

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 64030 / March 3, 2011

ADMINISTRATIVE PROCEEDING
File No. 3-14285

In the Matter of

**Securities Transfer Corporation and
Kevin Halter, Jr.**

Respondents.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTIONS 17A AND 21C OF
THE SECURITIES EXCHANGE ACT OF
1934, MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 17A and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Kevin Halter, Jr. (“Halter, Jr.”) and Securities Transfer Corporation (“STC”) (collectively “the Respondents”).

II.

In anticipation of the institution of these proceedings, the Respondents have submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 17A and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondents' Offer, the Commission finds¹ that:

Summary

In this matter, Kevin Halter ("Halter"), STC's former bookkeeper and Halter, Jr.'s father, misappropriated approximately \$2.7 million in agency funds entrusted to STC. From August 2007 through November 2008, Halter secretly transferred funds STC held on behalf of issuers through other STC accounts to his personal brokerage account to cover losses from his unprofitable securities trading. After a Commission examination raised questions about certain STC funds transfers, Halter confessed to Halter Jr. that Halter had taken the money. Halter Jr. immediately terminated his father's relationship with STC, demanded that his father repay the money he had misappropriated, and reported the matter to the Commission. Soon thereafter, Halter repaid the money he had taken and all affected STC clients were made whole.

Respondents

1. STC was incorporated in Texas in 1987 and has been a transfer agent registered with the Commission pursuant to Section 17A(c)(2) of the Exchange Act since 1987. STC transfers securities for approximately 600 issuers, the majority of which are quoted on the OTC Bulletin Board.
2. Halter, Jr., 49, is a resident of Frisco, Texas. He was the president and principal of STC.

Other Relevant Person

3. Kevin Halter, 75, of Desoto, Texas, served as STC's bookkeeper for approximately ten years until his termination on January 6, 2009.

Background

4. As a transfer agent, STC handles both securities and funds for its clients. It acts as a dividend paying agent for multiple issuers and also provides escrow services for specific issuer transactions.

¹ The findings herein are made pursuant to Respondents' Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

5. From at least August 2007 until his January 2009 termination, Halter was STC's part-time bookkeeper. Both Halters were signatories on the bank accounts, but Halter, Jr. ceded full responsibility for STC's accounting records and bank accounts to his father. Through the end of 2008, Halter handled all of STC's bank transfers and reconciliations. Halter had electronic access to the STC-controlled bank accounts, and routinely made transfers among those accounts. Halter, Jr. only occasionally looked at bank statements, and neither he nor anyone else at STC reviewed his father's funds transfers, bank reconciliations or other work during the period that Halter misappropriated funds.

6. From August 2007 through November 2008, Halter transferred a total of approximately \$2.7 million from ten STC client accounts to his brokerage account or other accounts he controlled.

7. Halter diverted most of the money from an STC escrow account for a client's securities offering. Under the terms of the escrow agreement, STC agreed to hold \$2 million in proceeds from the offering until the client met certain financial requirements. The escrow account was opened in July 2007, and the next month Halter diverted \$600,000 from the account. Later that year he repaid part of that amount, but during March through July 2008, he misappropriated an additional \$1.575 million from the account. As a result, for most of the escrow period, the client account contained substantially less than the \$2 million escrow amount. Thus, had anyone besides Halter reviewed the bank statements for the client account, his misappropriations would have been detected.

8. In late November 2008, the client notified STC that the requirements for release of the escrow had been met. In order to replenish the client escrow account and make the required payment, Halter misappropriated \$1.291 million from seven additional issuer accounts and deposited it into the client account in late November 2008.

9. Halter also misappropriated \$150,000 from STC's dividend payment account for an issuer in August 2007, and he misappropriated \$400,000 from an account STC maintained for another issuer in September 2008.

10. Immediately after discovering that Halter had misappropriated client funds, Halter, Jr. terminated him and reported the matter to the Commission. Within the same month, Halter repaid all of the funds he misappropriated from STC's issuer clients and the clients were all made whole.

11. As president and control person of STC, Halter, Jr. was responsible for ensuring that STC had adequate supervisory procedures and a system for applying such procedures. STC, however, merely had limited procedures to assure that client accounts and funds were secure from outside access, copying, or theft. STC essentially had no procedures to safeguard client funds from internal, employee abuse. STC's procedures did not require multiple signatures or approvals to transfer funds, and they did not provide for subsequent review and monitoring of financial transactions.

12. Thus, STC's procedures did not include appropriate checks and balances to ensure that issuer funds were not misappropriated by employees who had electronic access to the accounts or who had signatory authority over the accounts. As a result, STC's supervisory procedures relating to the safeguarding of funds were inadequately designed to prevent and detect employee abuse, such as Halter's misappropriations.

13. As a result of the conduct described above, STC violated Section 17A(d)(1) of the Exchange Act and Rule 17Ad-12(a)(2) thereunder, which prohibit a transfer agent from engaging in any activity that fails to assure that all funds held in its custody or possession, and related to its transfer agent activities, are protected.

14. Under Sections 17A(c)(3) and 17A(c)(4) of the Exchange Act, the Commission may sanction transfer agents or associated persons of transfer agents who have, among other things, failed reasonably to supervise, with a view to preventing violations of the securities laws, another person who commits such a violation, if such other person is subject to his supervision. Halter, Jr., as president and control person of STC, failed to ensure that STC adopted and implemented procedures, and a system for applying such procedures, that would reasonably be expected to detect and prevent violations of the federal securities laws, in this case misapplications or misappropriations of customer funds. As a result, Halter, Jr. and STC failed reasonably to supervise Halter.

Respondent's Remedial Efforts

15. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

Undertakings

STC undertakes to:

16. Retain within 30 days after entry of this Order, the services of an Independent Consultant, acceptable to the Commission's staff, and thereafter exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant. STC shall retain the Independent Consultant to conduct a comprehensive review of, and recommend corrective measures concerning, its policies and procedures relating to handling of client funds and securities. STC shall cooperate fully with the Independent Consultant and shall provide the Independent Consultant with access to STC's files, books, records and personnel as reasonably requested.

17. No more than 120 days after the date of the entry of this Order, submit to the staff of the Commission a written report that STC will obtain from the Independent Consultant regarding STC's policies and procedures. The report will include a description of the review performed, the conclusions reached, the Independent Consultant's recommendations for changes in or improvements to the policies and procedures, and a procedure for implementing any recommended changes.

18. Adopt all recommendations made by the Independent Consultant, provided, however, that within 150 days after the date of the entry of this Order, STC will in writing advise the Independent Consultant and the staff of the Commission of any recommendations it considers unnecessary or inappropriate. With respect to any recommendation that STC considers unnecessary or inappropriate, STC need not adopt that recommendation at that time, but instead propose in writing an alternative policy, procedure, or system designed to achieve the same objective or purpose. As to any recommendation with respect to STC's policies and procedures on which STC and the Independent Consultant do not agree, they will attempt in good faith to reach an agreement within 180 days of the date of entry of this Order. In the event STC and the Independent Consultant are unable to agree on an alternative proposal, STC will abide by the determinations of the Independent Consultant.

19. To ensure the independence of the Independent Consultant, STC: (i) shall not have authority to terminate the Independent Consultant, without the prior written approval of the Commission's staff; (ii) shall compensate the Independent Consultant, and persons engaged to assist the Independent Consultant, for services rendered pursuant to this Order at their reasonable and customary rates; (iii) shall not be in and shall not have an attorney-client relationship with the Independent Consultant, and shall not seek to invoke the attorney-client or any other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports, or documents to the Commission or the Commission's staff.

20. Require the Independent Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with STC, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performance of his/her duties under this Order shall not, without prior written consent of the staff of the Commission, enter into any employment, consultant, attorney-client, auditing or other professional relationship with STC, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

21. Halter, Jr. shall provide to the Commission, within 30 days after the end of the three month supervisory suspension period described below, an affidavit that he has complied fully with the sanctions described in Section IV below.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offer.

Accordingly, pursuant to Sections 17A and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent STC shall cease and desist from committing or causing any violations and any future violations of Section 17A(d)(1) of the Exchange Act and Rule 17Ad-12(a)(2) thereunder.

B. Respondent STC is censured.

C. Respondent Halter, Jr. shall cease and desist from committing or causing any violations and any future violations of Section 17A(d)(1) of the Exchange Act and Rule 17Ad-12(a)(2) thereunder.

D. Respondent Halter, Jr. be, and hereby is, suspended from association in a supervisory capacity with any transfer agent, broker, dealer, investment adviser, municipal securities dealer, municipal advisor, or nationally recognized statistical ratings organization for a period of three months, effective on the second Monday following the entry of this Order.

E. Respondent STC shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$10,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Alexandria, VA 22312-0003; and (D) submitted under cover letter that identifies STC as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and wire transfer, money order or check shall be sent to Stephen J. Korotash, Associate Director, Division of Enforcement, Securities and Exchange Commission, 801 Cherry Street, Suite 1900, Fort Worth, Texas 76102.

F. Respondent STC shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Barbara Gunn, Assistant Regional Director, Fort Worth Regional Office, 801 Cherry

Street, Suite 1900, Fort Worth, Texas, 76109, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

By the Commission.

Elizabeth M. Murphy
Secretary