

ADMINISTRATIVE PROCEEDING
BEFORE THE
SECURITIES COMMISSIONER OF SOUTH CAROLINA

IN THE MATTER OF:)
Lucy Duncan-Schemen) **ORDER TO CEASE & DESIST**
a/k/a Lucy Duncan)
and)
Carolina Linkages, Inc.)
d/b/a Carolinks,)
)
Respondents.)
)

File No. 06007

WHEREAS, the Securities Division of the Office of the Attorney General of the State of South Carolina (the "Division"), pursuant to authority granted in the South Carolina Uniform Securities Act of 2005 (the "Act"), S.C. Code Ann. § 35-1-101 to 35-1-703 (Supp. 2005), on or about April 20, 2006, received information regarding alleged activities of Lucy Duncan-Schemen ("Duncan-Schemen") and Carolina Linkages, Inc., d/b/a Carolinks ("Carolinks") which would constitute violations of the Act;

WHEREAS, the Act became effective on January 1, 2006;

WHEREAS, the Uniform Securities Act (the "Prior Act"), S.C. Code Ann. § 35-1-10 to 35-1-1590 (Supp. 2004), governs all actions and proceedings initiated based on conduct occurring before January 1, 2006;

WHEREAS, the information led the Division to open and conduct an investigation of Duncan-Scheman and Carolinks (collectively, the "Respondents") pursuant to S.C. Code Ann. § 35-1-602, and this investigation is ongoing;

NOW THEREFORE, in connection with the investigation, the Division determined that the Respondents have engaged and may be about to engage in acts or practices constituting

violations of the Act and Prior Act and hereby includes in this Order to Cease and Desist, a statement of the reasons for the Order, a statement of the civil penalty and costs of the investigation sought, and a notice that a hearing will be scheduled if either Respondent requests a hearing.

FACTUAL HISTORY

1. Respondent Duncan-Schemen is a South Carolina resident with a last known address of 85 Tradd Street, Charleston, South Carolina.
2. During the time period of the transactions listed herein, Respondent Duncan-Schemen represented to investors and the public that she was the President and CEO of Carolinks.
3. During the time period relevant herein, Carolinks either was or was represented to be a South Carolina corporation.
4. During the time period relevant herein, Carolinks primary business address was 3 Broad Street, Suite 450, Charleston, South Carolina.
5. On or about August 1, 2005, pursuant to a solicitation by Duncan-Schemen, acting on behalf of herself and Respondent Carolinks, HM invested \$100,000 in Carolinks.
6. On or about August 4, 2005, the check representing HM's investment was deposited in a Diplomatic Resolutions, Inc. d/b/a Safe Ports account at Bank of America ending with 5494 (the "DR/SP account").
7. Thereafter, a portion of HM's investment was used by Duncan-Schemen in a manner other than the manner represented to HM prior to or at the time of investment.
8. On or about August 12, 2005, papers were filed with the South Carolina Secretary of State to create Carolina Linkages, LLC.

9. On or about September 2, 2005, a bank account was opened in the name of "Carolina Linkages, LLC" at Carolina First Bank (the "Carolinks CFB account").
10. On or about September 9, 2005, pursuant to a solicitation by Duncan-Schemen, MG invested \$500,000 in Carolinks. MG's money was wired into the DR/SP account.
11. On or about September 12, 2005, \$100,000 was wired from the DR/SP account to HM to refund HM's investment.
12. All or a majority of the money used to refund HM's investment came from MG's \$500,000 investment in Carolinks.
13. On or about September 8, 2005, \$155,000 was transferred from the personal account of L. Ronald Scheman ("Ronald Scheman") at Bank of America ending with 3934, to a Bank of America account ending with 1497 in the name of "Diplomatic Resolutions".
14. On or about September 12, 2005, \$155,000 was transferred from the DR/SP account to Ronald Schemen's account at Bank of America ending in 3934.
15. Ronald Scheman is the husband of Respondent Duncan-Scheman.
16. The \$155,000 that was transferred to Ronald Scheman's personal account at Bank of America was from MG's \$500,000.00 investment in Carolinks.
17. On or about September 23, 2005, \$20,000 was transferred from the DR/SP account to a Bank of America account ending in 1497 titled in the name of "Diplomatic Resolutions".
18. Prior to receipt of the transfer described in paragraph 17, the Diplomatic Resolutions account ending in 1497 had a negative balance.
19. All or a majority of the money that was transferred to the Diplomatic Resolutions account ending in 1497 came from MG's \$500,000.00 investment in Carolinks.
20. On or about October 4, 2005, pursuant to a solicitation by Duncan-Scheman, investor GRK wired \$200,000 to the Carolinks CFB account.

21. On or about October 14, 2005, \$115,000 was transferred from the Carolinks CFB account to the DR/SP account.
22. A portion of the money wired to the Carolinks account by investor GRK was used by Duncan-Scheman for her own benefit.
23. On or about October 16, 2005, Duncan-Schemen opened an account at Bank of America for Carolinks (the "Carolinks BOA account").
24. On or about October 17, 2005, Carolina Linkages, Inc. was formed in the State of Delaware.
25. On or about October 24, 2005, pursuant to a solicitation by Duncan-Scheman, JO wired a \$200,000 investment to the Carolinks BOA account.
26. A portion of JO's investment was used to cover overdrafts in Carolinks BOA account.
27. On or about October 25, 2005, Carolina Linkages, Inc. filed paperwork with the South Carolina Secretary of State's office to register in this state as a foreign corporation.
28. On or about October 25, 2005 Carolina Linkages, LLC was merged into Carolina Linkages, Inc., a Delaware corporation known in South Carolina as "Carolinks."
29. On or about October 27, 2005, a \$25,000 check payable to Respondent Duncan-Schemen written from the Carolinks BOA account was deposited in the DR/SP account.
30. The money transferred from the Carolinks BOA account referred to in paragraph 29 was in the account as a result of JO's investment in Carolinks. All or a portion of this money was used by Duncan-Scheman for her own benefit.
31. On or about January 9, 2006, pursuant to a solicitation by Duncan-Scheman, PZ invested \$200,000 in Carolinks.
32. The money representing PZ's investment was deposited in the Carolinks BOA account.

33. On or about January 12, 2006, \$27,135 was transferred from the Carolinks BOA account to the DR/SP account.
34. Prior to receipt of the transfer described in paragraph 33, the DR/SP account had a negative balance.
35. All or a majority of the money transferred to the DR/SP account on or about January 12, 2006, came from PZ's investment in Carolinks.
36. On or about January 23, 2006, \$48,260 was transferred from Carolinks BOA account to the DR/SP account.
37. Prior to receipt of the transfer described in paragraph 36, the DR/SP account had a negative balance.
38. All or a majority of the money transferred to the DR/SP account on or about January 23, 2006, came from PZ's investment in Carolinks.
39. On or about January 27, 2006, pursuant to a solicitation by Duncan-Schemen, JG invested \$200,000 in Carolinks. The money representing JG's investment was deposited in Carolinks BOA account.
40. A portion of the money constituting PZ and JG's investment was used by Duncan-Schemen for her own benefit.
41. On or about January 31, 2006, \$26,000 was transferred from Carolinks BOA account to the DR/SP Account.
42. All or a majority of the money transferred from the DR/SP account on or about January 31, 2006, came from PZ and/or JG's investment in Carolinks.
43. A portion of the money transferred on or about January 31, 2006 was thereafter used by Duncan-Schemen for her own benefit.

44. On or about March 10, 2006, pursuant to a solicitation by Duncan-Scheman, SW invested \$100,000 in Carolinks.
45. The money representing SW's investment was deposited in Carolinks BOA account.
46. On or about March 10, 2006, pursuant to a solicitation by Duncan-Scheman, VM and AM each invested \$25,000 in Carolinks. The money representing VM and AM's investments was deposited in Carolinks BOA account.
47. On or about April 25, 2006, pursuant to a solicitation by Duncan-Schemen, AS invested \$200,000 in Carolinks. The money representing AS's investment was wired into Carolinks BOA account.
48. A portion of AS's investment was used to cover overdrafts in Carolinks BOA account.
49. On or about April 25, 2006, pursuant to a solicitation by Duncan-Schemen, KM invested \$100,000 in Carolinks. The money representing KM's investment was wired into Carolinks BOA account.
50. On or about April 26, 2006, Carolinks refunded SW's \$100,000 investment.
51. The money used to refund SW's investment was new investor money Respondents had recently received from investors AS and KM.
52. On or about May 1, 2006, \$10,000 was transferred from the Carolinks BOA account to the DR/SP account.
53. A portion of the money transferred in the transaction described in paragraph 52 was used by Duncan-Scheman for her own benefit.
54. On or about May 5, 2006, \$50,000 was transferred from the Carolinks BOA account to the individual retirement account ("IRA") of Ronald Scheman.
55. The transfer referred to in paragraph 54 resulted in a negative balance in the Carolinks BOA account.

56. On or about May 15, 2006, pursuant to a solicitation by Duncan-Schemen, the ML family invested a total of \$80,000 in Carolinks through three (3) separate transactions. The monies representing the ML family's investment in Carolinks were deposited into Carolinks BOA account.
57. The ML family's investment covered the overdraft caused in the Carolinks BOA account as a result of the transfer to Ronald Schemen described in paragraph 54.
58. On or about May 16, 2006, pursuant to a solicitation by Duncan-Schemen, LC invested \$50,000 in Carolinks. The money representing LC's investment was wired into Carolinks BOA account.
59. A portion of LC's investment was used to cover overdrafts in Carolinks BOA account.
60. On or about May 17, 2006, pursuant to a solicitation by Duncan-Schemen, SG invested \$100,000 in Carolinks. The money representing SG's investment was wired into Carolinks BOA account.
61. A portion of SG's investment was used to cover overdrafts in Carolinks BOA account.
62. On or about May 19, 2006, pursuant to a solicitation by Duncan-Schemen, MLM invested \$200,000 in Carolinks. The money representing MLM's investment was wired into Carolinks BOA account.
63. A portion of the money invested by SG and/or MLM was used by Duncan-Schemen for her own benefit.
64. On or about May 23, 2007, \$15,000 was transferred from the Carolinks BOA account to the DR/SP account.
65. All or a majority of the money transferred from Carolinks BOA account to the DR/SP account on or about May 23, 2007, came from SG and/or MLM's investment.

66. A portion of the money described in paragraph 64 was used by Duncan-Schemen for her own benefit.
67. On or about May 24, 2007, a check for \$25,000 was written from the Carolinks BOA account to Ronald Schemen.
68. All or a majority of the money used to fund the check to Ronald Schemen described in paragraph 67 came from SG and/or MLM's investment.
69. On or about May 24, 2006, checks in the amount of \$25,000 each were issued from the Carolinks BOA account to investors VM and AM to refund VM and AM's earlier investments in Carolinks.
70. All of the funds in the Carolinks BOA account prior to the refund to investors VM and AM were investor funds from MLM and/or SG.
71. On or about May 25, 2006, DM invested \$200,000 in Carolinks. This money was wired into Carolinks BOA account.
72. A portion of DM's investment was used to cover overdrafts in Carolinks BOA account.
73. On or about May 25, 2006, SC invested \$100,000 in Carolinks. This money was wired into Carolinks BOA account.
74. On or about May 26, 2006, ML invested \$20,000 in Carolinks. This money was wired into Carolinks BOA account.
75. On or about May 30, 2006, AS invested \$100,000 in Carolinks. This money was wired into Carolinks BOA account.
76. On or about June 2, 2006, MLeM invested \$100,000 in Carolinks. This money was deposited in Carolinks BOA account.
77. On or about June 6, 2006, GKJ invested \$750,000 in Carolinks. This money was wired into Carolinks BOA account.

78. On or about June 6, 2006, GRK invested \$250,000 in Carolinks. This money was wired into Carolinks BOA account.
79. On or about June 7, 2006, \$7,500 was transferred from Carolinks BOA account to the DR/SP account.
80. The transferred funds were in the Carolinks BOA account as a result of investor deposits.
81. A portion of the money described in paragraph 79 was used by Duncan-Scheman for her own benefit.
82. On or about July 19, 2006, DP invested \$100,000 in Carolinks. This money was deposited in Carolinks BOA account.
83. A portion of DP's investment was used to cover overdrafts in Carolinks BOA account.
84. On or about July 31, 2006, JWH invested \$500,000 in Carolinks. This money was wired to the Carolinks BOA account.
85. A portion of JWH's investment was used to cover overdrafts in Carolinks BOA account.
86. On or about August 1, 2006, \$25,000 was transferred from the Carolinks BOA account to the DR/SP account.
87. All or a portion of the money described in paragraph 86 was in the Carolinks BOA account as a result of JWH's investment in Carolinks.
88. All or a portion of the money described in paragraph 86 was used by Duncan-Scheman for her own benefit.
89. On or about August 4, 2006, DP invested \$100,000 in Carolinks. This money was credited to Carolinks BOA account.
90. On or about August 17, 2006, \$33,691.55 was transferred from this Carolinks BOA account to the DR/SP account.

91. All or a portion of the money described in paragraph 90 resulted from deposits of investor funds.
92. A portion of the money described in paragraph 90 was used to cover overdrafts in the DR/SP account.
93. A portion of the money described in paragraph 90 was used by Duncan-Scheman for her own benefit.
94. On or about September 6, 2006, MM invested \$100,000 in Carolinks. This money was deposited in Carolinks BOA account.
95. A portion of MM's investment was used to cover overdrafts in Carolinks BOA account.
96. A portion of investor MM's deposit was used by Duncan-Scheman for her own benefit.
97. On or about September 11, 2006, \$10,000 was transferred from the Carolinks BOA account to the DR/SP account.
98. Funds from MM's investment were used to fund the transfer described in paragraph 97.
99. A portion of the money described in paragraph 97 was used by Duncan-Schemen for her own benefit.
100. On or about December 21, 2006, LCC invested \$100,000 in Carolinks. This money was wired to Carolinks BOA account.
101. A portion of the money described in paragraph 100 was used to cover overdrafts in the Carolinks BOA account.
102. On or about January February 13, 2007, WAH invested \$300,000 in Carolinks. This money was wired to Carolinks BOA account.
103. All or a portion of WAH's investment was used to cover overdrafts in the Carolinks BOA account.

104. During the relevant time period herein neither Respondent has been registered to offer or sell securities in or from this State.
105. In early Spring 2007, Division Staff contacted Respondent Duncan-Schemen and arranged to have her give a statement under oath concerning her and Carolinks' securities offerings.
106. On or about May 1, 2007, Respondent Duncan-Schemen met with Division Staff and testified under oath concerning her and Carolinks' securities offerings.
107. During her statement on or about May 1, 2007, Respondent Duncan-Schemen indicated that Safe Ports and Diplomatic Resolutions were no longer operating entities.
108. The Division confirmed Duncan-Schemen's statement in paragraph 107 through an analysis of the DR/SP account, which showed the account was used primarily or exclusively for Duncan-Schemen's personal and household expenses.
109. During her statement on or about May 1, 2007, Respondent Duncan-Schemen admitted neither she nor Carolinks was registered during the period she and Carolinks offered securities in and from the State of South Carolina.
110. During her statement on or about May 1, 2007, Respondent Duncan-Schemen did not claim an exemption or exception from registration pursuant to the Act or Prior Act for herself or Carolinks.
111. During her statement on or about May 1, 2007, Respondent Duncan-Schemen agreed not to offer or sell any securities in or from the State of South Carolina for at least the next five (5) years.
112. Upon information and belief Respondent Duncan-Schemen has offered and/or sold securities in or from the State of South Carolina after the date of her statement referenced above and in violation of her agreement on the record on May 1, 2007.

APPLICABLE LAW

113. Pursuant to Section 35-1-703 of the Act, the Act took effect on January 1, 2006.
114. Pursuant to Section 35-1-701(a) of the Act, the Prior Act governs actions or proceedings that are initiated based on conduct occurring before January 1, 2006, while the Act governs actions or proceedings that are initiated based on conduct occurring on or after January 1, 2006.
115. Pursuant to Section 35-1-20(15) of the Prior Act, the investment opportunity Respondent Duncan-Schemen and Carolinks offered in and from South Carolina during the period on or about August 1, 2005 to December 31, 2005 constitutes a "security".
116. Pursuant to Section 35-1-102(29) of the Act, the investment opportunities Respondent Duncan-Schemen and Carolinks have offered in and from South Carolina since January 1, 2006 constitute securities.
117. Pursuant to Section 35-1-410 of the Prior Act, it is unlawful for any person to transact business in this State as a broker-dealer or agent unless he is registered under the Prior Act or exempt from licensing under the Prior Act.
118. Pursuant to Section 35-1-810 of the Prior Act, it is unlawful for any person to offer or sell any security in this State unless (a) it is registered under the Prior Act, (b) the security or transaction is exempted under section 35-1-310 or 35-1-320, or (c) it is a federal covered security.
119. Pursuant to Section 35-1-340 of the Prior Act, in any proceeding under the Prior Act, the burden of proving an exemption or an exception from a definition is upon the person claiming it.

120. Pursuant to Section 35-1-1210 of the Prior Act, it is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly, to:

- a. Employ any device, scheme, or artifice to defraud;
- b. Make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading; or
- c. Engage in any act, practice, or course of business, which operates or would operate as a fraud or deceit upon any person.

121. Pursuant to Section 35-1-402(a) of the Act, it is unlawful for an individual to transact business in this State as an agent unless the individual is registered under the Act as an agent or is exempt from registration as an agent under the Act.

122. Pursuant to Section 35-1-301 of the Act, it is unlawful for a person to offer or sell a security in this State unless (1) the security is a federal covered security; (2) the security, transaction, or offer is exempted from registration under Sections 35-1-201 through 35-1-203; or (3) the security is registered under the Act.

123. Pursuant to Section 503(a) of the Act, in a civil action or administrative proceeding under the Act, a person claiming an exemption, exception, preemption, or exclusion has the burden to prove the applicability of the claim.

124. Pursuant to Section 35-1-501, it is unlawful for a person, in connection with the offer, sale or purchase of a security, directly or indirectly: (1) to employ a device, scheme, or artifice to defraud; (2) to make an untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (3) to engage in an act,

practice, or course of business which operates or would operate as a fraud or deceit upon another person.

125. Pursuant to Section 35-1-602(a)(1), the Securities Commissioner may conduct public or private investigations within or outside the State of South Carolina which the Securities Commissioner considers necessary or appropriate to determine whether a person has violated, is violating, or is about to violate the Act or a rule adopted or order issued under the Act, or to aid in the enforcement of the Act or in the adoption of rules and forms under the Act.
126. Regarding administrative remedies under the Act:
 - a. 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 a rule adopted or order issued under the Act, the Securities Commissioner may issue an order directing the 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.
 - b. Pursuant to S.C. Code Ann. § 35-1-604(b), a cease and desist order issued under S.C. Code Ann. § 35-1-604(a)(1) must include a statement of any civil penalty or costs of investigation the Securities Commissioner will seek, a statement of the reasons for the order, and notice about a hearing.
 - c. Pursuant to S.C. Code Ann. § 35-1-604(d), in a final order, the Securities Commissioner may impose a civil penalty in an amount not to exceed ten thousand dollars (\$10,000) for each violation.

d. Pursuant to S.C. Code Ann. § 35-1-604(e), in a final order, the Securities Commissioner may charge the actual cost of an investigation or proceeding for a violation of the Act or a rule adopted or order issued under the Act.

DIVISION'S DETERMINATION

WHEREAS, based on the application of the law to the facts, the Division has determined that Respondents Duncan-Schemen and Carolinks have engaged, are engaging, or are about to engage in an act, practice, or course of business constituting a violation of the Act or the Prior Act or a rule adopted or order issued under the Prior Act and have engaged, are engaging, or are about to engage in an act, practice, or course of dealing constituting a violation of the Act or a rule adopted or order issued under the Act as follows:

- a. During the time period on or about August 1, 2005 to on or about September 1, 2007, Respondents offered and sold investment opportunities in and from the State of South Carolina.
- b. The investment opportunities constituted "securities" both pursuant to the Act and the Prior Act.
- c. The securities offered and sold by Respondents were not registered for sale in or from the State of South Carolina.
- d. Respondents are not now and during the time of the offers and sales described above were not licensed to sell securities in or from the State of South Carolina.
- e. No exemption from securities or agent registration has been filed or claimed by Respondents or anyone acting on Respondents' behalf.

- f. Respondents violated Section 35-1-402 of the Act and Section 35-1-410 of the Prior Act when they offered and sold securities in and from this State without broker-dealer and agent registration.
- g. Respondents violated Section 35-1-301 of the Act and Section 35-1-810 of the Prior Act when they offered and sold unregistered securities in and from this State.
- h. Respondents violated Section 35-1-501 of the Act and Section 35-1-1210 of the Prior Act and engaged in securities fraud when they used investor funds in a manner inconsistent with Respondents' representations to the investors, and misstated and omitted material facts when making representations to investors and potential investors.

CEASE AND DESIST ORDER

NOW THEREFORE, pursuant to S.C. Code Ann. § 35-1-604(a)(1) of the Act, IT IS
HEREBY ORDERED that each Respondent:

- a. Cease and desist from offering and/or selling securities, in violation of Sections 35-1-301 and 35-1-401 of the Act;
- b. Cease and desist from committing securities fraud, in violation of Section 35-1-501 of the Act; and
- c. Pay a civil penalty in the amount of fifty thousand dollars (\$50,000.00) if this Order becomes effective by operation of law, or, if either Respondent seeks a hearing and a hearing officer or any other legal authority resolves this matter, pay a civil penalty in an amount not to exceed five thousand dollars (\$5,000.00) for each violation of the Prior Act and ten thousand dollars (\$10,000.00) for each violation of the Act by each Respondent, and the actual cost of the investigation or proceeding.

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

Respondents are hereby notified that they each have 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 notification of the issuance of this Order to Cease and Desist a written Answer specifically requesting a hearing therein.

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

Failure by a Respondent to file a written request for a hearing in this matter within the thirty-day (30) period stated above shall be deemed a waiver by that Respondent of his right to such a hearing. Failure of a Respondent to file an Answer, including a request for a hearing, shall result in this Order, including the stated civil penalty, becoming final as to that Respondent by operation of law.

**CONTINUING TO ENGAGE IN ACTS DETAILED BY THIS ORDER AND/OR
SIMILAR ACTS MAY RESULT IN THE DIVISION'S FILING ADDITIONAL
ADMINISTRATIVE ACTIONS AND/OR SEEKING FURTHER ADMINISTRATIVE FINES.
WILLFUL VIOLATION OF THIS ORDER COULD RESULT IN CRIMINAL PENALTIES.
REGARDING MATTERS DESCRIBED HEREIN, THIS ORDER DOES NOT PRECLUDE
THE FILING OF PRIVATE CAUSES OF ACTION OR THE FILING OF CRIMINAL
CHARGES.**

IT IS SO ORDERED.

This 12th day of October, 2007

Tracy Meyers
Tracy A. Meyers
Assistant Attorney General
Securities Division
Office of the Attorney General
Rembert C. Dennis Building
1000 Assembly Street
Columbia, S. C. 29201
(803) 734-4731