

BEFORE THE ARKANSAS SECURITIES COMMISSIONER

CASE NO. S-12-0193

ORDER NO. S-12-0193-13-OR01

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ARKANSAS SECURITIES DEPT.

IN THE MATTER OF:

JUNMO HONG

RESPONDENT

CONSENT ORDER

This Consent Order (“Order”) is entered pursuant to the Arkansas Securities Act (“Act”), codified at Ark. Code Ann. §§ 23-42-101 through 23-42-509, the Rules of the Arkansas Securities Commissioner promulgated pursuant to the Act (“Rules”), and the Arkansas Administrative Procedures Act, codified at Ark. Code Ann. §§ 25-15-201 through 25-15-219, in accordance with an agreement between the Staff of the Arkansas Securities Department (“Staff”) and the Respondent, Junmo Hong (“Hong”).

Hong admits the jurisdiction of the Act and the Arkansas Securities Commissioner (“Commissioner”), waives his right to a formal hearing and appeal, consents to the entry of this Order, and agrees to abide by its terms in settlement of any possible violations committed by Hong concerning the matters detailed herein.

FINDINGS OF FACT

1. Junmo Hong, CRD No. 6013188, is a New York resident who was registered with the Arkansas Securities Department (“Department”) as a broker-dealer agent with John Thomas Financial (“John Thomas”), CRD No. 40982, from June 21, 2012 to June 11, 2013.

2. On or about September 10, 2012, Hong contacted an Arkansas resident (“AR1”) on a cold call recommending the purchase of stock in Document Security Systems, Inc. (“DSS”). Hong was not aware at the time of the call that AR1 was employed as a Senior Securities

Examiner with the Department and that Hong had contacted AR1 on his office phone during business hours. DSS was trading at around \$4.70 per share on the date of the call. However, Hong represented to AR1 that he possessed information showing that DSS would soon land some of its biggest contracts to date. Hong told AR1 that these contracts would easily double the existing revenues of DSS and increase the trading value of the company's stock.

3. During the above-referenced conversation, Hong claimed to have had several prior phone conversations with AR1 that never actually took place. When recounting the details of each of these purported conversations, Hong said he recommended various stocks to AR1 at a time when those stocks were trading at a low price before they later experienced a substantial increase in value. Hong first told AR1 that the two had spoken in February 2006 during a phone conversation in which Hong recommended the purchase of stock in Pacific Ethanol, Inc. ("Pacific Ethanol"). Hong represented that he recommended the Pacific Ethanol stock at \$14.00 per share before it increased to \$48.00 per share shortly thereafter. Hong next stated that he spoke with AR1 in August 2007 when recommending stock in Synchronoss Technologies, Inc. ("Synchronoss"). Hong said he recommended Synchronoss at \$12.00 per share before it dramatically rose to \$44.00 per share thereafter. Hong last said he had third and fourth conversations with AR1 wherein he recommended stock in Visa Inc. at \$90.00 per share and \$100.00 per share, respectively, before the stock later appreciated to \$128.00 per share. Hong fabricated the alleged phone conversations to entice AR1 into purchasing the DSS stock he was recommending on the cold call. According to CRD records, Hong was born on July 9, 1991, making him fourteen years of age at the time of the initial alleged conversation.

4. Although Hong asked AR1 a few income-related questions at the end of their conversation, he failed to conduct a proper suitability analysis with AR1 prior to recommending

the stock for purchase. Further, Hong expressed his intent to inflate the financial information that AR1 provided in response to those income-related questions. Specifically, AR1 provided Hong with a zero total net worth figure to which Hong responded he would just mark his total net worth down as one million dollars.

5. In addition to the cold call made to AR1, the Staff found that Hong made twenty-three unsolicited phone calls to Arkansas residents whose names were registered on the National Do-Not-Call List.

LEGAL AUTHORITY

6. Ark. Code Ann. § 23-42-308(a)(2)(G) provides in part that the Commissioner may by order deny, suspend, make conditional or probationary, or revoke any registration if he finds that an applicant has engaged in unethical practices in the securities business.

7. Ark. Code Ann. § 23-42-507(2) makes it unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly, to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading.

8. Rule 308.01 of the Rules sets out specific unfair, misleading, or unethical conduct that shall be considered as grounds for denial, suspension, or revocation of an agent registration. Rule 308.01(b) of the Rules prohibits a broker-dealer or agent from making unjustified or untruthful representations that securities sold will subsequently become listed or traded, or making representations that a market will be established or that the securities will be subject to an increase in value.

9. Rule 308.01(d) of the Rules requires that a registered agent, before recommending the purchase, sale, or exchange of any security, have reasonable grounds for believing that the

recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings, financial situation, and needs.

10. Rule 308.01(y) of the Rules prohibits a broker-dealer or agent from engaging in unfair, misleading, or unethical practices and allows the Commissioner to suspend or revoke a registration when necessary or appropriate in the public interest.

11. Rule 308.01(x) of the Rules states that a broker-dealer agent shall comply with any applicable provision of conduct rules, any applicable fair practice or ethical standard, or any applicable law or rule related to conducting business involving securities promulgated by the SEC or any self-regulatory organization. FINRA Conduct Rule 2212 provides that no member shall initiate any telephone solicitations to any person who has registered his or her telephone number on the Federal Trade Commission Do-Not-Call List.

CONCLUSIONS OF LAW

12. Hong violated Ark. Code Ann. § 23-42-507(2) when he falsely represented to AR1 that the two had previously engaged in conversations wherein Hong recommended certain stocks for purchase at a low price before those stocks later experienced substantial increases in value, as set forth in paragraph 3 above.

13. Hong violated Rule 308.01(b) of the Rules when he represented to AR1 without reasonable justification that DSS would execute contracts in the near future causing increased revenues for the company and boosting the company's stock price, as set forth in paragraph 2 above.

14. Hong violated Rule 308.01(d) of the Rules when he recommended the DSS stock to AR1 without having reasonable grounds to believe that the recommendation was suitable for purchase by the prospective client, as set forth in paragraph 4 above.

15. Hong violated Rule 308.01(y) of the Rules when he told AR1 that he intentionally planned to inflate the client's net worth information on the client account form, as set forth in paragraph 4 above.

16. Hong violated Rule 308.01(x) when he made twenty-three unsolicited phone calls to Arkansas residents named on the Federal Trade Commission Do-Not-Call List in contravention of FINRA Conduct Rule 2212, as set forth in paragraph 5 above.

17. The violations committed by Hong as detailed above constitute a violation of Ark. Code Ann. § 23-42-308(a)(2)(G).

UNDERTAKINGS

Additionally, Hong agrees to not apply for registration with the Department in any capacity for a period of three years from the entry date of this Order. After the expiration of the three-year period, any registrations of Hong shall be conditioned upon his employing firm conducting heightened supervision of his activities for a period of at least one year. A plan for heightened supervision shall be submitted for the Commissioner's approval along with any new registration application for Hong.

OPINION

This Order is in the public interest. The facts as set forth in paragraphs 1 through 5 support the violations of the Act and Rules as set forth in paragraphs 6 through 17.

ORDER

IT IS THEREFORE ORDERED that in accordance with Hong's undertaking the Department shall hereby deem Hong's registration as a broker-dealer agent revoked in accordance with Ark. Code Ann. § 23-42-308(a)(2)(G) and the Department shall not accept or grant any application from Hong for registration pursuant to the Act for a period of three years

from the entry date of this Order. After the expiration of the three-year period, any registrations of Hong shall be conditioned upon his employing firm conducting heightened supervision of his activities for a period of at least one year. A plan for heightened supervision shall be submitted for the Commissioner's approval along with any new registration application for Hong.

WITNESS MY HAND AND SEAL this the 28th day of August, 2013.



A. Heath Abshure
Arkansas Securities Commissioner

Approved as to Content and Form:


Junmo Hong, Respondent

8/28/13
Date


J. Campbell McLaurin III, Staff Attorney
Arkansas Securities Department

August 28, 2013
Date