

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION
March 6, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12228

In the Matter of	:	ORDER INSTITUTING
	:	ADMINISTRATIVE PROCEEDINGS
JAMES E. FRANKLIN,	:	PURSUANT TO SECTION 15(b)
	:	OF THE SECURITIES EXCHANGE
Respondent.	:	ACT OF 1934
	:	
	:	

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against James E. Franklin (“Franklin”).

II.

After an investigation, the Division of Enforcement alleges that:

A. RESPONDENT

1. Franklin, age 43, was a resident of San Diego, California during the relevant time period. During 1997 and 1998, Franklin was the president of Initial Public Offering Consultants, Inc. (“IPO”), the sole trustee of Avalon Trust, and the Assistant Administrative Director of Vector Keel Ltd. (“Vector Keel”). Franklin had been a registered representative of a brokerage firm from 1984 to 1989.

B. THE UNDERLYING CIVIL ACTION AND THE ENTRY OF THE INJUNCTION

1. On January 14, 2002, the Commission filed a civil injunctive action in the United States District Court for the Southern District of California against Franklin, four entity defendants through which Franklin was alleged to have operated, Vector Keel, Net Income, IPO, and Avalon Trust, and two other individuals. The action was styled, S.E.C. v. James E. Franklin, et al., C.A. No. 02CV0084 IEG (RBB) (S.D. Cal.). In its Complaint, the Commission alleged that Franklin violated Sections 5(a), 5(c), 17(a) and 17(b) of the Securities Act of 1933 (“Securities Act”), and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and that Franklin was liable for the four entity defendants’ violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, as a controlling person under Section 20 of the Exchange Act. As to Franklin, the Commission sought an injunction, an accounting, disgorgement along with prejudgment interest and civil penalties.

2. The Commission’s Complaint alleged, among other things, that beginning in 1997 and continuing into 1998, Franklin orchestrated a fraudulent scheme to tout at least seven stocks, including Easy Cellular, Inc. (“Easy Cellular”), on an internet website, Red Hot Stocks. The Complaint alleged that Franklin acquired those stocks cheaply (through private offerings, open market purchases and consulting fees) in various accounts including a Canadian brokerage account in the name of Vector Keel, an offshore entity over which one of the individual defendants had signatory authority and in which Franklin had a substantial financial interest. According to the Complaint, Franklin then sold those shares after their price increased following false and misleading “profiles” on the companies which appeared on the Red Hot Stocks website. The Complaint alleged that the “profiles” recommended that investors purchase a stock but did not disclose that Franklin, through various accounts, had acquired shares of the stock and intended to sell the stock in coordination with the touts. The Complaint alleged that Franklin organized Net Income to operate Red Hot Stocks and that Franklin’s associate, one of the individual defendants, operated Red Hot Stocks and authored and/or disseminated many of the on-line recommendations. The Complaint also alleged that Franklin’s corporate consulting firm, IPO, had consulting contracts to provide public relation services with some of the companies, including Easy Cellular, which were profiled on the Red Hot Stocks website.

3. In 2003, the District Court entered final default judgments and injunctions against Vector Keel, Net Income, Avalon Trust and IPO.

4. At trial, Franklin stipulated to being a controlling person of IPO and Avalon Trust.

5. On November 10, 2005, after a trial against Franklin, a federal jury found that Franklin violated the antifraud provisions of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder with respect to seven stocks, including Easy Cellular. The jury also found Franklin was a controlling person of Vector Keel and Net Income. In addition, the jury found that Franklin violated the antitouting provision, Section

17(b) of the Securities Act, and that, with respect to one stock, Franklin violated the registration provisions, Sections 5(a) and 5(c) of the Securities Act.

6. On December 15, 2005, the District Court, among other things, entered a final judgment against Franklin, permanently enjoining him from violating Sections 5(a), 5(c), 17(a) and 17(b) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. The final judgment also ordered Franklin to pay a third tier civil penalty of \$770,000.

7. The securities of at least one of the companies that Franklin promoted and which were profiled on the Red Hot Stocks website, Easy Cellular, constituted a penny stock within the meaning of Section 3(a)(51) of the Exchange Act and Rule 3a51-1 thereunder.

8. Franklin participated in an offering of at least Easy Cellular stock, which is a penny stock.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it appropriate and in the public interest that public administrative proceedings be instituted to determine:

A. Whether the allegations set forth in Section II are true and, in connection therewith, to afford Franklin an opportunity to establish any defenses to such allegations; and

B. Whether, pursuant to Section 15(b) of the Exchange Act, it is appropriate and in the public interest to bar Franklin from participating in any offering of penny stock, including: acting as a promoter, finder, consultant, agent, or other person who engaged in activities with a broker, dealer, or issuer for purposes of the issuance or trading in any penny stock; or inducing or attempting to induce the purchase or sale of any penny stock.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof be convened at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice [17 C.F.R. § 201.110].

IT IS FURTHER ORDERED that Franklin shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice [17 C.F.R. § 201.220].

If Franklin fails to file the directed answer, or fails to appear at a hearing after being duly notified, he may be deemed in default and the proceeding may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice [17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310].

This ORDER shall be served forthwith upon Franklin personally or by certified mail, or by any other means permitted by Rule 141 of the Commission's Rules of Practice [17 C.F.R. § 201.141].

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 210 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice [17 C.F.R. § 201.360(a)(2)].

In the absence of the appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision upon this matter, except as a witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule-making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed to be subject to the provisions of Section 553 delaying the effective date of any final Commission action.

For the Commission, by its Secretary, pursuant to delegated authority.

Nancy M. Morris
Secretary