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



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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

ARIZONA CORPORATION COMMISSION

ORIGINAL

MEMORANDUM

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

FROM: Matthew J. Neubert *mjn*
Director of Securities

DATE: April 5, 2010

RE: Proposed default Order to Cease and Desist, Order for Restitution and Order for Administrative Penalties RE: Secure Resolutions, Inc., Docket No. S-20677A-09-0256

CC: Ernest G. Johnson, Executive Director

Arizona Corporation Commission

DOCKETED

APR - 5 2010

DOCKETED BY *mjn*

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Please find attached a proposed Order to Cease and Desist, Order for Restitution and Order for Administrative Penalties ("Default Order") regarding Secure Resolutions, Inc. ("SRI" or "Respondent"). As reflected in the Commission's tenth and eleventh procedural orders, the ALJ determined that Respondent did not properly request a hearing nor properly responded to the Division's Notice. The Default Order requires Respondent 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.

SRI had its principal place of business in Arizona. During the relevant timeframe, Douglas Cottle was the president, chief executive officer, and/or director of SRI and Kyla Cottle was a director of SRI. SRI, through its officers Douglas and Kyla, 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 Default Order finds that Respondent violated A.R.S. §§44-1841 and 44-1842 by selling unregistered securities while being unlicensed as a dealer. In addition, the Default Order

finds that Respondent violated A.R.S. §44-1991 because there were untrue statements or misleading omissions of material facts. The Division believes that this Default Order is appropriate to protect the public welfare. The Cottles consented to the entry of an Order before the Commission at the March 18, 2010 Open Meeting.

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

7 In the matter of:

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

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

12 Respondents.

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

) DECISION NO. _____

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

) **RE: RESPONDENT SECURE
RESOLUTIONS, INC.**

14 On May 21, 2009, the Securities Division ("Division") of the Arizona Corporation
15 Commission ("Commission") filed a Notice of Opportunity Regarding a Proposed Order to Cease
16 and Desist, Order for Restitution, For Administrative Penalties, and for Other Affirmative Action
17 ("Notice") against Secure Resolutions, Inc. ("SRI") and Douglas and Kyla Cottle, husband and
18 wife. The Notice was properly served on Respondent SRI on May 28, 2009, upon personal
19 delivery of a copy of the Notice to Kyla Cottle, director of Secure Resolutions, Inc. As reflected in
20 the Commission's tenth and eleventh procedural orders, the ALJ determined that SRI had not
21 properly requested a hearing pursuant to A.R.S. § 44-1972 and A.A.C. Rule R14-4-306 nor properly
22 responded to the Division's Notice pursuant to A.A.C. Rule R14-4-305.

23 **I.**

24 **FINDINGS OF FACT**

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

1 2. Secure Resolutions, Inc. ("SRI") is a corporation incorporated in Arizona on May 17,
2 2004, to conduct business in the state of Arizona.

3 3. Pursuant to public records of the Commission, Douglas Cottle ("Cottle") was
4 president, chief executive officer (CEO), and director of SRI¹. Cottle conducted business
5 individually and/or did business as and through SRI, as president, chief executive officer, or director
6 of SRI and was a controlling person of SRI.

7 4. Pursuant to public records of the Commission, Kyla Cottle ("K. Cottle") was a
8 director of SRI. K. Cottle conducted business individually and/or did business as and through SRI, as
9 director of SRI and was a controlling person of SRI.

10 5. SRI may be referred to as "Respondent."

11 6. From on or about May 2004 to December 2007, Respondent publicly offered and/or
12 sold unregistered securities in the form of investment contracts, notes, warrants and/or stocks
13 within or from Arizona.

14 7. SRI's website described SRI as "a software development Company providing an
15 independent, integrated IT security management console for the enterprise market. Secure
16 Resolutions enables enterprises to secure their IT infrastructure more effectively, easily and
17 profitably by providing an intelligent suite of integrated security products."

18 8. To raise capital for the company, Cottle, on behalf of SRI, offered and/or sold
19 various investment opportunities to offerees and/or through the engagement of unregistered
20 salesmen, Wesley Kikuchi ("W. Kikuchi") and Lang Dao ("Dao").

21 9. Investment presentations were held at various locations, including but not limited to:

22 a) The Reno convention center in Reno, Nevada on or about May 27, 2004;

23 b) The La Veranda Restaurant located in Garden Grove, California on or about

24 November 20, 2004; and

25 _____
26 ¹ From September 2003 to June 2006, Cottle was the Acting CEO of SRI; From July 2006 to Present, Cottle has been
the President and CEO of SRI; From March 3, 2003 to the present Cottle has been Chairman of SRI's board of
directors.

1 c) The personal residences of certain investors located in California, Nevada
2 and Arizona.

3 10. On or about April 23, 2004, Cottle, on behalf of SRI, memorialized in a document
4 to W. Kikuchi their business relationship which included terms that stated W. Kikuchi was "to
5 assist Secure Resolutions as a broker for investment opportunities," that W. Kikuchi would receive
6 a ten percent (10%) commission for each investment secured, and that payments would be in the
7 form of cash and/or SRI stock. Cottle signed the document as CEO/Chairman of SRI.

8 11. Between August 8, 2004, to at least December 19, 2006, SRI paid W. Kikuchi such
9 commission payments.

10 12. W. Kikuchi is not and has not been a registered securities salesman in the state of
11 Arizona or any state.

12 13. At all times relevant, W. Kikuchi resided in Nevada. While in Nevada, W. Kikuchi
13 offered and/or sold SRI Series B preferred ("Series B") stocks, SRI Series B1 preferred ("Series
14 B1") stocks and SRI Series B2 preferred ("Series B2") stocks to Nevada residents. W. Kikuchi is
15 also an investor in SRI.

16 14. Investor monies were made payable to SRI, collected by W. Kikuchi and mailed or
17 forwarded to SRI, which maintained its principal place of business in Arizona for all times
18 relevant.

19 15. Pursuant to SRI records, on or about September 2003 to June 2006, Dao was the
20 vice president of SRI.

21 16. On or about June 2004, Dao began offering and selling SRI stocks and/or notes to
22 offerees and/or investors.

23 17. The engagement of Dao was later memorialized in writing. On or about January 14,
24 2006, K. Cottle, on behalf of SRI, executed a written contract memorializing the engagement of
25 Dao as a contractor and to secure investor monies. SRI agreed to compensate Dao five percent
26

1 (5%) to ten percent (10%) of investor monies obtained. The agreement also stated that Dao was to
2 report to the CEO.

3 18. At all times relevant, Dao resided in California. Investor monies collected by Dao
4 were mailed or forwarded to SRI, which maintained its principal place of business in Arizona for
5 all times relevant.

6 19. From on or about June 2004 through May 2007, Dao offered and/or sold Series B,
7 Series B1, Series B2, and SRI convertible promissory notes.

8 20. Dao is not and has not been a registered securities salesman in the state of Arizona
9 or any state.

10 21. During the relevant timeframe, SRI, Dao and/or W. Kikuchi, offered and/or sold²
11 securities titled as: SRI convertible promissory notes, Series B, Series B1, Series B2, SRI Series C
12 preferred ("Series C") stocks, and/or SRI stock warrants ("Warrants"), which raised a total of at
13 least \$2,637,880 from over 100 investors.

14 22. Certain offerees and/or investors were told that SRI was seeking investment capital
15 to expand its business operations and to assist SRI in its effort to be bought out or become a
16 publicly traded company by initial public offering ("IPO") in approximately six (6) to eighteen (18)
17 months. Offerees and/or investors were told they would reap a good return once SRI was acquired
18 or performed an IPO.

19 **Convertible Promissory Notes**

20 23. From approximately May 2004 to 2007, Respondent through Cottle, Dao and/or W.
21 Kikuchi, offered and/or sold unregistered securities in the form of notes and/or investment
22 contracts (titled as "Unsecured Convertible Promissory Note" hereafter called "Note"), within or
23 from Arizona. The Notes stated SRI would pay periodic interest payments to the holders (generally
24 six percent (6%) or eight percent (8%) annual rate) with the option to convert the principal and
25

26 ² 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 interest amount into SRI stock. The Notes were unsecured and generally had a stated maturity of
2 two years.

3 24. Provisions of the Note agreement required that SRI repay the Note holder in
4 semiannual payments over a certain timeframe, unless a qualified financing or liquidating event
5 occurred within the listed period, usually two years from the date of contract execution or effective
6 date. A "qualified financing" was described in the Note as a "financing for the sale of [SRI] stock
7 in which the gross offering proceeds to [SRI] exceed an aggregate of at least Five Hundred
8 Thousand Dollars (\$500,000) (including any conversion of debt into equity in connection
9 therewith)." A "liquidating event" was described as "a merger or consolidation of the Company
10 [...] with another Company or (ii) a sale, transfer or other disposition of all or substantially all of
11 the assets of the Company or (iii) [...] a transaction or series of related transactions in which more
12 than 50% of the voting power of the Company is transferred within a three-month period."

13 25. The Note holders have not received any interest payments on their Notes. Most, if
14 not all the Notes, were converted to SRI stock.

15 26. Pursuant to a Note provision, SRI was required to follow a conversion procedure
16 that required SRI to notify the Note holder in writing upon the occurrence of a qualified financing
17 or liquidating event; however, no Note holder received a document in writing detailing the
18 occurrence of either a qualified financing or liquidating event.

19 27. Prior to making an interest payment on the Notes or maturity of the Notes, the Note
20 holders were encouraged to convert their Notes into SRI stock.

21 28. Investors were told that by converting their Notes into SRI stock, they would be
22 able to obtain a greater return.

23 a) In at least one instance, an investor was told that SRI stock would be sold at
24 \$5.00 per share (or greater);

1 b) In at least one instance, an investor was told that the stock value would be
2 double or triple the investor's purchase price when the company was acquired, was sold or went
3 public.

4 29. To date, SRI has not been acquired by another company nor completed an IPO
5 offering.

6 30. The notes and/or investment contracts are not registered with the Commission.

7 31. At all times relevant, SRI was not a registered dealer or a salesman with the
8 Commission.

9 **SERIES B**

10 32. Cottle, on behalf of SRI and/or through Dao and/or W. Kikuchi, offered and/or sold,
11 within or from Arizona, Series B stock from approximately April 2004 to December 2006.

12 33. Investors were sent shareholder newsletters soliciting them to invest in Series B
13 stocks and requested existing shareholders to pass along the investment opportunity to their friends.

14 34. A third (3rd) quarter 2004 shareholder newsletter sent by Respondent stated that SRI
15 was raising a total of \$1,000,000 from the Series B shares, that \$750,000 had already been raised,
16 and that after the remaining \$250,000 was raised, the Series B shares would be completely closed
17 in anticipation of moving on to Series C shares.

18 35. The stock is not registered with the Commission.

19 36. At all times relevant, SRI was not a registered dealer or a salesman with the
20 Commission.

21 **SERIES B1**

22 37. Cottle, on behalf of SRI and/or through Dao and/or W. Kikuchi, offered and/or sold,
23 within or from Arizona, Series B1 stocks from approximately March 2005 to March 2006.

24 38. In a "Business Profile" newsletter distributed to offerees and/or investors, it stated
25 that SRI had certain partnerships or joint ventures. Specifically, it stated:
26

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

3 b) That SRI had a business relationship with Fujitsu, a global software and
4 hardware manufacturer, and had “over a million computers installed [with the SRI software] and
5 with the Fujitsu deal alone will generate over 5 million new licenses each year.”

6 39. However, SRI did not have a written or contractual joint partnership with Olympus
7 Corporation to create a managed security product.

8 40. However, SRI did not have any direct contractual relationship with Fujitsu that
9 generated over five million new licenses each year.

10 41. On or around the third quarter of 2005, an SRI shareholder newsletter was
11 distributed to offerees and/or investors offering Series B1 shares for \$.50 per share. In addition, for
12 any individual who invested \$50,000 or more, SRI would issue matching warrants so the investor
13 may purchase additional shares in the later rounds at the same fixed \$.50 per share price no matter
14 what the value of the SRI stock is in later rounds. The newsletter stated that Houlihan Lokey
15 Howard and Zukin (“HLHZ”) projected that “round C shares will be valued above a dollar per
16 share.” However, the investment banking firm HLHZ never provided SRI with any written or
17 formal valuation for SRI Series B, B1 or B2 stock nor did they advise SRI in writing that the SRI
18 round C shares would be valued above a dollar per share. The newsletter ends with a message from
19 the CEO/Chairman Cottle.

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

23 43. On or about March 16, 2006, an offeree and/or investor was contacted by electronic
24 mail message from an SRI email account to the offeree and/or investor that stated:

25

26

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

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

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

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

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

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

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

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

14 i) That it would be a "cash buyout!"; and

15 j) That some of the "BIG companies that want to acquire Secure Resolutions
16 are the following:

17 (i) IBM software division

18 (ii) Oracle

19 (iii) Microsoft

20 [...]

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

22
23 44. However, IBM software division, Oracle and Microsoft did not submit a cash
24 buyout and/or acquisition offer to SRI or to HLHZ, a San Francisco investment banking firm hired
25 by SRI.
26

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

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

10 47. In addition, SRI Series B1 shares were sold below fifty cents (\$.50) per share to
11 later investors. SRI did not disclose to all earlier investors that had purchased at fifty cents (\$.50)
12 per share that subsequent Series B1 shares would be sold by SRI for thirty-eight cents (\$.38) and/or
13 thirty-one cents (\$.31) per share and did not disclose to all earlier investors that such discounted
14 sales did occur.

15 48. The stocks and warrants are not registered with the Commission.

16 49. At all times relevant, SRI was not a registered dealer or a salesman with the
17 Commission.

18 **SERIES B2**

19 50. Cottle, on behalf of SRI and/or through Dao and/or W. Kikuchi, offered and/or sold,
20 within or from Arizona, Series B2 stock from approximately May 2006 to December 2007.

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

23 **“Financial Projections:**

24 SRI in 2005 generated 1.2 Million dollars in revenue. In 2006 SRI has projected 6
25 Million dollars in revenue and is on target for this goal. In 2007, SRI is projecting
26

1 over 15 Million dollars in revenue 2008 and 25 Million in 2009.” (*errors in*
2 *original*)

3
4 52. However, SRI did not generate \$1.2 Million dollars in actual revenue in 2005. SRI
5 generated \$796,949 based on its 2005 federal income tax return.

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

9 **“Financial Projections:**

10 In 2005, SRI generated collected revenue streams of 800 thousand dollars and raised
11 another 500 thousand dollars equaling \$1.2 Million dollars in revenue and Capital
12 Investment. In 2006 SRI has projected 3 Million dollars in revenue and is on target
13 for this goal. We also expect to raise \$2 Million in Capital Investment in 2006
14 equaling over 5 Million dollars in revenue and capital investment. In 2007, SRI is
15 projecting over 8 Million dollars in revenue and in 2008 to reach 20 Million dollars
16 in revenue alone.

17
18 SRI projects the valuation of the company estimate at \$30+ Million dollars in 2006.
19 Our goal is to raise the valuation of the Company to be \$100+ Million dollars within
20 the next three years.” (*Errors in original*)

21 54. The SRI newsletter also stated that SRI believed a merger or acquisition would
22 happen within the next two years.

23 55. However, SRI did not generate \$1,200,000 or \$800,000 in actual revenue in 2005.
24 In 2005, SRI’s actual revenue was at least \$200,000 less than the \$796,949 reported on its federal
25 income tax return. On or about March 2005, an investor was solicited to invest \$200,000 in
26 exchange for SRI stock. A contingent SRI stock purchase agreement was executed whereby the

1 investor would invest the proceeds of a real estate transaction if the real estate was sold. The
2 investor's real estate property was not sold, yet SRI recorded the transaction as income for March
3 2005. This \$200,000 receivable remained on SRI's books for calendar year 2005 to at least 2008
4 and directly increased SRI's revenue number reported, though it was not collected or due.

5 56. The stock is not registered with the Commission.

6 57. At all times relevant, SRI was not a registered dealer or a salesman with the
7 Commission.

8 **SERIES C**

9 58. Cottle, on behalf of SRI, offered and/or sold, within or from Arizona, Series C stock
10 and notes from approximately November 2004 to 2007.

11 59. On or around November 20, 2004, offerees and/or investors were invited to attend a
12 presentation regarding SRI's investment opportunity.

13 60. This presentation took place on November 20, 2004 at the La Veranda Restaurant
14 located in Garden Grove, CA and Cottle was a presenter.

15 61. SRI was seeking \$10,000,000 with a minimum investment of \$100,000 that would
16 be secured by a convertible note paying 6.0% upon maturation after one year from date of issuance.
17 SRI offered the offerees and/or investors the option at maturity of the note, to be paid the principal
18 and interest due or convert the principal and interest into Series C stock.

19 62. Approximately fifteen (15) people attended the presentation.

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

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

26 65. The stocks and notes are not registered with the Commission.

1 66. At all times relevant, SRI was not a registered dealer or a salesman with the
2 Commission.

3 **WARRANTS**

4 67. Cottle, on behalf of SRI, offered and/or sold, within or from Arizona, SRI Warrants
5 from approximately May 2005 to December 2007.

6 68. Warrants were offered in an SRI newsletter or as an incentive to invest. The
7 Warrants granted the individual holder the right to purchase additional SRI stock shares at a fixed
8 price. At least two investors exercised their Warrants and purchased Series B1 and Series B2 shares
9 respectively.

10 69. Many SRI investors were granted Warrants with non-expiring execution rights.

11 70. Respondent did not disclose to all investors the total amount of Warrants that had
12 been granted or issued. In addition, Respondent failed to disclose to all investors that the SRI stock
13 might become diluted or diminished in value as a result of Warrants issued.

14 71. The Warrants are not registered with the Commission.

15 72. At all times relevant, SRI was not a registered dealer or a salesman with the
16 Commission.

17 **JOINT FACTS**

18 73. Certain offerees and/or investors were told that SRI was a growing and profitable
19 company. An SRI newsletter stated that SRI was "one of Arizona's top rated businesses. Our
20 security business will generate local jobs for many employees over a long duration of time. We are
21 one of Arizona's fastest growing small businesses." However, SRI's 2004, 2005, and 2006 federal
22 income tax returns reflect losses of \$(502,945), \$(338,869), and \$(297,492), respectively.

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

1 pay unemployment taxes and payroll taxes totaling \$1,405,615.23³ for tax periods covering March
2 31, 2004, through December 31, 2008.

3 75. On or about October 9, 2001, SRI obtained a United States Department of
4 Agriculture ("USDA") rural development business loan⁴. 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; unpaid interest of \$497,147; and an amount behind
8 schedule of \$1,938,587. The USDA loan is still outstanding.

9 II.

10 CONCLUSIONS OF LAW

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

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

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

17 4. Respondent violated A.R.S. § 44-1842 by offering or selling securities while not
18 registered as a dealer nor exempt from registration.

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

23 _____
24 ³ 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 ⁴ 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 a) Represented to offerees and/or investors in an SRI newsletter that SRI was a
2 growing and profitable company. The newsletter stated that SRI was "one of Arizona's top rated
3 businesses. Our security business will generate local jobs for many employees over a long duration
4 of time. We are one of Arizona's fastest growing small businesses." However, SRI's 2004, 2005,
5 and 2006 federal income tax returns reflect losses of \$(502,94), \$(338,869), and \$(297,492),
6 respectively;

7 b) Represented that IBM software division, Oracle and Microsoft had
8 submitted a cash buyout and/or acquisition offer for SRI; however, IBM software division, Oracle
9 and Microsoft did not submit a cash buyout and/or acquisition offer to SRI or to HLHZ, a San
10 Francisco Investment banking firm hired by SRI;

11 c) Represented that SRI had a joint partnership with Olympus Corporation to
12 create a managed security product in the Japanese market; however, SRI did not have a written or
13 contractual joint partnership with Olympus Corporation to create a managed security product;

14 d) Represented that SRI had a business relationship with Fujitsu, a global
15 software and hardware manufacturer, and had "over a million computers installed [with the SRI
16 software] and with the Fujitsu deal alone will generate over 5 million new licenses each year.";
17 however, SRI did not have any direct contractual relationship with Fujitsu that generated over five
18 million new licenses each year;

19 e) Failed to disclose that the company had not paid all payroll and
20 unemployment taxes due to the federal government since March 31, 2004. Pursuant to the public
21 records of the Maricopa County Recorder, federal tax liens were recorded against SRI for failure to
22 pay unemployment taxes and payroll taxes totaling \$1,405,615.23⁵ for tax periods covering March
23 31, 2004 through December 31, 2008; and

24
25 ⁵ 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 f) Failed disclose: (i) the existence of the USDA loan to all Note holders and
2 investors (ii) the amount of the loan and/or (iii) that on or about May 2006, SRI had unpaid
3 principal of \$3,064,435; unpaid interest of \$497,147; and an amount behind schedule of
4 \$1,938,587.

5 6. Respondent's conduct is grounds for a cease and desist order pursuant to A.R.S.
6 § 44-2032.

7 7. Respondent's conduct is grounds for an order of restitution pursuant to A.R.S. § 44-
8 2032.

9 8. Respondent's conduct is grounds for administrative penalties under A.R.S. § 44-
10 2036.

11 **III.**

12 **ORDER**

13 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, the Commission
14 finds that the following relief is appropriate, in the public interest, and necessary for the protection
15 of investors:

16 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that Respondent, and any of Respondent's
17 agents, employees, successors and assigns, permanently cease and desist from violating the
18 Securities Act.

19 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that Respondent SRI shall,
20 jointly and severally with Douglas and Kyla Cottle under Docket No. S-20677A-09-0256, pay
21 restitution to the Commission in the principal amount of \$2,637,880. Payment is due in full on the
22 date of this Order. Any principal amount outstanding shall accrue interest at the rate of 10 percent
23 per annum from the date of purchase until paid in full. Interest in the amount of \$897,773 has
24 accrued from the date of purchase to the date of this Order. Payment shall be made to the "State of
25 Arizona" to be placed in an interest-bearing account controlled by the Commission.

1 The Commission shall disburse the funds on a pro-rata basis to investors shown on the
 2 records of the Commission. Any restitution funds that the Commission cannot disburse because an
 3 investor refuses to accept such payment, or any restitution funds that cannot be disbursed to an
 4 investor because the investor is deceased and the Commission cannot reasonably identify and
 5 locate the deceased investor's spouse or natural children surviving at the time of the distribution,
 6 shall be disbursed on a pro-rata basis to the remaining investors shown on the records of the
 7 Commission. Any funds that the Commission determines it is unable to or cannot feasibly
 8 disburse shall be transferred to the general fund of the state of Arizona.

9 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondent SRI, jointly
 10 and severally with Douglas and Kyla Cottle under Docket No. S-20677A-09-0256, shall pay an
 11 administrative penalty in the amount of \$150,000. Payment is due in full on the date of this Order.
 12 Payment shall be made to the "State of Arizona." Any amount outstanding shall accrue interest as
 13 allowed by law.

14 IT IS FURTHER ORDERED that payments received by the state of Arizona shall first be
 15 applied to the restitution obligation. Upon payment in full of the restitution obligation, payments
 16 shall be applied to the penalty obligation.

17 For purposes of this Order, a bankruptcy filing⁶ by Respondent after the date of this order
 18 shall be an act of default. If Respondent does not comply with this Order, any outstanding balance
 19 may be deemed in default and shall be immediately due and payable. The acceptance of any partial
 20 or late payment by the Commission is not a waiver of default by the Commission.

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

24
 25
 26 ⁶ The Division acknowledges that SRI has filed a Chapter 7 bankruptcy petition in Arizona, case# 09-28307 on or
 about November 4, 2009. Any subsequent bankruptcy petitions filed by Respondent following a discharge or dismissal
 of these pending proceedings shall be viewed as a default.

1 IT IS FURTHER ORDERED, that no finding of fact or conclusion of law contained in this
2 Order shall be deemed binding against any Respondent under this Docket Number, other than
3 Secure Resolutions, Inc.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION
6
7

8 CHAIRMAN

COMMISSIONER

9
10 COMMISSIONER

COMMISSIONER

COMMISSIONER

11
12 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
13 *Executive Director of the Arizona Corporation*
14 *Commission, have hereunto set my hand and caused the*
15 *official seal of the Commission to be affixed at the*
16 *Capitol, in the City of Phoenix, this _____ day of*
17 _____, 2010.

18 _____
19 ERNEST G. JOHNSON
20 EXECUTIVE DIRECTOR

21 _____
22 DISSENT

23 _____
24 DISSENT

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

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SERVICE LIST FOR: ORDER TO CEASE AND DESIST, ORDER FOR RESTITUTION
AND ORDER FOR ADMINISTRATIVE PENALTIES
RE: RESPONDENT SECURE RESOLUTIONS, INC.

Secure Resolutions, Inc.
1921 S Alma School Road STE 201
Mesa, AZ 85210

James Portman Webster
James Portman Webster, P.L.L.C.
935 E. Main St., Ste. 204
Mesa, AZ 85203