

DENISE VOIGT CRAWFORD
SECURITIES COMMISSIONER



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Texas State Securities Board

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MEMBER

KENNETH W. ANDERSON, JR.
MEMBER

JACK D. LADD
MEMBER

BRYAN K. BROWN
MEMBER

SSB Docket No. 03-029

IN THE MATTER OF THE INVESTMENT
ADVISER REGISTRATION OF
A. KEN FLAKE FINANCIAL SERVICES, INC.
DBA RESERVE MANAGEMENT, INC.

§
§
§

Order No. REV-1521

TO: Alan Ken Flake, President
A. Ken Flake Financial Services, Inc.
DBA Reserve Management, Inc. (CRD # 114489)
4606 F. M. 1960 West, Suite 400
Houston, Texas 77069

DISCIPLINARY ORDER

Be it remembered that A. Ken Flake Financial Services, Inc. DBA Reserve Management, Inc. ("Respondent RMI"), by and through Alan Ken Flake, its President, appeared before the ~~Securities~~ Securities Commissioner of the State of Texas (~~Securities~~ Securities Commissioner) and without admitting or denying the Findings of Fact and Conclusions of Law, except for Findings of Fact number one, two, three, and four, consented to the entry of this Order and the Findings of Fact and Conclusions of Law contained herein.

FINDINGS OF FACT

1. Respondent RMI has waived (a) Respondent RMI's right to notice and hearing in this matter; (b) Respondent RMI's right to appear and present evidence in this matter; (c) Respondent RMI's right to appeal this Order; and (d) all other procedural rights granted to Respondent RMI by The Securities Act, TEX. REV. CIV. STAT. ANN. art. 581-1 et seq. (Vernon 1964 & Supp. 2003) ("Texas Securities Act"), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. § 2001.001 et seq. (Vernon Supp. 2003) ("Administrative Procedure Act").
2. On or about June 16, 1994, Respondent RMI registered with the Securities Commissioner as an investment adviser, which is currently effective.
3. At all times relevant to this Order, Alan Ken Flake ("Flake") (CRD # 209342) has been the president and sole owner of Respondent RMI.

4. From on or about February 6, 1997, until on or about December 31, 2001, Chris Feriante ("Feriante") (CRD# 2711932) was registered with the Securities Commissioner as an investment adviser representative of Respondent RMI.
5. In or about 1998, Respondent RMI, by and through Feriante, offered a bill paying service ("the Program") to potential clients. In order to participate in the Program, clients would deposit funds into a bank account controlled by Respondent RMI and, for a small fee, Respondent RMI, by and through Feriante, would pay the bills of the clients. The Program's agreement allowed Respondent RMI to invest funds deposited by the clients into the Program into certain no risk investments, in an attempt to obtain a two (2%) percent per month return. The Program's agreement did not allow funds deposited by the clients to be utilized to pay the expenses of other clients.
6. Funds deposited by clients into the Program were used to pay expenses unrelated to the payment of the client's bills, including the payment of other client's bills.
7. From in or about 1998, until in or about March, 2002, Respondent RMI did not review documents generated by Feriante on the Program or the Program's bank records to ensure that funds deposited into the Program were being handled properly and that Feriante was complying with the terms of the Program's agreement. Instead, Respondent RMI relied upon the oral representations of Feriante that he was complying with the terms of the Program's agreement.
8. In or about July, 2000, Respondent RMI, by and through Feriante, transferred funds belonging to clients in the Program to companies as loans, which was contrary to the terms of the Program's agreement with the clients. The transferred funds were not repaid to Respondent RMI by the companies.
9. At all times prior to Feriante's termination, he represented to Respondent RMI that all funds in the Program had been either used for purposes permitted under the Program's agreement or returned to the clients. Respondent RMI did not independently verify the accuracy of Feriante's representation.
10. From in or about 1998, until in or about 2001, Feriante acted in his capacity as an investment adviser representative of Respondent RMI, as it related to his activities in the Program.
11. In or about March, 2002, the Staff of the State Securities Board ("the Staff") received a complaint from a client in the Program. After being notified of the complaint, the Respondent RMI, by and through Alan Ken Flake, investigated and discovered that Feriante had invested funds of clients in the Program contrary to the Program's agreement and that funds in the Program had not been repaid to clients as of December, 2001. Respondent RMI reported this discovery to the Staff.
12. Respondent RMI was negligent in establishing procedures to supervise the activities of its representatives, including Feriante.

13. Respondent RMI has cooperated with the State Securities Board in its investigation of this matter.

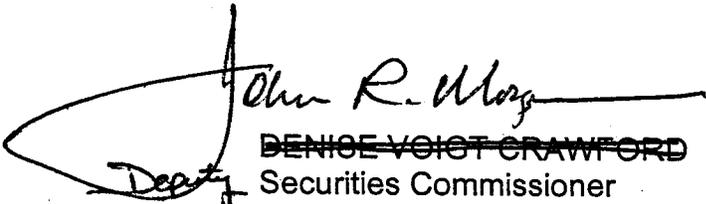
CONCLUSIONS OF LAW

1. Respondent RMI's actions, by and through Feriante, to use the funds of one client in the Program to pay the expenses of another client in the Program, as prohibited by the Program's agreement, constitutes a fraudulent business practice.
2. Respondent RMI's actions, by and through Feriante, to transfer the Program's funds to companies as loans, as prohibited by the Program's agreement, constitutes a fraudulent business practice.
3. Respondent RMI's failure to take reasonable steps to supervise Feriante's access to funds deposited by the Program's clients constitutes a violation of Section 116.10 of the Rules and Regulations of the Texas Securities Board ("Board Rules").
4. Respondent RMI's failure to establish and maintain a system to supervise the activities of its representatives constitutes a violation of Section 116.10 of the Board Rules.
5. Respondent RMI's failure to establish reasonable procedures to review the activity of its representatives or to ensure that its representative's activities are in compliance with the terms of the Programs' agreement constitutes a violation of Section 116.10 of the Board Rules.
6. Pursuant to Sections 14.A(3) and 14.A(6) of the Texas Securities Act, the foregoing violations constitute a basis for the issuance of an order revoking the registration of an investment adviser.

ORDER

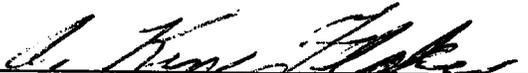
It is therefore ORDERED that the investment adviser registration of A. Ken Flake Financial Services, Inc. DBA Reserve Management, Inc. is hereby REVOKED on the tenth (10th) business day after the date this Order is signed by the ^{Deputy} Securities Commissioner.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 9th day of July, 2003.


~~DENISE VOIGT CRAWFORD~~
Deputy
Securities Commissioner

Respondent:

A. Ken Flake Financial Services, Inc.
DBA Reserve Management, Inc.

By: 
Alan Ken Flake, President

Approved as to Form:


Joel Sauer
Assistant Director
Inspections and Compliance Division

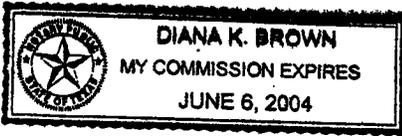

David N. Reed
Attorney for Respondent


David Grauer
Director
Enforcement Division

ACKNOWLEDGMENT

On the 20 day of June, 2003, A. Ken Flake Financial Services, Inc. DBA Reserve Management, Inc. ("Respondent RMI"), by and through its President, Alan Ken Flake, personally appeared before me, executed the foregoing Order and acknowledged that:

1. Alan Ken Flake is duly authorized to enter into the foregoing Order on behalf of Respondent;
2. Alan Ken Flake has read the foregoing Order;
3. Respondent RMI has been fully advised of its rights under the Texas Securities Act and the Administrative Procedure Act;
4. Respondent RMI knowingly and voluntarily consents to the entry of the foregoing Order and the Findings of Fact and Conclusions of Law contained therein; and,
5. Respondent RMI, by consenting to the entry of the foregoing Order, has knowingly and voluntarily waived its rights as set forth therein.



[affix notary seal here]

Diana K. Brown
Notary Public in and for
the State of Texas

My commission expires on: 6-6-2004