

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 63835 / February 3, 2011**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 3153 / February 3, 2011**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-14230**

**In the Matter of**

**TORREY PINES**  
**SECURITIES, INC.**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE**  
**PROCEEDING PURSUANT TO SECTION**  
**15(b) OF THE SECURITIES EXCHANGE**  
**ACT OF 1934 AND SECTION 203(e) OF THE**  
**INVESTMENT ADVISERS ACT OF 1940**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 203(e) of the Investment Advisers Act of 1940 (“Advisers Act”) against Torrey Pines Securities, Inc. (“Torrey Pines” or “Respondent”).

**II.**

After an investigation, the Division of Enforcement alleges that:

**A.     RESPONDENT**

1.     **Torrey Pines Securities, Inc.** is a broker-dealer headquartered in Del Mar, California. Torrey Pines has been registered as a broker-dealer with the Commission since 1985 (File No. 8-35004). Torrey Pines has also been registered in California and Nevada as an investment adviser since 2001 and 2007, respectively.

**B.     OTHER RELEVANT ENTITY AND INDIVIDUALS**

2.     **Jack C. Smith, Jr.** (“Smith”), age 61, resides in San Diego, California. Smith has had an ownership interest in Torrey Pines since November 1987, and during the relevant

period, he was president, chief executive officer, and had overall supervisory responsibility for the firm. In 2009, Smith sold the majority of his ownership interest in Torrey Pines to a third party individual's trust.

3. **Dennis Lee Keating, II** ("Keating"), age 46, resides in Highland, Utah. In April 2006, Keating joined Torrey Pines as a part-owner and registered representative, working in and supervising the Corona, California branch office. Keating resigned from Torrey Pines in November 2008, and individual's trust purchased Keating's ownership shares. Keating was permanently enjoined on June 28, 2010 for violations of the securities and broker-dealer registration and antifraud provisions, specifically Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933, and Sections 10(b) and 15(a) of the Exchange Act and Rule 10b-5 thereunder. *SEC v. Dennis Lee Keating, II*, Case No. 2:10cv419 (Dist. Utah filed May 6, 2010). On July 6, 2010, the Commission barred Keating from associating with a broker-dealer or investment adviser. *Dennis Lee Keating, II*, Admin. Proc. File No. 3-13957 (July 6, 2010).

**C. KEATING'S UNREGISTERED OFFERING**

5. Keating joined Torrey Pines in April 2006, opening the Torrey Pines Corona, California branch office (the "Corona Office"). Keating, along with an office assistant, and, for a short time, one other representative, worked in the Corona Office. Keating had overall supervisory responsibility for the Corona Office.

6. In August 2006, Keating formed a privately-held company and until April 2007, he raised over \$17 million from friends, family, and Torrey Pines's customers in a private, unregistered offering of securities. Until at least November 2008, Keating also continued lulling investors with false assurances that they would receive a return on their investments. Keating acted as an unregistered broker-dealer in violation of Section 15(a) of the Exchange Act, as he conducted the offering outside the scope of his employment with Torrey Pines.

**D. TORREY PINES FAILED TO ESTABLISH REASONABLE SUPERVISORY PROCEDURES AND SYSTEMS**

7. Torrey Pines failed to establish reasonable policies and procedures to assign responsibility for supervising Keating. When Keating became a part-owner of Torrey Pines, Torrey Pines did not revise its written supervisory procedures manual or create other policies or procedures for Keating to be supervised reasonably at the firm's Corona Office. No one other than Keating oversaw the daily activities of the Corona Office. No one reviewed Keating's daily correspondence or telephone calls, other than in cursory annual audits. The delegation of the Corona Office's daily responsibilities to Keating resulted in Keating supervising himself. If Keating had not been left to supervise himself, his outside sales activities, which violated Section 15(a) of the Exchange Act, likely would have been detected.

8. Although Torrey Pines had a policy prohibiting selling securities outside of the firm, and a policy for registered representatives to report outside business activities, the firm failed to develop systems for supervisors and the compliance department to monitor for adherence with the provisions, e.g., reviewing documents relating to registered representatives'

outside business activities to ensure that the activities did not involve selling any private securities transactions outside the scope of a representative's employment in violation of Section 15(a) of the Exchange Act. If Torrey Pines had established systems providing for better monitoring for adherence with those provisions, a supervisor or the compliance officer would reasonably have been expected to detect that Keating's outside investment business involved a private, securities-related offering and that Keating violated Section 15(a) of the Exchange Act by conducting this activity without registering as a broker-dealer.

9. From August 2006 through January 2008, a number of suspicious events concerning Keating's outside business activities came to the attention of supervisors and/or compliance staff at Torrey Pines in various ways, including through oral and written complaints to Torrey Pines from an individual who had invested in Keating's private offering. If Torrey Pines had put procedures and systems in place requiring supervisors or the compliance officer to follow-up on suspicious activities that might signal violations of the firm's prohibition against selling securities outside the firm, Torrey Pines might have prevented and detected Keating's violations of Section 15(a)(1) of the Exchange Act.

#### **E. VIOLATIONS**

10. As a result of the conduct described above, Torrey Pines failed reasonably to supervise Keating within the meaning of Section 15(b)(4)(E) of the Exchange Act and Section 203(e) of the Advisers Act.

### **III.**

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 15(b) of the Exchange Act including, but not limited to, disgorgement and civil penalties pursuant to Section 21B of the Exchange Act; and

C. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 203(e) of the Advisers Act including, but not limited to, civil penalties pursuant to Section 203(i) of the Advisers Act.

### **IV.**

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Elizabeth M. Murphy  
Secretary

## Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Section 203(f) of the Investment Advisers Act of 1940 ("Order"), on the Respondent and its legal agent.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray  
Chief Administrative Law Judge  
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