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Texas State Securities Board

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SOAH DOCKET NO. 312-06-3016 SSB DOCKET NO. 06-IC04

IN THE MATTER OF
THE AGENT AND
INVESTMENT ADVISER
REPRESENTATIVE
REGISTRATIONS OF
JOHN HUTCHISON ARNETTE

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS

DEFAULT ORDER

Be it remembered that 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 Sections 14 and 23-1 of The Securities Act, TEX. REV. CIV. STAT. ANN. art. 581-1 et seq. (Vernon 1964 & Supp. 2006) ("Texas Securities Act") and § 105.8(a)(2) of the Rules and Regulations of the Texas State Securities Board, 7 Tex. Admin. Code Chapter 101 et seq. (Supp. 2006) ("Board Rules").

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

FINDINGS OF FACT

1. On or about August 2, 2006, a Notice of Hearing, SOAH DOCKET NO. 312-06-3016, SSB DOCKET NO. 06-1C04 (the "Notice") was mailed by certified mail to John Hutchison Arnette ("Respondent") at the Respondent's last known address as filed with the Securities Commissioner.
2. Within the Notice, the Staff requested that the registration of Respondent as an agent and investment adviser representative with the Securities Commissioner be REVOKED and that Respondent be ASSESSED AN ADMINISTRATIVE FINE of One Hundred Thousand Dollars (\$100,000.00), and set forth the following matters:
 - a. Respondent is a natural person whose last known residential address, as filed with the Securities Commissioner, is 2906 Gainesborough Drive, Dallas,

Texas 75287, and whose last known business address, as filed with the Securities Commissioner, is 2906 Gainesborough Drive, Dallas, Texas 75287.

- b. On or about October 27, 2005, Respondent registered with the Securities Commissioner as an agent of Cullum & Burks Securities, Inc. ("Cullum & Burks"), which is currently effective.
- c. On or about November 16, 2005, Respondent registered with the Securities Commissioner as an investment adviser representative of Cullum & Burks, which is currently effective.
- d. From on or about January 5, 1993 to on or about October 5, 2005, Respondent was registered with the Securities Commissioner as an agent and investment adviser representative of Intersecurities, Inc. ("ISI").
- e. From in or about April 2003 to in or about September 2004, Respondent engaged in the sale of universal lease agreements on behalf of Yucatan Resorts S.A., and/or Resort Holdings International, Inc. ("RHI") and residence club memberships on behalf of Panorama Communities, S.A. and/or RHI to Texas residents (the "Investors").
- f. The Yucatan Universal Lease Agreements and Panorama Residence Club Memberships constitute "securities" as the term "securities" is defined by Section 4.A of the Texas Securities Act.
- g. ISI's written supervisory procedures required Respondent to obtain prior written approval from ISI before engaging in any securities transaction outside the regular course or scope of Respondent's employment with ISI.
- h. Respondent did not obtain prior written approval from ISI to sell the Yucatan Universal Lease Agreements or the Panorama Residence Club Memberships.
- i. Respondent's failures to obtain prior written approval from ISI for Respondent's sale of the Yucatan Universal Lease Agreements and Panorama Residence Club Memberships, as required by ISI's written supervisory procedures, constitute inequitable practices in the sale of securities, and are bases for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.
- j. Respondent received compensation in the form of commissions for his sale of the Yucatan Universal Lease Agreements and Panorama Residence Club Memberships to the Investors.
- k. ISI's written supervisory procedures required Respondent to obtain prior approval from ~~ISI~~ before receiving compensation for services rendered outside the scope of employment with ISI.

- l. Respondent did not obtain prior approval from ISI to accept such compensation for the activity, or services, rendered outside of Respondent's scope of employment with ISI.
- m. Respondent's failures to obtain prior approval from ISI for Respondent's receipt of compensation for selling the Yucatan Universal Lease Agreements and Panorama Residence Club Memberships, as required by ISI's written supervisory procedures, constitute inequitable practices in the sale of securities, and are bases for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.
- n. On or about December 1, 1992 and pursuant to §115.2(a)(2) of the Board Rules [formerly §115.2(a)(1)], Respondent filed a Uniform Application for Securities Industry Registration and Transfer ("Form U-4") with the Securities Commissioner in connection with his application to become registered with the Securities Commissioner as an agent of ISI.
- o. The Form U-4 requires the disclosure of any other business conducted by the agent, including any other business conducted by the agent, either as a proprietor, partner, officer, director, employee, trustee, agent, or otherwise.
- p. Section 115.9(a)(6) of the Board Rules required Respondent to report, on the Form U-4, any change in information previously disclosed to the Securities Commissioner on an application form or filing within thirty (30) days of the occurrence of such change.
- q. Respondent did not update his Form U-4 within thirty (30) days of beginning to sell the Yucatan Universal Lease Agreements and/or the Panorama Residence Club Memberships.
- r. Respondent's failure to update Respondent's Form U-4 within thirty (30) days of beginning to sell the Yucatan Universal Lease Agreements constitutes a violation of §115.9(a)(6) of the Board Rules, and is a basis for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(6) of the Texas Securities Act, and is a basis for the assessment of an administrative fine against Respondent pursuant to Section 23-1 of the Texas Securities Act.
- s. Respondent has represented that prior to April 2003 various individuals, at different times, represented to him that the Yucatan Universal Leases Agreements were not securities.
- t. On multiple occasions, after April 2003, Respondent represented to ISI that Respondent had not "sold any investment products, certificates, evidences of indebtedness, or other investments purporting to be 'non-securities'."

- u. Respondent's representations to ISI were misrepresentations of a relevant fact related to Respondent's offer for sale or sale of the Yucatan Universal Lease Agreements and/or Panorama Residence Club Memberships, and thus constitute fraudulent practices in connection with the offer for sale or sale of a security, and are bases for the assessment of an administrative fine against Respondent pursuant to Section 23-1 of the Texas Securities Act.

Respondent's representations to ISI were misrepresentations of a relevant fact related to Respondent's offer for sale or sale of the Yucatan Universal Lease Agreements and/or Panorama Residence Club Memberships, and thus constitute fraudulent business practices, and are bases for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.

- v. In response to an inquiry by the National Association of Securities Dealers ("NASD") dated March 29, 2006, Respondent misrepresented the amount of money he was paid for his solicitation and sale of the Yucatan Universal Lease Agreements.

Respondent's misrepresentation to the NASD constitutes a misrepresentation of a relevant fact, and thus constitutes a fraudulent business practice, and is a basis for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.

- w. Respondent also represented to the NASD in response to the NASD's March 29, 2006 inquiry, that "The State of Texas Securities Board has close (sic) the case on RHI & never declared the universal lease a 'security'."

This representation is a misrepresentation of a relevant fact, and thus constitutes a fraudulent business practice, and is a basis for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.

3. On or about August 24, 2006, Respondent filed a "Response to Notice of Hearing".
4. Pursuant to §105.8(a)(2) of the Board Rules, the Securities Commissioner may make an informal disposition of a contested case by default upon proof to the Securities Commissioner that the Notice was mailed to Respondent by certified mail, to the Respondent's last known address as shown by the records of the Texas State Securities Board, and that the Respondent has failed to appear on the day and at the time set for the hearing, whether or not a written response has been filed.
5. On or about March 1, 2007, Administrative Law Judge, James W. Norman, issued Order No. 8, *Setting Hearing*, SOAH Docket No. 312-06-3016 to set the matter for hearing on April 9, 2007 at 9:00 A.M for the purpose of determining whether Respondent's registrations with the Securities Commissioner should be

revoked, and Respondent should be assessed an administrative fine of One Hundred Thousand Dollars (\$100,000.00).

6. Respondent failed to appear in person or through a legal representative at the hearing.
7. On April 9, 2007, after entering its appearance at the hearing, the Staff requested that the matter be dismissed from the SOAH docket for informal disposition pursuant to the Board Rules.
8. On or about April 10, 2007, Judge Norman issued Order No. 9, *Dismissing Case*, SOAH Docket No. 312-06-3016. After finding that there was evidence to show that Respondent received notice of the hearing, Judge Norman dismissed this matter from the SOAH docket.

CONCLUSIONS OF LAW

1. Pursuant to § 105.8(a)(2) of the Board Rules, the following matters set forth in the Notice, are deemed admitted as true:
 - a. Respondent is a natural person whose last known residential address, as filed with the Securities Commissioner, is 2906 Gainesborough Drive, Dallas, Texas 75287, and whose last known business address, as filed with the Securities Commissioner, is 2906 Gainesborough Drive, Dallas, Texas 75287.
 - b. On or about October 27, 2005, Respondent registered with the Securities Commissioner as an agent of Cullum & Burks Securities, Inc. ("Cullum & Burks"), which is currently effective.
 - c. On or about November 16, 2005, Respondent registered with the Securities Commissioner as an investment adviser representative of Cullum & Burks, which is currently effective.
 - d. From on or about January 5, 1993 to on or about October 5, 2005, Respondent was registered with the Securities Commissioner as an agent and investment adviser representative of Intersecurities, Inc. ("ISI").
 - e. From in or about April 2003 to in or about September 2004, Respondent engaged in the sale of universal lease agreements on behalf of Yucatan Resorts S.A., and/or Resort Holdings International, Inc. ("RHI") and residence club memberships on behalf of Panorama Communities, S.A. and/or RHI to Texas residents (the "Investors").
 - f. The Yucatan Universal Lease Agreements and Panorama Residence Club Memberships constitute "securities" as the term "securities" is defined by Section 4.A of the Texas Securities Act.

- g. ISI's written supervisory procedures required Respondent to obtain prior written approval from ISI before engaging in any securities transaction outside the regular course or scope of Respondent's employment with ISI.
- h. Respondent did not obtain prior written approval from ISI to sell the Yucatan Universal Lease Agreements or the Panorama Residence Club Memberships.
- i. Respondent's failures to obtain prior written approval from ISI for Respondent's sale of the Yucatan Universal Lease Agreements and Panorama Residence Club Memberships, as required by ISI's written supervisory procedures, constitute inequitable practices in the sale of securities, and are bases for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.
- j. Respondent received compensation in the form of commissions for his sale of the Yucatan Universal Lease Agreements and Panorama Residence Club Memberships to the Investors.
- k. ISI's written supervisory procedures required Respondent to obtain prior approval from ISI before receiving compensation for services rendered outside the scope of employment with ISI.
- l. Respondent did not obtain prior approval from ISI to accept such compensation for the activity, or services, rendered outside of Respondent's scope of employment with ISI.
- m. Respondent's failures to obtain prior approval from ISI for Respondent's receipt of compensation for selling the Yucatan Universal Lease Agreements and Panorama Residence Club Memberships, as required by ISI's written supervisory procedures, constitute inequitable practices in the sale of securities, and are bases for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.
- n. On or about December 11, 1992 and pursuant to §115.2(a)(2) of the Board Rules [formerly §115.2(a)(1)], Respondent filed a Uniform Application for Securities Industry Registration and Transfer ("Form U-4") with the Securities Commissioner in connection with his application to become registered with the Securities Commissioner as an agent of ISI.
- o. The Form U-4 requires the disclosure of any other business conducted by the agent, including any other business conducted by the agent, either as a proprietor, partner, officer, director, employee, trustee, agent, or otherwise.

- p. Section 115.9(a)(6) of the Board Rules required Respondent to report, on the Form U-4, any change in information previously disclosed to the Securities Commissioner on an application form or filing within thirty (30) days of the occurrence of such change.
- q. Respondent did not update his Form U-4 within thirty (30) days of beginning to sell the Yucatan Universal Lease Agreements and/or the Panorama Residence Club Memberships.
- r. Respondent's failure to update Respondent's Form U-4 within thirty (30) days of beginning to sell the Yucatan Universal Lease Agreements constitutes a violation of §115.9(a)(6) of the Board Rules, and is a basis for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(6) of the Texas Securities Act, and is a basis for the assessment of an administrative fine against Respondent pursuant to Section 23-1 of the Texas Securities Act.
- s. Respondent has represented that prior to April 2003 various individuals, at different times, represented to him that the Yucatan Universal Leases Agreements were not securities.
- t. On multiple occasions, after April 2003, Respondent represented to ISI that Respondent had not "sold any investment products, certificates, evidences of indebtedness, or other investments purporting to be 'non-securities'."
- u. Respondent's representations to ISI were misrepresentations of a relevant fact related to Respondent's offer for sale or sale of the Yucatan Universal Lease Agreements and/or Panorama Residence Club Memberships, and thus constitute fraudulent practices in connection with the offer for sale or sale of a security, and are bases for the assessment of an administrative fine against Respondent pursuant to Section 23-1 of the Texas Securities Act.

Respondent's representations to ISI were misrepresentations of a relevant fact related to Respondent's offer for sale or sale of the Yucatan Universal Lease Agreements and/or Panorama Residence Club Memberships, and thus constitute fraudulent business practices, and are bases for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.

- v. In response to an inquiry by the National Association of Securities Dealers ("NASD") dated March 29, 2006, Respondent misrepresented the amount of money he was paid for his solicitation and sale of the Yucatan Universal Lease Agreements.

Respondent's misrepresentation to the NASD constitutes a misrepresentation of a relevant fact, and thus constitutes a fraudulent business practice, and is a basis for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.

- w. Respondent also represented to the NASD in response to the NASD's March 29, 2006 inquiry, that "The State of Texas Securities Board has close (sic) the case on RHI & never declared the universal lease a 'security'."

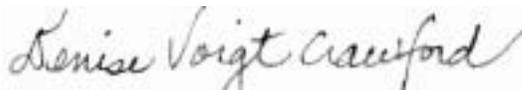
This representation is a misrepresentation of a relevant fact, and thus constitutes a fraudulent business practice, and is a basis for the revocation of Respondent's registrations with the Securities Commissioner pursuant to Section 14.A(3) of the Texas Securities Act.

2. Pursuant to § 105.8(a)(2) of the Board Rules and Sections 14 and 23-1 of the Texas Securities Act, the relief requested in the Notice is granted.

ORDER

1. It is therefore ORDERED that the registrations of John Hutchison Arnette as an agent and investment adviser representative are hereby REVOKED.
2. It is further ORDERED that John Hutchison Arnette is hereby ASSESSED AN ADMINISTRATIVE FINE in the amount of One Hundred Thousand Dollars (\$100,000.00). Payment shall be made by delivery of a cashier's check to the Securities Commissioner in the amount of One Hundred Thousand Dollars (\$100,000.00), payable to the State of Texas, within thirty (30) days of this Order.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 19th
day of April, 2007.


DENISE VOIGT CRAWFORD
Securities Commissioner