Division of Securities
Utah Department of Commerce
160 East 300 South
P.O. Box 146760
Salt Lake City, Utah 84114-6760
Telephone: 801 530-6600
Facsimile: 801 530-6980

BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF: **KARON C. COOK CRD #1036029;** **RAYMOND JAMES FINANCIAL SERVICES, INC., CRD #6694;** **Respondents**	**PETITION FOR ORDER REVOKING LICENSE AND/OR BARRING LICENSEE; AND FOR ORDER OF CENSURE, SUSPENSION OF LICENSE AND IMPOSITION OF FINE** **Docket No.** SD-05-0060 **Docket No.** SD-05-0061

TO: Karon Cook
48 South 500 East
Bountiful, UT 84010

Raymond James Financial Services, Inc.
880 Carillon Parkway
St. Petersburg, FL 33716

Pursuant to the authority of § 61-1-6 of the Utah Uniform Securities Act ("Act"), the Utah Division of Securities ("Division"), hereby petitions the Director of the Division ("Director") to enter an Order, subject to the approval of the majority of the Securities Advisory Board, revoking the broker-dealer agent license of Karon Cook and/or barring Cook from

association with a broker-dealer or investment adviser licensed in this state and censuring and suspending the license of Raymond James Financial Services Inc. In support of this petition, the Division alleges the following:

I. STATEMENT OF FACTS

A. Karon Cook ("Cook" and/or "Respondent") is not currently licensed in any jurisdiction as a broker-dealer agent but was associated with Raymond James Financial Services, Inc. ("RJFS" and/or "Respondent") as a broker-dealer agent and general securities principal from January 1989 through February 2005.

B. Cook's Central Registration Depository ("CRD") disciplinary history indicates that RJFS conducted an internal review of Cook's records and discovered that Cook had failed to disclose certain outside business activities to RJFS. As a result, Cook was terminated from RJFS in February 2005.

C. Cook has taken and passed the Series 7, General Securities Representative Examination; the Series 24, General Securities Principal Examination; the Series 63, Uniform Securities Agent State Law Examination; and the Series 65, Uniform Investment Adviser State Law Examination.

D. RJFS, CRD #6694, was incorporated in the state of Florida on September 12, 1973.

E. RJFS became licensed in Utah on April 21, 1983 and currently has 20 branch offices in Utah.

F. On February 2, 2005, Mark Williamson ("Williamson") complained to the Division that Cook had entered into promissory notes with him.

G. The Division's examination into Williamson's complaint revealed the following;

Unregistered Securities

1. In an interview with Division investigators on February 2, 2005 Williamson stated that Cook had approached him about entering into some loan transactions in the mid to late nineties.

2. According to Williamson, on five separate occasions, Cook brokered loans between himself and other clients of Cook.

3. The first loan was done in the late nineties. Cook represented that the loans were all secured by real estate and Williamson indicated that he had been required to go to First American Title Company on more than one occasion.

4. A sixth loan transaction in the amount of $50,000 was completed on July 10, 2000 and was signed by Cook as president for The Financial Resource Group, Inc. ("Financial Resource Group").

5. Cook led Williamson to believe that the sixth loan was a loan to her personally. Williamson stated he later discovered that Cook lent the money from the sixth loan to other people. A review of the promissory note showed that this loan was not secured.

6. On April 30, 2002 Williamson and Cook entered into an "operating partnership with regard to the $307,000 of secured loans held by Williamson Family Trust 2." The operating agreement is signed by Williamson and Cook. The agreement

states that "these loans are represented to be (original value): Carlos and Gail Alamilla (mortgage) $63,800; Nancy Wooldridge (mortgage) $33,000; Financial Resource Group (note) $50,000; Dennis Madsen (note) $150,000." The agreement further states that "Karon Cook guarantees to: Bring all loans current by Oct. 31, 2002 [and] Refinance Alamilla & Wooldridge by Oct. 31, 2002."

7. The operating agreement also stated that "Mark Williamson guarantees to: Pay a performance fee of $7,000 to Karon upon signing this agreement; Will assume 2nd mortgages for any outstanding balances that may occur after refinancing; Interest rates on 2nd mortgages assumed by Trust 2 will be determined by Karon Cook; Mark & Karon will divide the interest income in half on the Alamilla and Wooldridge loans should a 2nd mortgage occur after refinancing; [and] Mark & Karon will divide the principal of all the Alamilla and Wooldridge loans should a 2nd mortgage occur after refinancing."

8. According to Williamson, the $150,000 note attributed to Dennis Madsen is not a loan that Cook brokered. Apparently, this was a separate loan between Mr. Madsen and Williamson. Williamson also stated that the $7,000 "performance fee" he paid to Cook was for her to take the time to try and collect on Williamson's other past loans that Cook brokered.

9. On November 8, 2002, Williamson and Cook signed a hand-written promissory note for $113,800. According to Williamson, this note is a re-issuance of the July 10, 2000 note. It appears this note is a re-issuance of not only the $50,000 July 10th note, but also a re-issuance of the $63,800 debt from the operating agreement

discussed above. A review of the promissory note evidences that this note was not secured.

10. On January 14, 2003, Cook sent Williamson an update on an Alamilla refinance along with amortization schedules and other transaction reports for the original Alamilla loan transaction, which occurred on or about December 21, 1999.

11. The transaction reports show that Cook, via Cook & Associates, and Williamson were splitting the Alamilla payments.

12. A review of the Division's STRES database showed that Cook never registered or notice filed any of the transactions discussed above with the Division.

Selling Away

13. Selling away is the act of effecting securities transactions that are not recorded on the regular books or records of an agent's broker-dealer (i.e. the transaction is executed outside or away from the broker-dealer). If a broker-dealer agent is engaged in selling away, the broker-dealer is unable to properly monitor and supervise these activities to ensure compliance with applicable securities laws.

14. Cook issued at least two promissory notes and one investment contract. The Division has determined that these notes and the investment contract are securities as defined in §61-1-13(24)(a) of the Act.

15. On June 21, 2001, Cook wrote a check from the Williamson Trust 2 account to ACAP Financial ("ACAP"). The amount of the check was $15,027. On July 3,

2001, Cook wrote another check from the Williamson Trust 2 account to ACAP. The amount of this check was $2,250.

16. In a telephone conversation with the Division on June 2, 2005, Williamson stated these checks were for a stock deal Cook put together. Based on a transaction history obtained from ACAP Financial, these funds were used to pay for securities purchased in a Williamson Family Trust 2 account at ACAP. These securities were never transferred to any of Williamson's accounts at RJFS.

17. Cook's annual compliance questionnaires and signed certification pages provided by RJFS ask the following questions regarding private securities transactions:

> Do you understand that you may not engage in any "private securities transaction" without prior written approval of an officer of RJFS?
>
> Do you understand that you may not hold out any name other than Raymond James Financial Services as offering securities? Also, you must transact all securities business (including finders or other fees on wrap accounts) through RJFS, unless acknowledged and agreed upon by RJFS?

18. The 2002 and subsequent compliance questionnaire expanded upon the first question listed above and stated:

> Do you understand that you may not solicit or engage in any "private securities transactions" (registered *or* unregistered securities) without prior written approval of an officer of RJFS? Doing so constitutes "selling away," a serious rules violation which results not only in Compliance disciplinary actions (often including termination), but may also result in regulatory actions, which may include fines, suspension, or even being barred from the industry. Given the numerous types of investments that can potentially be considered securities, and the recent proliferation in third-party marketing of such investments, it is highly recommended that you carefully consider the below description (and always contact Compliance with any questions or concerns) to ensure that you do not unintentionally violate this important rule.

19. All of the questionnaires reviewed contained the following definition of a security:

Security Definition: The term "security" means any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof) or any put, call, straddle, option, or privilege entered into on national securities exchange relating to foreign currency, or in general, any instrument commonly known as a "security": of any certificate of interest or participation in, temporary or interim certificate for, or warrant or right to subscribe to or purchase, any of the foregoing.

This definition includes: promissory notes, interest in private companies, exempt offerings, partnerships, portions of mortgages, brokered CDs, charitable gift annuities, "prime bank notes," interest in farms, cattle, gold mines, silver, etc. [Emphasis in original].

20. If a question is answered in the negative, the financial advisor ("FA") is required to provide an explanation on the certification page. RJFS indicated that if no explanation was given as required to a NO answer, the question was considered to be answered in the affirmative. None of Cook's certification pages have explanations for a "no" answer to the above questions. Thus Cook answered in the affirmative that she understands she cannot engage in any "private securities transaction" without prior written approval of an officer of RJFS and she must transact all securities business (including finders or other fees on wrap accounts) through RJFS, unless acknowledged and agreed upon by RJFS.

21. With regard to private securities transactions, RJFS's compliance manual states:

The [NASD] rules support Raymond James Financial Services' requirements that no securities transactions may be conducted by any of its representatives without the approval of the firm in writing. Further, it is our policy not to approve any such private transactions outside the firm and consideration of any exceptions

must be according to the rules promulgated by the NASD and complying with the "written notice" requirement...

Before participating in any private securities transactions, the associated person must give written notice of the transaction to his [NASD] member firm, This written notice must describe the proposed transaction **in detail**. Additionally, the associated person must disclose his role in the transaction and whether he will receive compensation in connection with the transaction. Compensation includes commissions; finder's fees; securities or rights to acquire securities; rights or participation in profits, tax benefits, or dissolution proceeds, as general partner or otherwise; and expense reimbursement. [Emphasis in original].

If the associated person will receive compensation for participating in the transaction, the [NASD] member firm is required to provide the associated person with written approval or disapproval of the associated person's participation in the proposed transaction. **Approving the transactions means that the [NASD] member firm must record the transaction on its books and records and supervise the associated person's participation.** Disapproving the transaction means that the associated person cannot participate in any aspect of the transaction and must disassociate himself from it completely. [Emphasis in original].

If the associated person will not be compensated for his participation in the transaction, the [NASD] member firm is required to provide the associated person with prompt written acknowledgment of that person's written notice. Additionally, the member firm has the discretion to impose conditions on the associated person's participation in the transaction...

The policy of all regulatory bodies and that of Raymond James Financial Services is that all securities transactions must be processed through Raymond James Financial Services. [Emphasis in original.]

22. In a letter dated June 9, 2005, RJFS states that Cook "was not approved for any private securities transactions, nor did she request approval to do so."

23. RJFS's compliance manual states that a FA is specifically prohibited from

Rais[ing] money or participat[ing] in the raising of money for any company, individual, or venture other than as an agent for Raymond James Financial Services, unless such a transaction is approved by the OSJ Manager/Principal and the President of Raymond James Financial Services (or his designee)...

Accept[ing] gratuities or compensation from a client, individual, or corporation other than Raymond James Financial Services, unless approved by the OSJ Manager/Principal and the Raymond James Financial Services home office...

Enter[ing] into any business transaction jointly with a client without specific written approval of the OSJ Manager/Principal and the President of Raymond James Financial Services or his designee...

Perform[ing] any act which is not within the regulations, rules and guidelines established by the NASD, the SEC or any other government agency (national, state, or local) which may regulate activities pursued in the normal course of the brokerage business.

24. With regard to RJFS's compliance manual, the 2001-2004 annual compliance questionnaires ask:

Do you understand that you are responsible for reading and understanding the RJFS Compliance Manual and all other communications from the Compliance Department?

25. If a question is answered in the negative, the financial advisor ("FA") is required to provide and explanation on the certification page. RJFS indicated that if no explanation was given as required to a NO answer, the question was considered to be answered in the affirmative. Cook's 2001, 2002, and 2004 certification pages do not list any explanations for a "no" answer to the above question. Thus Cook answered in the affirmative that she understands she is responsible for reading and understanding the RJFS Compliance Manual and all other communications from the Compliance Department.

26. Cook's signed RJFS Financial Adviser (FA) Agreement states:

The FA has the right to solicit and engage in the purchase and sale of RJFS approved securities with the general public, and engage in other business activities except to the extent such activities are restricted or prohibited by the rules, regulations and interpretations of the Regulatory Authorities, RJFS policy, or the Associate.

27. Item 12 of Cook's FA Agreement states:

> Due to the unique nature of the securities brokerage business, the activities contemplated under this Agreement are controlled by laws, both federal and state, or rules, regulations and interpretations under the Regulatory Authorities. FA will adhere to all applicable laws, rules, regulations and interpretations of local, state, and federal Regulatory Authorities.

Borrowing From A Client

28. On July 10, 2000, Cook, as president for Financial Resource Group, borrowed $50,000 from Williamson. On November 8, 2002, Cook and Williamson signed a hand-written promissory note for $113,800. A review of the promissory note showed that the note was not secured.

29. At the time these notes were signed, Williamson was one of Cook's clients at RJFS.

30. Cook's annual compliance questionnaires and signed certification pages ask the following question regarding borrowing money from clients:

> Do you understand that all client accounts, securities, and funds must remain segregated at all times from any account that you own, or over which you have control? And at no time are you permitted to loan to, borrow from or co-invest with a client without written approval of an RJFS executive officer.

31. If a question is answered in the negative, the FA is required to provide an explanation on the certification page. RJFS indicated that if no explanation was given as required to a NO answer, the question was considered to be answered in the affirmative. None of Cook's certification pages have explanations for a "no" answer to the above question. Thus Cook answered in the affirmative that she understands she is not permitted to borrow from a client without written approval of an RJFS executive officer.

32. In a letter dated June 9, 2005, RJFS states that Cook "was not approved to participate in any loans, either as lender or borrower, nor did she request approval to do so."

Custody

33. On April 19, 2001, an updated *New Account Form* was completed for the Williamson Family Trust 2 ("Family Trust") account. This form was updated to list Cook and LaMar Allen Williamson as trustees of the Family Trust.

34. The updated *New Account Form* is signed by Cook (as client and as financial advisor) and Williamson's uncle LaMar Allen; however, it appears that the script of Mr. Williamson's signature is very similar to Cook's own script. Kirk Englehardt ("Englehart"), Cook's branch manager signed the form approving the update. There also appears to be initials in the upper left-hand corner evidencing review by someone else.

35. On April 19, 2001, an updated *Elite Investment Account Application* was completed for the Williamson Family Trust 2. This form was updated to list Cook as the trustee of the Family Trust. The form is signed by Cook as both account owner and financial advisor. Englehardt signed the form approving the update.

36. On October 22, 2001, a new *Trustee Certification* form was completed. This certification form lists Cook and Williamson's uncle as the trustees on the Family Trust. The form indicates that "anyone of those listed below [the trustees] may act individually on behalf of the Trust unless specified otherwise."

37. RJFS provided no documentation indicating that the trustees could not act individually on behalf of the Family Trust. The form also indicates account statements should only be sent to Cook. The form is signed by Cook and

Williamson's uncle LaMar Allen; however, it appears that the script of Mr. Williamson's signature is very similar to Cook's own script. While no principal's signature appears on this form, there appear to be initials in the upper left-hand corner evidencing review by someone.

38. The Division obtained copies of certain checks written on the Family Trust account. In at least four instances, Cook, and only Cook, signed checks withdrawing funds from the account.

39. A review of Cook's Utah client list provided by RJFS evidences that in addition to being a trustee on the Williamson Family Trust 2 account, Cook was listed as the trustee on three other accounts: the Janice Thomas account , the Erma Cunningham account , and the Jean G. Painter Family account.

40. Cook's annual compliance questionnaires and signed certification pages ask the following questions regarding acting as custodian or trustee of client funds or securities:

> Do you understand that you may not act as a custodian of securities, stock powers, money or any other property belonging to a client (other than immediate family)?
>
> Do you understand that you may not act in a custodial, trustee, or executor capacity for a person who is not a family member unless specific approval is given by an executive officer of the firm
>
> Do you understand that all client accounts, securities, and funds must remain segregated at all times from any account that you own, or over which you have control? And at no time are you permitted to loan to, borrow from or co-invest with a client without written approval of an RJFS executive officer.

41. If a question is answered in the negative, the FA is required to provide an explanation on the certification page. RJFS indicated that if no explanation was given as required

to a NO answer, the question was considered to be answered in the affirmative. Cook's certification page for the 1998 questionnaire indicates that she answered "no" to question 14, which corresponds to the first question above. Cook's explanation for her answer was "previously disclosed & approved." None of the other certification pages have explanations for a "no" answer to the above questions.

42. The 1998 certification page has no other explanations for any of the other questions. Thus, with the exception of her "no" answer to question 14 on the 1998 questionnaire, Cook answered in the affirmative that she understands she may not act as a custodian of securities, stock powers, money or any other property belonging to a client (other than immediate family), she may not act in a custodial, trustee, or executor capacity for a person who is not a family member unless specific approval is given by an executive officer of the firm, and all client accounts, securities, and funds must remain segregated at all times from any account that she owns, or over which she has control.

43. With regard to fiduciary power, RJFS's compliance manual states:

> A financial advisor is specifically prohibited from acting as a trustee, co-trustee, successor trustee, executor of an estate or power of attorney for a client unless specific approval has been obtained from an executive officer of the firm...Branch managers, in their periodic review of customer statements and financial advisor portfolio books, must ensure compliance with the information contained herein.

44. In a letter dated June 29, 2005, RJFS stated "...neither the compliance department nor any officer of the firm received notification or request for approval for Ms. Cook to act as trustee on any of her client's accounts. As such, no approval from the

compliance department or any officer of the firm was obtained" Branch managers are not RJFS executive officers.

45. RJFS's compliance manual states that a FA is specifically prohibited from:

> Act[ing]...individually as an agent for a client, individual, or company other than Raymond James Financial Services, unless approved by the OSJ Manager/Principal and the Raymond James Financial Services home office.
>
> Act[ing] as a personal custodian of securities, stock powers, money or other property belonging to a client.
>
> Act[ing] as trustee, co-trustee, or successor trustee, or place a family member in a similar capacity, unless specifically approved by an RJFS Compliance Officer.
>
> Perform[ing] any act which is not within the regulations, rules and guidelines established by the NASD, the SEC or any other government agency (national, state, or local) which may regulate activities pursued in the normal course of the brokerage business
>
> Sign[ing] anything on behalf of a client (even at the client's request).

Outside Business Activities

46. Copies of Cook's signed *Request to Engage in Outside Activity* forms were obtained from RJFS. According to RJFS, the two forms provided to the Division are the only forms that RJFS was able to retrieve from its home office.

47. The first outside business activity form indicates that Cook is requesting "to continue an existing outside activity relationship...Effective since 6/1/84." Cook indicates that the company's name is Grasco Properties and the nature of the business is "real estate management." Cook lists herself as the president of this company.

48. The second outside business activity form indicates that Cook is requesting "to continue an existing outside activity relationship...Effective since 5/1/87." Cook

indicates that the company's name is Focus Publications and the nature of the business is "software development and forms." Cook lists herself as the president of this company.

49. A review of the Utah Division of Corporations' business entity search database showed that Cook was involved in at least seven other businesses while employed at RJFS including Financial Resource Group, Cook & Associates Financial Services, GMT Investments, Hilow Corporation, MK Enterprises, Blue Heron Enterprises and Ibis Enterprises.

50. On a 2001 Satellite Office Checklist, Cook indicated she also is involved with helping Drake University create insurance exams for the state of Utah. Additionally, Cook's Form U4 discloses Cook is a quarter owner of two fourplexes.

51. In addition to Grasco Properties and Focus Publications, it appears that RJFS was aware of four of the above business activities: Financial Resource Group; Cook & Associates; Drake University; and the fourplex ownership. However, RJFS was unable to provide *Request to Engage in Outside Activity* forms for these four outside business activities.

52. In a response to a Compliance Memorandum regarding an audit conducted on November 13, 2001, Cook stated "At the time of the audit, all outside business activities had been disclosed, but it appears that a couple of them were so long ago, that no one had record of it. Attached are the forms you requested on the two business activities that you said there were no record of."

53. Cook's annual compliance questionnaires and signed certification pages provided

by RJFS ask the following questions regarding outside business activities:

> Do you understand that you have an ongoing legal obligation to amend your Form U-4 with RJFS Registrations when any of the following information changes: business address, residence address, **outside business activities**, customer complaints, bankruptcy filings, felony conviction, subject of regulatory investigation, unsatisfied judgment or lien, or if you are the subject of any proceeding that could result in a "Yes" answer to [the applicable questions] of Form U-4? [Emphasis added].
>
> Have you disclosed all outside business activities on an Outside Business Activity Questionnaire and received Compliance approval for each (along with the required U-4 update noted above)?

54. If a question is answered in the negative, the FA is required to provide an explanation on the certification page. RJFS indicated that if no explanation was given as required to a NO answer, the question was considered to be answered in the affirmative. Cook's certification page for the 2004 questionnaire indicates that she answered "no" to question 2, which corresponds to the second question above. Cook's explanation for her answer was "we have attempted to get info from prior branch on all forms on file. RJFS is helping us with what outside business activities have been approved." None of the other certification pages have explanations for a "no" answer to the above questions. Thus, with the exception of her "no" answer to question 2 on the 2004 questionnaire, Cook answered in the affirmative that she understands that she has an ongoing legal obligation to amend her Form U4 when her outside business activity information changes and that she has disclosed all outside business activities and received RJFS's approval for each outside business activity.

55. With regard to outside business activities, RJFS's compliance manual states:

> All activities in which a financial advisor of Raymond James Financial Services is engaged, and for which they are compensated, must be disclosed and approved by

the branch manager and the Compliance Department, in writing...

56. Furthermore, in a letter dated March 31, 2005, RJFS stated:

> All outside activities in which a financial advisor or associated person, registered or non-registered, of Raymond James Financial Services is involved, must be disclosed and approved by the branch manager and the Compliance Department. In addition, financial advisors are required to notify the branch manager and the compliance department if the nature, or type of business, a previously approved outside business activity changes. Approved outside business activities are reaffirmed by the financial advisor on an annual basis through the Annual Compliance Interview (please refer to certification pages submitted with response dated February 7, 2005).

False Form U4

57. As stated above, Cook has been involved in at least 11 outside business activities during her employment with RJFS. At the time of Cook's termination from RJFS in February 2005, the only outside business activity disclosed on Cook's Form U4 was her ownership in the two fourplexes.

58. A review of all of Cook's Form U4 amendment filings since the CRD conversion in July 1999 evidences that none of the above outside business activities, with the exception of the fourplex ownership, were disclosed on Cook's Form U4.

59. A review of Cook's Form U4 legacy filing history on CRD showed that no amendments relating to outside business activities were filed from the time of Cook's employment with RJFS to the July 1999 CRD conversion.

60. Cook filed for bankruptcy on February 28, 1991, approximately two years after Cook became employed with RJFS. Cook's debts were discharged on August 5, 1991 and the case was closed on February 6, 1992.

61. A bankruptcy is required to be disclosed on CRD if it occurred within the past 10 years prior to the CRD filing. A review of the disclosure summaries on Cook's CRD record, shows no past or current disclosure of any bankruptcy.

62. A review of Cook's Form U4 amendment filings since the CRD conversion in July 1999 showed that the above bankruptcy was not disclosed on Cook's Form U4. Although the Division reviewed all of Cook's Form U4 amendments, including those amendments filed after 2001, the Division recognizes that Cook was only required to disclose the bankruptcy through February 28, 2001.

63. A review of Cook's Form U4 legacy filing history on CRD evidences that no amendments relating to bankruptcy were filed from 1991 to the July 1999 CRD conversion.

Unlicensed Investment Adviser

64. An April 1, 2002 Satellite Office Checklist contains a copy of Cook's business card. The card indicates that Cook and/or Cook & Associates is/are a "Registered nvestment Advisor."

65. A November 2004 Satellite Office Checklist contains a copy of a Yellow Page listing in which Cook & Associates is listed under "Financial Planning Consultants."

67. RJFS was licensed as a state-covered investment advisor from June 14, 1991 through December 31, 1996. RJFS was registered as a federal covered investment adviser from April 21, 1997 though at least 2002. A review of the investment adviser representatives licensed with RJFS during the above time periods showed that Cook was not licensed with RJFS as an investment adviser representative.

68. In response to RJFS's annual compliance questionnaires regarding licensing requirements, Cook answered in the affirmative that she understood that if she was charging clients fees for investment advice and/or holding herself out as a financial planner and receiving commissions or fees, she was required to license as an investment adviser or investment adviser representative.

69. Furthermore, Cook answered in the affirmative that she understood that in order to receive fees for advisory services she had to be licensed in the state where her office was located.

70. With regard to financial planning, RFJS's compliance manual states that "a person must be registered with an investment adviser if he or she holds him or herself out as a financial planner, or in the business of financial planning and is compensated for the service."

71. Cook's 2001, 2002, and 2004 certification pages showed that she understood that she was responsible for reading and understanding the RJFS compliance manual.

Failure to Supervise

72. With respect to supervisory structure, RJFS's compliance specifies that the compliance department is responsible for branch auditing, monitoring account

activity, reviewing exception reports, advertising review, and reviewing compliance with all applicable rules and regulations.

Audit Discrepancies

73. RJFS's compliance manual requires the home office to audit satellite offices once every two years and the branch manager to audit a satellite location once every six months.

74. A review of the RJFS's audits conducted at Cook's office from 1999-2004 show that the home office failed to audit Cook within two years of a November 13, 2001 audit as required by the compliance manual.

75. Cook's branch manager also failed to audit Cook's office within six months on four occasions. In one case the branch manager was approximately 11 months late in conducting the audit.

76. The audits also showed numerous red flags that RJFS failed to follow up on including Cook's outside business activities; Cook holding herself out as investment adviser; Cook engaging in securities transactions without prior written approval of a RJFS executive; failure to investigate payments that Cook had made to Williamson and failure to investigate a significant drop in Cook's commission revenue from $37,030.04 to $1,756.50 in November of 2004.

77. Specifically with respect to Cook's outside business activities starting December 1999, Cook's Satellite Office Checklists and RFJS's Compliance Memorandum show that RJFS knew Cook was engaging in outside business activities via Financial Resource Group and Cook & Associates.

78. Despite numerous audit notations regarding Financial Resource and Cook & Associates, payments RJFS knew Cook & Associates had made to Williamson and Cook acting as a trustee on four RJFS client accounts, RJFS performed no due diligence with regard to these entities nor any supervision of Cook's activities involving these entities.

False Form U4

79. RJFS knew of at least six of Cook's outside business activities but only disclosed one of these activities on Cook's Form U-4.

Supervisory Structure Deficiencies

80. Based upon the Division's examination findings as set forth above, RJFS's checklist audit program and it's supervisory structure is inadequate to detect and prevent violations of the securities laws.

81. In addition, although RJFS conducts an associated person account review, this review does not cover client accounts for which the FA may be acting as custodian, trustee or executor.

82. Rule 3010 of the NASD Conduct Rules requires each member to establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules.

Books and Records

83. RJFS knew of at least six of Cook's outside business activities yet was only able to produce two Request to Engage in Outside Business Activity forms for two outside business activities that commenced prior to Cook's employment.

84. In a telephone conversation with the Division on June 29, 2005 RJFS stated that it did not have Cook's 2003 certification page on record.

85. Except for Cook's 2004 compliance questionnaire, RJFS was not able to provide any of Cook's actual questionnaires.

II. GROUNDS FOR REVOCATION AND/OR BAR AND SUSPENSION`

(Borrowing Money from a Client under § 61-1-6(2) of the Act and R164-4-6-1g(D)(1) of the Utah Administrative Code)

86. Section 61-1-6(2) of the Act provides that the Director may revoke a license or bar a licensee from employment with a licensed broker-dealer or investment adviser in this state if the licensee (b) has willfully violated or willfully failed to comply with any provision of this chapter or (g) has engaged in dishonest or unethical practices in the securities business."

87. Under section R164-6-1g(D)(1) of the Utah Administrative Code ("UAC") it is a dishonest or unethical practices to "engage in the practice of lending or borrowing money or securities from a customer. . ."

88. RJFS's compliance manual states that a FA is specifically prohibited from:

> Borrow[ing] money or securities from a client. No commingling of client and financial advisory funds is permitted.

89. By borrowing money from Williamson, Cook violated R164-6-1g(D)(1) of the UAC as well as RJFS policies and procedures.

(Selling Away under §61-1-1 of the Act, R164-6-1g(D)(2) and (7) of the UAC)

90. R164-6-1g(D)(2) of the UAC states that it is a dishonest or unethical business practice for a broker-dealer agent to "[effect] securities transactions not recorded on the regular books or records of the broker-dealer which the agent represents, in the case of agents of broker-dealers, unless the transactions are authorized in writing by the broker-dealer prior to execution of the transaction."

91. Rule 3040 of the NASD Conduct Rules states:

> Prior to participating in any private securities transaction, an associated person shall provide written notice to the member with which he is associated describing in detail the proposed transaction and the person's proposed role therein and stating whether he has received or may receive selling compensation in connection with the transaction... Private securities transaction shall mean any securities transaction outside the regular course or scope of an associated person's employment with a member... Selling compensation shall mean any compensation paid directly or indirectly from whatever source in connection with or as a result of the purchase or sale of a security, including, though not limited to, commissions; finder's fees; securities or rights to acquire securities; rights of participation in profits, tax benefits, or dissolution proceeds, as a general partner or otherwise; or expense reimbursements.

92. R164-6-1g(D)(7) of the UAC states that it is a dishonest or unethical business practice for a broker-dealer agent to "[engage] in conduct specified in subsection[ ] (C)(28)."

93. Subsection (C)(28) of the UAC states that it is a dishonest or unethical business practice for a broker-dealer to "[fail] to comply with any applicable provision of the Conduct Rules of the NASD..."

94. RFJF's Compliance Manual states that no securities transactions may be conducted by any of its representatives without the approval of the firm in writing.

95. By engaging in securities transactions not recorded on the books and records of RJFS, Cook violated § 61-1-1 of the Act, R164-6-1g(D)(2) and (7) of the UAC, NASD Conduct Rule 3040 and RJFS's policies and procedures.

(Unregistered Security under § 61-1-13(24)(a) of the Act)

96. Pursuant to §61-1-13(24)(a) of the Utah Uniform Securities Act ("Act"), a security is defined as any "(i) note;...[or] (vi) evidence of indebtedness."

97. Pursuant to §61-1-7 of the Act, "It is unlawful for any person to offer or sell any security in this state unless it is registered under this chapter, the security or transaction is exempted under Section 61-1-14, or the security is a federal covered security for which a notice filing has been made pursuant to the provisions of Section 61-1-15.5."

98. By issuing at least two promissory notes and one investment contract with Williamson without registering these securities with the Division, Cook violated § 61-1-7 of the Act.

(Custody under R164-6-1g(D)(1) of the UAC)

99. R164-6-1(g)(D)(1) of the UAC states that it is a dishonest and unethical practice for a broker dealer agent to "[act] as a custodial for money, securities or an executed stock power of a customer.

100. RJFS's compliance manual states that a FA is specifically prohibited from acting as a personal custodian of securities, stock powers, money or other property belonging to a client.

101. By acting as trustee of the Williamson Family Trust 2 account, the Janice Thomas account, the Erma Cunningham account and the Jean G. Painter account, Cook violated R164-6-1(g)(D)(1) of the UAC and RJFS's policies and procedures.

(Unlicensed Investment Adviser Representative under § 61-1-3 of the Act)

102. Pursuant to § 61-1-3(3) of the Act, "It is unlawful for any person to transact business in this state as an investment adviser or as an investment adviser representative unless: (a) the person is licensed under this chapter ..."

103. Pursuant to R164-4-2(G)(4)(a) of the UAC, "One must be licensed as an investment adviser or investment adviser representative as appropriate ... if providing, advertising, or otherwise holding oneself out as a provider of investment advice."

104. By holding herself out as a registered investment adviser, Cook violated § 61-1-3(3) of the Act and R164-4-2(G)(4)(a) of the UAC.

(False Form U4 under § 61-1-5(4) of the Act and R164-4-3(E)(1) of the UAC)

105. Pursuant to §61-1-5(4) of the Act, "If the information contained in any document filed with the division is or becomes inaccurate or incomplete in any material respect, the licensee or federal covered adviser shall promptly file a correcting amendment if the document is filed with respect to a licensee...unless notification of the correction has been given under Section 61-1-3."

106. Pursuant to R164-4-3(E)(1) of the Code, "At a time when a material change occurs…(b) a broker-dealer agent must promptly file amendments to NASD Form U-4…with the CRD"

107. By failing to disclose outside business activities and a bankruptcy on her Form U4, Cook violated § 61-1-5(4) of the Act and R164-4-3(E)(1) of the UAC.

(Securities Fraud under § 61-1-1 of the Act)

108. Section §61-1-1 of the Act states:

> It is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly to:
>
> (1) Employ any device, scheme, or artifice to defraud;
> (2) Make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in 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."

109. Based on the Division's findings regarding Cook's conduct as it related to selling away, borrowing money from a client, custody, outside business activities, filing a false Form U4 and holding herself out as an investment adviser without being licensed, Cook engaged in acts, practices, or courses of business which operated as a fraud or deceit in violation of §61-1-1(3) of the Act.

<u>(Failure to Supervise under § 61-1-6(2)(j) of the Act)</u>

110. Pursuant to §61-1-6(2)(j) of the Act, the Division director "may impose the sanctions in Subsection (1) if the director finds that it is in the public interest and finds ... that the person ...(j) has failed to reasonably supervise his agents or employees..."

111. RJFS violated § 61-1-6(2)(j) of the Act because it failed reasonably to supervise their agent Cook by failing to follow up on red flags on its audit checklists by failing to conduct due diligence with regard to Cook's activities via the known outside business activities; by failing to conduct timely audits of Cook's branch; by failing to investigate Cook's outside business activities; and by failing to investigate Cook's holding herself out as a "Registered Investment Advisor" when she was not licensed to do so.

Inadequate Supervisory System under R164-6-1g(C)(28) of the UAC

112. Rule 3010 of the NASD Conduct Rules requires each member to establish and maintain a system to supervise the activities of each registered representatives and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD rules.

113. R164-6-1(g)(C)(28) of the UAC states that it is a dishonest or unethical business practice for a broker-dealer to "fail to comply with any applicable provision of the Conduct Rules of the NASD..."

114. RJFS's checklist audit program and its supervisory structure are inadequate to detect and prevent violations of the securities laws. As such, RJFS failed to establish and maintain an adequate supervisory system designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules. Consequently, RJFS violated R164-6-1g(C)(28) of the UAC and NASD Conduct Rule 3010.

(Failure to Maintain Books and Records of the Firm under

R 164-5-1 (C) of the UAC)

115. Pursuant to R 164-5-1(C) of the UAC, "each broker-dealer licensed or required to be licensed under this Act shall make, maintain and preserve books and records in compliance with SEC Rules 17a-3...[and} 17A-4."

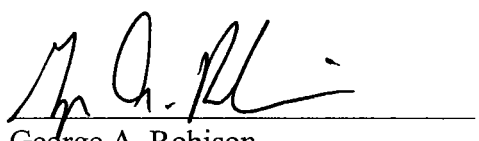
116. RJFS violated Rule R164-5-1(C) of the UAC by failing to obtain and/or maintain certain of Cook's outside business activity forms, Cook's 2003 certification page and Cook's actual compliance questionnaires, except for 2004, where Cook indicated her responses to the questions.

III. REQUEST FOR RELIEF

The Division requests that the Director enter an order pursuant to Utah Code Ann. § 61-1-6 of the Act, revoking Respondent Cook's broker-dealer agent license and/or barring Cook from associating with any broker-dealer or investment adviser licensed in this state. The Division also requests that Cook be ordered to pay a fine of $100,000 at hearing. The Division also requests that Raymond James Financial Services be censured, its license suspended for a period of 30 days, ordered to hire an outside consultant to review its supervisory structure and procedures and pay a fine of $100,000.

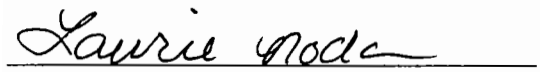
Dated this 19 day of Sept., 2005.

UTAH DIVISION OF SECURITIES



George A. Robison
Director of Licensing

Approved:



Laurie L. Noda
Assistant Attorney General

Division of Securities
Utah Department of Commerce
160 East 300 South
P.O. Box 146760
Salt Lake City, Utah 84114-6760
Telephone: 801 530-6600
Facsimile: 801 530-6980

BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF:	**NOTICE OF AGENCY ACTION**
KARON C. COOK CRD #1036029; **RAYMOND JAMES FINANCIAL SERVICES, INC., CRD #6694;**	**Docket No.** SD-05-0060 **Docket No.** SD-05-0061
Respondents	

THE DIVISION OF SECURITIES TO THE ABOVE-NAMED RESPONDENTS:

The purpose of this Notice of Agency Action is to inform you that the Division hereby commences a formal adjudicative proceeding against you as of the date of the mailing of this Notice. The authority and procedure by which this proceeding is commenced are provided by Utah Code Ann. §§63-46b-3 and 63-46b-6 through 11. The facts on which this action is based are set forth in the foregoing Petition for Order Revoking License and/or Barring Licensee and for Order of Censure and Suspension of License.

Within thirty (30) days of the date of this notice, you are required to file a written response with the Division. The response you file may be helpful in clarifying, refining or narrowing the facts and violations alleged in the Petition.

After your response is filed, a hearing will be set at a date and time agreed upon by the parties.

If you fail to file a written response, as set forth herein, or fail to appear at the hearing, you will be held in default, an Order to Cease an Desist will enter, and a fine will be imposed against you in accordance with Utah Code Ann. §64-46b-11.

The presiding officer in this case is David N. Preece, Director, Division of Securities, 160 East 300 South, P.O. Box 146760, Salt Lake City, UT 84114-6760, telephone (801) 530-6600. The Administrative Law Judge will be Clinton D. Jensen, Utah Department of Commerce, 160 East 300 South, P.O. Box 146701, Salt Lake City, UT 84114-6701, telephone (801) 530-6021. At such hearing, the Division will be represented by the Attorney General's Office, 160 East 300 South, P.O. Box 140872, Salt Lake City, UT 84114-0872, telephone (801) 366-0310. At the hearing, you may appear and be heard and present evidence on your behalf.

You may attempt to negotiate a settlement of the matter without filing an answer or proceeding to hearing. Should you so desire, please contact the Utah Attorney General's Office. Questions regarding the Petition and Notice of Agency Action should be directed to Laurie Noda, Assistant Attorney General, 160 E. 300 South P.O. Box 140872, Salt Lake City, UT 84114-0872, telephone (801) 366-0310.

Dated this 19th day of September, 2005.

David N. Preece
Director, Division of Securities
Utah Department of Commerce

DEPARTMENT OF COMMERCE
THE GREAT SEAL OF THE STATE OF UTAH
1896
DIVISION OF SECURITIES

Certificate of Mailing

I certify that on the 27th day of September, 2005, I mailed, by certified mail, a true and correct copy of the Notice of Agency Action and Petition for Order Revoking License and/or Barring Licensee and for Order of Censure and Suspension of License:

Karon Cook
48 South 500 East
Bountiful, UT 84010

Raymond James Financial Services, Inc.
880 Carillon Parkway
St. Petersburg, FL 33716

Certified Mail # 7005 1160 0003 7034 0272

Certified Mail # 7005 1160 0003 7034 0289

Pamela Radzinski
Executive Secretary