STATE OF MINNESOTA DISTRICT COURT

COUNTY OF HENNEPIN FOURTH JUDICIAL DISTRICT

F. Chet Taylor,

Plaintiff,

v.

Feltl and Company, Inc.,

Defendant.

Case No. _____
Case Type: Other Civil

COMPLAINT

Plaintiff F. Chet Taylor, for his complaint against defendant Feltl and Company, Inc., states and alleges as follows:

INTRODUCTION

1. Plaintiff F. Chet Taylor ("Taylor") has practiced law since 1988. In 1996, Jack Feltl hired Taylor as the general counsel for R.J. Steichen & Company, a Minneapolis-based securities firm. In 2002, Taylor returned to private practice. Also in 2002, defendant Feltl & Company ("F&C") was established. In 2008, F&C hired Taylor as its general counsel.

2. In 2011, Taylor proposed to F&C that he return to full-time private practice, and handle F&C's legal matters as an outside attorney. F&C rejected the proposal, preferring to keep Taylor in his role as in-house general counsel. In August 2012, Taylor renewed his proposal, and F&C again rejected it, expressing its strong desire to keep Taylor in his role as in-house general counsel. Despite F&C's preference, Taylor voluntarily resigned from F&C's employment effective September 30, 2012 in order to focus his full-time efforts on his private law practice. F&C continued to send most of its arbitration work to Taylor after his resignation.

3. On August 14, 2014, F&C executed a settlement agreement with the Financial Industry Regulatory Authority ("FINRA"). The settlement was the result of certain deficiencies in F&C's "penny stock" business. F&C agreed to pay a fine of $1,000,000.00. Also as a part of the settlement, F&C issued the "Corrective Action Statement of Feltl & Company" in which F&C listed corrective measures it had taken to cure its penny stock deficiencies, including that "the firm has replaced the General Counsel … from the relevant period. The current Feltl employees occupying these positions will further enhance a culture of compliance at the firm."

4. On September 4, 2014, the *Wall Street Journal* reported on F&C's penny stock settlement with FINRA:

> In a so-called corrective action statement attached to the enforcement action, the firm said it stopped recommending penny stocks after February 2012 and it no longer makes a market in any penny stock, but allows customers to trade in penny stocks if they initiate the transactions. ***The firm also said it replaced its general counsel, chief compliance officer, head trader, and a branch manager to beef up compliance.*** (Emphasis added.)

5. In the Corrective Action Statement, F&C misrepresented the circumstances surrounding Taylor's voluntary resignation. Seeking to bolster its compliance image with FINRA and with the public, F&C claimed it had replaced Taylor as its general counsel as a remedial measure in response to the penny stock deficiencies. However, that statement was (and is) completely false.

6. On September 25, 2014, the *Minneapolis StarTribune* published an article on F&C's penny stock settlement, titled "Feltl execs out after penalty," reporting that:

> Feltl & Co. replaced several executives, ***including its top lawyer***, and paid a $1 million fine ***to settle a regulatory agency's finding*** that it failed to oversee a low-priced "penny stock" business. … The firm . . . ***replaced its general counsel*** … ***as a result of the [FINRA penny stock] investigation***. (Emphasis added.)

7. Taylor's reputation in the legal and investment communities has been seriously damaged as a result of the false statements in F&C's Corrective Action Statement.

PARTIES, VENUE, JURISDICTION

8. Taylor is an individual residing in Minneapolis, Minnesota.

9. F&C is a Minnesota corporation with its principal place of business in Minneapolis, Minnesota.

10. This court has personal jurisdiction over the plaintiff and defendant, and has subject matter jurisdiction over the claims set forth herein.

11. All material events described herein occurred in Hennepin County, Minnesota. Venue is thus proper in Hennepin County District Court.

BACKGROUND

12. In May of 1988, Taylor graduated from the University of Miami School of Law. He passed the Minnesota bar exam in 1988 and has been a member of the Minnesota bar continuously since then. Taylor's Minnesota bar membership is current and in good standing. Taylor is also a member in good standing of the bar of the United States District Court for the District of Minnesota. He is currently a member of the Hennepin County and Minnesota State Bar Associations.

13. The focus of Taylor's practice during his entire 26-year career has been dispute resolution involving the investment industry, including handling of investment-related lawsuits, arbitrations, administrative hearings, and regulatory investigations and proceedings. Taylor has built and maintained an outstanding reputation among members of the legal community and investment industry, and has a strong track record of success. Taylor has achieved an "AV" rating with Martindale-Hubbell, which is the highest rating possible from this highly respected national rating service.

14. F&C has been engaged in the securities brokerage, investment banking, and investment advisory industries since June 2002. F&C is owned and controlled by John C. Feltl and his mother, Mary Joanne Feltl, through trusts they control. John Feltl serves as F&C's CEO, while Mary Jo Feltl serves as its President.

15. Before forming F&C, the Feltl family (including John E. "Jack" Feltl, now deceased) owned and operated another Minneapolis-based broker-dealer of investment securities, R. J. Steichen & Company, Inc. ("Steichen").

16. Taylor's involvement with the Feltl family dates back to 1990 when he was associated with the law firm of Fredrikson & Byron. Steichen hired Taylor to defend an arbitration before the National Association of Securities Dealers, Inc. ("NASD"). The case was captioned *Brunsvold v. R. J. Steichen & Co. and Charles E. Purdy*, NASD Arb. No. 90-00300. The panel denied the Brunsvolds' claims completely – and thus began a highly successful, mutually beneficial relationship between Taylor and the Feltl family that would ultimately last 24 years. In 1991, Taylor defended Steichen for the second time in an NASD arbitration captioned *Hughes v. R. J. Steichen & Co.*, NASD Arb. No. 91-01596.

17. When Steichen sought a full-time general counsel in late 1996, it offered the position to Taylor. Taylor accepted. Taylor's responsibilities as Steichen's general counsel were quite varied. Among other things, Taylor directly handled many customer complaints, lawsuits, arbitrations, and regulatory investigations and proceedings.

18. Taylor continued as Steichen's general counsel until August 2000 when Stockwalk Group, Inc. ("Stockwalk") acquired Steichen. Because Stockwalk already had a general counsel, Taylor became Stockwalk's Chief Litigation Counsel. The Feltl family also worked for Stockwalk after the Steichen acquisition, with Jack and John Feltl serving on Stockwalk's board of directors.

19. In December 2001, Stockwalk's general counsel resigned. With the support of the Feltls, Taylor became Stockwalk's general counsel effective January 1, 2002. In February 2002, the Feltls resigned from Stockwalk and began preparations to open F&C. They opened F&C about four months later.

20. In August 2002, Taylor resigned from Stockwalk and, together with Ted Meikle, formed the law firm of Meikle & Taylor. P.A. ("M&T"). M&T was a "boutique" law firm focused primarily on lawsuits, arbitrations, and regulatory proceedings involving the investment industry.

21. Once M&T was established, F&C began sending legal work to Taylor. In addition to representing F&C, Taylor and his law firm represented individual members of the Feltl family in a multi-million dollar lawsuit against Deutsche Bank Securities and several other defendants. M&T ultimately achieved a very favorable settlement that was very lucrative for the Feltls.

22. In September 2005, Taylor formed his current solo law practice, Taylor Law Office, plc ("TLO"). TLO sublet office space in F&C's corporate headquarters in downtown Minneapolis. Through TLO, Taylor continued to provide legal services to F&C, the Feltls, and other Feltl-related business entities. The focus of Taylor's work at TLO continued to be the litigation and arbitration of disputes involving the investment industry. Taylor then worked for a short time with the law firm of Chestnut Cambronne, where he continued to handle the litigation and arbitration needs of F&C and the Feltl family.

23. In January 2008, F&C hired Taylor to be its first in-house general counsel. F&C agreed that Taylor could continue operating TLO and handle occasional cases on a "moonlighting" basis as long as such cases did not conflict with his work for F&C.

24. In the fall of 2011, Taylor proposed to F&C that he return fulltime to TLO, and continue to handle F&C's dispute resolution needs as an outside attorney for an hourly fee. In

essence, Taylor was proposing a return to the arrangement he had with F&C in 2005 and 2006. F&C rejected the proposal, preferring to keep Taylor in his role as in-house general counsel.

25. About ten months later, Taylor made a similar proposal to F&C, this time in a detailed written memo. On August 7, 2012, Taylor sent that memo to John Feltl and Mary Jo Feltl via email. The next day, Mary Jo Feltl sent an email to Taylor, again rejecting his proposal. Among other things, she stated, "Unfortunately my position has not changed [since last fall], if anything it has strengthened. We need as many hours as we can get from a full time in house legal council [sic]." Once again, the Feltls expressed their strong desire to keep Taylor in his role as an employed in-house general counsel.

26. Despite the Feltls' rejection of Taylor's proposal, Taylor chose to resign from F&C's employment effective September 30, 2012 to focus his full-time efforts on TLO. F&C ultimately decided to send most of its arbitration work to Taylor at TLO, notwithstanding the Feltls' initial opposition to the arrangement.

27. Taylor's decision to resign his employment at F&C was 100% voluntary, and had nothing whatsoever to do with any perceived deficiencies in his job performance. F&C management never even hinted that there were any concerns about Taylor's job performance. That F&C continued to send Taylor most of its arbitration work establishes that F&C was satisfied with Taylor's performance when he served as its general counsel.

28. About a year and a half after Taylor's voluntary resignation, F&C hired a new in-house general counsel, Thomas F. Steichen.

F&C Published False and Defamatory Remarks About Taylor

29. On August 14, 2014, F&C executed a settlement agreement with the Financial Industry Regulatory Authority ("FINRA"), the agency that regulates securities broker-dealers. The settlement, formally referred to as a Letter of Acceptance, Waiver and Consent ("AWC"),

arose out of FINRA's investigation into certain deficiencies in F&C's "penny stock" business. In the AWC, F&C agreed to pay a fine of $1,000,000.00. An AWC once finalized is a public document – anybody may access it through a simple internet search. Attached as Exhibit A is a true and correct copy of the AWC at issue.

30. When issuing an AWC, FINRA typically gives the subject of the disciplinary action an opportunity to attach to the AWC a statement describing corrective measures adopted in response to the identified deficiencies. F&C took advantage of that opportunity. F&C drafted a document entitled "Corrective Action Statement of Feltl & Company" and attached that document to the AWC. F&C's corrective action statement became a permanent part of the AWC and is publicly available with the rest of the document.

31. In its corrective action statement, F&C purported to identify various changes it made to cure the "penny stock" deficiencies that FINRA identified in the AWC. These are the "corrective" measures F&C identified:

a. Ceased making markets in penny stocks;

b. Ceased soliciting penny stock trades;

c. Began requiring enhanced paperwork on unsolicited penny stock trades;

d. Formalized meetings between the CEO and Chief Compliance Officer;

e. Revised its Rule 3012 procedures; and

f. "Finally, the firm has replaced the General Counsel, Chief Compliance Officer, Head Trader, and a Branch Manager from the relevant period. The current Feltl employees occupying these positions will further enhance a culture of compliance at the firm."

32. Taylor played no role in negotiating the AWC. Taylor was unaware of the language quoted above until he read it in the *Wall Street Journal* ("WSJ") on September 4, 2014. With respect to F&C's corrective action statement, the WSJ stated the following:

> In a so-called corrective action statement attached to the enforcement action, the firm said it stopped recommending penny stocks after February 2012 and it no longer makes a market in any penny stock, but allows customers to trade in penny stocks if they initiate the transactions. ***The firm also said it replaced its general counsel, chief compliance officer, head trader, and a branch manager to beef up compliance.*** (emphasis added)

33. After reading the WSJ article, a copy of which is attached as Exhibit B, Taylor requested a copy of the AWC from F&C's Chief Operations Officer, Mitch Edwards.

34. In the corrective action statement, F&C misrepresented the circumstances surrounding Taylor's voluntary resignation from F&C. Seeking to bolster its compliance image with FINRA and with the public at large, F&C claimed it had replaced Taylor as its general counsel as a remedial measure in response to the penny stock deficiencies. However, that statement was (and is) completely false.

35. Taylor told Edwards, F&C's COO, that the language in the corrective action statement with respect to Taylor was false and damaging to Taylor's reputation.

36. That same day, Taylor placed a telephone call to Jeffrey Ziesman at the Bryan Cave law firm. Ziesman is the attorney whom Taylor hired to defend F&C in FINRA's penny stock investigation while Taylor was still employed as F&C's in-house general counsel. Taylor asked Ziesman how he could allow a false statement concerning Taylor's employment to be included in F&C's corrective action statement. Ziesman stated that he did not draft the language for F&C's corrective action statement. He made it very clear that the language came from F&C's management team. In turn, Taylor made it very clear to Ziesman that the language at issue was false and damaging to Taylor's reputation.

37. Taylor requested a meeting with F&C's management team to discuss the problem. On September 8, Taylor sent the following email to F&C's COO: "Mitch - Could you please arrange a meeting this week with John, Mary Jo, Mike, Tom, and me regarding the Statement of Corrective Action? Thanks, Chet."

38. Taylor's purpose in requesting the meeting was to discuss (i) the falsity of the representations in the corrective action statement as they relate to Taylor; (ii) the harm to Taylor's reputation; and (iii) actions F&C should take to correct the misrepresentations.

39. Instead of calling the meeting Taylor requested, F&C's CFO, Michael Schierman, placed a telephone call to Taylor. In that call, Schierman warned Taylor that if he insisted on holding such a meeting, Schierman could "guarantee" that Taylor would never again receive any business from F&C. This was a lengthy and sometimes heated phone call during which Taylor made his position very clear that F&C's corrective action statement was false and damaging to his reputation. Heeding Schierman's warning, Taylor did not insist on holding the meeting he had requested with F&C's management team.

40. On Friday, September 19, Taylor met with F&C's current general counsel, Thomas Steichen, to discuss various matters Taylor was handling for the firm. The last topic discussed was F&C's corrective action statement. Taylor told Steichen that the corrective action statement was false and damaging to Taylor's reputation.

41. Despite Taylor's vigorous protests to F&C's CFO, COO, General Counsel, and outside counsel concerning the defamatory nature of F&C's corrective action statement, F&C did nothing whatsoever to correct the misrepresentations contained in that statement.

42. On Thursday, September 25, the *Minneapolis StarTribune* newspaper published an article about F&C's AWC and the million dollar fine. This was the lead story on the first page of the business section and was entitled, "**Feltl execs out after penalty**." That title appeared in

large bold letters at the top of the page. A true and correct copy of that article is attached as Exhibit C. The first paragraph of the article stated:

> Feltl & Co. replaced several executives, ***including its top lawyer***, and paid a $1 million fine ***to settle a regulatory agency's finding*** that it failed to oversee a low-priced "penny stock" business. (Emphasis added.)

The article went on to say the following:

> The firm . . . ***replaced its general counsel***, chief compliance officer, head trader, and a branch manager ***as a result of the [FINRA penny stock] investigation***. (Emphasis added.)

43. The *StarTribune* article has also been republished by Equities.com under the title "Execs depart after penalty at Feltl," and by numerous internet news sites.

44. Although F&C's corrective action statement does not identify Taylor by name as F&C's former general counsel, a substantial number of people who work in either the investment industry or the Twin Cities legal community know that Taylor is the individual whom F&C supposedly replaced as its general counsel.

45. All of the preceding paragraphs are incorporated into the following claim.

COUNT I

Defamation Per Se

46. F&C's representation in its corrective action statement that it replaced Taylor as F&C's general counsel as a "corrective action" taken in response to FINRA's penny stock investigation is a false statement.

47. In the alternative, if F&C's representation concerning Taylor is deemed to be technically true, F&C's corrective action statement taken as a whole creates a false implication concerning Taylor's job performance and the circumstances surrounding the termination of his employment at F&C. The statement implies that Taylor's employment as F&C's general counsel

was involuntarily terminated due to poor and/or unethical job performance, which resulted in the penny stock violations described in the AWC and the million dollar fine.

48. Although not mentioned by name, F&C's false statement or false implication is clearly about Taylor.

49. F&C published its false statement or false implication about Taylor by submitting the statement to FINRA with full knowledge that FINRA would attach the statement to F&C's AWC and make the AWC available to the general public. F&C's false statement or false implication about Taylor has been re-published by FINRA, the *Wall Street Journal*, the *StarTribune,* Equities.com and numerous internet news sites.

50. F&C's false statement or false implication has harmed Taylor's reputation.

51. Taylor has suffered, among other things, embarrassment, humiliation, and mental distress as a result of F&C's defamatory statements about him.

52. F&C's false statement or false implication about Taylor relates specifically to Taylor's profession, trade, or business, and thus, constitutes "defamation per se."

53. Under defamation per se, damages are presumed.

54. Taylor is entitled to a substantial award to compensate him for the harm to his reputation, and for the embarrassment, humiliation, and mental distress he has suffered.

WHEREFORE, plaintiff Taylor respectfully requests entry of judgment in his favor and against F&C, in the following manner:

1. Awarding Taylor an amount in excess of $50,000;
2. Directing F&C to take whatever action is necessary to have the current Corrective Action Statement removed from F&C's AWC, and replace it with a Corrective Action Statement that deletes the defamatory language;

3. Directing F&C to place reasonable and appropriate advertising with the *Wall Street Journal* and *StarTribune* correcting the defamatory statements that those publications reported based on F&C's corrective action statement; and

4. Awarding such other and further relief as this Court deems to be just and equitable.

JURY DEMAND

Taylor requests a trial by jury.

ACKNOWLEDGMENT

The undersigned acknowledges that costs, disbursements, and reasonable attorney and witness fees may be awarded to the opposing party pursuant to MINN. STAT. §549.211.

Dated: September 30, 2014

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ATTORNEY FOR PLAINTIFF

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EXHIBIT A

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010022962401

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Feltl & Company, Respondent
CRD No. 6905

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Feltl & Company ("Feltl" or "the Firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Feltl alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

A. Feltl hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Feltl is headquartered in Minneapolis, Minnesota. It has eight branch offices located in Minnesota and Illinois, and approximately 113 registered representatives. Its revenue is derived from securities commissions, as well as underwriting and investment company activity. Feltl has been a FINRA member since September 1975, and is subject to FINRA's jurisdiction pursuant to Article IV, Section 6 of FINRA's by-laws.

OVERVIEW

Between January 2008 and February 2012 (the "Relevant Period"), Feltl failed to comply with the suitability, disclosure, and record-keeping requirements for broker-dealers who engage in penny stock business. For example, Feltl did not provide certain of its customers with the standardized U.S. Securities and Exchange Commission ("SEC") risk disclosure document two days prior to effecting a penny stock transaction in the customers' accounts and receive a

signed and dated acknowledgement of its receipt. The risk disclosure document describes, among other things, the nature and level of risk in the market for penny stocks, the broker-dealer's duties to the customer, and bid and ask prices for penny stocks.

Feltl also failed to reasonably supervise its penny stock business during the Relevant Period by not monitoring compliance with Sections 15(g) and 15(h) of the Securities Exchange Act of 1934 ("Exchange Act") and the Exchange Act rules thereunder, failing to sufficiently supervise penny stock transactions for compliance with applicable rules and regulations, and failing to establish, maintain, and enforce written supervisory procedures for its penny stock business.

From 2009 to 2012, Feltl also failed to annually test and verify its supervisory procedures, submit the required reports, test results, exceptions, and any additional or amended procedures to senior management, and make the required certifications. Also, Feltl was unable to produce to FINRA certain copies of branch offices' daily trade blotters in response to a FINRA request.

As a result of the foregoing misconduct, during the Relevant Period, Feltl violated Section 15(g) of the Exchange Act (through July 21, 2010); Section 15(h) of the Exchange Act (starting July 22, 2010); SEA Rules 15g-2, 15g-3, 15g-4, 15g-6, and 15g-9[1]; NASD Rules 3010(a) and (b); NASD Rule 2110 (through December 14, 2008); and FINRA Rule 2010 (starting December 15, 2008). In addition, from 2009 to 2012, Feltl violated NASD Rule 3012(a)(1); FINRA Rule 3130; and FINRA Rule 2010. Finally, Feltl violated NASD Rule 3110(a), NASD Rule 3010(d)(1), and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Feltl Failed To Comply With The Penny Stock Rules

Background. The term "penny stock" generally refers to an equity security that trades below five dollars per share and that was issued by a small company with limited tangible revenue, assets, and/or operations.[2] Penny stocks often trade infrequently, which may make them difficult to sell and price. Penny stocks are generally considered speculative investments for these and other reasons.

Due to the speculative nature of penny stocks and historic sales practice issues relating to the offering and trading of certain penny stocks, the SEC requires broker-dealers effecting penny stock transactions to make a documented determination that the transactions are suitable for

[1] 17 C.F.R. §§ 240.15g-2, 240.15g-3, 240.15g-4, 240.15g-6, 240.15g-9.

[2] *See* SEA Rule 3a51-1, 17 C.F.R. § 240.3a51-1.

those customers and obtain the customers' written agreement to those transactions.[3] Congress also amended the Exchange Act to require broker-dealers to provide customers with a risk disclosure document with important information concerning the penny stock market prior to effecting any penny stock transaction and to require the SEC to adopt rules setting forth additional standards for the disclosure by broker-dealers to customers of important information concerning transactions in penny stocks. These requirements are set forth in the SEA rules promulgated under Section 15(g) and 15(h) of the Securities Exchange Act of 1934[4] (the "Penny Stock Rules").

Among other things, the Penny Stock Rules provide that a broker-dealer must: (a) document the customer's suitability for the specific penny stock investment, send a written statement to the customer describing the basis of the suitability determination two days prior to the penny stock transaction, and obtain a written agreement from the customer to purchase the penny stock in a specific quantity prior to the transaction (SEA Rule 15g-9); (b) furnish the customer a standardized risk disclosure document entitled "Important Information on Penny Stocks" (the "Risk Disclosure Document") (that describes among other things the nature and level of risk in the market for penny stocks, the broker-dealer's duties to the customer, and bid and ask prices for penny stocks) two days prior to effecting a penny stock transaction and receive and maintain a signed and dated acknowledgement of its receipt (SEA Rule 15g-2 and Schedule 15G); (c) disclose to the customer the current inside bid and ask market quotations, if any, for the penny stock (SEA Rule 15g-3); (d) disclose to the customer the amount of compensation the broker or dealer will receive for the transaction orally or in writing prior to effecting the transaction and in writing at or prior to the time the written confirmation of the transaction is given (SEA Rule 15g-4); and (e) send to the customer monthly account statements showing certain market and price information for each penny stock held in the customer's account and containing a conspicuous legend containing specified language[5] (SEA Rule 15g-6).

Feltl's Penny Stock Business. During the Relevant Period, Feltl engaged in thousands of penny stock transactions on behalf of its customers and received significant revenue from its penny stock business. However, because the Firm did not track all penny stock transactions in its books and records, the actual number of penny stock transactions by Feltl's customers and Feltl's total penny stock related revenue are unknown.

Feltl was a market maker in 17 penny stocks at different times during the Relevant Period. With respect to 15 of those penny stocks, Feltl solicited its customers to make at least 2,450 purchases

[3] *See* Sales Practice Requirements for Certain Low-Priced Securities, Exchange Act Release No. 34-27160 (Aug. 22, 1989); 17 C.F.R. § 240.15g-9.

[4] Dodd-Frank Sec. 929X(c) amended the Exchange Act by, among other things, redesignating Sec. 15(g) to Sec. 15(h), effective July 22, 2010.

[5] The legend must state: "If this statement contains an estimated value, you should be aware that this value may be based on a limited number of trades or quotes. Therefore, you may not be able to sell these securities at a price equal or near to the value shown. However, the broker-dealer furnishing this statement may not refuse to accept your order to sell these securities. Also, the amount you receive from a sale generally will be reduced by the amount of any commissions or similar charges. If an estimated value is not shown for a security, a value could not be determined because of a lack of information." SEA Rule 15g-6(e).

of penny stocks and received over $2.1 million from these transactions through markups, markdowns, or commissions. The Firm received additional revenue from selling activity in these penny stocks. While the Firm tracked the activity in these 17 penny stocks in which it was a market maker, it did not track the individual transactions for which a security may have temporarily not met the definition of a penny stock because, for example, the security traded above a price of $5.00 or the issuer had average revenue of at least $6 million for the last three years. Further, the Firm failed to track the penny stock transactions in securities in which it did not make a market. Accordingly, while the Firm's penny stock transaction and revenue numbers are substantial, the actual numbers are unknown.

Feltl's Penny Stock Rule Violations. Feltl failed to comply with the Penny Stock Rules during the Relevant Period. For the penny stock transactions that Feltl effected for or with the accounts of its customers during the Relevant Period, Feltl did not:

1) document the customer's suitability for the specific penny stock investment, send the customer a written statement describing the basis of the suitability determination two days prior to the penny stock transaction, and obtain a written agreement from the customer to purchase the penny stock prior to the transaction, in violation of SEA Rule 15g-9;

2) furnish all customers the standardized Risk Disclosure Document and receive a signed and dated acknowledgement of its receipt two days prior to the penny stock transaction, in violation of SEA Rule 15g-2;

3) disclose to the customer the current inside bid and ask market quotations, if any. for the penny stock, in violation of SEA Rule 15g-3;

4) disclose to all customers the amount of compensation the Firm would receive for the trade orally or in writing prior to effecting the penny stock transaction, in violation of SEA Rule 15g-4; and/or

5) send the customer monthly account statements that showed the market value of each penny stock held in the customer's account and containing the conspicuous legend with the required language concerning penny stock risks. among other things. in violation of SEA Rule 15g-6.

Accordingly, during the Relevant Period, Feltl violated Section 15(g) of the Exchange Act (for conduct through July 21, 2010); Section 15(h) of the Exchange Act (starting July 22, 2010); SEA Rules 15g-2, 15g-3, 15g-4, 15g-6, and 15g-9; NASD Rule 2110 (through December 14, 2008); and FINRA Rule 2010 (starting December 15, 2008).

Feltl Failed To Reasonably Supervise Its Penny Stock Business. During the Relevant Period. Feltl failed to establish and maintain a system to supervise the activities of its registered representatives, registered principals, and other associated persons that was reasonably designed

to achieve compliance with the applicable rules and regulations relating to its penny stock business, including (a) the Penny Stock Rules, and (b) the rules and regulations designed to deter and detect fraudulent activities and transactions in its penny stock business.

Feltl's supervisory system was not reasonably designed to supervise for compliance with the Penny Stock Rules. Indeed, the Firm did not even track whether customer transactions were penny stock transactions. The Firm did not monitor for compliance with any of the Penny Stock Rules, including whether a Risk Disclosure Document was required or sent to a customer, whether the required suitability analysis was conducted and documented, or whether the other Penny Stock Rules were followed. Additionally, Feltl failed to reasonably supervise penny stock transactions in order to detect potentially fraudulent or otherwise problematic penny stock activity. For example, penny stock transactions routinely were flagged in the Firm's exception reports, but the Firm did not have a reasonable system or procedures to follow up on these transactions.

During the Relevant Period, Feltl also failed to establish, maintain, and enforce written supervisory procedures to supervise the Firm's penny stock business and to supervise the activities of registered representatives, registered principals, and other associated persons that were reasonably designed to achieve compliance with the applicable rules and regulations concerning the Firm's penny stock business, including the Penny Stock Rules. The Firm's written supervisory procedures relating to the Penny Stock Rules merely tracked some of the language of the Penny Stock Rules, and briefly discussed certain requirements under some of the Penny Stock Rules. These procedures therefore were not adequate for a number of reasons.

- The written procedures did not identify the responsible Firm personnel or provide adequate direction to determine whether a particular stock was a penny stock and whether a particular stock was exempt from the Penny Stock Rules.

- The written procedures concerning SEA Rule 15g-2 did not state that the Firm must wait two business days after sending the Risk Disclosure Document to execute the penny stock transaction for the customer account.

- The written procedures concerning SEA Rule 15g-9 did not state that the Firm must (1) receive back from the customer an agreement to the transaction that set forth the identity and quantity of the penny stock to be purchased prior to the transaction, and (2) wait two business days to execute the relevant penny stock transaction after sending the suitability statement and the agreement to the transaction in a penny stock.

- The written procedures failed to sufficiently delineate how to ascertain, and what documents to obtain, regarding whether a customer met the suitability requirements specified under the Penny Stock Rules.

- The written procedures failed to delineate the nature of the disclosures to be made regarding compensation relating to penny stocks, and when and how such disclosures were to be made.

Furthermore, Feltl failed to enforce its existing written supervisory procedures concerning penny stocks, as discussed above. For example, the Firm did not even conduct the steps required by the written procedures as a matter of course.

Accordingly, during the Relevant Period, Feltl violated NASD Rules 3010(a) and (b), NASD Rule 2110 (through December 14, 2008), and FINRA Rule 2010 (starting December 15, 2008).

Feltl Failed To Annually Test Its Supervisory Procedures, Submit Supervisory Reports, And Certify Its Supervisory Processes

NASD Rule 3012(a)(1) requires each member to establish, maintain, and enforce a system of supervisory control policies and procedures that "(A) test and verify that the member's supervisory procedures are reasonably designed with respect to the activities of the member and its registered representatives and associated persons, to achieve compliance with applicable securities laws and regulations, and with applicable NASD rules and (B) create additional or amend supervisory procedures where the need is identified by such testing and verification." The member also must annually submit to its senior management a report that details the member's system of supervisory controls, the summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results.

FINRA Rule 3130 requires a member's chief executive officer or similar officer to certify annually that the member has "in place processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with" applicable rules, laws, and regulations and that the chief executive officer met at least once with the chief compliance officer in the preceding 12 months to discuss such processes.

From 2009 through 2012, Feltl failed to test and verify its supervisory procedures and submit the required reports, test results and exceptions, and any additional or amended procedures, to senior management, and make the required certifications. As a result, Feltl violated NASD Rule 3012(a)(1) and FINRA Rules 3130 and 2010 from 2009 through 2012.

Feltl Failed To Maintain And Make Branch Office Trade Blotters Available

NASD Rule 3010(d)(1) requires members to establish procedures for the principal review and endorsement in writing, on an internal record, of all securities transactions. In addition, members are required to maintain evidence that these procedures have been implemented and carried out and must make them available to FINRA upon request.

During FINRA's investigation in this matter, on October 3, 2013, FINRA Staff requested pursuant to FINRA Rule 8210 that Feltl produce "the designated supervisor's initialed copies of the daily trade blotter for the Firm's Minnetonka branch office for November 2009 and December 2009 and for the Firm's Inner Grove Heights branch office for January 2009 and September 2009." The Firm was unable to produce the requested documents for the Inner Grove

Heights branch office and was not able to produce the requested documents for the Minnetonka branch office until July 23, 2014.

By not maintaining these copies of the daily trade blotters and not providing them, or not promptly providing them, to FINRA upon request, Feltl violated NASD Rule 3010(d)(1), NASD Rule 3110(a), and FINRA Rule 2010.

B. Feltl also consents to the imposition of the following sanctions:

1. A censure; and

2. A fine of $1,000,000.

Feltl agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Feltl has submitted an Election of Payment form showing the method by which Feltl proposes to pay the fine imposed.

Feltl specifically and voluntarily waives any right to claim that Feltl is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Feltl specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

A. To have a Complaint issued specifying the allegations against Feltl;

B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;

C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and

D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Feltl specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or

body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Feltl further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Feltl understands that:

A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;

B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Feltl; and

C. If accepted:

1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Feltl;

2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my disciplinary record;

3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. Feltl may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Feltl may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Feltl's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. Feltl may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Feltl understands that Feltl may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Feltl has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

08/14/2014
Date (mm/dd/yyyy)

Feltl & Company

By: _____
Thomas F. Steichen
General Counsel, Feltl & Company

Reviewed by:

_____
Jeff Ziesman
Bryan Cave LLP
One Kansas City Place
1200 Main Street, Suite 3800
Kansas City, MO 64105-2122
Tel: (816) 374-3225
Fax: (816) 855-3225

Accepted by FINRA:

09/02/2014
Date (mm/dd/yyyy)

Signed on behalf of the
Director of ODA, by delegated authority

_____
Rebecca S. Giltner
Senior Counsel
FINRA Department of Enforcement
15200 Omega Drive
Rockville, MD 20850
Tel: (301) 258-8531
Fax: (301) 208-8090

Corrective Action Statement of Feltl & Company

This matter concerns certain historical practices by Feltl & Company (Feltl) regarding certain penny-stock transactions conducted during the relevant period (January 2008-February 2012), and certain other issues identified in the AWC.[1] Feltl ceased recommending penny stocks to any of its customers in February 2012, over 2 ½ years ago. Feltl ceased being a market maker for any penny-stock in 2012. Consequently, the firm would be exempt from compliance with the penny stock rules since at least February 2012.

Since February 2012, Feltl has allowed customers to trade penny-stocks through Feltl only on a non-solicited basis. To do so, the customers have been required to sign certain paperwork attesting that they understand the nature and risks of penny-stocks, and their desire to continue to place non-solicited transactions through Feltl.

A separate issue in this matter concerns the Chief Executive Officer certification and supervisory controls processes. Since 2012 the firm has formalized meetings between the Chief Executive Officer and Chief Compliance Officer and the commensurate processes, along with providing the annual certification, such that the processes are in compliance with FINRA Rule 3130. The firm has also revised its supervisory controls processes so that they are consistent with the terms and spirit of NASD Rule 3012.

Finally, the firm has replaced the General Counsel, Chief Compliance Officer, Head Trader and a Branch Manager from the relevant period. The current Feltl employees occupying these positions will further enhance a culture of compliance at the firm.

This Statement of Corrective Action is submitted by Feltl. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or FINRA Staff.

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[1] This Corrective Action Statement is submitted by Feltl & Company. It does not constitute factual or legal findings by FINRA, nor does it reflect the view of FINRA, or its staff.

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EXHIBIT B

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WEALTH ADVISER

Finra Fines Brokerage $1M Over Penny-Stock Deals

Feltl & Company Didn't Properly Supervise Area of Business 2008-2012, Regulator Charges

By MATTHIAS RIEKER

Sept. 3, 2014 2:08 p.m. ET

Also in Wealth Adviser:

Advisers Sour on Small-Cap Stocks

Escaping a Bad Real-Estate Bet

Visit the Wealth Adviser Page

Wall Street's self-regulator fined a Minneapolis broker-dealer $1 million for failing to properly supervise its sizable penny-stock business between 2008 and 2012.

The Financial Industry Regulatory Authority, in an enforcement action dated Tuesday, charged Feltl & Company for failing to inform some customers ahead of certain penny-stock transactions about the stocks' suitability and risks, and for not sending customers account statements showing the market value of each penny stock.

Furthermore, the firm didn't keep proper records of transactions for securities that may temporarily haven't met the definition of a penny stock and didn't track penny-stock transactions in securities that didn't make a market, Finra said.

Penny stocks are securities that trade below $5 a share, usually issued by small companies with little revenue. They are risky because it is difficult for investors to track such companies' business potential and future value, and they trade less frequently than liquid, exchange-traded stocks. Penny stocks have been a constant on regulators' radar screens, and Finra has warned repeatedly that firms should review their procedures.

"Speculative microcap and low-priced over-the-counter securities are an area of significant ongoing concern," Finra said in its annual enforcement priority letter in January.

Feltl made a market in 17 penny stocks, earning $2.1 million from at least 2,450 solicited customer transactions in 15 penny stocks during the four years in question, Finra said. It is unclear how much the firm made overall from selling penny stocks between 2008-2012 that they didn't keep track of, the regulator said, adding that the revenue from all such transactions was "substantial."

According to the enforcement action, the company didn't admit to nor deny Finra's charges.

"We are pleased to have resolved this matter," said Thomas Steichen, the firm's general counsel, in an email. ``We felt it prudent to simply move on."

In a so-called corrective action statement attached to the enforcement action, the firm said it stopped recommending penny stocks after February 2012 and it no longer makes a market in any penny stock, but allows customers to trade in penny stocks if they initiate the transactions. The firm also said it replaced its general counsel, chief compliance officer, head trader, and a branch manager to beef up compliance.

Feltl, a broker-dealer which owns an investment-advisory firm registered with the Securities and Exchange Commission, has been in trouble with regulators before.

In November 2011, the SEC ordered the firm to pay a $50,000 fine and refund investment-advisory clients more than $142,000 in fees because the firm engaged in hundreds of principal transactions without obtaining the clients' consent. Feltl also improperly charged undisclosed commissions on certain transactions in clients' wrap-fee accounts, the SEC said.

Feltl, which has about 113 brokers and eight branches in Minnesota and Illinois, had a total of four regulatory run-ins before Finra's most recent penny-stock fine, according to its BrokerCheck record.

Write to Matthias Rieker at matthias.rieker@wsj.com

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EXHIBIT C

★★

Classifieds start on page D5

business

Blackberry's Passport: Do or die for hardware unit? **D6**

lee **schafer**

Rural high l: Slow teady race

One of Gary Johnson's fears when he announced the 5,000-square-mile "GigaZone" ultrahigh speed Internet service last week in Bemidji was that someone might reach the badly mistaken conclusion that it was easy to build that kind of rural broadband capability.

It was nothing of the sort — which is what makes Johnson's Paul Bunyan Communications an interesting case study in broadband Internet access outside of the Twin Cities.

Subsidized capital wasn't what made the difference. More like patience and a particularly long-term view.

The GigaZone service wasn't

Feltl execs out after penalty

The Minneapolis brokerage was fined $1 million by regulators for improper oversight of its penny stock business.

By NEAL ST. ANTHONY
neal.st.anthony@startribune.com

Feltl & Co. replaced several executives, including its top lawyer, and paid a $1 million fine to settle a regulatory agency's finding that it failed to oversee a low-priced "penny stock" business.

The Minneapolis-based securities brokerage has also halted the business.

"This is a serious violation in terms of how long this went on and the scope of the violations," said Emily Gordy, senior vice president of enforcement at the Financial Industry Regulatory Authority (FINRA). "This is an important 'message case' because it speaks to firms that engage in penny-stock transactions, as this firm did from 2008 until 2012."

FINRA, the self-regulatory arm of the securities industry, said Feltl failed to comply with customer-suitability, disclosure and record-keeping requirements, didn't provide SEC-mandated risk-disclosure documents to customers before trading penny stocks and failed to adequately supervise the business.

Penny stocks, which trade for less than $5 per share, usually involve small, thinly traded companies that are considered to be more speculative investments than are high-volume, exchange-traded stocks.

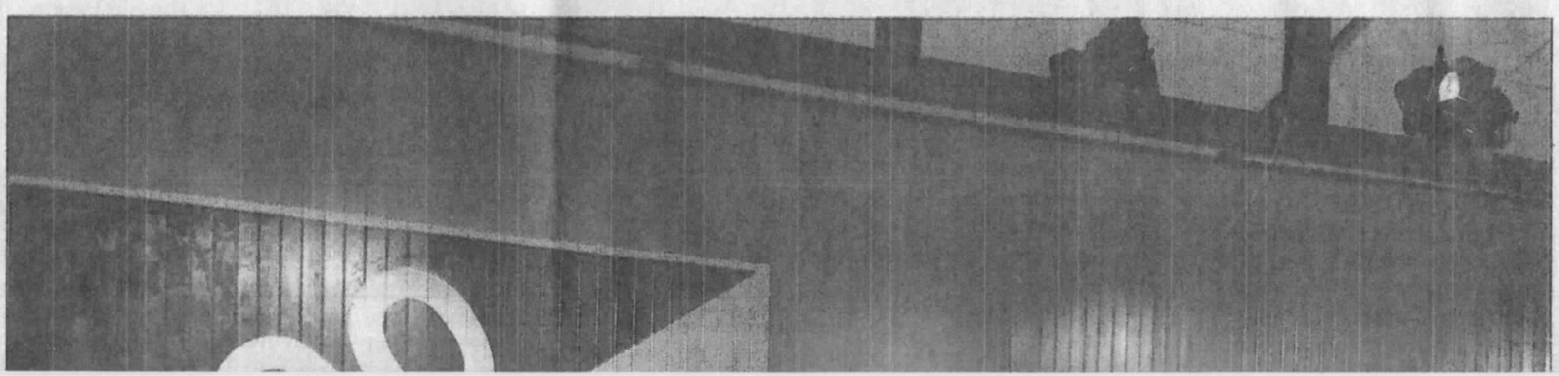
Feltl solicited its customers to make at least 2,450 purchases of 17 penny stocks in which it made a market and received $2.1 million from the transactions. FINRA said it was unable to gauge the total number of trades because of incomplete records. FINRA also criticized Feltl for failing to produce "the daily trade blotter" for certain dates for one office and only after a monthslong delay for another branch.

In a "corrective action" statement submitted by Feltl, the firm said it ceased recommending penny stocks to customers in February 2012 and allows customers to trade penny stocks only at their request. Chief Executive John Feltl took steps to bring supervisory and compliance measures up to the "terms and spirit" of industry regulations, it said.

The firm, which has 113 registered securities brokers, replaced its general counsel, chief compliance officer, head trader and a branch manager as a result of the investigation.

Tom Steichen, who took over as Feltl's general counsel earlier this year, said in a prepared statement that Feltl was pleased to have resolved the matter. "We felt it pru-

See **EXECUTIVES** on D2 ▸



scarves, $20 to $80 for
, $20 to $55 for twin-size
s, $30 to $100 for queen
nd $40 to $80 for king.
t sales are one of the

rescued by Edina businessmen Chuck and Paul Mooty in 2011 after closing in 2009.

Retailers say they rarely need to discount the line

Corazon gift shop in Minneapolis and a second store to open next month in St. Paul, said customers understand that they have to pay more for

miles south of the Twin Cities.

John Ewoldt • 612-673-7633

ural high speed takes Paul Bunyan effort

AFER from D1

were loans, not grants.
d that, he said "it's just
ur own investment. It's
ay-as-you-go, for over
de."

only does Johnson
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out it, he's nothing but
f public financing for
band like Minnesota's
20 million broadband
program. The company
take any help it could
continue to expand Paul
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l Bunyan's service ter-
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d it's important to
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nson said he's not quite
what the Federal Com-
cations Commission
calls broadband, but he
s it's less than the 10- to
egabit speed that's the
ational goal for the state
innesota in 2015. One
it is 1,000 megabits.
om 4 to 6 megabits per second, and we are now talking 1000 megabits," he said. "That's the leap here."

And it's quite a leap for Grand Rapids and Bemidji, although it would be for darn near any town. The phone company CenturyLink is just this week advertising a promotional price on DSL "high-speed Internet" in St. Paul "with download speeds up to 10 megabits per second."

An Internet download speed 100 times faster than what CenturyLink is pitching as high speed means being able to download a high definition Hollywood movie in about two seconds. Imagine watching a movie while in St. Paul they are sitting down to watch a download progress bar.

The significance of that capability — and an equally fast upload speed for tasks such as video conferencing — hasn't been lost on the greater Bemidji business community. "What I can say to the question of 'why Bemidji?' is that we happen to have the fastest fiber-optic speeds in the nation," said Dave Hengel, the executive director of the Greater Bemidji economic development group.

Johnson can only speculate on how many consumers will value that enough to sign up for the fastest speed at $100 per month. If that sounds like a lot, compare it to the $66.95 per month for 20 megabit speeds Paul Bunyan customers get charged now, although local phone service is bundled with that.

"We hope it's affordable," Johnson said. "It's nothing for people to spend $200 a month on their mobile device."

And in that pricing discussion Johnson's touched on yet another policy goal that seems to be driving public broadband funding, and that's making reliable service available that people can afford. It's really not a question of broadband access even in remote parts of the state. It's a question of how much it costs for a service faster than the old dial-up.

That is why if you look, the roots of recent broadband initiatives really go back to things like the Rural Electrification Administration created during the New Deal.

In 1934 only about 10 percent of American farms had electric service, but even so it was possible to string wires from the end of the grid out a remote farm out in western Minnesota — provided the farmer had the money to pay for it.

That's much the case right now in looking at broadband Internet. In looking through the interactive map of broadband service on the website of Connect Minnesota, there wouldn't appear that many places in the state where it's just not available.

A good-faith effort to find one led to a friend's cabin northwest of Ely, well beyond the limits of the GigaZone. It's a wonderful northern Minnesota retreat overlooking a small wilderness lake located at the end of a long dirt road, miles past where the county stops maintaining it.

It's so remote that keeping a snowmobile gassed up in the late fall may be a good idea in case the SUV has to be left there until spring.

But according to that interactive map, this wilderness cabin is not so remote that guests from St. Paul wouldn't be able to stream the TV show "Orange Is the New Black" from Netflix and watch on their iPads.

That is, if my friend weren't too cheap to pay the $129.99 per month plus tax for satellite service fast enough to make it possible.

lee.schafer@startribune.com • 612-673-4302

to retail customers known more for buying massive packages of cereal, vitamins and paper towels than vehicles, comes six weeks after Polaris announced that it was making

annual revenue, has a research center in Wyoming, Minn., and is building a new corporate office in Plymouth.

Dee DePass • 612-673-7725

Execs depart after penalty at Feltl

◂ EXECUTIVES from D1

dent to simply move on rather than admit or deny FINRA's findings," he said.

Ben Anderson, a securities lawyer at Anderson PLC in St. Paul who is not involved in the Feltl case, said it was a warning to securities broker-dealers to meet regulatory requirements through "experienced staff, technology and system resources."

"It's a significant fine," Anderson said. "Beyond that, it's a statement that FINRA will ... take significant and punitive actions against firms that don't invest in meeting basic compliance requirements."

In 2011, Feltl agreed to pay a penalty of $50,000 and returned more than $142,000 to certain of its investment-advisory business clients. The SEC said Feltl conducted trades in client accounts without permission and without the necessary compliance documentation, and that it improperly charged undisclosed commissions on transactions in clients' wrap-fee accounts.

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earnings

H.B. FULLER CO.
(FUL) A global adhesives provider serving customers in the packaging, hygiene, general assembly, paper converting, woodworking, construction, automotive and consumer businesses.

3RD QUARTER FY2014, 8/30

	2014	2013	
Revenue	$526.8	$514.6	+2.4
Cont. ops.	4.1	27.2	–85
Disc. ops.	–	1.2	–
Income	4.0	28.3	–85.9
Earn/share	0.08	0.55	–85.5

9 MONTHS

Revenue	$1,556.8	$1,513.4	+2.9
Cont. ops.	39.4	74.0	–46.8
Disc. ops.	–	1.2	–
Income	39.1	74.9	–47.8
Earn/share	0.76	1.47	–48.3

Figures in millions except for earnings per share.

StarTribune

Several executives depart Feltl after firm pays $1 million penalty

Article by: Neal St. Anthony
Star Tribune
September 24, 2014 - 10:24 PM

Feltl & Co. replaced several executives, including its top lawyer, and paid a $1 million fine to settle a regulatory agency's finding that it failed to oversee a low-priced "penny stock" business.

The Minneapolis-based securities brokerage has also halted the business.

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