

1 **STATE OF WASHINGTON**  
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**  
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING ) Order Number S-07-393-07-TO01  
5 whether there has been a violation of the )  
6 Securities Act of Washington by: ) SUMMARY ORDER TO CEASE AND  
7 CANUSA Capital, LLC, Ross Paterson, ) DESIST AND NOTICE OF INTENT TO  
8 Victoria Mallahan; ) IMPOSE FINES AND CHARGE COSTS  
9 )  
10 )  
11 )  
12 Respondents)

13 THE STATE OF WASHINGTON TO: CANUSA Capital, LLC  
14 Ross Paterson  
15 Victoria Mallahan

16 **STATEMENT OF CHARGES**

17 Please take notice that the Securities Administrator of the State of Washington has reason  
18 to believe that Respondents, CANUSA Capital, LLC; Ross Paterson; and Victoria Mallahan have  
19 each violated the Securities Act of Washington and that their violations justify the entry of an  
20 order of the Securities Administrator under RCW 21.20.390 against each to cease and desist  
21 from such violations, to impose fines, and to charge costs. The Securities Administrator finds  
22 that delay in ordering the Respondents to cease and desist from such violations would be  
23 hazardous to investors and to the public and that a Summary Order to Cease and Desist should be  
24 entered immediately. The Securities Administrator finds as follows:

SUMMARY ORDER TO CEASE AND DESIST AND 1  
NOTICE OF INTENT TO IMPOSE FINES AND  
CHARGE COSTS

DEPARTMENT OF FINANCIAL INSTITUTIONS  
Securities Division  
PO Box 9033  
Olympia, WA 98507-9033  
360-902-8760

1 **TENTATIVE FINDINGS OF FACT**

2 *Respondents*

3 1. CANUSA Capital, LLC (“CANUSA”) is a Washington limited liability company  
4 organized in the State of Washington on January 5, 2005, with its principal place of business in  
5 Lynden, Washington. CANUSA was formed to invest in real estate located in Whatcom County,  
6 Washington.

7 2. Ross Paterson (“Paterson”) is a managing member of CANUSA and is a signer on the  
8 CANUSA bank account. Paterson resides in Lynden, Washington.

9 3. Victoria Mallahan (“Mallahan”) is a salesperson for CANUSA and may be a signer on  
10 the CANUSA bank account. Mallahan is a licensed real estate agent and is believed to reside in  
11 Blaine, Washington.

12 *Background*

13 4. On at least May 16, 2006, Paterson was notified that there was an open investigation  
14 regarding the offer and sale of unregistered securities of Brisk Management dba Heritage House  
15 Assisted Living (“Heritage House”). Heritage House is an assisted living facility in Ferndale  
16 operated by Paterson.

17 5. In March 2007, the Securities Division issued a Statement of Charges and Notice of  
18 Intent to Enter Order to Cease and Desist and to Impose Fines against Heritage House and  
19 Paterson. The Statement of Charges alleged that Heritage House and Paterson violated the  
20 registration and anti-fraud provisions of the Securities Act when offering and selling unregistered  
21 securities. The Statement of Charges was served on March 22, 2007. A hearing has been  
22 requested in the matter.

1  
2 *Nature of the Offering*

3 6. On October 22, 2006, after Paterson was notified of the Securities Division's open  
4 investigation of the offer and sales of unregistered securities in Heritage House, Paterson and  
5 Mallahan met with two Canadian citizens in Whatcom County, Washington, and offered them an  
6 opportunity to invest in CANUSA. Paterson and Mallahan told the investors that the funds  
7 invested in CANUSA would be used to make two different types of real estate investment. The  
8 first type of investment was in foreclosed properties that would be purchased at a discount and  
9 resold at a profit. The investors would receive a return when the property was resold. Paterson  
10 and Mallahan told the investors that return would be between 40% and 80%.

11 7. The second type of investment was in the acquisition of an ongoing business where the  
12 return to the investors would be from the operation of the business. Paterson and Mallahan told  
13 the investors that they would receive an 18% per quarter return from this type of investment.

14 8. Paterson and Mallahan told the investors that the investment was safe because Heritage  
15 House would be used to secure necessary financing or to repay the investors, if necessary.

16 9. Paterson and Mallahan failed to disclose that Paterson was the subject of an open  
17 investigation of the Securities Division regarding the offer and sales of unregistered securities in  
18 Heritage House.

19 10. The Canadian investors introduced Paterson and Mallahan to other potential investors.

20 11. In October and November 2006, the investors visited Paterson and Mallahan in Whatcom  
21 County for the purpose of identifying investment properties. Paterson and Mallahan spent at  
22 least two days driving the investors around Whatcom County and previewing properties.

1 12. Paterson, Mallahan, and the investors identified a specific property to purchase at the  
2 foreclosure auction. Paterson and Mallahan told the investors that Paterson would bid on the  
3 specific property at the foreclosure auction and needed their investment funds to do so.

4 13. Based on these representations, on December 7, 2006 Investor A wired \$100,000 to the  
5 CANUSA bank account located in Whatcom County, Washington.

6 14. The property was not acquired at the foreclosure auction.

7 15. In January and February 2007, Paterson and Mallahan identified additional properties to  
8 purchase at the foreclosure auction. However, each month Respondents failed to acquire the  
9 properties.

10 16. In March 2007, Paterson and Mallahan told the investors that a business had been  
11 identified for purchase. Based on this representation, Investor B wired \$25,000 to the CANUSA  
12 bank account.

13 17. On April 12, 2007, Paterson told the investors that an additional \$100,000 was needed to  
14 acquire the business. Based on this representation, on April 13, 2007, Investor A wired an  
15 additional \$100,000 to the CANUSA bank account. This brought Investor A's total investment  
16 to \$200,000.

17 18. On May 2, 2007, Paterson and Mallahan provided Investor A with a promissory note  
18 acknowledging the \$200,000 investment. It stated that the initial funds were to be used to  
19 "acquire properties in Whatcom County, Washington usually through foreclosure and in turn  
20 resold" and the profit divided among the investors. It further stated that the funds would "accrue  
21 an interest rate of 5% annually while not being used" and that at any time Investor A could  
22 request his funds back and the funds would be wired to his account. The promissory note was  
23

1 notarized in Bellingham, Washington. It was one page and did not have many of the terms  
2 common in promissory notes.

3 19. Between December 2006 and April 2007, Paterson and Mallahan obtained approximately  
4 \$225,000 from Investors A and B.

5 20. When no property was acquired and after numerous requests, in September 2007,  
6 Mallahan wired Investor A \$150,000. Mallahan told Investor A that the remaining \$50,000  
7 would be repaid but it has not yet been repaid. Respondents have not repaid Investor B.

8 21. Recently, Paterson told the investors that they would not be paid back because the money  
9 was lost in a “get rich quick scheme” involving an investment in bull semen. The investors were  
10 not told that their funds could be used for such a scheme.

### 11 **MISREPRESENTATIONS AND OMISSIONS**

12 22. Respondents’ statements that the investment was safe because Heritage House would be  
13 used to secure necessary financing or to repay the investors was misleading because Respondents  
14 failed to disclose that Heritage House was encumbered with a mortgage for its full value.

15 Respondents also failed to disclose that the mortgage payments for Heritage House had not been  
16 paid, that on September 1, 2006 a receiver had been appointed for Heritage House, and that on  
17 September 22, 2006 a Chapter 11 bankruptcy proceeding had been commenced for Heritage  
18 House.

19 23. Respondents failed to disclose material information to investors including financial  
20 statements, the Respondents’ business experience and track record in similar investments, the use  
21 of the investment funds if real estate was not acquired, and the general and specific risks  
22 involved in the investments.

1 **REGISTRATION STATUS**

2 24. The investment contracts or promissory notes described above are not registered as  
3 securities in the State of Washington and have not previously been so registered.

4 25. CANUSA Capital, LLC is not currently registered to sell securities, has not previously  
5 been registered, and has not filed a claim of exemption.

6 26. Ross Paterson and Victoria Mallahan are not currently registered as securities  
7 salespersons or broker-dealers in the state of Washington and have not previously been so  
8 registered.

9 **EMERGENCY**

10 27. The Securities Administrator finds that an emergency exists and that continued violations  
11 of RCW 21.20.010, RCW 21.20.040, or RCW 21.20.140 by respondents constitutes a threat to  
12 the investing public and that entering a Summary Order to Cease and Desist from such violations  
13 is in the public interest and necessary for the protection of the investing public.

14  
15 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

16 **CONCLUSIONS OF LAW**

17 1. The offer or sale of the investment contract or promissory note of CANUSA Capital,  
18 LLC constitutes the offer or sale of a security as defined in RCW 21.20.005(10) and (12).

19 2. Respondents, Ross Paterson and Victoria Mallahan, acted as securities salespersons or  
20 broker-dealers as defined in RCW 21.20.005(2) and (3).

21 3. Respondents, Ross Paterson and Victoria Mallahan, have violated RCW 21.20.040 by  
22 offering and/or selling said securities while not registered as a securities salesperson or broker-  
23 dealers in the State of Washington.

1 4. The offer or sale of said securities is in violation of RCW 21.20.140 because no  
2 registration for such offer or sale was on file with the Securities Administrator.

3 5. The offer or sale of said securities was made in violation of RCW 21.20.010 because  
4 Respondents, in connection with the offer and sale of a security, made untrue statements of  
5 material fact or omitted to state material facts necessary in order to make the statements made, in  
6 light of the circumstances under which they were made, not misleading.

### 7 **SUMMARY ORDER**

8 Based on the foregoing,

9 NOW, THEREFORE, IT IS HEREBY SUMMARILY ORDERED that CANUSA  
10 Capital, LLC; Ross Paterson; and Victoria Mallahan; and their agents and employees, each cease  
11 and desist from offering or selling securities in any manner in violation of RCW 21.20.140, the  
12 section of the Securities Act of Washington requiring registration.

13 It is further SUMMARILY ORDERED that Ross Paterson and Victoria Mallahan cease  
14 and desist from violation of RCW 21.20.040, the section of the Securities Act that requires  
15 registration of securities salespersons and broker-dealers.

16 It is further SUMMARILY ORDERED that respondents, CANUSA Capital, LLC; Ross  
17 Paterson; and Vicki Mallahan; and their agents and employees, each cease and desist from  
18 violation of RCW 21.20.010, the anti-fraud section of the Securities Act.

### 19 **NOTICE OF INTENT TO IMPOSE FINES**

20 Pursuant to RCW 21.20.395 and based upon the Tentative Findings of Fact and  
21 Conclusions of Law, the Securities Administrator intends to order that Respondent, Ross  
22 Paterson, shall be liable for and pay a fine of \$15,000 and that Respondent, Victoria Mallahan,  
23 shall be liable for and pay a fine of \$5,000.

24 SUMMARY ORDER TO CEASE AND DESIST AND 7  
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360-902-8760

1 **NOTICE OF INTENT TO CHARGE COSTS**

2 Pursuant to RCW 21.20.390(5), and based upon the Tentative Findings of Fact and  
3 Conclusions of Law, the Securities Administrator intends to order that Respondent, Ross  
4 Paterson, shall be liable for and pay the costs, fees, and other expenses incurred in the conduct of  
5 the investigation of this matter in an amount not less than \$2,500. Respondent, Victoria  
6 Mallahan, shall be liable for and pay the costs, fees, and other expenses incurred in the conduct  
7 of the investigation of this matter in an amount not less than \$1,000.

8 **AUTHORITY AND PROCEDURE**

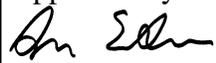
9 This Order is entered pursuant to the provisions of RCW 21.20.390 and 21.20.395 and is  
10 subject to the provisions of RCW 34.05. The respondents, CANUSA Capital, LLC; Ross  
11 Paterson; and Victoria Mallahan, may each make a written request for a hearing as set forth in  
12 the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING  
13 accompanying this order.

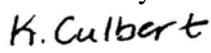
14 If a Respondent does not request a hearing, the Securities Administrator intends to adopt  
15 the above Tentative Findings of Fact and Conclusions of Law as final, enter a permanent cease  
16 and desist order, impose fines, and charge costs, as to that Respondent.

17 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

18 Dated and Entered this 27th day of December, 2007.

19   
20 MICHAEL E. STEVENSON  
21 Securities Administrator

21 Approved by:  
  
22 Suzanne Sarason  
23 Chief of Compliance

Presented by:  
  
Kristen Culbert  
Financial Legal Examiner