

**ADMINISTRATIVE PROCEEDING  
BEFORE THE  
SECURITIES COMMISSIONER OF SOUTH CAROLINA**

<b>IN THE MATTER OF:</b>	)	
	)	<b>ORDER TO CEASE AND DESIST</b>
<b>Rhett Kendrick and</b>	)	
<b>Legacy System Services,</b>	)	
	)	
<b>Respondents.</b>	)	<b>File Number 13067</b>
_____	)	

**WHEREAS**, the Securities Division of the Office of the Attorney General of the State of South Carolina (the "Division"), has been authorized and directed by the Securities Commissioner of South Carolina (the "Securities Commissioner") to administer the provisions of S.C. Code Ann. § 35-1-101, et seq., the South Carolina Uniform Securities Act 2005 (the "Act"); and

**WHEREAS**, the Division received information regarding alleged activities of Rhett Kendrick ("Kendrick") and Legacy System Services ("LSS", or collectively "Respondents") which, if true, would constitute violations of the Act; and

**WHEREAS**, the information led the Division to open and conduct an investigation of Respondents pursuant to S.C. Code Ann. § 35-1-602; and

**WHEREAS**, the Division alleges the following:

**I. Jurisdiction**

1. The Commissioner has jurisdiction over this matter pursuant to S.C. Code Ann. § 35-1-601(a).

**II. Respondent**

2. Kendrick is a resident of South Carolina, residing at 106 Concord Avenue, Apartment 16A3, Anderson, South Carolina, 29621.

### **III. Findings of Fact**

3. Kendrick is the founder and owner of Legacy System Services, Incorporated.
4. LSS has an online address of [www.legacysystemsolutions.wordpress.com](http://www.legacysystemsolutions.wordpress.com).
5. LSS and Kendrick claim LSS is a multi-level marketing system. LSS' stated goal is to market a product that is so inexpensive that they think everyone will want to participate. LSS claims to offer high level rewards for participants for marketing efforts and business growth for personal and team efforts. LSS claims participants can become a member and then recruit additional members to increase the first member's income level. Respondents represent participants also have the option to not recruit additional members and still receive a financial return.
6. By offering participants the ability to make money based on others that they recruit, the LSS offering exhibits many characteristics of a pyramid scheme.
7. Profit is not dependent on a member's efforts, however; Respondents indicate members can profit regardless of whether or not they recruit other members, or otherwise perform any tasks on behalf of LSS.
8. The definition of a security in § 35-1-102(29)(D) includes "an investment in a common enterprise with the expectation of profits to be derived primarily from the efforts of a person other than the investor, and a "common enterprise" means an enterprise in which the fortunes of the investor are interwoven with those of either the person offering the investment, a third party, or other investors." The definition of a "security" includes a "certificate of interest or participation in a profit-sharing agreement," and an "investment contract."
9. Written and oral information submitted by Kendrick, as well as written information posted on LSS' online site indicates that members (investors) can profit based on the efforts of a

person other than themselves, and since the fortunes of the investor are interwoven with those offering the investment, a third party, or other investors, the offering fits the definition of an investment in “a common enterprise,” and is therefore a security under § 35-1-102(29)(D) of the Act.

10. Written and oral information submitted by Kendrick, as well as written information posted on LSS’ online site indicates that the offering also involves a “certificate of interest or participation in a profit-sharing agreement,” since the members are incentivized and earn more money for the more members that they recruit, and this too fits the definition of a “security” under § 35-1-102(29) of the Act.

11. Written and oral information submitted by Kendrick, as well as written information posted on LSS’ online site indicates that this offering also is an “investment contract,” since members (investors) can remain passive after purchasing the product being offered and still expect a profit, to come from the efforts of others in the common enterprise and this too fits the definition of a “security” under § 35-1-102(29) of the Act.

12. Respondents’ offer of a security, in terms of the opportunity to enter into a profit-sharing arrangement, investment contract, and an investment in a common enterprise, was not (i) a federal covered security, (ii) exempt from registration, or (iii) registered with the Division.

13. Respondents offered the securities described above in and from the State of South Carolina during the year 2013.

14. Respondent Kendrick acted as an “agent” for Respondent LSS when Kendrick offered the LSS security for sale in and from the State of South Carolina in 2013.

15. Respondent Kendrick is not and during the relevant time period was not registered with the Division as an agent authorized to offer or sell securities in or from this State.

#### **IV. Conclusions of Law**

16. The South Carolina Uniform Securities Act of 2005, S.C. Code Ann. § 35-1-101, et seq., governs the offer and sale of securities in the State of South Carolina.
17. Pursuant to S.C. Code Ann. § 35-1-102(29), a certificate of interest or participation in a profit-sharing agreement is a security.
18. Pursuant to S.C. Code Ann. § 35-1-102(29), an investment contract is also a security.
19. Pursuant to S.C. Code Ann. § 35-1-102(29)(D), an investment in a common enterprise with the expectation of profits to be derived primarily from the efforts of a person other than the investor is also a security.
20. Respondents' offer to be a member of or participate in the above described opportunity constitutes (1) an offer to participate in a profit-sharing agreement, (2) an investment contract, and (3) an investment in a common enterprise, and is therefore a security as defined by the Act.
21. Pursuant to S.C. Code Ann. § 35-1-301, it is unlawful for a person to offer or sell a security in or from South Carolina unless that security is a federal covered security, exempt from registration, or registered with the Division.
22. As noted above, the security offered by Respondents was not (i) a federal covered security, (ii) exempt from registration, or (iii) registered with the Division; and it was offered for sale in and from South Carolina. Such offers and sales violated the Act.
23. Pursuant to S.C. Code Ann. § 35-1-402, it is unlawful for a person to engage in the sale of securities in South Carolina as an agent unless that person is registered with the Division or exempt from registration.

24. As noted above, Respondent Kendrick offered and sold securities in and from South Carolina while not being registered with the Division as an agent or issuer. Respondent Kendrick, therefore violated the Act.

#### **V. Order**

**WHEREAS**, pursuant to S.C. Code Ann. § 35-1-604(a)(1), if the Securities Commissioner determines that a person has engaged, is engaging, or is about to engage in an act, practice, or course of business constituting a violation of the Act or rule adopted or order issued under the Act, the Securities Commissioner may issue an order directing that person to cease and desist from engaging in the act, practice, or course of business or to take other action necessary or appropriate to comply with the Act; and

**WHEREAS**, pursuant to S.C. Code Ann. § 35-1-604(b), an order issued under Section § 35-1-604(a) is effective on the date of issuance and must include a statement of any civil penalty or costs of investigation sought, a statement of the reasons for the order, and notice that a hearing will be scheduled within fifteen days if one is requested; and

**WHEREAS**, based on the foregoing facts, it is in the public interest, for the protection of investors, and consistent with the purposes of the Act that Respondents be ordered to cease and desist from engaging in the above enumerated practices which constitute violations of the Act;

**NOW THEREFORE**, pursuant to S.C. Code Ann. § 35-1-604(a)(1), it is hereby **ORDERED** that:

- a. Each Respondent and every successor, affiliate, control person, agent, servant, and employee of any Respondent, and every entity owned, operated, or indirectly or directly controlled by or on behalf of any Respondent **CEASE AND DESIST** from

transacting business in this State in violation of the Act, and in particular, S.C. Code Ann. §§ 35-1-301 and 35-1-402 thereof; and

- b. Each Respondent pay a civil penalty in the amount of ten thousand dollars (\$10,000.00), for a total fine of twenty thousand dollars (\$20,000.00), if this Order becomes effective by operation of law, or, if either Respondent seeks a hearing and a legal authority resolves this matter, pay a civil penalty in an amount not to exceed ten thousand dollars (\$10,000.00) for each violation of the Act by that Respondent, and the actual cost of the investigation or proceeding.

**IT IS FURTHER ORDERED** that, pursuant to S.C. Code Ann. § 35-1-604(a)(2) and (3), any exemption from registration with the Division that any Respondent may claim to rely upon under S.C. Code Ann. § 35-1-201(3)(C), (7), or (8); § 35-1-202; § 35-1-401(b)(1)(D) or (F); or § 35-1-403(b)(1)(C), has been and is **PERMANENTLY REVOKED**.

THIS ORDER DOES NOT PREVENT THE DIVISION OR ANY OTHER LAW ENFORCEMENT AGENCY FROM SEEKING SUCH OTHER CIVIL OR CRIMINAL REMEDIES THAT ARE AVAILABLE UNDER THE ACT, INCLUDING REMEDIES RELATED TO OFFERS OR SALES OF SECURITIES BY THE RESPONDENTS WHICH ARE NOT SET FORTH ABOVE.

**ENTERED** at Columbia, South Carolina, this 27<sup>th</sup> day of November, 2013.

ALAN WILSON  
SECURITIES COMMISSIONER

By: Emily S. Cheatham  
Emily S. Cheatham  
Assistant Attorney General  
Post Office Box 11549  
Columbia, South Carolina 29211

**REQUIREMENT OF ANSWER AND NOTICE OF OPPORTUNITY FOR HEARING**

Respondents are hereby notified that each has the right to a hearing on the matters contained herein. To schedule such a hearing, a Respondent must file with the Securities Division, Post Office Box 11549, Rembert C. Dennis Building, Columbia, South Carolina 29211-1549, attention: Thresechia Navarro, within thirty (30) days of the date of service of this Order a written Answer specifically requesting that a hearing be held to consider rescinding the Order. If requested by a Respondent, a hearing shall be scheduled within fifteen (15) days.

In his written Answer, a Respondent, in addition to requesting a hearing, shall admit or deny each factual allegation of the Order, shall set forth concisely the matters of law, specific facts, and affirmative defenses, if any, upon which the Respondent relies. If a Respondent is without knowledge or information sufficient to form a belief as to the truth of an allegation, he shall so state.

STATE OF SOUTH CAROLINA  
OFFICE OF THE ATTORNEY GENERAL  
SECURITIES DIVISION

CERTIFICATE OF SERVICE AND  
AFFIDAVIT OF COMPLIANCE  
File Number 13067

I hereby certify that I served upon the individual/entity listed below a copy of the document indicated below and dated November 26, 2013, by serving a copy of said document upon the Securities Commissioner of the State of South Carolina and by placing a copy of said document in the United States mail, certified mail, return receipt requested, first class postage prepaid and addressed to:

Rhett Kendrick  
Individually & as Owner of  
Legacy System Services  
106 Concord Ave., Apt. 16A3  
Anderson, SC 29621

Document(s): Order to Cease and Desist

Mailed November 26, 2013 from Columbia, South Carolina.

I further hereby certify, swear and affirm that, service of the above-listed entity is in compliance with Section 35-1-611, Code of Laws of South Carolina.

By:   
Thresechia P. Navarro  
South Carolina Attorney General's Office  
Securities Division  
Post Office Box 11549  
Columbia, SC 29211-1549  
(803) 734-4731

Subscribed and sworn to before me on  
this 27<sup>th</sup> day of November, 2013.

  
\_\_\_\_\_  
Notary Public for South Carolina

My commission expires: 5/8/2020