

JOHN MORGAN  
SECURITIES COMMISSIONER

RONAK V. PATEL  
DEPUTY SECURITIES COMMISSIONER

Mail: P.O. BOX 13167  
AUSTIN, TEXAS 78711-3167

Phone: (512) 305-8300  
Facsimile: (512) 305-8310



## Texas State Securities Board

208 E. 10th Street, 5th Floor  
Austin, Texas 78701-2407  
www.ssb.state.tx.us

BETH ANN BLACKWOOD  
CHAIR

DERRICK MITCHELL  
MEMBER

E. WALLY KINNEY  
MEMBER

DAVID A. APPLEBY  
MEMBER

ALAN WALDROP  
MEMBER

IN THE MATTER OF  
THE INVESTMENT ADVISER  
REGISTRATION OF  
WARREN FINANCIAL SERVICES, LLC  
AND THE INVESTMENT ADVISER  
REPRESENTATIVE REGISTRATION  
OF KENNETH WAYNE GRAVES

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Order No. IC14-REV-05

### DEFAULT ORDER

This is your OFFICIAL NOTICE of the issuance by the Securities Commissioner of the State of Texas ("Securities Commissioner") of a DEFAULT ORDER pursuant to Section 14 of The Securities Act, Tex. Rev. Civ. Stat. Ann. Art. 581-14 (West 2010 & Supp. 2013)("Texas Securities Act") and §105.10(a)(1) of the Rules and Regulations of the Texas State Securities Board, 7 Tex. Admin. Code Chapter 105 (Supp. 2014)("Board Rules").

### FINDINGS OF FACT

The staff of the Inspections and Compliance Division of the State Securities Board (the "Staff") has presented evidence sufficient for the Securities Commissioner to find that:

1. On May 19, 2014, a Notice of Hearing, SOAH DOCKET NO. 312-14-3619, SSB DOCKET NO. 1C14-03 (the "Notice"),<sup>1</sup> was sent via certified mail to Warren Financial Services, LLC and Kenneth Wayne Graves (collectively, "Respondents"). The Notice was sent to Respondents' last known business address and last known residential address as shown by the records of the State Securities Board.

<sup>1</sup> Exhibit A to this Default Order

2. The Notice contained the following statement as required by the Board Rules.

**IF YOU DO NOT FILE A WRITTEN ANSWER OR OTHER WRITTEN RESPONSIVE PLEADING TO THIS NOTICE OF HEARING ON OR BEFORE THE 20TH DATE AFTER THE DATE ON WHICH THIS NOTICE WAS MAILED TO YOU OR PERSONALLY SERVED ON YOU, THE FACTUAL ALLEGATIONS IN THIS NOTICE WILL BE DEEMED ADMITTED, AND THE SECURITIES COMMISSIONER MAY DISPOSE OF THIS CASE WITHOUT A HEARING AND GRANT THE REIEF SOUGHT IN THIS NOTICE.**

**THE RESPONSE MUST BE FILED IN AUSTIN, TEXAS, WITH THE STAFF OF THE STATE SECURITIES BOARD AND THE STATE OFFICE OF ADMINISTRATIVE HEARINGS.**

**IF YOU FAIL TO ATTEND THE HEARING, EVEN IF A WRITTEN ANSWER OR OTHER RESPONSIVE PLEADING HAS BEEN FILED, THE FACTUAL ALLEGATIONS IN THIS NOTICE WILL BE DEEMED ADMITTED, AND THE SECURITIES COMMISSIONER MAY DISPOSE OF THIS CASE WITHOUT A HEARING AND GRANT THE RELIEF SOUGHT IN THIS NOTICE.**

3. Within the Notice the Staff set forth certain matters related to the Respondents' activities and requested that Respondents registrations with the Securities Commissioner be revoked and that the Respondents cease and desist engaging in fraudulent conduct.
4. Respondents did not file a written answer or other responsive pleading to the matters asserted in the Notice on or before the 20<sup>th</sup> day after the date the Notice was mailed to Respondents' last known business address and last known residential address as shown by the records of the State Securities Board.
5. On June 17, 2014, the Staff requested that the matter be dismissed from the SOAH docket for informal disposition pursuant to the Board Rules.
6. On June 20, 2014, Administrative Law Judge Gary W. Elkins issued an Order granting the Staff's request to dismiss the matter from the SOAH docket.

**CONCLUSIONS OF LAW**

1. Pursuant to §105.10(a)(1) of the Board Rules, the matters set forth and alleged by the Staff in the Notice are deemed admitted as true with respect to the Respondents.
2. Pursuant to §105.10(a)(1) of the Board Rules and Section 14 of the Texas Securities Act, the relief requested in the Notice with respect to the Respondents is granted.

**ORDER**

1. It is therefore ORDERED that the investment adviser registration of Warren Financial Services, LLC is hereby REVOKED.
2. It is therefore ORDERED that the investment adviser representative registration of Kenneth Wayne Graves is hereby REVOKED.
3. It is further ORDERED that Warren Financial Services, LLC and Kenneth Wayne Graves immediately CEASE AND DESIST engaging in fraudulent conduct.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER ON this  
27<sup>th</sup> day of June, 2014

  
JOHN MORGAN  
Securities Commissioner

JOHN MORGAN  
SECURITIES COMMISSIONER

RONAK V. PATEL  
DEPUTY SECURITIES COMMISSIONER

Mail: P.O. BOX 13167  
AUSTIN, TEXAS 78711-3167

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**SOAH DOCKET NO. 312-14-3619  
SSB DOCKET NO. IC14-03**

IN THE MATTER OF  
THE INVESTMENT ADVISER  
REGISTRATION OF  
WARREN FINANCIAL SERVICES, LLC  
AND THE INVESTMENT ADVISER  
REPRESENTATIVE REGISTRATION  
OF KENNETH WAYNE GRAVES

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BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE HEARINGS

TO: Kenneth Wayne Graves  
Warren Financial Services, LLC (IARD No. 131790)  
5262 S. Staples, Suite 300  
Corpus Christi, Texas 78414

Kenneth Wayne Graves (CRD No. 5560662)  
906 Red Poll Circle  
Corpus Christi, Texas 78418

**NOTICE OF HEARING**

This is your OFFICIAL NOTICE that a hearing will be held at the State Office of Administrative Hearings, in the William P. Clements Building, 300 W. 15<sup>th</sup> Street, 4<sup>th</sup> Floor, Austin, Texas 78701, before an Administrative Law Judge on **July 9, 2014 at 9:00 AM Central** for the purpose of determining whether the registrations of Warren Financial Services, LLC (“Respondent WFS”) and Kenneth Wayne Graves (“Respondent Graves”)(collectively, “Respondents”) with the Securities Commissioner of Texas (“Securities Commissioner”) should be REVOKED and for the purpose of determining whether Respondents should be ordered to CEASE AND DESIST from engaging in fraudulent conduct.

This hearing will be held pursuant to The Securities Act, Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581-43 (West 2010 & Supp. 2013)(“Texas Securities Act”); the Rules and Regulations of the State Securities Board, 7 Tex. Admin. Code Chapter 101 (Supp. 2014)(“Board Rules”); the Administrative Procedure Act, Tex. Gov’t Code Ann. §§ 2001.001 to 2001.902 (West 2008 & Supp. 2013); and the Rules of Practice and Procedure of the State Office of Administrative Hearings, 1 Tex. Admin. Code Chapter 155 (Supp. 2013)(“SOAH Rules”).

IF YOU DO NOT FILE A WRITTEN ANSWER OR OTHER WRITTEN RESPONSIVE PLEADING TO THIS NOTICE OF HEARING ON OR BEFORE THE 20TH DAY AFTER THE DATE ON WHICH THIS NOTICE WAS MAILED TO YOU OR PERSONALLY SERVED ON YOU, THE FACTUAL ALLEGATIONS IN THIS NOTICE WILL BE DEEMED ADMITTED, AND THE SECURITIES COMMISSIONER MAY DISPOSE OF THIS CASE WITHOUT A HEARING AND GRANT THE RELIEF SOUGHT IN THIS NOTICE.

THE RESPONSE MUST BE FILED IN AUSTIN, TEXAS, WITH THE STAFF OF THE STATE SECURITIES BOARD AND THE STATE OFFICE OF ADMINISTRATIVE HEARINGS.

IF YOU FAIL TO ATTEND THE HEARING, EVEN IF A WRITTEN ANSWER OR OTHER RESPONSIVE PLEADING HAS BEEN FILED, THE FACTUAL ALLEGATIONS IN THIS NOTICE WILL BE DEEMED ADMITTED, AND THE SECURITIES COMMISSIONER MAY DISPOSE OF THIS CASE WITHOUT A HEARING AND GRANT THE RELIEF SOUGHT IN THIS NOTICE.

CONTACT INFORMATION

Ronak V. Patel, Esq.  
Texas State Securities Board  
208 E. 10th Street, 5th Floor  
Austin, Texas 78701  
Telephone: (512) 305-8300  
Facsimile: (512) 305-8336

Docketing Office  
State Office of Administrative Hearings  
300 W. 15th Street, Suite 504  
Austin, Texas 78701  
Telephone: (512) 475-3445  
Facsimile: (512) 475-4994

Pursuant to §105.8 of the Board Rules, all documents filed by any party, other than business records and transcripts, and all documents issued by the Administrative Law Judge must be contemporaneously served upon the Securities Commissioner's representative as identified below:

Marlene Sparkman  
General Counsel  
Securities Commissioner's Representative  
Texas State Securities Board  
208 E. 10th Street, 5th Floor  
Austin, Texas 78701  
Telephone: (512) 305-8300  
Facsimile: (512) 305-8336

Legal authority and jurisdiction for this matter exist under Sections 14 and 23 of the Texas Securities Act, Section 2003.021(b) of the Texas Government Code, and Section 155.51 of the SOAH Rules.

The Staff of the Texas State Securities Board ("Staff") will present evidence in support of its request that Respondents' registrations with the Securities Commissioner be REVOKED and that Respondents be ordered to CEASE AND DESIST from engaging in fraudulent conduct.

The evidence presented by the Staff will prove the following:

## I. Respondents

1. From September 1, 2004 through December 31, 2006, Respondent WFS was registered with the Securities Commissioner as an investment adviser. Respondent WFS failed to timely renew its registration at the end of 2006. Thereafter, Respondent WFS was registered with the Securities Commissioner from January 24, 2007 through December 31, 2012. At the end of 2012, Respondent WFS again failed to timely renew its registration.
2. On February 28, 2013, Respondent WFS renewed its registration as an investment adviser with the Securities Commissioner. This registration is currently effective.
3. Respondent Graves is the sole owner of Respondent WFS. From December 9, 2010 through December 31, 2012, Respondent Graves was registered with the Securities Commissioner as an investment adviser representative of Respondent WFS. Respondent Graves failed to timely renew his registration at the end of 2012.
4. On February 28, 2013, Respondent Graves renewed his registration as an investment adviser representative. This registration is currently effective.
5. Respondent WFS's last known addresses are 5262 S. Staples Suite 300, Corpus Christi, Texas 78414 and 906 Red Poll Circle, Corpus Christi, Texas 78418.
6. Respondent Graves's last known address is 906 Red Poll Circle, Corpus Christi, Texas 78418.

## II. Investment in Respondent WFS

7. Respondents sold a security that is tied to Respondent WFS's gross income (the "WFS Investment").
8. According to the terms of the WFS Investment, each investor is supposed to receive a stated percentage of Respondent WFS's monthly gross income for a specified period. At the end of the period, each investor is entitled to a return of the principal investment.
9. Between March 2012 and August 2012, Respondents sold the WFS Investment to five (5) persons for a total of four hundred twenty five thousand dollars (\$425,000.00).
10. The WFS Investments sold by Respondents provide for payments ranging from 2.5 to 5% of Respondent WFS's gross income for periods ranging from 3 to 7 years.

### III. Failure to Pay Pursuant to Terms

11. As described above, purchasers of the WFS Investment are supposed to be paid a percentage of Respondent WFS's monthly gross income.
12. But since August 2012, Respondent WFS has underpaid investors. For many months in which Respondent WFS generated income, Respondent WFS did not pay anything to certain investors.
13. Respondent WFS's failure to pay the investors pursuant to the terms of their investment constitutes a fraudulent business practice.

### IV. Unsuitable Recommendations

14. Respondents recommended the WFS Investment to investment advisory clients without a reasonable basis to believe the investment was suitable for the clients. For example:
  - a. In or about May 2012, Respondent Graves recommended that Client A purchase \$70,000 of the WFS Investment. This amount accounted for the vast majority of the assets in the investment account that Respondents were managing for Client A.
  - b. For Client A, the WFS Investment is supposed to pay 2.5% of Respondent WFS's monthly gross income. Furthermore, Client A is not entitled to a return of her principal investment until July 1, 2019.
  - c. Client A informed Respondents that she could not afford to lose the amount she was investing in the WFS Investment.
15. Respondents' recommendations of the WFS Investment to investment advisory clients without a reasonable basis to believe the WFS Investment was suitable for each such client constitutes an inequitable practice in rendering services as an investment adviser and constitutes a fraudulent business practice.

### V. Misrepresentations to Staff during Investigation

16. In connection with the Staff investigation of Respondents, the Staff asked Respondent Graves if any purchase of the WFS Investment was recorded on a document.
17. Respondent Graves represented to the Staff that purchases of the WFS Investment were not documented and were simply "verbal commitments." This representation was false.
18. In fact, purchases of the WFS Investment were recorded on documents signed by the relevant investor(s) and Respondent Graves. These documents identified the key terms of each purchase of the WFS Investment.
19. At the time of Respondent Graves's representation to the Staff, Respondent Graves knew, or reasonably should have known, that purchases of the WFS

Investment were documented. Respondent Graves's representation constitutes a material misrepresentation to the Securities Commissioner in connection with information deemed necessary by the Securities Commissioner to determine the business repute of an investment adviser and an investment adviser representative.

#### VI. Unauthorized Withdrawal of Client Funds

20. Respondents' clients maintain investment accounts with a third-party custodian (the "Custodian"). Respondents agreed to provide investment advice related to the client assets held with the Custodian. In exchange, the clients agreed to pay asset management fees to the Respondents.
21. Respondent WFS's Form ADV Part 2 and the investment management agreements with its clients specified the annual asset management fees. The Form ADV Part 2 and the investment management agreements indicate that Respondent WFS is entitled to collect these fees on a monthly basis and in arrears.
22. The clients granted Respondents authority to collect the asset management fees from each client's account by submitting requests directly to the Custodian.
23. Between January 2, 2014 and May 6, 2014, Respondent Graves requested payments to Respondent WFS totaling one hundred thirty eight thousand three hundred eighty one dollars fifty cents (\$138,381.50) from the accounts of five (5) clients. Respondent Graves represented to the Custodian that these payments related to asset management fees that would be due from these clients in the future.
24. Respondents are not authorized to collect asset management fees in advance.
25. Furthermore, pursuant to Respondents' investment management agreement, the maximum asset management fee Respondents can collect on an annual basis is 2% of a client's account.
26. Between January 2, 2014 and May 6, 2014, Respondents obtained client funds, represented as asset management fees by Respondent Graves, which are in gross excess of the fees that clients agreed to pay and also well over 2% annually of each client's account. For example:
  - a. Client B
    - i. Client B is sixty eight (68) years old.
    - ii. Between January 2, 2014 and April 28, 2014, Respondent Graves caused \$33,847.83 to be transferred to Respondent WFS's bank account from Client B's investment account.
    - iii. In connection with these transfers, Respondent Graves represented to the Custodian that the amounts represented fees payable to Respondents for various periods in 2014 and 2015.

- iv. Respondent Graves attributed \$12,988.16 of the total amount to 2014 fees and \$20,859.67 to 2015 fees. At all relevant times, these amounts were significantly more than 2% of Client B's account value on an annual basis.
- b. Client C
- i. Client C is sixty six (66) years old.
  - ii. Between January 2, 2014 and May 6, 2014, Respondent Graves caused \$49,434.46 to be transferred to Respondent WFS's bank account from Client C's investment account.
  - iii. In connection with these transfers, Respondent Graves represented to the Custodian that the amounts represented fees payable to Respondents for various periods in 2014 and 2015.
  - iv. Respondent Graves attributed \$23,681.26 of the total amount to 2014 fees and \$25,753.20 to 2015 fees. At all relevant times, these amounts were significantly more than 2% of Client C's account value on an annual basis.
27. Respondents' actions in connection with the transfer of client funds represented as future asset management fees constitute fraudulent business practices.
28. Respondents' actions in connection with the transfer of client funds represented as asset management fee in amounts that exceed the amounts authorized by clients constitute fraudulent business practices.

#### **VII. Legal Authority**

29. Section 4.F of the Texas Securities Act states:
- The terms "fraud" or "fraudulent practice" shall include any misrepresentations, in any manner, of a relevant fact; any promise or representation or prediction as to the future not made honestly and in good faith, or an intentional failure to disclose a material fact; the gaining, directly or indirectly, through the sale of any security, of an underwriting or promotion fee or profit, selling or managing commission or profit, so gross or exorbitant as to be unconscionable; any scheme, device or other artifice to obtain such profit, fee or commission; provided, that nothing herein shall limit or diminish the full meaning of the terms "fraud," "fraudulent," and "fraudulent practice" as applied or accepted in courts of law or equity.
30. Section 14 of the Texas Securities Act states in part:
- (A) The Commissioner may ... revoke a registration issued under this Act, ... if the person: ...

(3) has engaged in any inequitable practice ... in rendering services as an investment adviser, or in any fraudulent business practice;

(7) has made any material misrepresentation to the Commissioner or Board in connection with any information deemed necessary by the Commissioner or Board to determine ... [an] investment adviser's or investment adviser representative's business repute or qualifications

31. Pursuant to Section 14.A(3) of the Texas Securities Act, the aforementioned inequitable practices in rendering services as an investment adviser and fraudulent business practices are bases for the revocation of Respondents' registrations with the Securities Commissioner.
32. Pursuant to Section 14.A(7) of the Texas Securities Act, Respondent Graves's material misrepresentation to the Securities Commissioner in connection with information deemed necessary by the Securities Commissioner to determine the business repute of an investment adviser and an investment adviser representative is a basis for the revocation of Respondent Graves's registration with the Securities Commissioner.
33. Pursuant to Section 23.B(1) of the Texas Securities Act, the Securities Commissioner may issue a cease and desist order requiring Respondents to immediately cease and desist from fraudulent conduct.

#### VIII. Relief Requested

Based on the foregoing allegations, the Staff requests that the Securities Commissioner issue an Order:

- a. REVOKING Respondents' registrations with the Securities Commissioner;
- b. Requiring Respondents to CEASE AND DESIST engaging in fraudulent conduct.

Pursuant to §105.13 of the Board Rules, the Staff respectfully requests that the State Office of Administrative Hearings order that all costs charged to the Texas State Securities Board by any court reporting service involved in this matter be assessed against Respondents.

You are invited to appear personally, with, without, or through counsel, and to present any and all evidence relating to the matters set forth in this Notice.

Signed this 19<sup>th</sup> day of May, 2014.

  
\_\_\_\_\_  
Tommy Green  
Director of Inspections & Compliance

**CERTIFICATE OF SERVICE**

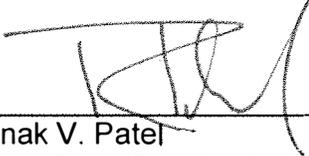
I hereby certify that true and correct copies of the foregoing have been sent via certified mail to the Respondents, and to the Securities Commissioner's Representative by hand-delivery, done on this, the 19<sup>th</sup> day of May 2014.

Kenneth Wayne Graves, Managing Member      VIA CERTIFIED MAIL 97 7108 2133 3937 7494 6821  
Warren Financial Services, LLC  
5262 S. Staples, Suite 300  
Corpus Christi, Texas 78414

Kenneth Wayne Graves, Managing Member      VIA CERTIFIED MAIL 91 7108 2133 3937 7494 6838  
Warren Financial Services, LLC  
906 Red Poll Circle  
Corpus Christi, Texas 78418

Kenneth Wayne Graves      VIA CERTIFIED MAIL 91 7108 2133 3937 7494 6845  
906 Red Poll Circle  
Corpus Christi, Texas 78418

Marlene Sparkman      VIA HAND-DELIVERY  
General Counsel  
Securities Commissioner's Representative  
Texas State Securities Board  
208 E. 10<sup>th</sup> Street, 5<sup>th</sup> Floor  
Austin, Texas 78701  
Telephone: (512) 305-8300  
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Ronak V. Patel  
Texas State Bar No. 24037241