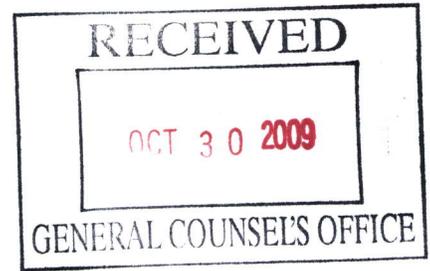


NATIONAL FUTURES ASSOCIATION
BEFORE THE
BUSINESS CONDUCT COMMITTEE



In the Matter of:)
)
COMMODITY FUTURES & OPTIONS)
SERVICE, INC.)
(NFA ID #210781))
)
HAL L. SWANSON.)
(NFA ID #52467))
)
BRYAN L. WRIGHT)
(NFA ID #331395))
)
Respondent)

NFA Case No. 09-BCC-039

ANSWER

Commodity Futures & Options Service, Inc. ("CF&O") and Bryan L. Wright ("Wright") hereinafter referred to as Respondents, hereby submit the following answer to the complaint issued by the NFA's Business Conduct Committee Case Number 09-BCC-039:

SPECIFIC RESPONSE TO ALLEGATIONS

JURISDICTION

1. Admitted that CF&O was an Independent Introducing Broker NFA Member located in Houston, Texas.
2. Admitted that Swanson was the president and an associated person ("AP") of CF&O and an NFA Associate.
3. Admitted that Wright was the chief operating officer ("COO") and an AP of CF&O and an NFA associate.

BACKGROUND

4. With respect to the allegations contained in Paragraph 4 CFOS and Wright: Admit(s) that an NFA Hearing Panel found that CF&O had committed the AML violations alleged by the NFA and that the firm was fined \$5,000.00. CFOS and Wright admit that the NFA hearing Panel also found that at all times CF&O and Wright did exactly what the NFA had asked of them in response to the Audit Team findings leading to the complaint.
5. With respect to the allegations contained in Paragraph 5 CF&O and Wright: Admit(s) these allegations with the clarification that Swanson was never charged with any violations of NFA rules and that Swanson operated as a branch office of World Trading Group and not directly for the corporate office.
6. With respect to the allegations contained in Paragraph 6 CF&O and Wright: Admit(s) that paragraph 6 is an accurate summary of NFA's registration records.
7. With respect to the allegations contained in Paragraph 7 CF&O and Wright: Admit(s) that the Securities and Exchange Commission filed a complaint against Robert Copeland ("Copeland"). Respondents CF&O and Wright also Admit that CF&O and Financial Robotics both had individual offices within a larger suite that was leased by CF&O. Neither CF&O nor Wright have sufficient legal standing or capacity to admit or deny that Financial Robotics improperly or properly received money from Copeland. Respondents aver, allege, and will prove that NFA lacks jurisdiction over Financial Robotics and that, therefore, this allegation should be stricken from the complaint without requirement to answer.
8. With respect to the allegation contained in Paragraph 8 CF&O and Wright: Admit that NFA commenced an investigation of CF&O. The remaining allegations of this paragraph

are admitted and denied by the specific responses to the allegations set out below which are incorporated by reference herein as a further response to this paragraph..

APPLICABLE RULES

9. Respondents admit NFA's summary of compliance rule 2-10.
10. Respondents admit NFA's summary of registration rule 208(a).
11. Respondents admit NFA's summary of financial requirements Section 5(a).
12. Respondents admit NFA's summary of financial requirements Section 5(c).
13. Respondents admit NFA's summary of compliance rule 2-9(a).
14. Respondents admit NFA's summary of compliance rule 2-39(a).
15. Respondents admit NFA's summary of compliance rule 2-36(e).

COUNT I

16. The answers contained in paragraphs 1 through 10 above are reincorporated by reference as answer to paragraph 16.
17. Respondents admit NFA asked Wright about the relationship between CF&O and Financial Robotics. Respondents also admit that CF&O and Financial Robotics both had individual offices within a larger suite that was leased by CF&O.
18. Respondents aver, allege, and will prove that they lack standing and capacity to answer, and admit or deny the allegation involving Financial Robotics made by NFA in this paragraph. NFA lacks jurisdiction over the actions of Financial Robotics either carried out through the alleged actions of Respondents or otherwise. The allegations in this paragraph should be stricken and no answer thereto should be required of Respondents. Subject to the foregoing affirmative plea of defense Respondents admit the allegations contained in paragraph 18 with the following clarifications: Wright told NFA that he

was part of the original group that formed Financial Robotics. In response to inaccurate assumptions made by NFA regarding that statement Wright later clarified that Financial Robotics was Incorporated on behalf of another party. Further when Wright mentioned Financial Robotics cessation of operations he was referring to its office within the space leased by CF&O and his involvement with Financial Robotics, not to the operations of the corporation as an entity.

19. Respondents aver, allege, and will prove that they lack standing and capacity to answer, and admit or deny the allegation involving Financial Robotics made by NFA in this paragraph. NFA lacks jurisdiction over the actions of Financial Robotics either carried out through the alleged actions of Respondents or otherwise. The allegations in this paragraph should be stricken and no answer thereto should be required of Respondents. Subject to the foregoing affirmative plea of defense Respondents admit the allegations contained in paragraph 19 with the following clarifications: With respect to the allegations contained in paragraph 19 Respondents: Deny that Wright represented he was merely a “technical assistant” at Financial Robotics. Wright stated that he was contracted because of his technical expertise and that the majority of his duties were of a technical nature. Wright also had authority to open trading accounts because of the nature of his technical expertise he was the best candidate to interface with potential FX Dealers regarding the specific requirements necessary for working with Financial Robotics software.

20. Respondents aver, allege, and will prove that they lack standing and capacity to answer, and admit or deny the allegations involving Financial Robotics made by NFA in this paragraph. NFA lacks jurisdiction over the actions of Financial Robotics either carried

out through the alleged actions of Respondents or otherwise. The allegations in this paragraph should be stricken and no answer thereto should be required of Respondents. Subject to the foregoing affirmative plea of defense Respondents admit the allegations contained in paragraph 20 with the following clarifications: Respondents deny that Wright changed his story. Wright made clarifications to assumptions NFA made based on Wright's original representations. Respondents further assert that NFA did not have jurisdiction or authority to ask for Financial Robotics Records.

21. Respondents admit that NFA requested records from CF&O. Denied that the records provided were incomplete. Wright provided the NFA with its stock ledger/spreadsheet listing all of the current owners of the firm and their percentages of ownership. Wright also provided NFA with its ledger of capital contributions. Wright explained to NFA that CF&O had previously adopted a policy to count all contributed capital from existing owners to the benefit of all owners and therefore did not track much detail on the capital contribution ledger, but simply maintained a current record of owners and their percentages. All of this information was provided to NFA.
22. Respondents deny that Wright asserted that CF&O only kept a ledger reflecting capital contributions to the firm. Wright explained to NFA that CF&O had previously adopted a policy to count all contributed capital from existing owners to the benefit of all owners and therefore did not track much detail on the capital contribution ledger, but simply maintained a current record of owners and their percentages. Both the capital contribution ledger and the spreadsheet detailing owners and their share counts and percentage of ownership were provided to the NFA.

23. Respondents deny all of the allegations contained in paragraph 23. Respondents allege and will prove the following allegations in Response: At NFA's request, Wright attempted to go back through the capital contribution ledger and identify the source of all capital contributions since 2002. As previously mentioned in the response to item 21, the capital contribution ledger was not maintained in detail as all contributions from existing owners were counted as for the benefit of all owners. Wright explained this to the NFA and noted that the bulk of the funds, except for Robert Copeland and Financial Robotics contributions, were contributed directly by Brazos Partners even though that detail had not been recorded in the paid in capital ledger. In attempting to research the exact counterparty to each transaction in the paid in capital ledger, many of the entries were intentionally labeled as unknown because the records did not exist to verify who the actual counterparty to the transaction was as they had been booked as contribution for the benefit of all owners. The NFA, rather than accepting these contributions as what they were booked as, ownership equity contributions, instead has defined them as "unknown sources". Further, as explained to the NFA's audit team, Robert Copeland's original equity contribution was immediately returned to him as per his request and therefore never should have been counted as contributed capital by Mr. Copeland.

24. With respect to the allegations contained in paragraph 24 Respondents admit that Swanson was unable to answer NFA's questions regarding Brazos Partners and United Benefit. Respondents further allege and will prove that upon questioning by the NFA Swanson properly directed the NFA to Mr. Wright as the proper person to address questions and concerns about CF&O's books, records, and ownership structure. Mr. Swanson's role as President did not include any duties related to Accounting, Ownership

or Registration of principals and ownership. Mr. Swanson's role and duties as President have been explained by Mr. Wright to every audit team since 2002 and no previous auditor ever raised a concern about his role or assigned duties. Further CF&O believed that the distinct separation in roles between Mr. Wright and Mr. Swanson provided a significant benefit to the operations of CF&O.

25. With respect to the allegations contained in paragraph 25: Respondents deny that Wright claimed Mark Rice had solicited Brazos Partners to contribute capital to CF&O.

Respondents admit that Swanson accepted his position as president from Rice in 2002. Admitted that Rice was the representative of Brazos Partners and that Brazos Partners owned CF&O in 2002.

26. Respondents deny all of the allegations contained in paragraph 26. Respondents allege and will prove that Mr. Wright never indicated that funds came from unknown sources. Mr. Wright specifically stated that Mr. Rice did not solicit capital contributions on behalf of CF&O, but was simply the representative of Brazos Partners and his contact person with Brazos Partners. When CF&O was in need of additional capital Mr. Wright would contact Mr. Rice as the representative of Brazos Partners and then through Brazos Partners he would arrange for additional funds to be contributed by Brazos Partners.

27. Respondents deny all of the allegations contained in paragraph 27. Respondents allege and will prove that Mr. Wright never claimed that Rice acted as the representative of United Benefit or Copeland. Mr. Wright only claimed that Mr. Rice was the representative of Brazos Partners. Mr. Wright did acknowledge that Mr. Rice referred Mr. Copeland to CF&O to make an equity investment in CF&O and further Wright

acknowledged speaking directly to Mr. Copeland prior to and after every equity Contribution and Withdrawal made by Mr. Copeland.

28. Respondents lack the requisite knowledge to either admit or deny what communications NFA has had with Rice. Additionally Respondents allege and will prove that NFA is attempting to hold Mr. Wright accountable for the actions of individuals and entities that are neither under his control nor operate under his direction. Mr. Wright acted diligently to procure what information he could legally obtain for the NFA in response to all their inquiries.
29. Respondents admit that CF&O has not had a profitable year since 2002, and further this information has been available for review by both the independent auditors and NFA for that entire time frame. Respondents deny NFA's allegation that "suspicious capital contributions arranged by Rice from unknown sources kept CF&O afloat". Paragraphs 21 through 27 are reincorporated here in full by reference as a further response to this allegation.
30. Respondents deny all of the allegations contained in paragraph 30.. Paragraphs 21 through 29 are reincorporated here in full by reference in response to these allegations.
31. Respondents deny all of the allegations contained in paragraph 30. Respondents further allege and will prove, specifically, regarding Mr. Rice, that he had no responsibility beyond those as the representative of Brazos Partners. Further he did not act on his own, but as the representative of Brazos Partners and simply relayed Brazos Partners decision/consensus to CF&O. CF&O believes that, including the original purchase price and all associated equity and good will that it can demonstrate that neither Mr. Copeland

nor Financial Robotics contributions exceeded 10% of CF&O's total capital since inception.

32. By reason of, and based on, the foregoing responses CF&O denies any and all alleged violations of NFA Compliance Rule 2-10 and Registration Rule 208.

COUNT II

33. All prior responses to paragraphs 1 through 8 and 11 and 12 are reasserted here as a response to paragraph 33.

34. Respondents deny all of the allegations contained in paragraph 34. Respondents allege and will prove that CF&O stands by its original classification of the Firms assets as current.

35. Respondents admit and deny the allegations contained in paragraph 35 as follows:. Respondents allege and will prove that the classification of the Inventbay shares as current was not suspicious. The fact that CF&O treated the Inventbay Stock and the associated repurchase agreement as one asset which it valued at \$60,000.00 on its balance sheet does not support the NFA's Complaint. CF&O does admit that Inventbay and Corporate Services had individual offices within larger space leased by CF&O. CF&O further admits that Matthew Skaggs was affiliated with Financial Robotics. CF&O lacks sufficient records and knowledge to admit or deny the NFA's allegation that Matthew Skaggs owned Corporate Service. CF&O admits that Corporate Services sold the Inventbay shares to CF&O and that Matthew Skaggs acted as President and CEO of Corporate Services when the transaction occurred.

36. Respondents deny all of the allegations contained in paragraph 36. Respondents allege and will prove that in January 2009 the Inventbay stock was trading between \$0.10 and

\$0.06 a share. At No time prior to CF&O's purchase of the Inventbay stock was CF&O or Wright aware of the Inventbay stock trading for less than \$0.06 cents. CF&O paid \$30,000.00 or \$0.03 a share a significant discount to the current market price of Inventbay. CF&O was further motivated to make this purchase because Corporate Services included a repurchase agreement as part of the original sale guaranteeing CF&O that it would repurchase the stock for a minimum of \$0.06 cents a share or \$60,000.00 within six months. CF&O never valued the shares individually at \$60,000.00 on its books as a current asset but always counted them together with the included repurchase agreement guaranteeing CF&O a selling price of \$60,000.00

37. With respect to the allegations contained in paragraph 37 Respondents admit that the shares were sold back to Corporate Services. Respondents deny that CF&O did not receive cash from selling the securities. Mr. Wright explained to the NFA auditors that upon exercising of the repurchase agreement by CF&O Corporate Services immediately paid CF&O the \$60,000.00. However as explained to CF&O by Mr. Skaggs, a wire transfer that was supposed to be made to Corporate Services by one of Corporate Services clients did not come through causing the Check CF&O had received to be returned for Non Sufficient Funds by the bank. This returned check was the current receivable reflected on the books of CF&O. Mr. Wright believed this could be counted as current because it was secured by the Inventbay Stock and repurchase agreement which were still in CF&O's possession.

38. With respect to the allegations contained in paragraph 38 Respondents admit that CF&O consolidated its financial records with Southcoast Investment Group ("SIG"). Respondents deny that CF&O failed to include SIG's liabilities on its balance sheet.

Respondents further deny that CF&O filed the required telegraphic notice late. As explained to the NFA Auditors, CF&O used the balance sheets and records provided by a Mr. Robert Wilson the accountant for SIG and a licensed financial principal with FINRA to consolidate SIG's financial records with CF&O's. These statements showed no receivables or liabilities on SIG's financial records so none were included in CF&O's financial records. While CF&O continued to disagree with the NFA's adjustments, CF&O, at NFA's insistence, filed the requested telegraphic notice. CF&O however alleges and will prove that it had a reasonable basis for all the classifications it used for its assets and therefore asserts that even if the NFA's adjustments are accepted, which CF&O is not stating it accepts, the date CF&O first knew or should have known it was below the net capital requirement was the date the NFA informed CF&O of these adjustments and therefore it was not late in filing the telegraphic notice.

39. With respect to the allegations contained in paragraph 39 Respondents deny that CF&O was woefully undercapitalized for almost the first half of 2009.. Respondents admit that CF&O was under its net capital requirement by \$53,000.00 and that CF&O ceased operations in late July 2009.

40. By reason of the forgoing responses CF&O denies any and all alleged of violations of NFA Financial Requirements Sections 5(a) and (c).

COUNT III

41. All prior responses to paragraphs 1 through 8 and 13 and 15 are reasserted here as a response to paragraph 41.

42. With respect to the allegations contained in paragraph 42 Respondents admit that Wright was CF&O's COO and responsible for the financial records. Respondents also admit that

Wright handled all corporate records for the firm. Respondents deny that Wright did not act responsibly. Wright alleges and will prove that he acted in CF&O's best interest in working with Brazos Partners to secure the necessary funds to continue CF&O's operations. Wright never accepted funds from an unknown or unidentified source and always differentiated contributions from existing owners and New Owners and made sure the shareholder spreadsheet was adjusted accordingly to reflect the shares being purchased by new owners as compared to equity contributions not involving share purchases from existing owners.

43. Respondents deny all of the allegations contained in paragraph 43. Respondents allege and will prove that Swanson performed the duties assigned to him by Brazos Partners admirably and without fault or fail. When Mr. Swanson first took over as President Amy Chiu handled all financial and ownership matters. These duties were later assigned to Mr. Wright when he assumed the role of COO. Mr. Swanson knew that Brazos Partners had purchased CF&O from Vincent Nolan; he knew that Mr. Nolan and Mr. Wright along with Brazos Partners constituted the majority shareholders of CF&O; and he was aware that Mr. Wright was assigned by Brazos Partners to handle all of the financial, corporate, and ownership issues. Mr. Swanson was charged with being the firms interface with its clearing FCM's, supervising the firm's AP's, handling the firms transactional business, procuring new customers through marketing efforts, and handling the firms in-house research. Additionally Mr. Swanson and Mr. Wright shared in the supervision of the firms branch Offices and the handling of customer complaints. Mr. Swanson had neither the time nor the responsibility of supervising the firms accounting, record keeping, or ownership information.

44. Respondents deny all of the allegations contained in paragraph 44. Respondents allege and will prove that Mr. Wright and Mr. Swanson both performed their duties to the best of their abilities, including the supervisory duties individually assigned to each of them. Paragraphs 42 and 43 are reasserted here as a response to the allegations in paragraph.
45. By reason of the forgoing responses CF&O, and Wright deny any and all alleged of violations of NFA Compliance Rules 2-9(a) and 2-36(e), as made applicable to the respondents by NFA Compliance Rule 2-39(a).

AFFIRMATIVE DEFENSES

COUNT I

1. All individuals required under NFA Registration Rule 208 were listed as principals of the firm.
2. CF&O's Capital contributions were properly accounted for.
3. All Financial records were complete and accurate.
4. The bulk of the NFA's allegations center around records related to Financial Robotics and Brazos partners which CF&O was not required to keep nor had any legal authority to obtain. (lack of standing and capacity supporting liability; want of jurisdiction)

COUNT II

5. CF&O properly filed all required telegraphic notices the moment it knew it was undercapitalized.

COUNT III

6. Compliance rule 2-9(a) does not apply because none of the allegations involve CF&O's Commodity Futures Activities (lack of subject matter jurisdiction)

7. Compliance Rule 2-36(e) does not apply because none of the allegations involve CF&O's forex activities. (lack of subject matter jurisdiction)

Dated: October 29, 2009

By: Bryan Wright

For: CFOS as C.O.O.

Dated: October 29, 2009

By: Bryan Wright

Bryan Wright