

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

4 IN THE MATTER OF DETERMINING) Order No.: S-13-1258-14-SC01
5 Whether there has been a violation of the)
6 Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE OF INTENT
7 Richard O. Johnson II) TO ENTER ORDER TO CEASE AND DESIST, TO IMPOSE
8) A FINE, TO CHARGE COSTS, AND TO DENY FUTURE
9) REGISTRATIONS
10 Respondent.)
11 _____)

12 **THE STATE OF WASHINGTON TO:** Richard O. Johnson II (CRD No. 854410)

13 **STATEMENT OF CHARGES**

14 Please take notice that the Securities Administrator of the State of Washington has reason to believe
15 that the Respondent, Richard O. Johnson II has violated the Securities Act of Washington. The Securities
16 Administrator believes those violations justify the entry of an order of the Securities Administrator under
17 RCW 21.20.390 against the Respondent to cease and desist from such violations and to charge costs, to
18 impose a fine under RCW 21.20.395, and to deny certain registrations the Respondent may seek in the
19 future pursuant to RCW 21.20.110(1). The Securities Administrator finds as follows:

20 **TENTATIVE FINDINGS OF FACT**

21 Respondent

22 1. Richard O. Johnson II (“Johnson”) is a resident of Northport, Washington. Johnson was
23 previously registered as a securities salesperson of multiple firms in California between 1978 and 1995.
24 Between February 2008 and November 2009, Johnson was registered in Washington as an investment
25 adviser representative of Brookstone Capital Management, LLC, an investment adviser registered with the
Securities and Exchange Commission.

Related Entities

2. RGB Development, LLC (“RGB”) is a suspended California limited liability company. RGB
was engaged in real estate development in several states, including Washington. RGB has issued
promissory notes to at least nine people to fund its real estate development projects.

STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO CEASE AND DESIST, TO IMPOSE A FINE, TO CHARGE COSTS, AND TO DENY FUTURE REGISTRATIONS

1 3. Cornerstone Consulting Services, Inc. (“Cornerstone”) was a Washington corporation formed
2 on December 3, 2004. Cornerstone was administratively dissolved on April 3, 2012. Johnson was
3 Cornerstone’s president and chairman.

4 Nature of the Conduct

5 *Offer and Sale of Promissory Note*

6 4. In early 2008, Johnson solicited a California couple whose names Johnson had obtained from
7 a California customer to perform financial planning for them. Johnson presented himself as a financial
8 planner to the couple.

9 5. The couple contacted Johnson later in 2008 to request investment advice. Johnson provided a
10 business card to the couple after their initial discussion. The card stated that Johnson was a “Certified
11 Financial Planner.” The Certified Financial Planner Board of Standards, Inc. has not granted the Certified
12 Financial Planner designation to Johnson.

13 6. Johnson presented real estate investments from RGB to the couple. Johnson represented that
14 RGB was a large real estate developer with projects in Utah and Washington, and that the couple’s funds
15 would be applied to those projects.

16 7. In or around February 2009, Johnson offered a promissory note issued by RGB, the proceeds
17 of which would fund a real estate development project in Stevens County, Washington. The couple received
18 a one-page offering document stating that the land to be developed was worth \$380,250 and that the loan-to-
19 value ratio was 59%.

20 8. In February 2009, the couple bought a \$225,000 promissory note related to the Stevens
21 County project. The note stated that the investment would earn eight percent interest in monthly installments
22 of \$1,500. The note had a maturity date of February 1, 2014. The couple received a first position
23 deed of trust on 31.24 acres of undeveloped, unpermitted land to secure the note.

24 9. Johnson did not disclose the specific intended use of the couple’s funds, nor did he provide
25 an appraisal of the property. Johnson did not provide any financial statements for RGB to the couple prior
26 to receiving their investment. Johnson did not provide any information about RGB’s key personnel.

27 10. Johnson did not disclose any risks arising from the Stevens County project or from real estate
28 development generally that could have affected RGB’s ability to repay the couple.

11. The couple paid by wire transfer, rolling over an IRA to invest with Johnson and RGB. Of the couple's \$225,000 investment, RGB received \$213,084 and Johnson received \$11,250. Johnson was compensated via a check payable to Cornerstone.

12. The couple received monthly payments on the note for eighteen months. In or around April 2013, the couple foreclosed on the Stevens County property that secured their investment. After expenses, the couple recouped \$50,000 of their \$225,000 investment.

Profile on LinkedIn.com

13. Since no later than July 2012, Johnson has maintained a profile on LinkedIn.com on which Johnson identifies himself as a "Certified Financial Planner." This portion of Johnson's profile is accessible to the general public.

Registration Status

14. Johnson is not currently registered as an investment adviser or investment adviser representative in the State of Washington. Between February 2008 and November 2009, Johnson was registered in Washington as an investment adviser representative of Brookstone Capital Management, LLC.

CONCLUSIONS OF LAW

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

1. Richard O. Johnson II has acted as an investment adviser as defined at RCW 21.20.005(8) by verbally representing himself to be a financial planner and by holding himself out as a "certified financial planner." By doing so while not registered as an investment adviser, or exempt from such registration, in the State of Washington, Richard O. Johnson II has violated RCW 21.20.040(4).

2. Such conduct is a ground for denial of any investment adviser, and investment adviser representative registrations Richard O. Johnson II may file in the future pursuant to RCW 21.20.110(1)(b).

3. By distributing his business card, as described above, to a prospective client, Richard O. Johnson II has committed a dishonest or unethical business practice as defined at WAC 460-24A-220(8).

4. Such conduct is a ground for denial of any investment adviser, and investment adviser representative registrations Richard O. Johnson II may file in the future pursuant to RCW 21.20.110(1)(g). Such conduct is also a ground to impose a fine pursuant to RCW 21.20.110(1)(g).

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3 **NOTICE OF INTENT TO ENTER ORDER TO CEASE AND DESIST**

4 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator
5 intends to order, pursuant to RCW 21.20.390(1), that Respondent Richard O. Johnson II and his agents and
6 employees each cease and desist from violations of RCW 21.20.040.

7 **NOTICE OF INTENT TO IMPOSE A FINE**

8 Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions
9 of Law, the Securities Administrator intends to order that Respondent Richard O. Johnson II shall be liable
10 for and shall pay a fine of \$5,000.

11 **NOTICE OF INTENT TO CHARGE COSTS**

12 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law,
13 the Securities Administrator intends to order that Respondent Richard O. Johnson II shall be liable for and
14 shall pay the costs, fees, and other expenses incurred in the administrative investigation and hearing of this
15 matter, in an amount not less than \$2,000.

16 **NOTICE OF INTENT TO DENY FUTURE REGISTRATIONS**

17 Pursuant to RCW 21.20.110, and based upon the above Tentative Findings of Fact and Conclusions
18 of Law, the Securities Administrator intends to deny any investment adviser registration and investment
19 adviser representative registration that Richard O. Johnson II may seek in the future.

20 **AUTHORITY AND PROCEDURE**

21 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is
22 subject to the provisions of Chapter 34.05 RCW. The Respondent, Richard O. Johnson II, may make a
23 written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
24 OPPORTUNITY FOR HEARING accompanying this Order. If the Respondent does not make a hearing
request in the time allowed, the Securities Administrator intends to adopt the above Tentative Findings of

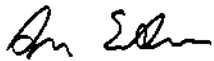
1 Fact and Conclusions of Law as final and to enter a permanent order to cease and desist as to the
2 Respondent, to impose any fines sought against the Respondent, and to charge any costs sought against the
3 Respondent.

4 Signed and Entered this 23rd day of July 2014.

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9 _____
10 William M. Beatty
11 Securities Administrator

12 Approved by:

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14 _____
15 Suzanne Sarason
16 Chief of Enforcement

17 Presented by:

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20 Edward R. Thunen
21 Financial Legal Examiner

22 Reviewed by:

23 

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25 Robert Kondrat
Financial Legal Examiner Supervisor