

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF:)

ROYAL ALLIANCE ASSOCIATES, INC.)

(CRD 23131),)

MARK J. BARATI (CRD 2160553),)

MARCUS M. CARBAJAL (CRD 1935847),)

DIRK C. SALBERG (CRD 2470737))

CASE NO. 0800047

NOTICE OF HEARING

TO RESPONDENTS:

ROYAL ALLIANCE ASSOCIATES, INC.
ONE WORLD FINANCIAL CENTER
15TH FLOOR
NEW YORK, NEW YORK 10281

MARCUS M. CARBAJAL
1300 E. WOODFIELD RD.
SUITE 207
SCHAUMBERG, IL 60173

MARK BARATI
1161 KASTING LANE
MUNDELEIN, IL 60060

MARK BARATI
GRANITE GROUP INTERNATIONAL
981 HWY 98 EAST
SUITE 3253
DESTIN, FLORIDA 32541

MARCUS M. CARBAJAL
1622 RFD
LONG GROVE, IL 60047

DIRK SALBERG
1074 CRIMSON DR.
SAN MARCOS, CA 92069

You are hereby notified that, pursuant to Section 11.F of the Illinois Securities Law of 1953 (815 ILCS 5/1, *et seq*) (the "Act") and 14 Ill. Adm. Code 130, Subpart K (the "Rules"), a public hearing is scheduled to be held at 69 W. Washington Street, Suite 1220, Chicago, Illinois 60602, on the 10TH day of March, 2011, at 10:00 a.m., or as soon thereafter as counsel may be heard, before James Kopecky, Esq., or another duly designated Hearing Officer of the Secretary of State.

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Said hearing will be held to determine whether an Order shall be entered Finding Respondents **ROYAL ALLIANCE, MARCUS CARBAJAL, DIRK SALBERG and MARK BARATI** in violation of the Act and granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount of \$10,000.00 per violation pursuant to Section 11.F of the Act, for each and every violation, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

NATURE OF THE CASE

This matter involves Royal Alliance's failure to supervise two of its employees; representative Dirk Salberg and his supervisor and principal for Royal Alliance, Marcus Carbajal. Carbajal and Salberg conspired with Mark Barati to defraud two retired senior-citizen investors of approximately \$1,200,000.00. Royal Alliance, through its agents Salberg and Carbajal, provided Barati access to the investors' investment accounts held at Royal Alliance, allowing those accounts to be converted to margin, and then allowed over one million dollars to be transferred from the victims' accounts to an account under the control of Barati. Carbajal, Salberg and Barati have a business relationship; not only have they shared the same office space for years where they all worked for the same failed investment firm, but Carbajal's business, Omega Financial, has dealings with Barati's various investment schemes. Despite the glaring "red-flags" associated with this transaction and the activities of its agents, Royal Alliance failed to protect its investors

BACKGROUND INFORMATION

1. Investors, a retired couple from Wisconsin, are senior citizens that earned their retirement through decades of hard work, at times even working out of a car to build a successful business which they sold in 1998. However, the fruits of their labor have been taken and their retirement jeopardized by Royal Alliance and its representatives' gross misconduct, as described in detail below.
2. Respondent Royal Alliance Associates, Inc. ("ROYAL ALLIANCE"), CRD #23131, is a federally covered investment advisor operating out of One World Financial Center, 15th Floor, in New York, New York, and does investment advisory business in Illinois.
3. ROYAL ALLIANCE and its representatives have an extensive regulatory history.
4. Respondent Mark Jonathan Barati ("BARATI"), CRD #2160553, is an individual with a last known address of 1161 Kasting Lane in Mundelein, Illinois. From 1995 through 2003

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BARATI was a representative and the President of NSA Securities, a failed investment advisory firm started by BARATI's father and shut down in 2004. NSA securities, and BARATI, operated out of 1300 East Woodfield Road, Suite 520 in Schaumburg, Illinois. BARATI is also the brother-in-law to Respondent Dirk Salberg.

5. Respondent Dirk Salberg ("SALBERG"), CRD #2470737, is an individual with a last known address of 1074 Crimson Dr., in San Marcos, California. SALBERG was a ROYAL ALLIANCE registered representative from October of 2005 through November of 2008 operating out of the Branch Office at 1300 East Woodfield Road in Schaumburg, Illinois. Prior to his employment with ROYAL ALLIANCE, SALBERG was a representative for NSA Securities, as well as its Vice President, operating out of the same address as the ROYAL ALLIANCE branch office. SALBERG is also the brother-in-law of BARATI.
6. Respondent Marcus Carbajal ("CARBAJAL"), CRD #1935847, is an individual with the last known address of 1622 RFD in Long Grove, Illinois. CARBAJAL was a registered representative for ROYAL ALLIANCE from May of 2004 through May of 2010 operating from the BRANCH OFFICE at 1300 East Woodfield Road in Schaumburg, Illinois. CARBAJAL was the branch manager of the office as well as the supervisor of SALBERG. Prior to his employment with ROYAL ALLIANCE CARBAJAL was a representative for NSA Securities, and, with SALBERG and BARATI, CARBAJAL operated out of 1300 East Woodfield Road office.
7. The ROYAL ALLIANCE branch office located at 1300 Woodfield Road did business as OMEGA FINANCIAL GROUP, LTD., ("OMEGA") an Illinois business entity under the control of its founder and President, CARBAJAL.
8. CARBAJAL is currently a registered representative for American Beacon Partners, operating out of a branch office at 1300 East Woodfield Road, Suite 207, in Schaumburg, Illinois that does business as OMEGA.
9. CARBAJAL has had, and continues to have, extensive business dealings with BARATI through OMEGA.
10. In 1998, after Investors sold their business and retired, they opened an investment account at NSA Securities and invested through Michael Barati, the father of Respondent BARATI, for several years.
11. Soon before NSA securities was shut down, during the summer of 2004, Michael Barati informed Investors that he would arrange to have their NSA Securities account transferred to SALBERG, who had become a representative for ROYAL ALLIANCE and continued to operate from the same offices that NSA Securities had.

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12. Investors' new account forms for ROYAL ALLIANCE were signed by Investors in May of 2004 with SALBERG and CARBAJAL, who had also become a representative for ROYAL ALLIANCE, signing as the registered representative and supervisor, respectively.
13. In May of 2007 Respondent BARATI contacted Investors to solicit an investment opportunity, and on May 19, 2007, visited Investors at their home in Wisconsin.
14. BARATI solicited Investors to provide a short-term loan in the form of a note so that BARATI could close on a business deal.
15. BARATI told Investors that he was starting a vodka business, called Vodka One, and that he had an investor committed to the business but whose funds were temporarily tied up.
16. BARATI told Investors that the loan would be for four months, would pay 1% interest per month, and that the loan would be for \$1,200,000.00.
17. BARATI further informed Investors that he would personally guarantee the notes, asserting that he was worth over thirty-million dollars, and provided Investors what were purported to be financial documents of BARATI's various holdings and businesses to support his assertion.
18. Investors informed BARATI that they did not have that kind of money to invest.
19. However, BARATI, armed with information about Investors' brokerage accounts provided by Respondent ROYAL ALLIANCE through its representatives SALBERG or CARBAJAL, suggested that Investors amend their ROYAL ALLIANCE accounts from cash to margin accounts so they could purchase the investment note.
20. BARATI added that he would pay for the interest charges that would accrue in the margin accounts during the time of the investment.
21. BARATI, conveniently, had come with Investors' ROYAL ALLIANCE account forms to amend their ROYAL ALLIANCE brokerage accounts to margin. The forms BARATI brought with him had Investors' personal information on them.
22. BARATI, although not employed by ROYAL ALLIANCE, obtained Investors' account forms from ROYAL ALLIANCE through its representatives CARBAJAL and SALBERG.
23. BARATI also brought with him a Fund Wiring Authorization Form to wire Investors' money from the anticipated margin accounts to BARATI's own banking account.
24. BARATI, having obtained Investors' signatures on the ROYAL ALLIANCE account forms, the wire transfer authorization form, and two investment notes for \$600,000.00 each, left

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with those documents and returned to the offices at 1300 Woodfield Road that he shares with CARBAJAL and SALBERG.

25. SALBERG and CARBAJAL signed the margin account forms as the representative and supervisor, respectively, on May 21, 2007.
26. Furthermore, an agent of ROYAL ALLIANCE also initialed the margin account forms providing "compliance approval" on May 21, 2007.
27. Investors, despite being retired senior citizens and who had not met with SALBERG or CARBAJAL regarding this transaction, never received any communication from SALBERG, their advisor, nor from his supervisor, CARBAJAL, regarding the change to margin and the wire authorization form.
28. Investors did not receive a call from ROYAL ALLIANCE, or any of its compliance personnel, regarding the opening of the margin accounts and wire transfer authorization.
29. On May 22, 2007, after ROYAL ALLIANCE through SALBERG and CARBAJAL had converted Investors' Royal Alliance accounts to margin accounts, \$600,000.00 was wired from each of the two accounts, for a total of \$1,200,000.00, to BARATI's personal checking account held at Bank of America.
30. The \$1,200,000.00 total that was wired from Investors' accounts was all borrowed on margin against the holdings in Investors' retirement trust accounts.
31. Despite the wire of \$600,000.00 of borrowed money from each of Investors' accounts to a third-party, ROYAL ALLIANCE through its compliance personnel never contacted Investors regarding the transfer.
32. BARATI's account at Bank of America held a little over \$1,200.00 prior to RESPONDENTS wiring of Investors' \$1,200,000.00 into it.
33. Investors' money did not stay in the initial BARATI account long; the money being transferred several times among BARATI's numerous bank accounts, for instance:
 - a. On May 23, 2007, \$950,000.00 was transferred to two other accounts held by BARATI, \$700,000.00 to an account in the name of Decadent Futures where the money was then sent to four other BARATI accounts, including a wire transfer of \$425,000.00 to a checking account controlled by BARATI for his company Yes Vodka wherein BARATI wrote a check for cash in the amount of \$335,650.84;
 - b. On May 23, 2007, BARATI transferred \$210,000.00 of Investors money to an account he controlled under the name of AM Lane, a checking account that was

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insufficient to cover over \$120,000.00 in checks drawn the day before that BARATI was depositing into a bank account held at Mutual Bank.

- c. On May 31, 2007, some of what was left of Investors' money in the account that BARATI had initially deposited the \$1,200,000.00 into was used by BARATI to pay personal bills, including over \$10,000.00 paid to a luxury boat dealer in Lake Geneva, Wisconsin; and on June 1, 2007, over \$14,000.00 was paid to Kemper Lakes Golf Course in Kildeer, Illinois.
34. In late June of 2007 BARATI did spend what he had left of Investors' money to pay the first margin bill on their accounts, approximately \$22,000.00, but thereafter BARATI did not pay any of the margin interest.
35. Furthermore, BARATI never paid Investors their principal or 1% interest on the notes when they matured leaving Investors with over \$1,200,000.00 in losses.
36. BARATI has since left Illinois and is currently operating out of Florida with his company Granite Group International that, purportedly, raises money for businesses and manages projects for businesses.
37. Omega Financial Group, controlled by CARBAJAL, had an interest in BARATI's various business ventures, and even after Investors were defrauded, continued to have a business relationship with BARATI, having provided at least \$10,000.00 of capital as evidenced by a deposit into BARATI's Decadent Ventures account in April of 2008.
38. Investors, financially devastated due to RESPONDENTS' actions, and in particular, ROYAL ALLIANCE's inaction, have had to sell off much of their assets to pay for the margin interest and money owed on their accounts.

APPLICABLE LAW

39. The promissory notes sold to Investors constitute the "Offer" and "Sale" "Securities" as defined by Sections 2.5(a), 2.5 and 2.1 of the Illinois Securities Law of 1953 (the "Act").
40. Section 12.A of the Act provides it shall be a violation of the provisions of this Act for any person to offer or sell any security except in accordance with the provisions of this Act.
41. Section 12.F of the Act provides that it shall be a violation of the Act for any person to engage in any transaction, practice or course of business in conjunction with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.
42. Section 12.G of the Act provides that it shall be a violation of the Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a

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material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

43. Section 12.I of the Act provides that it shall be a violation of the provisions of the Act for any person to employ any device, scheme or artifice to defraud in connection with the sale or purchase of any security, directly or indirectly.
44. Section 8 E.(1)(b) provides that a registered investment advisor or investment advisor representative may, subject to the provisions of subsection F. of Section 11 of the Act may have their registration denied, suspended or revoked if the Secretary of State finds that the investment advisor has engaged in any unethical practice in connection with any security, the offer or sale of securities, or in any fraudulent business practice.
45. Section 8 E.(1)(f) provides that an investment advisor's registration is subject to denial, suspension or revocation if the Secretary of State finds that the investment advisor has failed reasonably to supervise the advisory activities of any of its investment advisors or employees and the failure has permitted or facilitated a violation of Section 12 of the Act.
46. Section 11 E.(2) of the Act provides that if the Secretary of State finds that any person has violated subsection C,D,E,F,G,H,I,J or K of the Act, the Secretary of State may by written order permanently prohibit or suspend the person from offering or selling any securities in the State of Illinois.

VIOLATIONS

SECURITIES FRAUD

47. BARATI's assurance that the two investment notes sold to Investors would be personally guaranteed by him, bolstered by his assertion that he was worth over thirty million dollars, was a lie.
48. In fact, based upon a review of his various personal and corporate bank accounts, at the time of the sale of the investment notes, BARATI appeared to be worth, at most, nothing.
49. Furthermore, Investors' money was used to pay for BARATI's golfing and boating bills, as well as other non-investment related uses
50. BARATI's misstatements constitute violations of 12.F, 12.G. and 12.I of the Act.

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UNSUITABLE SALE OF INVESTMENT NOTES

51. The Investment Notes sold to Investors, even had they been actual investments, would not be suitable based upon Investors age and investment objectives, and constitute a fraudulent business practice as defined under Section 8 E. (1)(b) of the Act

UNSUITABLE SALE OF SECURITIES ON MARGIN

52. Investors, retired senior citizens, rely upon their savings and money to enjoy their retirement after having worked many years to build their financial security net.
53. The use of margin to purchase the investment notes, or any investment for that matter, was unsuitable considering Investors age and investment needs and constitutes a fraudulent business practice as defined under Section 8 E. (1)(b) of the Act.

UNETHICAL CONDUCT

54. Respondents ROYAL ALLIANCE, BARATI and SALBERG, for providing BARATI Investors' personal information and account opening forms to change their Royal Alliance accounts to margin, constitutes unethical conduct as Defined under Section 8. E. (1)(b) of the Act.

FAILURE TO SUPERVISE

55. CARBAJAL, a principal for ROYAL ALLIANCE and acting as their agent, had failed to enforce ROYAL ALLIANCE's written procedures by affirming the changing on Investors' account to margin accounts for the purchase of the notes, which were not an authorized investment by Royal Alliance and therefore, his registrations in Illinois are subject to revocation pursuant to Section 8 E. (1)(f) of the Act.
56. Furthermore, ROYAL ALLIANCE failed to reasonably supervise the activities of its employees, CARBAJAL and SALBERG, and this failure permitted the fraudulent conduct described above, subjecting ROYAL ALLIANCE's registrations in Illinois to revocation pursuant to Section 8 E. (1)(f) of the Act.

PRAYER FOR RELIEF:

The Illinois Securities Department requests that the Hearing Officer, after an administrative hearing on the merits, make a recommendation that:

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- 1 Respondent BARATI violated Section 12.F, G and I of the Act and that the sale of the Notes to the Investors was unsuitable and constituted a fraudulent business practice under Section 8 E. (1)(b) of the Act.
2. Respondent BARATI be permanently prohibited from offering or selling securities in Illinois pursuant to Section 11. E. (2) of the Act.
3. Respondents CARBAJAL and SALBERG committed a fraudulent business practice by affirming the unsuitable sale on margin of the Notes to Investors under Section 8 E. (1)(b) of the Act.
- 4 Respondents ROYAL ALLIANCE, CARBAJAL and SALBERG acted unethically under Section 8. E. (1)(b) of the Act for providing BARATI with Investors' personal information and account information.
5. Respondents ROYAL ALLIANCE and CARBAJAL have their registrations in Illinois revoked pursuant to Section 8.E.(1)(b) of the Act, or, in the alternative, as to ROYAL ALLIANCE, has its registration suspended for a period not less than twelve months with the exception of maintaining existing accounts.
6. Respondent CARBAJAL failed to enforce Royal Alliances written procedures as it pertains to his affirmation of the margin accounts and, therefore, his registrations in Illinois are subject to revocation pursuant to Section 8 E. (1)(f) of the Act.
7. Respondent ROYAL ALLIANCE failed to supervise the activities of its representatives and employees, CARBAJAL and SALBERG, which permitted the Section 12 violations described above, and therefore, their registrations in Illinois are subject to revocation pursuant to Section 8 E. (1)(f) of the Act.
8. Respondents ROYAL ALLIANCE and CARBAJAL's registrations in Illinois be revoked pursuant to Section 8 E (1)(f) of the Act, or, in the alternative, as to ROYAL ALLIANCE, has its registration suspended for a period of not less than twelve months with the exception of maintaining existing accounts.
9. Respondents ROYAL ALLIANCE, CARBAJAL, SALBERG and BARATI be fined \$10,000.00 per violation of the ACT, and be liable for the costs of this investigation and administrative hearing pursuant to Section 11.F of the Act.


You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of hearing.

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Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

DATED: This 18th day of January, 2011.



JESSE WHITE
Secretary of State
State of Illinois

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