla Cottle and resided in Arizona.

6 3. Pursuant to public records of the Commission, Kyla Cottle (“K. COTTLE”) was a
7 director of SRI. K. COTTLE, on behalf of SRI, conducted business and/or did business as and
8 through SRI, as director of SRI and was a controlling person of SRI. At all times relevant, K.
9 COTTLE was a married woman, spouse of COTTLE and resided in Arizona.

10 4. At all times relevant, COTTLE and K. COTTLE was acting for their own benefit
11 and for the benefit or in furtherance of their marital community. COTTLE and K. COTTLE may be
12 referred to collectively as the “COTTLES.”

13 5. SRI, COTTLE and K. COTTLE may be referred to collectively as “Respondents.”

14 6. From on or about May 2004 to December 2007, Respondents publicly offered
15 and/or sold unregistered securities in the form of investment contracts, notes, warrants and/or
16 stocks within or from Arizona.

17 7. SRI’s website² describes SRI as “a software development Company providing an
18 independent, integrated IT security management console for the enterprise market. Secure
19 Resolutions enables enterprises to secure their IT infrastructure more effectively, easily and
20 profitably by providing an intelligent suite of integrated security products.”

21 8. To raise capital for the company, COTTLE, on behalf of SRI, offered and/or sold
22 various investment opportunities to offerees and/or through the engagement of unregistered
23 salesmen, Wesley Kikuchi (“W. KIKUCHI”) and Lang Dao (“DAO”).

24
25 ¹ From September 2003 to June 2006, COTTLE was the Acting CEO of SRI; From July 2006 to December 2008,
26 COTTLE has been the President and CEO of SRI; From March 3, 2003 to the December 2008 COTTLE has been
Chairman of SRI’s board of directors.

² <http://secureresolutions.com/AboutUs/Overview/tabid/66/Default.aspx>

1 9. COTTLE held investment presentations at various locations, including but not
2 limited to:

- 3 a) The Reno convention center in Reno, Nevada on or about May 27, 2004;
4 b) The La Veranda Restaurant located in Garden Grove, California on or about
5 November 20, 2004; and
6 c) The personal residences of certain investors located in California, Nevada
7 and Arizona.

8 10. On or about April 23, 2004 COTTLE memorialized in a document to W. KIKUCHI
9 their business relationship which included terms that stated W. KIKUCHI was “to assist Secure
10 Resolutions as a broker for investment opportunities,” that W. KIKUCHI would receive a ten
11 percent (10%) commission for each investment secured, and that payments would be in the form of
12 cash and/or SRI stock. COTTLE signed the document as CEO/Chairman of SRI.

13 11. Between August 8, 2004, to at least December 19, 2006, SRI paid W. KIKUCHI
14 such commission payments.

15 12. W. KIKUCHI is not and has not been a registered securities salesman in the state of
16 Arizona or any state.

17 13. At all times relevant, W. KIKUCHI resided in Nevada. While in Nevada, W.
18 KIKUCHI offered and/or sold SRI Series B preferred (“Series B”) stocks, SRI Series B1 preferred
19 (“Series B1”) stocks and SRI Series B2 preferred (“Series B2”) stocks to Nevada residents. W.
20 KIKUCHI is also an investor in SRI.

21 14. Investor monies were made payable to SRI, collected by W. KIKUCHI and mailed
22 or forwarded to SRI, which maintained its principal place of business in Arizona for all times
23 relevant.

24 15. Pursuant to SRI records, on or about September 2003 to June 2006, DAO was the
25 vice president of SRI.

26

1 16. On or about June 2004, DAO began offering and selling SRI stocks and/or notes to
2 offerees and/or investors.

3 17. The engagement of DAO was later memorialized in writing. On or about January
4 14, 2006, K. COTTLE, on behalf of SRI, executed a written contract memorializing the
5 engagement of DAO as a contractor and to secure investor monies. SRI agreed to compensate
6 DAO five percent (5%) to ten percent (10%) of investor monies obtained. The agreement also
7 stated that DAO was to report to the CEO.

8 18. At all times relevant, DAO resided in California. Investor monies collected by DAO
9 were mailed or forwarded to SRI, which maintained its principal place of business in Arizona for
10 all times relevant.

11 19. From on or about June 2004 through May 2007, DAO offered and/or sold Series B,
12 Series B1, Series B2, and SRI convertible promissory notes. DAO received compensation from
13 SRI for obtaining investor monies up to May 2007.

14 20. DAO is not and has not been a registered securities salesman in the state of Arizona
15 or any state.

16 21. During the relevant timeframe, SRI, COTTLE, DAO and/or W. KIKUCHI, offered
17 and/or sold³ securities titled as: SRI convertible promissory notes, Series B, Series B1, Series B2,
18 SRI Series C preferred ("Series C") stocks, and/or SRI stock warrants ("Warrants"), which raised
19 total of at least \$2,637,880.00 from over 100 investors.

20 a) Convertible promissory notes were offered and/or sold from approximately
21 May 2004 to 2007.

22 b) Series B were offered and/or sold from approximately April 2004 to March
23 2005;

24
25
26 ³ Series A preferred stock was offered and/or sold outside the state of Arizona, approximately from on or about June 2001 to March 2002 to Non-Arizona investors and while SRI was headquartered in Oregon and/or Nevada.

1 c) Series B1 were offered and/or sold from approximately March 2005 to
2 March 2006;

3 d) Series B2 were offered and/or sold from approximately May 2006 to
4 December 2007;

5 e) Series C were offered and/or sold from approximately November 2004 to
6 March 2005; and

7 f) Warrants were offered and/or sold from approximately May 2005 to
8 December 2007;

9 22. COTTLE represented to certain offerees and/or investors that SRI was seeking
10 investment capital to expand its business operations and to assist SRI in its effort to be bought out
11 or become a publicly traded company by initial public offering (“IPO”) in approximately six (6) to
12 eighteen (18) months. Offerees and/or investors were told they would reap a good return once SRI
13 was acquired or performed an IPO.

14 **Convertible Promissory Notes**

15 23. From approximately May 2004 to 2007, COTTLE, on behalf of SRI and/or through
16 DAO and/or W. KIKUCHI, offered and/or sold unregistered securities in the form of notes and/or
17 investment contracts (titled as “Unsecured Convertible Promissory Note” hereafter called “Note”),
18 within or from Arizona. The Note stated SRI would pay periodic interest payments to the holder
19 (generally six percent (6%) or eight percent (8%) annual rate) with the option to convert the
20 principal and interest amount into SRI stock. The Notes were unsecured and generally had a stated
21 maturity of two years.

22 24. The Note-holders have not received any interest payments on their Notes. Most, if
23 not all the Notes, were converted to SRI stock.

24 25. Prior to making an interest payment on the Notes or maturity of the Notes, the
25 COTTLES offered and/or encouraged the Note-holders to convert their Notes into SRI stock.

26

1 26. COTTLE represented to investors that by converting the Note into SRI stock, the
2 investor would be able to obtain a greater return.

3 a) In at least one instance, COTTLE stated to an investor that SRI stock would
4 be sold at \$5.00 per share (or greater);

5 b) In at least one instance, COTTLE stated to an investor that the stock value
6 would be double or triple the investor's purchase price when the company was acquired, was sold
7 or went public.

8 27. To date, SRI has not been acquired by another company nor completed an IPO
9 offering.

10 28. The notes and/or investment contracts are not registered with the Commission.

11 29. At all times relevant, SRI was not a registered dealer and COTTLE was not a
12 registered salesman with the Commission.

13 **SERIES B**

14 30. COTTLE, on behalf of SRI and/or through DAO and/or W. KIKUCHI, offered
15 and/or sold, within or from Arizona, Series B stock from approximately April 2004 to March 2005.

16 31. COTTLE sent shareholder newsletters to offerees and/or investors soliciting them to
17 invest in Series B stocks and requested existing shareholders to pass along the investment
18 opportunity to their friends.

19 32. A third (3rd) quarter 2004 shareholder newsletter sent by Respondents stated that
20 SRI was raising a total of \$1,000,000.00 from the Series B shares, that \$750,000.00 had already
21 been raised, and that after the remaining \$250,000.00 was raised, the Series B shares would be
22 completely closed in anticipation of moving on to Series C shares.

23 33. However, COTTLE, on behalf of SRI and/or through DAO and/or W. KIKUCHI,
24 thereafter offered and/or sold shares of Series B, Series B1 and Series B2 stocks to investors prior
25 to Series C stock shares being sold.

26 34. The stock is not registered with the Commission.

1 35. At all times relevant, SRI was not a registered dealer and COTTLE was not a
2 registered salesman with the Commission.

3 **SERIES B1**

4 36. COTTLE, on behalf of SRI and/or through DAO and/or W. KIKUCHI, offered
5 and/or sold, within or from Arizona, Series B1 stocks from approximately March 2005 to March
6 2006.

7 37. In a "Business Profile" newsletter distributed to offerees and/or investors, it stated
8 that SRI had certain partnerships or joint ventures. Specifically, it stated:

9 a) That SRI had a joint partnership with Olympus Corporation to create
10 managed security product in the Japanese market; and

11 b) That SRI had a business relationship with Fujitsu, a global software and
12 hardware manufacturer, and "with the Fujitsu deal alone will generate over 5 million new licenses
13 each year."

14 38. However, SRI did not have a written or contractual joint partnership with Olympus
15 Corporation to create a managed security product but instead was paid a total of \$30,000 from ITX
16 Corporation, a division of Olympus Corporation, pursuant to an agreement.

17 39. However, SRI did not have a direct contractual relationship with Fujitsu that
18 generated over five million new licenses each year.

19 40. On or around the third quarter of 2005, an SRI shareholder newsletter was
20 distributed to offerees and/or investors offering Series B1 shares for \$.50 per share. In addition, for
21 any individual who invested \$50,000 or more, SRI would issue matching warrants so the investor
22 may purchase additional shares in the later rounds at the same fixed \$.50 per share price no matter
23 what the value of the SRI stock is in later rounds. The newsletter stated that Houlihan Lokey
24 Howard and Zukin ("HLHZ") projected that "round C shares will be valued above a dollar per
25 share." However, the investment banking firm HLHZ never provided SRI with any written or
26 formal valuation for SRI Series B, B1 or B2 stock nor did they advise SRI in writing that the SRI

1 round C shares would be valued above a dollar per share. The newsletter ends with a message
2 from the CEO/Chairman COTTLE.

3 41. SRI did not disclose to all investors the total amount of Warrants that had been
4 granted or issued. In addition, SRI failed to disclose to all investors that the SRI stock might
5 become diluted or depreciate in value as a result of Warrants issued.

6 42. In at least one instance, COTTLE told an investor that Series B1 shares would be
7 closed from further investment after December 2005; however, SRI Series B1 shares continued to
8 be sold after December 2005.

9 43. On or about March 2006, DAO solicited an offeree and/or investor to invest in SRI
10 Series B1 stock.

11 44. DAO represented to an offeree and/or investor that the offeree and/or investor could
12 expect to make a return of six (6x) times or greater on their original investment.

13 45. On or about March 16, 2006, DAO, on behalf of SRI, contacted an offeree and/or
14 investor and offered securities in the form of stocks and warrants, within or from Arizona, by
15 sending an electronic mail message from an SRI email account to the offeree and/or investor that
16 stated:

17 a) "Secure Resolutions, is entering its 6th year of business and the best bet for a
18 large return on investment (ROI) within this B1 round you may find the following information
19 useful."

20 b) "** Minimum investment is \$10k";

21 c) "** At \$50k or greater you receive matching warrants";

22 d) "** Equity shares are 50 cents a share";

23 e) "** Round B-1 Funding was closed as of December 31, 2005. However, the
24 company has extended this opportunity for a little longer";

25 f) That B-1 shares "will close out at the end [of the] month. After this, there
26 will be no more family and friends funding";

1 g) That SRI currently had 15 companies bidding on it through their investment
2 banking firm;

3 h) That SRI probably will be purchased for \$100 million plus;

4 i) That it would be a “cash buyout!”; and

5 j) That some of the “BIG companies that want to acquire Secure Resolutions
6 are the following:

7 (i) I BM software division

8 (ii) Oracle

9 (iii)Microsoft

10 [...]

11 (iv)The rest of the companies that are \$100M to \$500M size.” *(error in original)*

12

13 46. However, IBM software division, Oracle and Microsoft did not submit a cash
14 buyout and/or acquisition offer to SRI or to HLHZ, a San Francisco investment banking firm hired
15 by SRI.

16 47. On or about March 17, 2006, COTTLE sent an electronic mail message to an
17 offeree and/or investor that stated that the investment banking firm hired by SRI told SRI they “are
18 undervaluing the stock, we need to be right now around \$1.25 or higher per share. – Based on
19 volume of sales per client and the same but better technology they are screaming at us to raise the
20 value over 50 cents....”

21 48. However, HLHZ, the investment banking firm hired by SRI, did not provide SRI
22 with any written memo or document stating that SRI Series B1 stock needed to be around \$1.25 or
23 higher per share nor did they recommend to SRI in any written memo or document advising SRI to
24 raise the value to over fifty (\$.50) cents per share.

25 49. In addition, SRI Series B1 shares were sold below fifty cents (\$.50) per share to
26 later investors. SRI did not disclose to all earlier investors that had purchased at fifty cents (\$.50)

1 per share that subsequent Series B1 shares would be sold by SRI for thirty-eight cents (\$.38) and/or
2 thirty-one cents (\$.31) per share and did not disclose to all earlier investors that such discounted
3 sales did occur.

4 50. The stocks and warrants are not registered with the Commission.

5 51. At all times relevant, SRI was not a registered dealer and COTTLE was not a
6 registered salesman with the Commission.

7 **SERIES B2**

8 52. COTTLE, on behalf of SRI and/or through DAO and/or W. KIKUCHI, offered
9 and/or sold, within or from Arizona, Series B2 stock from approximately May 2006 to December
10 2007.

11 53. On or about May 2006, offerees and/or investors were sent an SRI newsletter that
12 provided financial projections and offered for sale Series B2 stock. The newsletter stated:

13 **“Financial Projections:**

14 SRI in 2005 generated 1.2 Million dollars in revenue. In 2006 SRI has projected 6
15 Million dollars in revenue and is on target for this goal. In 2007, SRI is projecting
16 over 15 Million dollars in revenue 2008 and 25 Million in 2009.” (*errors in*
17 *original*)

18
19 54. However, SRI did not generate \$1.2 Million dollars in actual revenue in 2005. SRI
20 generated \$796,949.00 based on its 2005 federal income tax return.

21 55. In 2006, as SRI was offering Series B2 stock at \$1.00 per share, another SRI
22 newsletter was sent to certain offerees and/or investors that provided a second set of financial
23 projections. The newsletter stated:

24 **“Financial Projections:**

25 In 2005, SRI generated collected revenue streams of 800 thousand dollars and raised
26 another 500 thousand dollars equaling \$1.2 Million dollars in revenue and Capital

1 Investment. In 2006 SRI has projected 3 Million dollars in revenue and is on target
2 for this goal. We also expect to raise \$2 Million in Capital Investment in 2006
3 equaling over 5 Million dollars in revenue and capital investment. In 2007, SRI is
4 projecting over 8 Million dollars in revenue and in 2008 to reach 20 Million dollars
5 in revenue alone.

6
7 SRI projects the valuation of the company estimate at \$30+ Million dollars in 2006.
8 Our goal is to raise the valuation of the Company to be \$100+ Million dollars within
9 the next three years." (*Errors in original*)

10 56. The SRI newsletter also stated that SRI believed a merger or acquisition would
11 happen within the next two years.

12 57. However, SRI did not generate \$1,200,000.00 or \$800,000.00 in actual revenue in
13 2005. In 2005, SRI's actual revenue was at least \$200,000.00 less than the \$796,949.00 reported on
14 its federal income tax return. On or about March 2005, COTTLE solicited an investor to invest
15 \$200,000.00 in exchange for SRI stock. A contingent SRI stock purchase agreement was executed
16 whereby the investor would invest the proceeds of a real estate transaction if the real estate was
17 sold. The investor's real estate property was not sold, yet SRI recorded the transaction as income
18 for March 2005. This \$200,000.00 receivable remained on SRI's books for calendar year 2005 to at
19 least 2008 and directly increased SRI's revenue number reported, though it was not collected or
20 due.

21 58. The stock is not registered with the Commission.

22 59. At all times relevant, SRI was not a registered dealer and COTTLE was not a
23 registered salesman with the Commission.

24 **SERIES C**

25 60. SRI, offered and/or sold, within or from Arizona, Series C stock and notes from
26 approximately November 2004 to March 2005.

1 61. On or around November 20, 2004, SRI through its agent, solicited offerees and/or
2 investors to attend a presentation regarding SRI's investment opportunity.

3 62. This presentation took place on November 20, 2004 at the La Veranda Restaurant
4 located in Garden Grove, CA and COTTLE was a presenter. COTTLE disclosed that various
5 business relationships had been secured by SRI that would increase sales, that certain larger
6 corporations were interested in acquiring SRI, and that SRI stock would appreciate greatly if SRI
7 went public.

8 63. As detailed in the "Investment Opportunity" section of a document, SRI was
9 seeking \$10,000,000.00. "The minimum investment is \$100,000 and will be secured by a
10 convertible note paying 6.0% upon maturation after one year from date of issuance." SRI offered
11 the offerees and/or investors the option at maturity of the note, to be paid the principal and interest
12 due or convert the principal and interest into Series C stock.

13 64. Approximately fifteen (15) people attended the presentation, including SRI
14 representatives.

15 65. Offerees and/or investors were also sent a third (3rd) quarter 2005 shareholder
16 newsletter that stated, "According to our investment banking firm HLHZ, it is projected that round
17 C shares will be valued above a dollar per share."

18 66. However, the investment banking firm HLHZ never provided SRI with any written
19 or formal SRI Series C stock valuation nor did they advise SRI in writing that the Series C shares
20 would be valued above a dollar per share.

21 67. The stocks and notes are not registered with the Commission.

22 68. At all times relevant, SRI was not a registered dealer and COTTLE was not a
23 registered salesman with the Commission.

24 **WARRANTS**

25 69. COTTLE, on behalf of SRI, offered and/or sold, within or from Arizona, SRI
26 Warrants from approximately May 2005 to December 2007.

1 70. As described above, COTTLE, on behalf of SRI, offered Warrants in an SRI
2 newsletter or as an incentive to invest. The Warrants granted the individual holder the right to
3 purchase additional SRI stock shares at a fixed price. At least two investors exercised their
4 Warrants and purchased Series B1 and Series B2 shares respectively.

5 71. Many SRI investors were granted Warrants with non-expiring execution rights.
6 COTTLE solicited and requested Warrant holders to execute their warrants and purchase additional
7 shares of SRI stock.

8 72. COTTLE did not disclose to all investors the total amount of Warrants that had been
9 granted or issued. In addition, COTTLE failed to disclose to all investors that the SRI stock might
10 become diluted or diminished in value as a result of Warrants issued.

11 73. The Warrants are not registered with the Commission.

12 74. At all times relevant, SRI was not a registered dealer and COTTLE was not a
13 registered salesman with the Commission.

14 **JOINT FACTS**

15 75. COTTLE presented to offerees and/or investors that SRI was a growing and
16 profitable company. An SRI newsletter stated that SRI was "one of Arizona's top rated businesses.
17 Our security business will generate local jobs for many employees over a long duration of time.
18 We are one of Arizona's fastest growing small businesses." However, SRI's 2004, 2005, and 2006
19 federal income tax returns reflect losses of \$(502,945.00), \$(338,869.00), and \$(297,492.00),
20 respectively.

21 76. In addition, Respondents failed to disclose that the company had not paid all payroll
22 and unemployment taxes due to the federal government since March 31, 2004. Pursuant to the
23 public records of the Maricopa County Recorder, federal tax liens were recorded against SRI for
24
25
26

1 failure to pay unemployment taxes and payroll taxes totaling **\$1,405,615.23**⁴ for tax periods
2 covering March 31, 2004, through December 31, 2008.

3 77. On or about October 9, 2001, SRI obtained a United States Department of
4 Agriculture (“USDA”) rural development business loan⁵. The proceeds of the USDA loan were
5 expended by approximately October 2003; however, SRI did not disclose: (i) the existence of the
6 loan to all Note-holders and investors (ii) the amount of the loan and/or (iii) that on or about May
7 2006, SRI had unpaid principal of \$3,064,435.71; unpaid interest of \$497,147.48; and an amount
8 behind schedule of \$1,938,587.38. The USDA loan is still outstanding.

9 78. In addition, pursuant to public records of the Secretary of State of Arizona, the
10 USDA filed a UCC financing statement on October 19, 2006, that provides collateral for the loan
11 and covers “All accounts, deposits accounts, goods, supplies, inventory, supporting obligations,
12 investment property, certificates of title, payment intangibles, and general intangibles, including,
13 but not limited to the following: Furniture; Fixtures; Equipment; Computer Equipment; Notes
14 Receivable [...]; Accounts Receivable; [and] Inventory.” The underlying security agreement and
15 financing statement were not disclosed to all Note-holders and investors.

16 79. On or about June 20, 2008, offerees and/or investors were sent an SRI newsletter
17 that included “a message from the chairman [Douglas Cottle]” that stated, “The Company
18 continues to create new partnerships to lay a strong foundation for sales growth and company
19 value. [...] I want to share with you that the Company is progressing and the sale of our product
20 line will greatly enhance our ability to add to the strength of the other developmental products. We
21 want to bring as much value as possible to the company, and your Investment.”

22
23
24 ⁴ Federal tax lien recorder # 2008-102850 for \$1,063,960.79 and recorder # 2008-102851 for \$173,635.79 filed on
25 December 1, 2008. Federal tax lien recorder # 2009-0188641 for \$131,091.71 filed on February 20, 2009. Federal tax
lien recorder # 2009-0324119 for \$36,926.94 filed on April 3, 2009.

26 ⁵ Pursuant to the public records of the Oregon Secretary of State, a UCC filing #567745 was filed on October 12, 2001
by the USDA-Rural Development 1390 S Curry Street, Carson City, NV 89703 as Secured Party and SRI as the
Debtor. The expiration date for this filing was October 12, 2006.

1 80. On or about September 1, 2008, SRI sent a 2007 profit and loss statement to
2 investors that reported sales income of approximately \$2,257,809.78 and a net income of
3 approximately \$488,368.76; however, investors were not told that the accounts receivable
4 included a \$799,000.00 receivable that had been on the company's book since March 2, 2007 and
5 was not actually due to SRI; and a \$200,000.00 receivable that had been on the company's book
6 since May 1, 2005 and was not actually due to SRI. These accounting entries directly increased
7 SRI's revenue and net income numbers disclosed, even though the \$999,000.00 was not collected
8 or due.

9
10 **II.**

11 **CONCLUSIONS OF LAW**

12 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
13 Arizona Constitution and the Securities Act.

14 2. Respondents offered or sold securities within or from Arizona, within the meaning
15 of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

16 3. Respondents violated A.R.S. § 44-1841 by offering or selling securities that were
17 neither registered nor exempt from registration.

18 4. Respondents violated A.R.S. § 44-1842 by offering or selling securities while
19 neither registered as dealers or salesmen nor exempt from registration.

20 5. Respondents violated A.R.S. § 44-1991 by (a) employing a device, scheme, or
21 artifice to defraud, (b) making untrue statements or misleading omissions of material facts, or (c)
22 engaging in transactions, practices, or courses of business that operate or would operate as a fraud
23 or deceit. The conduct includes, but is not limited to, the following:

24 a) Represented to offerees and/or investors in an SRI newsletter that SRI was a
25 growing and profitable company. The newsletter stated that SRI was "one of Arizona's top rated
26 businesses. Our security business will generate local jobs for many employees over a long duration

1 of time. We are one of Arizona's fastest growing small businesses." However, SRI's 2004, 2005,
2 and 2006 federal income tax returns reflect losses of \$(502,945.00), \$(338,869.00), and
3 \$(297,492.00), respectively;

4 b) COTTLE sent an electronic mail message to an offeree and/or investor that
5 stated that the investment banking firm hired by SRI told SRI they "are undervaluing the stock, we
6 need to be right now around \$1.25 or higher per share. – Based on volume of sales per client and
7 the same but better technology they are screaming at us to raise the value over 50 cents...."
8 However, HLHZ, the investment banking firm hired by SRI, did not provide SRI with any written
9 memo or document stating that SRI Series B1 stock needed to be around \$1.25 or higher per share
10 nor did they recommend to SRI in any written memo or document advising SRI to raise the value
11 to over fifty (\$.50) cents per share;

12 c) DAO, on behalf of SRI, represented that IBM software division, Oracle and
13 Microsoft had submitted a cash buyout and/or acquisition offer for SRI; however, IBM software
14 division, Oracle and Microsoft did not submit a cash buyout and/or acquisition offer to SRI or to
15 HLHZ, a San Francisco Investment banking firm hired by SRI;

16 d) Represented that SRI had a joint partnership with Olympus Corporation to
17 create a managed security product in the Japanese market; however, SRI did not have a written or
18 contractual joint partnership with Olympus Corporation to create a managed security product but
19 was instead paid a total of \$30,000 from ITX Corporation, a division of Olympus Corporation,
20 pursuant to an agreement;

21 e) Represented that SRI had a business relationship with Fujitsu, a global
22 software and hardware manufacturer, and "with the Fujitsu deal alone will generate over 5 million
23 new licenses each year."; however, SRI did not have a direct contractual relationship with Fujitsu
24 that generated over five million new licenses each year;

25 f) Represented that SRI collected revenues of \$1,200,000.00 and/or
26 \$800,000.00 in 2005; however, SRI did not generate \$1,200,000.00 or \$800,000.00 in actual

1 revenue in 2005. In 2005, SRI's actual revenue was at least \$200,000.00 less than the \$796,949.00
2 reported on its federal income tax return. On or about March 2005, COTTLE solicited an investor
3 to invest \$200,000.00 in exchange for SRI stock. A contingent SRI stock purchase agreement was
4 executed whereby the investor would invest the proceeds of a real estate transaction if the real
5 estate was sold. The investor's real estate property was not sold, yet SRI recorded the transaction as
6 income for March 2005. This \$200,000.00 receivable remained on SRI's books for calendar year
7 2005 to at least 2008 and directly increased SRI's revenue number reported, though it was not
8 collected or due;

9 g) Failed to disclose that the company had not paid all payroll and
10 unemployment taxes due to the federal government since March 31, 2004. Pursuant to the public
11 records of the Maricopa County Recorder, federal tax liens were recorded against SRI for failure to
12 pay unemployment taxes and payroll taxes totaling **\$1,405,615.23⁶** for tax periods covering March
13 31, 2004 through December 31, 2008;

14 h) Failed to disclose to all earlier investors that had purchased Series B1 at fifty
15 cents (\$.50) per share that subsequent Series B1 shares would be sold for thirty-eight cents (\$.38)
16 and/or thirty-one cents (\$.31) per share and did not disclose to all earlier investors that such
17 discounted sales did occur;

18 i) Failed disclose: (i) the existence of the USDA loan to all Note-holders and
19 investors (ii) the amount of the loan and/or (iii) that on or about May 2006, SRI had unpaid
20 principal of \$3,064,435.71; unpaid interest of \$497,147.48; and an amount behind schedule of
21 \$1,938,587.38;

22 j) Failed to disclose to all investors the total amount of Warrants that had been
23 granted or issued. In addition, COTTLE failed to disclose to all investors that the SRI stock might
24 become diluted or depreciate in value as a result of Warrants issued; and

25 ⁶ Federal tax lien recorder # 2008-102850 for \$1,063,960.79 and recorder # 2008-102851 for \$173,635.79 filed on
26 December 1, 2008. Federal tax lien recorder # 2009-0188641 for \$131,091.71 filed on February 20, 2009. Federal tax
lien recorder # 2009-0324119 for \$36,926.94 filed on April 3, 2009.

1 k) Represented in a third (3rd) quarter 2005 shareholder newsletter that,
2 “According to our investment banking firm HLHZ, it is projected that round C shares will be
3 valued above a dollar per share.”; however, the investment banking firm HLHZ never provided
4 SRI with any written or formal SRI Series C stock valuation nor did they advise SRI in writing that
5 the Series C shares would be valued above a dollar per share.

6 6. COTTLE and K. COTTLE are persons controlling SRI within the meaning of
7 A.R.S. § 44-1999. Therefore, COTTLE and K. COTTLE are each jointly and severally liable to the
8 same extent as SRI for violations of A.R.S. § 44-1991.

9 7. Respondents’ conduct is grounds for a cease and desist order pursuant to A.R.S.
10 § 44-2032.

11 8. Respondents’ conduct is grounds for an order of restitution pursuant to A.R.S. § 44-
12 2032.

13 9. Respondents’ conduct is grounds for administrative penalties under A.R.S. § 44-
14 2036.

15 10. Respondents acted for the benefit of their respective marital community and,
16 pursuant to A.R.S. §§ 25-214 and 25-215, this Order of restitution and administrative penalties is a
17 debt of the community.

18 **III.**

19 **ORDER**

20 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and Respondents’
21 consent to the entry of this Order, attached and incorporated by reference, the Commission finds
22 that the following relief is appropriate, in the public interest, and necessary for the protection of
23 investors:

24 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that Respondents, and any of
25 Respondents’ agents, employees, successors and assigns, permanently cease and desist from
26 violating the Securities Act.

1 IT IS FURTHER ORDERED that Respondents comply with the attached Consent to Entry
2 of Order.

3 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that Respondents Cottle and
4 K. Cottle individually, and the marital communities of Respondents Cottle and K. Cottle
5 respectively, jointly and severally shall pay restitution to the Commission in the principal amount
6 of \$2,637,880. Any principal amount outstanding shall accrue interest at the rate of 10 percent per
7 annum from the date of purchase until paid in full. Interest in the amount of \$897,773 has accrued
8 from the date of purchase to the date of this Order. Payment shall be made in full on the date of
9 this Order. Payment shall be made to the "State of Arizona" to be placed in an interest-bearing
10 account controlled by the Commission.

11 The Commission shall disburse the funds on a pro-rata basis to investors shown on the
12 records of the Commission. Any restitution funds that the Commission cannot disburse because an
13 investor refuses to accept such payment, or any restitution funds that cannot be disbursed to an
14 investor because the investor is deceased and the Commission cannot reasonably identify and
15 locate the deceased investor's spouse or natural children surviving at the time of the distribution,
16 shall be disbursed on a pro-rata basis to the remaining investors shown on the records of the
17 Commission. Any funds that the Commission determines it is unable to or cannot feasibly
18 disburse shall be transferred to the general fund of the state of Arizona.

19 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondents SRI, Cottle
20 and K. Cottle, individually, and the marital communities of Respondents Cottle and K. Cottle
21 respectively, jointly and severally shall pay an administrative penalty in the amount of \$150,000.
22 Payment shall be made to the "State of Arizona." Any amount outstanding shall accrue interest at
23 the rate of 10 percent per annum from the date of this Order until paid in full. The payment
24 obligations for these administrative penalties shall be subordinate to any restitution obligations
25 ordered herein and shall become immediately due and payable only after restitution payments have
26 been paid in full or upon Respondents' default with respect to Respondents' restitution obligations.

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For purposes of this Order, a bankruptcy filing⁷ by any of the Respondents shall be an act of default. If any Respondent does not comply with this Order, any outstanding balance may be deemed in default and shall be immediately due and payable.

IT IS FURTHER ORDERED, that if any Respondent fails to comply with this order, the Commission may bring further legal proceedings against that Respondent, including application to the superior court for an order of contempt.

IT IS FURTHER ORDERED, that no finding of fact or conclusion of law contained in this Order shall be deemed binding against any Respondent under this Docket Number who has not consented to the entry of this Order.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____,

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

⁷ The Division acknowledges that Douglas and Kyla Cottle have filed a Chapter 7 bankruptcy petition in Arizona, case# 09-28307 on or about November 4, 2009. Any subsequent bankruptcy petitions filed by Respondents following a discharge or dismissal of these pending proceedings shall be viewed as a default.

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DISSENT

DISSENT

This document is available in alternative formats by contacting Shaylin A. Bernal, ADA Coordinator, voice phone number 602-542-3931, e-mail sabernal@azcc.gov.

(PTH)

CONSENT TO ENTRY OF ORDER

1
2 1. Respondents Cottle and K. Cottle (“Respondents”) admit the jurisdiction of the
3 Commission over the subject matter of this proceeding. Respondents acknowledges they have
4 been fully advised of their right to a hearing to present evidence and call witnesses and
5 Respondents knowingly and voluntarily waives any and all rights to a hearing before the
6 Commission and all other rights otherwise available under Article 11 of the Securities Act and
7 Title 14 of the Arizona Administrative Code. Respondents acknowledge that this Order To Cease
8 And Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same
9 (“Order”) constitutes a valid final order of the Commission.

10 2. Respondents knowingly and voluntarily waives any rights under Article 12 of the
11 Securities Act to judicial review by any court by way of suit, appeal, or extraordinary relief
12 resulting from the entry of this Order.

13 3. Respondents acknowledge and agree that this Order is entered into freely and
14 voluntarily and that no promise was made or coercion used to induce such entry.

15 4. Respondent Cottle and Respondent K. Cottle have been represented by an attorney
16 in this matter, Respondent Cottle and Respondent K. Cottle have reviewed this order with their
17 attorney, **Michael S. Baker, Esq.**, and understand all terms it contains. Respondent Cottle and
18 Respondent K. Cottle acknowledge that their attorney has apprised them of their rights regarding
19 any conflicts of interest arising from dual representation. Respondent Cottle and Respondent K.
20 Cottle acknowledge that they have each given their informed consent to such representation.

21 5. Respondents neither admits nor denies the Findings of Fact and Conclusions of Law
22 contained in this Order. Respondents agree that Respondents shall not contest the validity of the
23 Findings of Fact and Conclusions of Law contained in this Order in any present or future
24 administrative proceeding before the Commission or any other state agency concerning the denial
25 or issuance of any license or registration required by the state to engage in the practice of any
26 business or profession.

1 6. By consenting to the entry of this Order, Respondents agree not to take any action
2 or to make, or permit to be made, any public statement denying, directly or indirectly, any Finding
3 of Fact or Conclusion of Law in this Order or creating the impression that this Order is without
4 factual basis. Respondents will undertake steps necessary to assure that all of Respondents' agents
5 and employees understand and comply with this agreement.

6 7. While this Order settles this administrative matter between Respondents and the
7 Commission, Respondents understand that this Order does not preclude the Commission from
8 instituting other administrative or civil proceedings based on violations that are not addressed by
9 this Order.

10 8. Respondents understand that this Order does not preclude the Commission from
11 referring this matter to any governmental agency for administrative, civil, or criminal proceedings
12 that may be related to the matters addressed by this Order.

13 9. Respondents understand that this Order does not preclude any other agency or
14 officer of the state of Arizona or its subdivisions from instituting administrative, civil, or criminal
15 proceedings that may be related to matters addressed by this Order.

16 10. Respondents agree that Respondents will not apply to the state of Arizona for
17 registration as a securities dealer or salesman or for licensure as an investment adviser or
18 investment adviser representative until such time as all restitution and penalties under this Order
19 are paid in full.

20 11. Respondents agree that Respondents will not exercise any control over any entity
21 that offers or sells securities or provides investment advisory services within or from Arizona until
22 such time as all restitution and penalties under this Order are paid in full.

23 12. Respondents agrees that Respondents will not sell any securities in or from Arizona
24 without being properly registered in Arizona as a dealer or salesman, or exempt from such
25 registration; Respondents will not sell any securities in or from Arizona unless the securities are
26 registered in Arizona or exempt from registration; and Respondents will not transact business in

1 Arizona as an investment adviser or an investment adviser representative unless properly licensed
2 in Arizona or exempt from licensure.

3 13. Respondent Cottle and Respondent K. Cottle acknowledge that any restitution or
4 penalties imposed by this Order are obligations of the Respondents Cottle and K. Cottle as well as
5 the marital community.

6 14. Respondents consent to the entry of this Order and agrees to be fully bound by its
7 terms and conditions.

8 15. Respondents acknowledge and understand that if Respondents fails to comply with
9 the provisions of the order and this consent, the Commission may bring further legal proceedings
10 against Respondents, including application to the superior court for an order of contempt.

11 16. Respondents understand that default shall render Respondent liable to the
12 Commission for its costs of collection and interest at the maximum legal rate.

13 17. Respondents agree and understand that if Respondent fails to make any payment as
14 required in the Order, any outstanding balance shall be in default and shall be immediately due and
15 payable without notice or demand. Respondents agree and understand that acceptance of any
16 partial or late payment by the Commission is not a waiver of default by Commission.

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[Handwritten Signature]

Douglas Cottle

[Handwritten Signature]

Kyla Cottle

STATE OF ARIZONA)
) ss
County of *Maricopa*)

SUBSCRIBED AND SWORN TO BEFORE me this 8th day of February, 2010.

[Handwritten Signature]
NOTARY PUBLIC

My commission expires:

9/21/2010



SERVICE LIST FOR:

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In the matter of:
SECURE RESOLUTIONS, INC., an Arizona Corporation;
DOUGLAS COTTLE and KYLA COTTLE, husband and wife,

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Michael S. Baker, Esq.
The Baker Law Firm, LLC
702 E. Coronado Rd.
Phoenix, AZ 85006
Attorney for Respondents