



Government of the District of Columbia
Muriel Bowser, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Acting Commissioner

_____)	
IN THE MATTER OF:)	
)	
)	
)	SC# <u>SB-SC-06-15</u>
STEVEN D. YARN,)	
and)	
YARN & COMPANY, INC.,)	
)	
Respondents.)	
_____)	

**ADMINISTRATIVE CONSENT AGREEMENT
AND ORDER**

WHEREAS, the District of Columbia Department of Insurance, Securities and Banking ("DISB"), pursuant to the Securities Act of 2000 (D.C. Code § 31-5601.01 *et seq.*), undertook an investigation into the securities-related activities of Steven Dean Yarn ("Yarn") and Yarn & Company, Inc. ("Yarn & Co.") (Collectively "Respondents"); and

WHEREAS, on the basis of that investigation, DISB determined that Respondents may have engaged in acts or practices constituting violations of the Securities Act of 2000; and

WHEREAS, on July 17, 2014, the Commissioner of DISB, having the authority to administer and provide for enforcement of the Securities Act of 2000, issued a Notice of Intent to issue an order against Respondents that: (1) imposes civil penalties of up to \$10,000 for each violation alleged therein; (2) requires Respondents to cease and desist from: a) transacting

business in the District without a license, b) recommending transactions without reasonable grounds to believe that such transactions are suitable for the customers, and c) borrowing money from clients; (3) permanently bars the Respondents from engaging in the securities business or investment advisory business in the District; and (4) requires Respondents to pay restitution to all clients in the amount of any monies received by Respondents as investments in Yarn & Company, Inc. and all surrender charges incurred by clients to obtain funds to be invested in Yarn & Company, Inc.;

WHEREAS, without holding a hearing, without trial or formal finding of any issue of fact or law, and prior to the initiation of any formal proceeding, the DISB and Respondents have reached a mutual agreement in this matter, whereby the DISB and Respondents consent to the terms of this Administrative Consent Agreement and Order (“Order”); and

WHEREAS, Respondents voluntarily elect to waive any rights to a hearing and appeal under the District of Columbia Administrative Procedure Act, D.C. Code §§ 2-509(a) and 2-510(a); the Rules of Practice and Procedure for Hearings in the District of Columbia, 26 DCMR § B300 *et seq.*; and the Securities Act of 2000, D.C. Code § 31-5601.01 *et seq.*, with respect to this Order; and

WHEREAS, the Commissioner of the DISB has determined that it is in the public interest to issue this order;

NOW, THEREFORE, the Commissioner, as administrator of the Securities Act of 2000, hereby enters into this Order with Respondents:

I. STATEMENT OF FACTS

1. Steven Yarn was the president and sole owner of Yarn & Co. and was registered as an investment adviser representative for Yarn & Co. with the State of Maryland from July 10, 2007 to December 31, 2009.

2. Yarn & Co. is a Maryland corporation with a place of business at 10451 Mill Run Circle, Owings Mills, MD. Yarn & Co. was registered with the State of Maryland as an investment adviser from July 10, 2007 through December 31, 2009. Prior to going through several iterations of name changes, Yarn & Co. was known as G.O.O.D. Investment Services d/b/a S. Dean Yarn & Company Investment Advisors, Inc. ("SDY"). SDY was registered with the State of Maryland as an investment adviser from November 1999 to December 2000.

3. Yarn & Co. also maintained an office at 1025 Connecticut Avenue, NW, Suite 1015 Washington D.C. 20036.

4. In late 2008, Yarn and Yarn & Co. began offering investors, including investment advisory clients of Yarn & Co., the opportunity to invest in Yarn & Co ("the Offering"). The Offering was structured and offered for sale in reliance on advice Mr. Yarn and Yarn & Company received from counsel and its related securities compliance consulting firm.

5. In connection with the offering, certain investors were issued promissory notes promising the return of their principal by June 30, 2017 or later, and an annual interest of 6%.

6. On or about February 11, 2009, Yarn & Co., through its counsel, filed with the Securities Division of the Office of the Maryland Attorney General ("Division") a Form D for the promissory note securities offering.

7. Mr. Yarn asserted that he acted in reliance on his former attorneys and other professionals when filing Yarn & Co.'s Form D and offering the notes to his investment adviser

clients of Respondents. Mr. Yarn subsequently filed a civil action against his attorneys and their related business providing consulting services to financial advisers based on the advice that was given to him and his company. A settlement was reached between the parties. The terms of the settlement were not disclosed to the Department because of the confidentiality restrictions in the settlement agreement.

8. TP was a resident of the District of Columbia and an advisory client of Yarn & Co., having executed limited trading authorization forms on which Yarn signed as TP's investment adviser.

9. TP received a copy of the documents related to the Offering and invested therein. Pursuant to a letter of authorization signed by TP, Yarn transferred \$67,900 from TP's Charles Schwab brokerage account to Yarn & Co.'s Charles Schwab brokerage account for investment in Yarn & Co., in the form of a promissory note. The transfer took place in April 2009.

10. Charles Schwab reported its concern about the transfer to the DC Office of Mental Health (DOMH).

11. On or about May 20, 2009, Yarn, acting on behalf of Yarn & Co., returned TP's investment in Yarn & Co. including all related fees and expenses, when Respondents were under no legal obligation to do so.

12. On June 12, 2009, an attorney representing TP contacted Mr. Yarn to inquire about TP's assets.

13. On June 13, 2009, Yarn responded to TP's attorney by accounting for all of TP's assets, to the satisfaction of TP's attorney.

14. On July 6, 2009 the DISB's Securities Bureau Examinations Division ("Examinations Division") received a referral from an employee of the DOMH regarding transactions by Respondents that involved TP.

15. The Examinations Division began an investigation based on the referral from the DOMH employee.

16. Yarn, on behalf of himself and Yarn & Co., entered into a Consent Order with the Securities Commissioner of the State of Maryland Office of the Attorney General Securities Division, for the above securities related conduct and other related conduct that occurred in the State of Maryland. In connection with this Consent Order, Mr. Yarn and Yarn & Co. agreed to a civil monetary penalty in the amount of \$464,333, which was reduced by the amount of restitution made by Respondents to investors. It was agreed that this civil monetary penalty would be waived completely if Yarn & Co.'s investors were repaid in full. As of the date of this Order, Respondents have made full restitution.

17. Respondents have fully cooperated with the investigation and proceeding related to the subject matter of this Order.

18. Mr. Yarn and Yarn & Co. maintained that he acted in reliance on their former attorneys and other professionals when they engaged in the conduct at issue, as outlined above.

19. TP was the only investment adviser client of Mr. Yarn and Yarn & Co. that resided in Washington D.C.

20. The conduct addressed in this Order has resulted in no known direct harm to consumers.

21. Mr. Yarn and Yarn & Co. agree to cease and desist from (i) transacting business in the District of Columbia without a license; (ii) recommending transactions without reasonable

grounds to believe that such transactions are suitable for customers; and (iii) borrowing money from clients.

II. CONCLUSIONS AT LAW

1. The DISB has jurisdiction over this matter pursuant to D.C. Code § 31-5606.02(b).

2. The conduct outlined above could form the basis for finding that Steven Yarn conducted business as an investment adviser representative in the District without being licensed or exempt from licensing, in violation of D.C. Official Code § 31-5602.02(a) and § 31-5605.01(3).

3. The conduct outlined above could form the basis for finding that Yarn & Co. conducted business as an investment adviser in the District without being licensed or exempt from licensing, in violation of D.C. Official Code § 31-5602.02(a) and § 31-5605.01(3).

4. The conduct outlined above could form the basis for finding that while providing investment adviser services in the District of Columbia, Respondents may have engaged in unethical and dishonest conduct by giving unsuitable investment advice which may have operated as a fraud upon a person, in violation of D.C. Official Code §31-5605.02(a)(1).

5. The conduct outlined above could form the basis for finding that while providing investment services in the District of Columbia, Respondents may have engaged in unethical and dishonest conduct by borrowing money from their client which may have operated as a fraud upon a person, in violation of D.C. Official Code §31-5605.02(a)(1).

III. ORDER

On the basis of the Statement of Facts, Conclusions of Law, and Respondents consent to the entry of this Order,

IT IS HEREBY ORDERED that:

1. This Order concludes the investigation by the Department and any other action that the Department could commence under the Act on behalf of the Department as it relates to activities outlined in the Agreement.
2. Steven Yarn shall cease and desist from conducting business as an investment adviser representative in the District without being registered or exempt from registration, in violation of D.C. Official Code § 31-5602.02(a) and § 31-5605.01(3).
3. Yarn & Co. shall cease and desist from conducting business as an investment adviser in the District without being registered or exempt from registration in violation of D.C. Official Code § 31-5602.02(a) and § 31-5605.01(3).
4. Respondents shall cease and desist from engaging in unethical and dishonest conduct by giving unsuitable investment advice which would operate as a fraud upon a person, in violation of D.C. Official Code §31-5605.02(a)(1).
5. Respondents shall cease and desist from engaging in unethical and dishonest conduct by borrowing money from their client which would operate as a fraud upon a person, in violation of D.C. Official Code §31-5605.02(a)(1).
6. Pursuant to D.C. Official Code § 31-5606.02 (b)(3), Respondents, upon execution of the Order, shall be prohibited from engaging in securities business in the District of Columbia for a period of ten (10) years from the date of the Order.
7. Pursuant to D.C. Official Code § 31-5606.02(b)(4), Respondents are ordered to pay a CIVIL PENALTY in the amount of twenty five hundred dollars (\$2500), to the Department made payable to the D.C. Treasurer, pursuant to D.C. Official Code § 1-204.50, and in accordance with D.C. Official Code § 31-5606.02(b)(4), for the violations outlined in Section II above. Such

payment shall be made within thirty (30) days from the date this Consent Order is signed by the Department.

8. This Order shall be binding upon Respondents and its successors and assigns subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

9. Except as set forth above, the Department agrees to take no action adverse to Respondents based solely on the same conduct addressed in this Order. However, nothing in this Order shall preclude the Department from: (a) taking adverse action based on other conduct not referenced in this Order; (b) taking adverse action on behalf of additional victims not specified in this Order; (c) taking this Order and the conduct described above into account in determining the proper resolution of action based on other conduct; or (d) taking any and all available steps to enforce this Order.



DEPARTMENT OF INSURANCE,
SECURITIES AND BANKING

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed the official seal of
this Department in the District of Columbia,
this 37th day of May, 2015.

Chester A. McPherson,
Acting Commissioner

IV.

**CONSENT TO ENTRY OF ADMINISTRATIVE ORDER
BY STEVEN YARN AND YARN & CO. INC.**

1. Respondents hereby acknowledge that they have been served with a copy of this Administrative Order ("Order"), have read the entire Order, are aware of their right to a hearing and appeal in this matter, and have waived the same.
2. Respondents admit to the jurisdiction of the Department of Insurance, Securities and Banking ("Department"), and consents to the entry of this Order by the Department as settlement of the issues contained in this Order.
3. Respondents agree that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for administrative monetary penalty that Respondents pay pursuant to this Order.
4. Respondents' state that no promise of any kind or nature was made to induce them to enter into this Order and that they have entered into this Order voluntarily.
5. Steven Yarn certifies that he is the owner of Yarn & Company Inc. and is authorized to enter into this Order for and on behalf of Respondents.
6. Yarn has provided the information contained in this Order to the Department and acknowledges that this information is true to the best of his knowledge.

Dated this 14th day of May, 2015.

RESPONDENTS

STEVEN YARN

YARN & COMPANY INC.



Steven Yarn on behalf of Respondents