STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:	)	
	)	
HEARTLAND CAPITAL ADVISORS, L.C.,	)	
CRD No. 116127 and KENNETH ALLEN	)	
WOODRUFF, CRD No. 1322753,	)	Case No. AP-16-21
	)	
Respondents.	)	
	)	
Serve: Heartland Capital Advisors, L.C.	)	
c/o Gregory Leyh	)	
Gregory Leyh, P.C.	)	
104 NE 72nd Street, Suite A	)	
Gladstone, Missouri 64118	)	
	)	
and	)	
	)	
Kenneth Woodruff	)	
c/o Gregory Leyh	)	
Gregory Leyh, P.C.	)	
104 NE 72nd Street, Suite A	)	
Gladstone, Missouri 64118	)	

ORDER TO CEASE AND DESIST AND ORDER TO SHOW CAUSE WHY RESTITUTION, CIVIL PENALTIES, AND COSTS SHOULD NOT BE IMPOSED

On June 3, 2016, the Enforcement Section of the Missouri Securities Division of the Office of Secretary of State ("Enforcement Section"), through its Counsels John Phillips and Roumen Manolov, submitted a Petition for Order to Cease and Desist and Order to Show Cause why Restitution, Civil Penalties, and Costs Should not be Imposed (the "Petition"). After reviewing the Petition, the Commissioner issues the following order:

I. ALLEGATIONS OF FACT

The Petition alleges the following facts:

Respondents and Relevant Parties

1. Between April 23, 1998 and August 8, 2008, and since May 23, 2012, Heartland Capital Advisors, L.C. ("HCA") was and has been a Missouri-registered investment adviser, with a current business address of 4200 Little Blue Parkway, Suite 610, Independence,

Missouri 64057. HCA is registered in Missouri through the Central Registration Depository ("CRD") with number 116127. During the period July 28, 2008 through June 20, 2012, HCA was registered as an investment adviser with the Securities and Exchange Commission ("SEC") and notice-filed with Missouri.

2. Kenneth Allen Woodruff ("Woodruff") has been a Missouri-registered investment adviser representative with HCA since April 29, 1998, with an office address of 4200 Little Blue Parkway, Suite 610, Independence, Missouri 64057. Woodruff is registered in Missouri through the CRD with number 1322753. Woodruff maintains a residence at 4006 Woodbury Street, Independence, Missouri 64055. Woodruff is also listed as a co-owner of HCA.

3. At all times relevant, Woodruff was not licensed as a broker-dealer and/or issuer agent.

4. Woodruff has been licensed to offer or sell insurance in Missouri from July 15, 1983 to the present.

5. Gregory Allen Dorsch ("Dorsch") has been a Missouri-registered investment adviser representative with HCA since April 23, 1998, and maintains an office address of 4200 Little Blue Parkway, Suite 610, Independence, Missouri 64057. Dorsch is registered in Missouri through the CRD with number 1055137. The Petition alleges that Dorsch maintains a residence at 18608 E. 25th Terrace Court South, Independence, Missouri 64057. Dorsch is listed as a co-owner and chief compliance officer of HCA.

6. Kenneth D. Stockard ("Stockard") is a resident of Missouri, and the Petition alleges that Stockard maintains an address at 1512 Yorkshire Circle, Lee's Summit, Missouri 64086. Stockard, CRD number 2674297, has been registered with HCA as an investment adviser representative since February 17, 1998. Stockard is listed as a co-owner of HCA.

A & O's Fraudulent Scheme

7. Christian Allmendinger ("Allmendinger") and Brent Oncale ("Oncale"), individuals residing in Houston, Texas, founded a number of businesses, including A & O Bonded Life Assets, LLC, collectively known as "A & O" at the end of 2004. A & O sold "bonded life settlements," which were either whole or fractional interests in particular life insurance policies.

8. The investments were for fixed terms of between four and seven years. If the insured died during the term, the life insurance company would pay a benefit, but if the insured remained alive, a reinsurance bond, which A & O purchased from a different company, was designed to pay out and take over the life insurance policy (so long as the life insurance policy premiums were current).

9. Initially, Allmendinger and Oncale marketed and sold A & O's bonded life settlements directly to investors. In 2005, they hired Adley Abdulwahab ("Abdulwahab") to help market the products through his company.

10. In marketing A & O's products, Allmendinger, Oncale, and Abdulwahab misrepresented many critical facts. For example, they represented that investor funds were placed in a

segregated account dedicated to those investor funds and used right away to pay policy premiums up front; in reality, although A & O paid the premiums, it had no separate account for that purpose and it paid premiums only as they became due.

11. Money invested with A & O was commingled in a general operating account. Over the time that A & O was in business, Allmendinger, Oncale, and Abdulwahab took advantage of this structure and misappropriated millions of dollars from this account for themselves.

12. By late 2006, securities regulators from different states began to send inquiries to A & O regarding its life settlement product, largely based on concerns that A & O was selling an unregistered security. These inquiries prompted Allmendinger, Oncale, and Abdulwahab to set up hedge funds that were backed by life settlements. By early 2007, A & O began offering fractionalized interests in these funds that they called "capital appreciation bonds."

13. A & O's capital appreciation bonds were securities that were general obligations of the company and were collateralized by a portfolio of life settlements. That is, unlike investors in A & O bonded life settlements, investors in A & O capital appreciation bonds did not invest in one specific underlying life insurance policy but, instead, were promised a minimum rate of return backed by a pool of underlying life insurance policies.

14. A & O employed independent sales agents, most of whom were not licensed to sell securities, to sell its capital appreciation bonds.

15. Subsequently, Allmendinger, Abdulwahab and Oncale agreed to sell A & O to a company called "Blue Dymond", which, unbeknownst to Allmendinger, was a shell company created and funded by Abdulwahab and Oncale in a secret plan to purchase A & O for themselves.

16. In September 2007, Abdulwahab and Oncale continued to operate A & O in much the same manner as it had before Allmendinger sold his interest. Abdulwahab and Oncale, however, accelerated their misappropriation of investor funds, and in the fall of 2007, Abdulwahab and Oncale misappropriated A & O funds amounting to $11 million.

17. In January 2008, A & O stopped taking new investor funds. From November 2004 until 2008, A & O's more than 800 investors lost more than $100 million.

18. On or around September 2, 2009, A & O ceased making premium payments on many of its life insurance policies, causing them to lapse. Subsequently, the majority of A & O assets were placed into Chapter 11 bankruptcy.

19. On September 7, 2010, Allmendinger and Abdulwahab were indicted in the Eastern District of Virginia.[1] On February 1, 2011, the grand jury returned a superseding indictment charging that the purpose of the alleged conspiracy was "to mislead investors regarding A & O's safekeeping and use of investor funds and the risks of A & O's investment offerings, in order to obtain investor funds so that the conspirators could

[1] *USA v. Allmendinger et al.*, 3:10-cr-00248-REP-1, U.S. District Court for the Eastern District of Virginia, filed September 7, 2010.

personally profit."

20. As a result of cooperating with the government, Oncale was able to plead guilty pursuant to a plea agreement to one count of conspiracy to commit mail fraud and one count of conspiracy to commit money laundering. He received a sentence of 10 years' imprisonment.

21. On March 27, 2011, Allmendinger was convicted of mail fraud conspiracy, mail fraud, money laundering conspiracy, money laundering, and securities fraud, and was sentenced to 45 years' imprisonment.

22. In June 2011, Abdulwahab was tried separately and found guilty of mail fraud conspiracy and money laundering conspiracy, five counts each of mail fraud and money laundering, and three counts of securities fraud. Abdulwahab was sentenced to 60 years' imprisonment.

23. Scott Osborne ("Osborne") and Consolidated Wealth Holdings, Inc. ("CWH"), along with other individuals, were named as respondents in a Temporary Order of Prohibition, issued on October 31, 2008, by the Illinois Securities Department for selling unregistered securities in connection with the offer and sale of life settlement contracts in the State of Illinois.

24. Osborne and CWH, along with other individuals, were named as respondents in an Order of Prohibition & Revocation, issued on July 30, 2014, by the Wisconsin Division of Securities for selling unregistered securities and employing unregistered agents in connection with the offer and sale of life settlement contracts in the State of Wisconsin.

Woodruff's Involvement With A & O's Capital Appreciation Bonds

25. Sometime in 2006, Woodruff met Osborne through a long-time family friend and client who knew of Osborne and Osborne's work in providing life settlement transactions for investors.

26. Osborne was a resident of Texas and was a registered agent in Missouri until March 22, 2006.

27. Osborne was initially involved in the sales of A & O capital appreciation bonds through Consolidated Wealth Management, L.L.C. ("CWM"), a company incorporated in Texas on January 8, 2007. Osborne was one of the principals of CWM.

28. After the State of Texas opened an investigation into the sales activities of CWM and requested that CWM not do this type of business in Texas, Osborne and some other individuals formed CWH, a corporation incorporated in Delaware on October 12, 2007, and registered in Missouri as a foreign corporation on February 28, 2008. CWH operated from the same location as CWM and acted as the holding company for CWM.

29. On September 8, 2007, Woodruff sent the following email to Osborne:

My friend and associate ... has offered below reasons for not investing in this type of product. He is interested only in facts. Please look at what he offers and respond back to me. If he were on board, he would influence a great number of investors. Thank you, my friend. Ken

30. The email was signed by Woodruff as follows:

> Kenneth A Woodruff, CLU
> Certified Family Business Specialist
> Heartland Capital Advisors, LC
> 4200 Little Blue Parkway, Suite 610
> Independence, MO 64057
> 816.478.1818 office
> …
> …
> …
> ken@hcadvisorslc.com

31. Sometime in October of 2007, Woodruff arranged for Osborne to make a presentation before the investment adviser representatives of HCA regarding life settlement investments for possible involvement of HCA in investing in life settlement contracts and life settlement bonds.

32. At a shareholder's meeting on November 13, 2007, the shareholders of HCA discussed life settlement investments and where these investments could fit into HCA's client service. The shareholders came to the conclusion that HCA would not sell such alternative investments.

MR1 and MR2's Investment in A & O Capital Appreciation Bonds

33. In or before September 2004, Woodruff began discussing HCA with a married couple that resided in Missouri ("MR1 and MR2"). MR1 had been Woodruff's family dentist for approximately 30 years. MR1 and MR2 became clients of HCA on September 22, 2004.

34. The advisory agreement with MR1 and MR2 was signed by Stockard on behalf of HCA.

35. The daily management of MR1 and MR2's investment account was performed by Stockard, although Woodruff also had some duties regarding the management of the account.

36. The asset under management fee was split between Woodruff and Stockard, with each individual receiving 50% of the fee.

37. In early 2007, Woodruff encouraged MR1 to liquidate MR1's Merrill Lynch retirement account because the account wasn't making any money. Woodruff recommended switching the Merrill Lynch retirement account to a different investment where MR1 and MR2 could generate a higher return.

38. The Merrill Lynch retirement account was not part of the assets under management by HCA.

39. Around this time, Woodruff also advised MR1 that Osborne had a good investment opportunity that would allow MR1 to double MR1's money.

40. Sometime on or around July 17, 2007, MR1 and MR2 met with Woodruff and Osborne in MR1's dental office ("July 2007 Meeting"). This was the only time that MR1 and MR2 met with Osborne.

41. During this meeting, Osborne informed MR1 and MR2 about the investment opportunity in A & O's capital appreciation bonds. Osborne did most of the talking, although Woodruff was present at the meeting the entire time.

42. Following the July 2007 Meeting, MR1 closed his Merrill Lynch retirement account and invested in A & O's capital appreciation bonds.

43. On or around July 17, 2007, MR1 wrote a check totaling $173,553 for an investment in A & O's capital appreciation bonds and gave it to Osborne that night. On that same date, MR2 wrote a check totaling $28,012.61 for an investment in A & O's capital appreciation bonds, which was also given to Osborne that same night.

44. For their investments in A & O's capital appreciation bonds, MR1 and MR2 received two bond certificates.

45. The first bond certificate, NO. LF1248, was in the principal amount of $173,553. The bond certificate was titled "Capital Appreciation Bond Series A" and was issued by A & O Life Fund, LLC, to MR1 on September 1, 2007. The certificate provided for a rate of interest of 12% and a maturity amount of $336,024 to be paid on July 1, 2013. The bond certificate was signed by Abdulwahab in his capacity as the Manager of A & O Life Fund Management, LLC.

46. The first bond certificate was supported by a document named "Buy Direction Letter (Promissory Note)". This document acknowledged that a check had been issued by MR1 to A & O Life Fund, LLC without stating the specific amount of the check. This document referred to A & O Life Fund, LLC as "borrower" and described A & O's undertaking to pay the amount of $336,024 on July 1, 2013.

47. The second bond certificate, NO. LS3219, was in the principal amount of $28,012.61. The second bond certificate was titled "Capital Appreciation Bond" and was issued by A & O Bonded Life Settlements, LLC, to MR2 on September 1, 2007. The certificate provided for a rate of interest of 12% and a maturity amount of $54,237 to be paid on July 1, 2013. The bond certificate was signed by Abdulwahab in his capacity as the Manager of A & O Life Fund Management, LLC.

48. The bond certificate was supported by a document named "Buy Direction Letter (Promissory Note)". This document acknowledged that a check had been issued by MR2

to A & O Bonded Life Settlements, LLC without stating the specific amount of the check. This document referred to A & O Bonded Life Settlements, LLC as "borrower" and described A & O's undertaking to pay the amount of $54,237 on July 1, 2013.

49. On August 31, 2007, Osborne made a wire transfer of $16,125.16 to Woodruff. The payment was paid to Woodruff as an individual and not to Woodruff Business Service.

50. On November 9, 2007, CWM reimbursed Osborne in the amount of $16,125.16 for Osborne's August 31, 2007 wire transfer to Woodruff. The memo line of this check states, "Ken ***Nuff Commission."

51. Sometime in December of 2007, approximately three months after MR1 and MR2's investment with Osborne, Woodruff approached MR1 and MR2 and requested MR1 and MR2 sign a document titled "Disclosures-Read Before You Invest."

52. The document, among other things, contained the following:

> You are entering into an agreement to appoint Consolidated Wealth Holdings, Inc. ("CWH") as your agent to purchase an investment called a life settlement. Your investment in a life settlement is made outside of your typical relationship with Heartland Capital Advisors, LC. Although investing in a life settlement contract can be wise, it is an investment that is presently outside the norm in what is recommended by Heartland Capital Advisors, LC and should be considered carefully.

53. The document was prepared on CWH letterhead and was signed by MR1 and MR2 on December, 12, 2007.

54. The document was also signed by Woodruff and, according to the document, Woodruff signed the document in his capacity as "financial consultant" for MR1 and MR2 and not as "an agent, employee or representative of CWH."

55. CWH was incorporated as an entity in Delaware on October 12, 2007, which is three months after MR1 and MR2 had made their only investment in A & O's capital appreciation bonds through CWM.

56. Woodruff continued to contact MR1 and MR2 regarding A & O's capital appreciation bonds despite the fact that at the shareholder meeting on November 13, 2007, the shareholders of HCA discussed life settlement investments and came to the conclusion that HCA would not sell alternative investments.

57. CWH was registered in Missouri as a foreign corporation on February 28, 2008, which is more than two months after MR1, MR2 and Woodruff had signed the CWH disclosure document.

58. MR1 and MR2 lost their entire investment in A & O's capital appreciation bonds.

On-the-Record Statements of Woodruff, Dorsch and Stockard

59. On September 3, 2015, the Enforcement Section conducted an on-the-record statement of Woodruff.

60. Woodruff stated, among other things, the following:

a. Woodruff is a co-owner of HCA;

b. Woodruff is an investment adviser representative for HCA;

c. Woodruff is a life insurance agent and owns a separate insurance business, which operates under "Woodruff Business Service";

d. MR1 has been Woodruff's dentist for approximately 30 years;

e. Woodruff introduced MR1 and MR2 to HCA's services;

f. MR1 and MR2 are also clients of Woodruff's insurance business;

g. Woodruff is not involved with the day-to-day management of MR1 and MR2's investment account with HCA, but collects part of the assets-under-management fee generated from the account;

h. Woodruff's involvement with CWM and MR1 and MR2's purchase of A & O's capital appreciation bonds was that Woodruff made the introduction of Osborne to MR1 and MR2;

i. Woodruff collected a $16,000 fee for the introduction of Osborne to MR1 and MR2;

j. Woodruff was not aware that MR1 and MR2 had purchased A & O capital appreciation bonds from CWM;

k. Woodruff knew that MR1 and MR2 invested about $200,000 with CWM;

l. Woodruff knew that the source of these funds came from an IRA MR1 had with Merrill Lynch;

m. the Merrill Lynch IRA was not part of the assets managed by HCA for MR1 and MR2 and Woodruff did not know how the Merrill Lynch IRA account was managed;

n. Woodruff thought that Woodruff's introduction of Osborne to MR1 and MR2 was under Woodruff's insurance licensure and not under HCA's purview as an investment advisory service;

o. Woodruff was certain that MR1 and MR2 understood that they were dealing with Woodruff Business Service and not HCA; and

p. Woodruff believed that life settlement insurance contracts were not securities at the time Woodruff was introducing Osborne to MR1 and MR2.

61. On October 1, 2015, the Enforcement Section conducted an on-the-record statement of Dorsch ("Dorsch OTR").

62. During the Dorsch OTR, Dorsch stated, among other things, the following:

a. Dorsch is the chief compliance officer of HCA;

b. Dorsch is a co-owner of HCA along with Woodruff and Stockard;

c. Dorsch found out about the investment of MR1 and MR2 in A & O's capital appreciation bonds only after MR1 and MR2 filed a lawsuit against HCA;

d. Dorsch determined that A & O's capital appreciation bonds were insurance products and were outside of the business activities between HCA and MR1 and MR2;

e. The only time Dorsch met Osborne was when Osborne made his presentation at the meeting arranged by Woodruff and the staff of HCA in October of 2007;

f. Dorsch did not think that Woodruff's invitation of Osborne to make a presentation regarding A & O's capital appreciation bonds before HCA was in any way an indication of Woodruff's involvement in A & O's capital appreciation bonds;

g. Dorsch did not feel that, as a chief compliance officer of HCA, Dorsch had a duty to at least ask questions and investigate Woodruff's activities because Woodruff understood that HCA did not use alternative investments inside client accounts;

h. Dorsch felt that he did not even have a right to oversee Woodruff's insurance business activities; and

i. Dorsch "supervis[ion] at th[at] level [was more than] anybody would possibly be able to do. Kenneth Woodruff has clearly disclosed outside business activity that takes at least 80 percent- he let us know and have got registered on the IARD that 80 percent…"

63. On October 1, 2015, the Enforcement Section conducted an on-the-record statement of Stockard.

64. Stockard stated, among other things, the following:

a. Stockard was a co-owner of HCA along with Woodruff and Dorsch;
b. Stockard has known MR1 and MR2 through Woodruff for many years;

c. MR1 and MR2 were asset-under-management clients of HCA and Stockard

signed the advisory agreement with them on behalf of HCA;

d. Woodruff brings asset management clients and people to the business;

e. Woodruff is not involved in any of the decisions in terms of investments, portfolio allocation, and has nothing to do with the day-to-day investment operation or detail of operating the accounts of HCA;

f. Woodruff is an insurance producer and sells insurance;

g. Woodruff brings clients to HCA for asset management work that Dorsch and Stockard perform, and Dorsch and Stockard can share fees with Woodruff because Woodruff is an owner and partner of HCA;

h. Stockard had an arrangement with Woodruff that Stockard and Woodruff would split everything 50/50 because it was easier to split it 50/50, and Woodruff was helping Stockard get clients, for which Stockard was paying Woodruff; and

i. Woodruff wasn't doing the investment work but was still doing client communications. Woodruff was communicating with the clients on a regular basis and this was thought of as a different aspect to the asset management work.

Heartland Supervisory Policies and Procedures

65. During the Dorsch OTR, Dorsch stated to the Enforcement Section that there "is no way" to supervise outside business activities ("OBAs"). A review of firm records indicated that HCA does not have any policies regarding what OBAs are allowed or disallowed; any policies requiring its representatives to disclose OBAs to the firm; nor any policies and/or procedures regarding how HCA is to supervise OBAs.

66. In the course of the Dorsch OTR, Dorsch revealed that HCA does have a conflict of interest form, but no set policy regarding conflicts of interest, particularly as they relate to OBAs. HCA's conflict of interest disclosure form deals solely with outside insurance or annuity sales, and is not inclusive of outside securities sales, which is what MR1 and MR2 purchased through Woodruff, and ultimately, Osborne.

67. Dorsch also testified during the Dorsch OTR that HCA does not require its agents run outside securities business through the firm.

II. COMMISSIONER'S DETERMINATIONS AND FINDINGS

Count 1

Section 409.3-301: Multiple Violations of Offering and Selling Unregistered, Non-Exempt Securities by Respondent Woodruff

68. **THE COMMISSIONER DETERMINES** that Respondent Woodruff offered and/or

sold unregistered, non-exempt securities in Missouri by soliciting and/or selling A & O capital appreciation bonds to MR1 and MR2.

69. This activity constitutes the offer to sell and/or sale of securities as those terms are defined in Section 409.1-102 (26).[2]

70. At all times relevant to this matter, there was no registration, granted exemption, or notice filing indicating status as a "federal covered security" for the securities offered and/or sold by Respondent Woodruff.

71. Respondent Woodruff offered and/or sold securities in Missouri without these securities being (1) a federal covered security, (2) exempt from registration under Sections 409.2-201 or 409.2-203, or (3) registered under the Missouri Securities Act of 2003 ("Act").

72. Respondent Woodruff offered and/or sold unregistered, non-exempt securities in violation of Section 409.3-301.

73. Respondent Woodruff's conduct in violation of Section 409.3-301 constitutes an illegal act, practice, or course of business and such conduct is therefore subject to the Commissioner's authority under Section 409.6-604.

Count 2

Section 409.4-402(a): Multiple Violations of Transacting Business as an Unregistered Broker-Dealer Agent by Respondent Woodruff

74. **THE COMMISSIONER FURTHER DETERMINES** that Respondent Woodruff represented CWM in effecting or attempting to effect sales of A & O's capital appreciation bonds to MR1 and MR2, and Woodruff was paid in excess of $16,000 for his participation in the transactions.

75. These activities constitute transacting business as an agent in Missouri under Section 409.1-102(1).

76. At all times relevant, Respondent Woodruff was not registered as an agent in Missouri.

77. Respondent Woodruff transacted business as an unregistered broker-dealer agent in violation of Section 409.4-402(a).

78. Respondent Woodruff's conduct in violation of 409.4-402(a) constitutes an illegal act, practice, or course of business and such conduct is, therefore, subject to the Commissioner's authority under Section 409.6-604.

[2] Unless otherwise specified, all statutory references are to the 2013 cumulative supplement to the Revised Statutes of Missouri.

Count 3

Section 409.5-502(a): Multiple Violations of Engaging in an Act, Practice, or Course of Business that Would Operate as a Fraud or Deceit Upon Another Person in Connection with Providing Investment Advice by Respondent Woodruff

79. **THE COMMISSIONER FURTHER DETERMINES** that in connection with providing investment advice, Respondent Woodruff engaged in an act, practice, or course of business that operates or would operate as fraud or deceit upon MR1 and MR2 by, among other things, the following:

a. encouraging MR1 to liquidate MR1's Merrill Lynch retirement account because the account wasn't making any money and invest those funds in A & O capital appreciation bonds without disclosing to MR1 the risks of those bonds;

b. failing to determine the value of the A & O's capital appreciation bonds and the advisability of investing in these bonds;

c. concealing the fact that Woodruff would benefit personally from the transactions of CWM with MR1 and MR2;

d. failing to disclose the fact that the A & O's capital appreciation bonds were unregistered securities;

e. failing to disclose the fact that CWM was an unregistered broker-dealer of securities;

f. failing to disclose the fact that CWM was being investigated by the Texas Securities Division for sales of unregistered securities;

g. failing to disclose at the time MR1 and MR2 purchased the A & O capital appreciation bonds that the sale was not through HCA;

h. having MR1 and MR2 sign a "conflict of interest" form regarding the purchase of the A & O capital appreciation bonds after they made the purchase; and

i. failing to disclose the fact that the owners of A & O were misappropriating investor funds.

80. Respondent Woodruff engaged in an act, practice, or a course of business that operated or would operate as a fraud or deceit upon another person in connection with providing investment advice in Missouri in violation of Section 409.5-502(a).

81. Respondent Woodruff's conduct in violation of 409.4-502(a) constitutes an illegal act, practice, or course of business and such conduct is, therefore, subject to the Commissioner's authority under Section 409.6-604.

Count 4

Section 409.4-412(d)(13): Multiple Violations of Engaging in Dishonest or Unethical Practices in the Securities Business by Respondent Woodruff

82. **THE COMMISSIONER FURTHER DETERMINES** that Respondent Woodruff engaged in dishonest or unethical practices in the securities business in Missouri by, among other things, the following:

a. recommending, during investment and consulting services, that MR1 purchase A & O's capital appreciation bonds when Woodruff did not have reasonable grounds to believe that the recommendation was suitable for MR1 because Woodruff did not conduct a reasonable inquiry concerning A & O's capital appreciation bonds and did not even know that the bonds were securities;

b. recommending, during investment and consulting services, that MR2 purchase A & O's capital appreciation bonds when Woodruff did not have reasonable grounds to believe that the recommendation was suitable for MR2 because Woodruff did not conduct a reasonable inquiry concerning A & O's capital appreciation bonds and did not even know that the bonds were securities;

c. rendering advice to MR1 before making written disclosure to MR1 that Woodruff would also receive a commission for MR1's purchase of A & O's capital appreciation bonds while Woodruff continued to receive compensation for his advisory services to MR1;

d. rendering advice to MR2 before making written disclosure to MR2 that Woodruff would also receive a commission for MR2's purchase of A & O's capital appreciation bonds while Woodruff continued to receive compensation for his advisory services to MR2; and

e. having MR1 and/or MR2 execute a "conflict of interest" form regarding the purchase of the A & O capital appreciation bonds after they had made the purchase.

83. Respondent Woodruff has been a Missouri-registered investment adviser representative with HCA since April 29, 1998.

84. Respondent Woodruff engaged in dishonest and unethical conduct in violation of Section 409.4-412(d)(13) and Rule 15 CSR 30-51.172.

85. Respondent Woodruff's conduct in violation of Section 409.4-412(d)(13) and Rule 15 CSR 30-51.172 constitutes grounds for discipline of an investment adviser representative and such conduct is, therefore, subject to the Commissioner's authority under Section 409.4-412.

Count 5

Section 409.4-412(d)(9): Multiple Violations of Failure to Supervise Woodruff by Respondent HCA

86. **THE COMMISSIONER FURTHER DETERMINES** that Respondent HCA failed to reasonably supervise Woodruff who was subject to the supervision of HCA and committed violations of the securities laws while registered as a representative of HCA.

87. Between April 23, 1998, and August 8, 2008, and since May 23, 2012, Respondent HCA was and has been a Missouri-registered investment adviser.

88. Respondent HCA's established procedures and systems for supervising were exclusively based on self-reporting and therefore were not reasonably designed to achieve compliance with applicable state and federal securities laws and regulations.

89. Respondent HCA's established procedures and systems could not reasonably allow a chief compliance officer to prevent and detect violations of the Act, and the firm did not regularly review these procedures and systems.

90. Respondent HCA failed to provide adequate initial and periodic refresher training concerning securities products, outside business activities, selling away, and/or private placements to its supervised personnel, as neither Dorsch nor Woodruff could identify the characteristics of a security, could not identify A & O's capital appreciation bonds as securities, thought that A & O's capital appreciation bonds were insurance products, and thought that Woodruff's part in the solicitation and sale of the bonds to MR1 and MR2 was an insurance function.

91. Respondent HCA failed to discharge its supervisory obligation to investigate indications of Woodruff's selling away by relying solely on self-reporting of outside business by its investment adviser representatives, and not requiring its investment adviser representatives to run outside securities business through the firm.

92. Respondent HCA had an inadequate system to identify, track and monitor the recommendations or sales of business unapproved by HCA, and/or selling away by its investment adviser representatives, as HCA does not require its investment adviser representatives to run outside securities business through the firm.

93. Respondent HCA failed to reasonably supervise Woodruff in violation of Section 409.4-412 (d)(9) and Rule 15 CSR 30-51.173.

94. Respondent HCA's conduct in violation of Section 409.4-412(d)(9) and Rule 15 CSR 30-51.173 constitutes grounds for discipline of an investment adviser and such conduct is, therefore, subject to the Commissioner's authority under Section 409.4-412.

Count 6

Section 409.5-502(a): Multiple Violations of Engaging in an Act, Practice, or Course of Business that Would Operate as a Fraud or Deceit Upon Another Person in Connection with Providing Investment Advice by Respondent HCA

95. **THE COMMISSIONER FURTHER DETERMINES** that in connection with providing investment advice, Respondent HCA engaged in an act, practice, or course of business that operates or would operate as fraud or deceit upon MR1 and MR2 by, among other things, the following:

a. Respondent HCA failed to discharge its supervisory obligation to investigate indications of Woodruff selling away by relying solely on self-reporting of outside business by its investment adviser representatives;

b. Respondent HCA had an inadequate system to identify, track and monitor the recommendations or sales of business unapproved by HCA, and/or selling away by its investment adviser representatives; and

c. Respondent HCA failed to provide adequate initial and periodic refresher training concerning securities products, outside business activities, selling away, and/or private placements to its supervised personnel, as neither Dorsch nor Woodruff could identify the characteristics of a security, could not identify A & O's capital appreciation bonds as securities, thought that A & O's capital appreciation bonds were insurance products, and thought that Woodruff's part in the solicitation and sale of the bonds to MR1 and MR2 was an insurance function.

96. Respondent HCA materially aided Woodruff's act, practice, or course of business that operated or would operate as a fraud or deceit upon another person in connection with providing investment advice in violation of Section 409.5-502(a) by having such substandard supervisory policies and procedures that allowed Woodruff to defraud HCA's clients.

97. Respondent HCA engaged in an act, practice, or course of business that operated or would operate as a fraud or deceit upon another person in connection with providing investment advice in Missouri in violation of Section 409.5-502(a).

98. HCA's conduct in violation of 409.4-502(a) constitutes an illegal act, practice, or course of business and such conduct is, therefore, subject to the Commissioner's authority under Section 409.6-604.

99. This order is in the public interest and is consistent with the purposes of the Missouri Securities Act of 2003. See Section 409.6-605(b).

III. ORDER

NOW THEREFORE, it is hereby ordered that Respondents, their agents, employees and servants, and all other persons participating in or about to participate in the above-described violations with knowledge of this order are prohibited from violating or materially aiding in any violation of:

A. Section 409.3-301 by offering or selling any securities as defined by Section 409.1-102(28) in the State of Missouri unless those securities are registered with the Securities Division of the Office of the Secretary of State in accordance with the provisions of Section 409.3-301;

B. Section 409.4-402(a) by transacting business as an unregistered agent; and

C. Section 409.5-502 by, in connection with providing investment advice, engaging in an act, practice, or course of business that operates or would operate as a fraud or deceit upon another person.

IV. STATEMENT

Pursuant to Section 409.6-604, the Commissioner hereby states that he will determine whether to grant the Enforcement Section's request for:

A. $10,000 civil penalty against Respondent Woodruff for more than one violation of Section 409.3-301;

B. $10,000 civil penalty against Respondent Woodruff for more than one violation of Section 409.4-402;

C. $10,000 civil penalty against each Respondent for more than one violation of Section 409.5-502(a);

D. An order against Respondents to pay restitution for any loss, including the amount of any actual damages that may have been caused by the conduct, and interest at the rate of 8% per year from the date of the violation causing the loss or disgorge any profits arising from the violations of Sections 409.3-301, 409.4-402(a), and 409.5-502(a); and

E. An order against Respondents to pay the costs of the investigation in this proceeding, after a review of evidence of the amount submitted by the Enforcement Section.

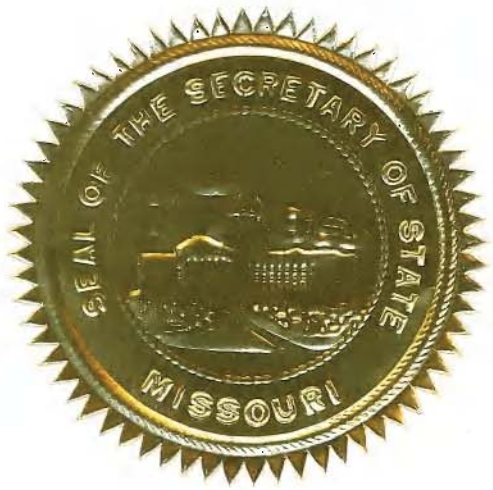
Pursuant to Section 409.4-412, the Commissioner hereby states that he will determine whether to grant the Enforcement Section's request for:

A. $50,000 civil penalty against Respondent HCA for several violations of Section 409.4-412(d)(9); and

B. $50,000 civil penalty against Respondent Woodruff for multiple violations of Section 409.4-412(d)(13).

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS TWENTY-SECOND DAY OF JUNE, 2016.



JASON KANDER
SECRETARY OF STATE

Andrew M. Hartnett

ANDREW M. HARTNETT
COMMISSIONER OF SECURITIES

STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:	)	
	)	
HEARTLAND CAPITAL ADVISORS, L.C.,	)	
CRD No. 116127 and KENNETH ALLEN	)	
WOODRUFF, CRD No. 1322753,	)	Case No. AP-16-21
	)	
Respondents.	)	
	)	
Serve: Heartland Capital Advisors, L.C.	)	
c/o Gregory Leyh	)	
Gregory Leyh, P.C.	)	
104 NE 72nd Street, Suite A	)	
Gladstone, Missouri 64118	)	
	)	
and	)	
	)	
Kenneth Woodruff	)	
c/o Gregory Leyh	)	
Gregory Leyh, P.C.	)	
104 NE 72nd Street, Suite A	)	
Gladstone, Missouri 64118	)	

NOTICE

TO: Respondents and any unnamed representatives aggrieved by this Order:

You may request a hearing in this matter within thirty (30) days of the receipt of this Order pursuant to Section 409.6-604(b), 409.4-412(f), RSMo. (Cum. Supp. 2013), and 15 CSR 30-55.020.

Within fifteen (15) days after receipt of a request in a record from a person or persons subject to this order, the Commissioner will schedule this matter for a hearing.

A request for a hearing must be mailed or delivered, in writing, to:

Andrew M. Hartnett, Commissioner of Securities
Office of the Secretary of State, Missouri
600 West Main Street, Room 229
Jefferson City, Missouri, 65102

CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of June 2016, a copy of the foregoing Order to Cease and Desist and Order to Show Cause Why Restitution, Civil Penalties, and Costs Should Not Be Imposed in the above styled case was **mailed by certified U.S. mail to:**

Heartland Capital Advisors, L.C.
c/o Gregory Leyh
Gregory Leyh, P.C.
104 NE 72nd Street, Suite A
Gladstone, Missouri 64118

and

Kenneth Woodruff
c/o Gregory Leyh
Gregory Leyh, P.C.
104 NE 72nd Street, Suite A
Gladstone, Missouri 64118

and by hand-delivery to:

John Phillips
Director of Enforcement
Missouri Securities Division

and

Roumen Manolov
Director of Registration and Senior Counsel
Missouri Securities Division

Marsha Presley
Securities Office Manager