

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING) Order Number S-07-302-08-SC01
5 whether there has been a violation of the)
6 Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE
7 King Pastry & Deli, Inc.; Nonna Verd;) OF INTENT TO ENTER ORDER TO CEASE
8 Respondent) AND DESIST, TO CHARGE COSTS, AND
9) TO IMPOSE FINES
10)

11 THE STATE OF WASHINGTON TO: King Pastry & Deli, Inc.
12 Nonna Verd

13 **STATEMENT OF CHARGES**

14 Please take notice that the Securities Administrator of the State of Washington has reason
15 to believe that Respondents, King Pastry & Deli, Inc. and Nonna Verd, have violated the
16 Securities Act of Washington and that their violations justify the entry of an order of the
17 Securities Administrator under RCW 21.20.390 against each to cease and desist from such
18 violations. The Securities Administrator finds as follows:

19 **TENTATIVE FINDINGS OF FACT**

20 Respondent

21 1. King Pastry & Deli, Inc. ("King Pastry & Deli") is an active Washington corporation
22 incorporated in 2004. From July 2005 to October 2006, King Pastry & Deli operated from a
23 principal place of business in King County, Washington. King Pastry & Deli has been under
24 new ownership since late September 2006.

STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO CEASE AND DESIST, TO CHARGE COSTS, AND TO IMPOSE FINES

1

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
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1 2. Nonna Verd (“Verd”) was the president, secretary, treasurer, director, and an owner of
2 King Pastry & Deli, Inc. (“King Pastry & Deli”). Between July 2004 and September 2006, Verd
3 sold investments in the form of promissory notes, shares of stock, and investment contracts to
4 eight investors residing in Washington State totaling approximately \$809,500. On September
5 25, 2006, Verd resigned her positions in King Pastry & Deli. Verd emigrated from the former
6 Soviet Union to the United States and resides in King County, Washington.

7
8 Related Entities

9 3. RUNAR, Inc., doing business as King Pastry Banquet Room (“King Pastry Banquet
10 Room”) is an active Washington corporation incorporated in September 2006 and had a principal
11 place of business in King County, Washington. King Pastry Banquet Room operated as a
12 banquet facility from October 2006 to May 2007, when it ceased operations. Verd is the
13 registered agent for King Pastry Banquet Room.

14 4. INVIZ, Inc., doing business as Eastern European Adult Daycare (“Eastern European
15 Adult Daycare”) is an active Washington corporation. Eastern European Adult Daycare was
16 incorporated in July 2006 but has never commenced operations. Verd is one of the owners of
17 Eastern European Adult Daycare.

18
19 Nature of the Conduct

20 5. In mid 2004, Verd and her neighbor, Aida Kitoyan (“Kitoyan”), decided to open King
21 Pastry & Deli, a pastry shop and delicatessen that served traditional Eastern European fare made
22 from Verd family recipes. In July 2004, Verd entered into a lease for space to operate King
23

1 Pastry & Deli. Verd and Kitoyan hired contractors to begin tenant improvements to convert the
2 space from a health club to a delicatessen.

3 6. To pay for the improvements, Verd approached Investor A, a King County resident,
4 about investing in King Pastry & Deli. Investor A had emigrated from the former Soviet Union
5 to the United States. Investor A and Verd had known each other for about six months. Investor
6 A was terminally ill.

7 7. Verd had several conversations with Investor A about investing in King Pastry & Deli.
8 Verd told Investor A that she would pay Investor A \$250 interest each month and would repay
9 Investor A after a year. Based on these representations, on July 6, 2004, Investor A gave Verd
10 \$10,000 in cash.

11 8. To evidence the investment, Verd gave Investor A a "Promising Note." Verd did not give
12 Investor A financial statements or any other disclosure documents. Verd told Investor A that the
13 investment was in King Pastry & Deli, however, Verd signed the note in her individual capacity.

14 9. Verd failed to disclose the risks of the investment including the risks that she would not
15 be able to raise enough funds to complete the tenant improvements or begin operations, the risk
16 that that once the business started operations it might fail, and the risk that Verd might not be
17 able to repay the investment or interest.

18 10. Verd made interest payments when she had enough funds to do so. In July 2005, Verd
19 stopped making interest payments to Investor A.

20 11. In July 2005, when the note came due, Verd did not pay it. However, in August 2006,
21 Verd repaid Investor A using funds that Verd received as an investment in the Eastern European
22 Adult Daycare from Investor H.

1 12. Verd needed additional funds to complete the remodel. Verd approached Investor B, a
2 King County resident, about investing in King Pastry & Deli. Verd and Investor B had known
3 each other about six months.

4 13. Verd had several conversations with Investor B about investing in King Pastry & Deli.
5 Verd told Investor B that she would pay Investor B \$250 interest each month and would repay
6 Investor B after a year. Based on these representations, on August 6, 2004, Investor B gave Verd
7 \$10,000 in cash.

8 14. To evidence the investment, Verd gave Investor B a promissory note. Verd did not give
9 Investor B a financial statement or any disclosure documents. Verd told Investor B that the
10 investment was in King Pastry & Deli; however, Verd signed the note in her individual capacity.

11 15. Verd failed to disclose the risks of the investment including the risks that she would not
12 be able to raise enough funds to complete the tenant improvements or begin operations, the risk
13 that that once the business started operations it might fail, and the risk that Verd might not be
14 able to repay the investment or the interest.

15 16. Verd made monthly interest payments to Investor B when she had the funds. Verd was
16 unable to repay Investor B when the note came due; however, Verd repaid Investor B in
17 December 2005 using funds received from Investor G.

18 17. In September 2004, Kitoyan resigned. At the time that Kitoyan resigned, Verd agreed to
19 repay Kitoyan the approximately \$41,000 she had invested in King Pastry & Deli.

20 18. In addition to needing \$41,000 to repay Kitoyan, Verd needed additional funds to
21 complete the remodel. Verd approached Investor C, a King County resident, about investing in
22 King Pastry & Deli. Verd had known Investor C for several years.

1 19. Verd had several general conversations with Investor C about investing in King Pastry &
2 Deli. Verd told Investor C that she needed funds to finish remodeling the space and said that she
3 would repay Investor C. Based on these representations, on November 20, 2004, Investor C
4 gave Verd a cashier's check for \$50,000.

5 20. Verd did not give Investor C a promissory note or any other documents evidencing the
6 investment. Verd failed to provide Investor C a financial statement or other disclosure
7 document.

8 21. Verd failed to disclose the risks of the investment including the risks that she would not
9 be able to raise enough funds to complete the tenant improvements or begin operations, the risk
10 that that once the business started operations it might fail, and the risk that Verd might not be
11 able to repay the investment or the interest.

12 22. Verd also failed to disclose the amount of the outstanding investments.

13 23. Verd used \$5,575 received from Investor C to repay Kitoyan. Investor C was not told
14 that the funds would be used to repay another investor.

15 24. To date, Investor C has not been repaid.

16 25. Verd approached Investor D, a corporation owned by four siblings, for funds. The
17 owners of Investor D had emigrated from the former Soviet Union to the United States. Verd
18 had known the owners of Investor D for about eight years.

19 26. Verd and the owners of Investor D spoke daily about investing in King Pastry & Deli.
20 Verd told them that the funds would be to be used for the needs of the business such as to buy
21 equipment and supplies.

22 27. Verd told Investor D that she would repay the principal plus 30% interest.

1 28. Based on her representations, between March 2005 and June 2005, Investor D gave Verd
2 funds on three separate occasions for a total investment of \$164,000. On March 9, 2005,
3 Investor D gave Verd a cashier's check for \$150,000; on May 2, 2005, Investor D gave Verd a
4 check for \$9,000; and on June 13, 2005, Investor D gave Verd a check for \$5,000.

5 29. Verd gave Investor D a Loan and Stock Transfer Agreement evidencing the \$150,000
6 investment, a promissory note evidencing the \$9,000 investment, and a promissory note
7 evidencing the \$5,000 investment. Verd told Investor D that the investment was in King Pastry
8 & Deli; however, Verd signed the note in her individual capacity.

9 30. Verd failed to give Investor D a financial statement or any other disclosure documents.
10 Verd failed to disclose the risks of the investment including the risks that she would not be able
11 to raise enough funds to complete the tenant improvements or begin operations, the risk that that
12 once the business started operations it might fail, and the risk that Verd might not be able to
13 repay the investment or the interest.

14 31. Verd failed to disclose the amount of the outstanding investments and that she had failed
15 to make interest payments each month to Investors A and B.

16 32. On March 11, 2005, Verd used \$40,850 of the funds received from Investor D to repay
17 Kitoyan. Verd had not told Investor D that the funds would be used to repay another investor.

18 33. Between April 2005 and August 2005, Investor D was repaid using funds from Investor
19 H. On April 4, 2005 Investor D was paid \$2,000; on May 8, 2005 Investor D was paid \$3,000;
20 and on August 20, 2005 Investor D was paid \$200,000.

21 34. Verd approached Investor E, a King County resident, about investing in King Pastry &
22 Deli. Investor E and Verd had known each other for about eight months.

1 35. Verd had several general conversations with Investor E about investing in King Pastry &
2 Deli. Verd told Investor E that King Pastry & Deli needed funds to pay for the tenant
3 improvements and for the business in general. Verd told Investor E that she would repay Investor
4 E the principal and 30% interest within two months. Based on these representations, on June 20,
5 2005, Investor E gave Verd \$10,000 in cash.

6 36. To evidence the investment, Verd gave Investor E a promissory note. Verd told Investor
7 E that the investment was in King Pastry & Deli; however, Verd signed the note in her individual
8 capacity.

9 37. Verd did not give Investor E a financial statement or any other disclosure documents.

10 38. Verd failed to disclose the risks of the investment including the risks that she would not
11 be able to raise enough funds to complete the tenant improvements or begin operations, the risk
12 that that once the business started operations it might fail, and the risk that Verd might not be
13 able to repay the investment or the interest.

14 39. Verd failed to disclose the amount of the outstanding investments and that she had failed
15 to make interest payments each month to Investors A & B.

16 40. In November 2005, Investor E was repaid using funds from Investor G.

17 41. Verd approached Investor F about investing in King Pastry & Deli. Investor F and Verd
18 had known each other for about eight years.

19 42. Verd had several general conversations with Investor F about investing in King Pastry &
20 Deli. Verd told Investor F that King Pastry & Deli needed funds to pay for the business in
21 general. Verd told Investor F that she would repay Investor F the principal and 30% interest
22 within six months. Based on these representations, on June 30, 2005, Investor F gave Verd a
23 check for \$15,000.

1 43. To evidence the investment, Verd gave Investor F a promissory note. Verd told Investor
2 F that the investment was in King Pastry & Deli; however, Verd signed the note in her individual
3 capacity.

4 44. Verd failed to give Investor F a financial statement or any other disclosure documents.

5 45. Verd failed to disclose the risks of the investment including the risks that the business
6 might not begin operations, that when it began operations it might fail, and that Verd might not
7 be able to repay the investment or the interest.

8 46. Verd failed to disclose the amount of the outstanding investments and that she had failed
9 to make monthly interest payments to Investors A and B.

10 47. In December 2005, Investor F was repaid from the investment funds of Investor G.

11 48. In July 2005, King Pastry & Deli opened for business. King Pastry & Deli generated
12 revenue, but the revenue was not enough to cover King Pastry & Deli's outstanding obligations
13 to its investors.

14 49. In August 2005, Verd approached Investor C again and told him that King Pastry & Deli
15 needed additional funds.

16 50. Based on these representations, Investor C gave Verd a cashier's check for \$5,000. Verd
17 did not give Investor C any documents evidencing this investment or disclose any of the risks of
18 the investment to Investor C.

19 51. To date, Investor C has not been repaid.

20 52. In October 2005, Verd approached Investor G, a King County resident, about investing
21 in King Pastry & Deli. Investor G was a customer of King Pastry & Deli and had met Verd in
22 September 2005.

1 53. Verd told Investor G that she needed funds to pay business expenses. Verd told Investor
2 G that Verd would repay her the investment plus 30% interest within a year.

3 54. At the time Investor G was unemployed and did not have any savings. Investor G
4 obtained a home equity line of credit, also known as a HELOC, and on October 26, 2005,
5 Investor G gave Verd a check for \$33,000. To evidence the investment, Verd gave Investor G a
6 “Promising Note,” but did not give her any other document evidencing the investment. Verd
7 told Investor G that the investment was in King Pastry & Deli; however, Verd signed the note in
8 her individual capacity.

9 55. Verd did not give Investor G any documents disclosing any of the risks of the investment
10 including the risk that Verd might not be able to repay the investment and the risk that the
11 business might fail. Verd failed to disclose the amount of outstanding investments.

12 56. In November 2005, Verd told Investor G that they had additional business expenses and
13 asked Investor G if she could invest additional funds. Verd told Investor G that King Pastry &
14 Deli would obtain a loan to repay her and that Verd would make the monthly payment on the
15 HELOC.

16 57. Based on these representations, Investor G borrowed additional funds on the HELOC.
17 Between November 2005 and April 2006, Investor G invested with Verd on eight separate
18 occasions. On November 5, 2005 Investor G invested \$12,000; on November 13, 2005 Investor
19 G invested \$2,000; on November 16, 2005 Investor G invested \$3,000; on November 30, 2005
20 Investor G invested \$67,000; on December 21, 2005 Investor G invested \$32,000; on March 3,
21 2006 Investor G invested \$1,500; on April 5, 2006 Investor G invested \$10,000; and on April 12,
22 2006 Investor G invested \$25,000. No promissory notes were executed for these investments.

23 58. In total, Investor G invested \$185,500 with Verd. Verd has repaid Investor G \$50,000.

1 59. Verd attempted to make only two payments on the HELOC as promised. However, the
2 checks were returned for insufficient funds.

3 60. On December 9, 2005 Verd used \$11,250 of the funds received from Investor G to repay
4 Investor B; on October 27, 2005 Verd used \$13,000 to repay Investor E; on November 10, 2005
5 Verd used \$1,260 to repay Investor E; on November 30, 2005, Verd used \$39,200 to repay
6 Investor H; and on December 23, 2005 Verd used \$20,000 to repay Investor F. Verd had not
7 told Investor G that the funds would be used to repay other investors.

8 61. In August 2005, Verd approached Investor H, a King County resident, about investing in
9 King Pastry & Deli. Verd told Investor H that the investment would be for three months and
10 Verd would pay 30% interest.

11 62. Based on these representations, on September 1, 2005, Investor H gave Verd \$10,000 in
12 cash and a cashier's check for \$20,000 for a total investment of \$30,000.

13 63. Verd gave Investor H a promissory note but did not give Investor H a financial statement
14 or any other disclosure documents. Verd told Investor H that the investment was in King Pastry
15 & Deli; however, Verd signed the note in her individual capacity.

16 64. Verd failed to disclose the risks of the investment including the risk that the investment
17 might not be repaid and the risk that the business might not generate enough income to meet its
18 liabilities. Verd failed to disclose the amount of the outstanding investments.

19 65. On November 27, 2005, Verd used funds received from Investor G to repay Investor H
20 \$39,200.

21 66. In July 2006, Verd approached Investor H about partnering with her to form the Eastern
22 European Adult Daycare in Bellevue, Washington.

1 67. Verd told Investor H that government funds could be obtained to run Eastern European
2 Adult Daycare and that it would generate revenue of over \$900,000 a year. Verd did not disclose
3 any basis for her projections.

4 68. Based on these representations, in August 2006, Investor H agreed to invest in Eastern
5 European Adult Daycare. Investor H obtained a HELOC from which Investor H withdrew
6 \$305,000 and deposited it in Eastern European Adult Daycare bank account to fund the start-up
7 of the business.

8 69. In July 2006, Verd told Investor H that King Pastry & Deli needed funds for operations
9 and asked Investor H to invest. Verd told Investor H that she would repay her with 30% interest
10 on December 31, 2006.

11 70. Based on Verd's representations, on July 31, 2006, Investor H gave Verd a cashier's
12 check for \$25,000. Verd gave Investor H a promissory note evidencing the investment. Verd
13 did not give Investor H any documents disclosing the risks of the investment.

14 71. Between August 2006 and October 2006, without the permission of Investor H, Verd
15 withdrew approximately \$80,000 from the Eastern European Adult Daycare bank account to
16 repay Kitoyan and Investor G.

17 72. In September 2006, Verd offered Investor H 800 shares of stock in King Pastry & Deli.
18 Verd said that the business had no debts and that Verd would use the funds to pay off the King
19 Pastry & Deli investors. Verd told Investor H that the landlord for Eastern European Adult
20 Daycare might not allow the business to have a kitchen and that King Pastry & Deli might be
21 able to provide the cooking services.

22 73. Verd told Investor H that there was an investor willing to purchase 30% of the shares
23 from Investor H. Verd failed to disclose the identity of the purchaser.

1 74. Verd also told Investor H that when King Pastry Banquet Room was opened the business
2 would generate \$20,000 profit per month. Verd failed to disclose a reasonable basis for the
3 projection.

4 75. Verd failed to disclose the risks of the investment including the risk that the business
5 might not generate the projected return, the risk that the business might fail, or the risk that the
6 undisclosed investor would not purchase a 30% interest from Investor H.

7 76. Based on these representations, Investor H agreed to purchase 800 shares in King Pastry
8 & Deli for \$200,000. On September 20, 2006, Verd and Investor H executed a Stock Purchase
9 and Sale Agreement and Investor H gave Verd \$200,000. Verd used the funds from Investor H
10 to pay Investor D.

11 77. In October 2006, Investor H learned that, contrary to what she was told, King Pastry &
12 Deli had debts in excess of \$200,000.

13 78. Also in October 2006, King Pastry & Deli expanded into an adjoining space banquet
14 facility and began operating as King Pastry Banquet Room. King Pastry Banquet Room
15 operated from approximately October 2006 until May 2007.

16 79. The undisclosed investor did not purchase a 30% interest from Investor H.

17 80. On December 19, 2006, Investor H told Verd that she wanted to terminate their
18 relationship. Verd agreed to pay back \$400,000 by February 2007.

19 81. Verd has not paid the funds back to Investor H yet.

20 82. Eastern European Adult Daycare has never conducted business.

1 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

2 **CONCLUSIONS OF LAW**

3 1. The offer or sale of investments in the form of promissory notes, shares of stock,
4 or investment contracts described above constitutes the offer or sale of a security as defined in
5 RCW 21.20.005(10) and (12).

6 2. Respondent, Nonna Verd, acted as a securities salesperson or broker-dealer as
7 defined by RCW 21.20.005(2).

8 3. Respondent, Nonna Verd, has violated RCW 21.20.040, the securities salesperson
9 registration provision of the Securities Act, because she offered and/or sold securities while not
10 registered as a securities salesperson or broker-dealer in the State of Washington.

11 4. The offer or sale of said securities was made in violation of RCW 21.20.010
12 because Respondents, King Pastry & Deli, Inc. and Nonna Verd, in connection with the offer or
13 sale of said securities directly or indirectly made untrue statements of material fact or omitted to
14 state material facts necessary in order to make the statements made, in the light of the
15 circumstances under which they were made, not misleading.

16 5. Respondents, King Pastry & Deli, Inc. and Nonna Verd, have violated RCW
17 21.20.140, the securities registration provision of the Securities Act, because they offered and/or
18 sold securities for which there was no registration on file with the Securities Administrator.

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21 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

22 Pursuant to RCW 21.20.390 and based on the above Tentative Findings of Fact and
23 Conclusions of Law, the Securities Administrator intends to order that Respondents, King Pastry

24 STATEMENT OF CHARGES AND NOTICE OF
INTENT TO ENTER ORDER TO CEASE AND DESIST,
TO CHARGE COSTS, AND TO IMPOSE FINES

1 & Deli, Inc. and Nonna Verd, and their agents and employees, each cease and desist from
2 violations of RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140.

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5 **NOTICE OF INTENT TO CHARGE COSTS**

6 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and
7 Conclusions of Law, the Securities Administrator intends to order that Nonna Verd shall be
8 liable for and pay the costs, fees, and other expenses incurred in the investigation of \$2,500.

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11 **NOTICE OF INTENT TO IMPOSE FINES**

12 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and
13 Conclusions of Law, the Securities Administrator intends to order that Nonna Verd shall be
14 liable for and pay a fine of \$15,000.

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17 **AUTHORITY AND PROCEDURE**

18 This Statement of Charges is entered pursuant to the provisions of Securities Act and is
19 subject to the provisions of RCW 21.20 and RCW 34.05. The respondents, King Pastry & Deli,
20 Inc. and Nonna Verd, may make a written request for a hearing as set forth in the NOTICE OF
21 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this
22 order.

1 If a respondent does not request a hearing, the Securities Administrator intends to adopt
2 the above Tentative Findings of Fact and Conclusions of Law as final and enter an order to cease
3 and desist permanent as to that respondent.

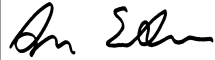
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5 Dated and Entered this 23rd day of July, 2008.

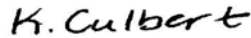
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7 MICHAEL E. STEVENSON
8 Securities Administrator

9 Approved by:

Presented by:

10 



11 Suzanne Sarason
12 Chief of Compliance

13 Kristen Culbert
14 Financial Legal Examiner