

IRVING L. FAUGHT  
ADMINISTRATOR



MARY FALLIN  
GOVERNOR

STATE OF OKLAHOMA  
DEPARTMENT OF SECURITIES

*MEMORANDUM*

*To: Irving L. Faught, Administrator*

*From: Melanie Hall, Deputy Administrator* 

*Date: July 8, 2014*

*Re: ENFORCEMENT REPORT*

Attached is the report of the enforcement activities of the Department for the months of May and June, 2014.

Attachment

[h/home/londonb/EnforcementReports/14\\_Enf-Reports\\_May-Jun\\_2014.doc](h/home/londonb/EnforcementReports/14_Enf-Reports_May-Jun_2014.doc)

**OKLAHOMA DEPARTMENT OF SECURITIES  
ENFORCEMENT ACTIVITIES  
MAY AND JUNE 2014**

		<b>FY-14</b>	<b>FY-13</b>
		<b>YTD</b>	<b>YTD</b>
<b>I.</b>	<b>Enforcement Files</b>		
	a. Enforcement Files Opened during the reporting period	78	80
	1. Securities Act	69	72
	2. Business Opportunity Sales Act	8	5
	3. Other	1	3
	b. Enforcement Files Closed during the reporting period	128	89
	c. Active Enforcement Files	189	238
<b>II.</b>	<b>Actions Taken during the reporting period</b>		
	a. Orders Initiating Investigation	1	4
	1. Securities Act	1	4
	2. Business Opportunity Sales Act	0	0
	b. Summary Orders	0	0
	1. Securities Act	0	0
	2. Business Opportunity Sales Act	0	0
	c. Notices of Opportunity for Hearing Served	8	8
	1. Securities Act-Notices	8	8
	i. Hearing Set	1	1
	ii. Hearings Held	0	0
	2. Business Opportunity Sales Act Notices	0	0
	i. Hearing Set	0	0
	ii. Hearings Held	0	0

		<b>FY-14</b>	<b>FY-13</b>
		<b>YTD</b>	<b>YTD</b>
d. Other Orders		30	28
1. Securities Act		30	28
2. Business Opportunity Sales Act		0	0
e. Public Undertakings/Agreements		11	15
1. Securities Act		11	15
2. Business Opportunity Sales Act		0	0
f. Confidential Settlement Agreements		2	0
1. Securities Act		2	0
2. Business Opportunity Sales Act		0	0
g. Letters of Caution		9	9
1. Securities Act		9	7
2. Business Opportunity Sales Act		0	2
g. Appeals from Final Orders		0	2
1. Securities Act		0	2
2. Business Opportunity Sales Act		0	0
h. Civil Penalties - Amounts Collected		\$46,337	\$133,513.49
1. Securities Act		\$46,337	\$133,513.49
2. Business Opportunity Sales Act		\$0	\$0
i. Administrative Costs - Amounts Collected		\$0	\$0
1. Securities Act		\$0	\$0
2. Business Opportunity Sales Act		\$0	\$0

		<b>FY-14</b>	<b>FY-13</b>
		<b>YTD</b>	<b>YTD</b>
	j. Civil Enforcement Activities		
	1. Securities Act		
	i. Subpoenas Issued	4	0
	ii. Civil Petitions Filed	5	2
	iii. Civil Trials Held	0	0
	iv. Criminal Referrals	0	2
	v. Civil Appeals Filed	0	0
	vi. Administrative or other Court Appearances (including pleadings filed)	54	16
	2. Business Opportunity Sales Act		
	i. Subpoenas Issued	0	0
	ii. Civil Petitions Filed	0	0
	iii. Civil Trials Held	0	0
	iv. Criminal Referrals	0	0
	v. Civil Appeals Filed	0	0
	vi. Administrative or other Court Appearances (including pleadings filed)	0	0
	k. Miscellaneous Activities		
	1. Public Information/Press Releases (copy attached)	1	0
	2. Trainings/Seminars Attended	17	23
	3. Coordinated Activities	0	0
	<b>III. Inquiries and Complaints</b>		
	a. Inquiries	58	48
	b. Referrals from Other Oklahoma Agencies	6	5
	c. Referrals from Out of State Agencies	3	6

Administrative Actions

SUMMARY

**In the Matter of:     Jason Wheat Beard  
                              ODS File No. 14-006**

On March 31, 2014, the Administrator issued an order to cease and desist, and a notice of opportunity for hearing, to Jason Wheat Beard (Beard) of Tulsa, Oklahoma. Beard was not registered in any capacity under the Act and was ordered to cease and desist from offering and/or selling unregistered securities in violation of the Act. The issuer of the unregistered securities was an automobile auction business. In October 2011, Beard offered and sold a promissory note to an Oklahoma resident (Investor) with the promise of a return of the principal invested plus 5% of the average net monthly profit of the business. In the event the business failed, Beard promised to continue to make monthly payments to the Investor, including principal and interest of 6%, with funds from another business. Beard also represented the note to be guaranteed by a life insurance policy.

Beard did not request a hearing. On May 5, 2014, the Administrator issued a final cease and desist order against Beard.

**In the Matter of:     Rodney Larry Watkins, Jr., Southeast Investments, N.C., Inc. and  
                              Frank H. Black  
                              ODS File No. 12-058**

On March 29, 2013, the Administrator of the Department issued a notice of opportunity for hearing on an Enforcement Division Recommendation (Recommendation) against Rodney Larry Watkins, Jr. (Watkins) of Tulsa, Oklahoma, Southeast Investments, N.C., Inc. (Southeast) of Charlotte, North Carolina, and Frank H. Black (Black) of Rock Hill, South Carolina, based on the following sequence of events. On August 22, 2012, Watkins voluntarily entered into an agreement (Agreement) with the Department providing for the issuance of an agreed order (Order) prohibiting Watkins from offering and selling securities for a period of nine months, retroactively beginning November 25, 2011, and ending August 26, 2012. This matter was based on certain unethical practices by Watkins while associated with another broker-dealer. On August 29, 2012, the Administrator signed the Agreement and issued the Order. However, the Department subsequently learned that between May 11, 2012 and September 19, 2012, while unregistered under the Act, Watkins solicited and/or effected the purchase or sale of securities by customers living in Texas and Kansas. At the time Watkins entered into the Agreement on August 22, 2012, Watkins did not disclose to the Department that he had effected the transactions during the period covered by the terms of the Agreement.

On April 15, 2013, the Respondents filed their answers and requested a hearing. A hearing date was set by order of the Administrator.

On April 30, 2014, an agreement was entered between Respondent Watkins and the Administrator wherein Watkins agreed to retain an independent compliance consultant for a period of three (3) years. Watkins agreed not to exercise discretionary authority in any broker-dealer or investment adviser client account for a period of five (5) years. Watkins also agreed to update his Form U-4 by causing an amendment to be filed by Southeast on the Central Registration Depository System disclosing his current office location, residential address, accurate reflections of all outside business activities, and this action by the Department. Watkins' pending registration as an agent of Southeast was made effective.

In June, the Department filed a motion to supplement the Recommendation. Respondents Southeast and Black filed their objection to the Department's motion. The Department's motion was granted. The Department filed its supplemental recommendation on June 20, 2014.

**In the Matter of:     Hammons, Jim J.**  
**ODS File No. 14-017**

On April 30, 2014, the Administrator issued a notice of opportunity for hearing on an Enforcement Division Recommendation (Recommendation) against Jim J. Hammons (Hammons) of Tulsa, Oklahoma. The Department alleged that Hammons offered and/or sold a security in the nature of an investment contract to an Oklahoma resident, in violation of Sections 1-501 and 1-502 of the Act. The Department alleged that Hammons breached his fiduciary duty to the Oklahoma resident and made false statements to his associated broker-dealer and investment adviser, thereby engaging in dishonest or unethical practices in the securities business.

On June 30, Hammons filed his answer and requested a hearing.

**In the Matter of:     Morgan Asset Management, Inc.**  
**Morgan Keegan & Co., Inc.**  
**ODS File No. 11-086**

A North American Securities Administrators Association (NASAA) taskforce conducted an investigation of Morgan Asset Management, Inc. and Morgan Keegan & Co., Inc. (Respondents) in connection with seven proprietary mutual funds. The investigation revealed, *inter alia*, that Respondents made material omissions and misrepresentations in marketing material and regulatory filings; failed to make suitable recommendations; and failed to adequately supervise their agents and employees. In order to resolve the issues raised in the investigation, Respondents agreed to the entry of a Consent Order (Order) to cease and desist from violating the Act, and to implement new supervisory procedures as recommended by an independent consultant. Respondents also agreed to pay the sum of \$21,337.00 to the Department's Investor Education Revolving Fund. On May 30, 2014, the Administrator of the Department issued the Order.

**In the Matter of: Bankers Life and Casualty Company and  
BLC Financial Services, Inc.  
ODS File No. 13-028**

Coordinated investigations by multiple state regulators were conducted of Bankers Life and Casualty Company (Bankers Life) and BLC Financial Services, Inc. (BLCFS) (collectively, “Bankers”). The investigation revealed that Bankers acted as an unregistered broker-dealer and investment adviser and employed or associated with agents and investment adviser representatives who were not registered on behalf of Bankers. In order to resolve the issues raised in the investigation, Bankers agreed to the entry of a Consent Order (Order), without admitting or denying the conclusions of law, requiring them to pay the sum of \$63,617.31 to the Department’s Investor Education Revolving Fund, and to cease and desist from acting as an unregistered broker-dealer or investment adviser and from employing unregistered agents and investment adviser representatives. On June 25, 2014, the Administrator of the Department issued the Order.

**In the Matter of: ProEquities, Inc.  
ODS File No. 13-030**

The investigation of Bankers (discussed above) revealed that ProEquities, Inc. (“ProEquities”) entered into an agreement with Bankers to provide brokerage and investment advisory services out of Bankers Life branch office locations. The arrangement resulted in Bankers and its agents serving in securities related capacities without benefit of registration. In order to resolve the issues raised in the investigation, ProEquities agreed, without admitting or denying the findings of fact and conclusions of law, to the entry of a Consent Order (Order) requiring it to pay the sum of \$8,207.55 to the Department’s Investor Education Revolving Fund, and to cease and desist from engaging in conduct giving rise to liability under Section 1-604 of the Act. On June 25, 2014, the Administrator of the Department issued the Order.

**In the Matter of: UBS Financial Services, Inc.  
ODS File No. 14-015**

A NASAA working group conducted an investigation of UBS Financial Services, Inc. (UBS), to include the registration of its Client Service Associates and UBS’s supervisory system. In order to resolve the issues raised in the investigation, UBS agreed to the entry of a Consent Order (Order) requiring UBS to cease and desist from accepting orders for the purchase or sale of securities from unregistered agents. UBS also agreed to pay the sum of \$64,265.25 to the Department’s Investor Education Revolving Fund. On June 26, 2014, the Administrator of the Department issued the Order.

**In the Matter of:     Byron Kent Freeman and Bill Fleetwood**  
**ODS File No. 14-051**

The Department received information that Byron Kent Freeman (Freeman) and Bill Fleetwood (Fleetwood) instructed a financial course on retirement in February 2014. It appeared that Freeman and Fleetwood engaged in activity outside of their roles as investment adviser representatives of Global Financial Private Capital, LLC (GFPC). The matter was closed on June 23, 2014, with letters cautioning Freeman and Fleetwood to review and amend their Forms U-4 for proper disclosures of their outside business activities.

**In the Matter of:     Drudy, James Ryan**  
**ODS File No. 14-059**

The Department conducted an investigation into activities of James Ryan Drudy (Drudy) of New York City relating to the offer and/or sale of securities in Oklahoma. The investigation revealed that Drudy was making cold calls and recommending securities to potential Oklahoma customers without having sufficient information to determine whether the recommendations were suitable. The matter was closed on June 20, 2014, with a letter cautioning Mr. Drudy to comply with 660:11-5-42(b)(1)-(2) of the Rules in connection with the offer and sale of securities in Oklahoma.

Civil Actions

SUMMARY

**Oklahoma Department of Securities *ex rel.* Irving L. Faught, Administrator v.  
2001 Trinity Fund, L.L.C. and Robert Arrowood  
Civil Case No. CJ-2012-6164**

On October 10, 2012, the Department filed a Petition for Permanent Injunction and Other Equitable Relief in the District Court of Oklahoma County against 2001 Trinity Fund, L.L.C. (2001 Trinity Fund) and Robert Arrowood (Arrowood), of Norman, Oklahoma, alleging violations of Sections 1-301, 1-402 and 1-501 of the Act, in connection with the offer and sale of promissory notes to investors. Investor proceeds, totaling over \$450,000, were to be used to buy oil and gas leases for eventual resale. The proceeds were not used as represented. On October 23, L. Win Holbrook, bankruptcy trustee, filed his entry of appearance as counsel for Defendant 2001 Trinity Fund and requested an extension of time to file an answer. During November 2012, answers to the Department's petition were filed by the Defendants.

On June 5, 2013, Defendant Arrowood filed a motion for summary judgment against the Department. On June 24, the Department filed its response to the motion. On July 8, 2013, Defendant Arrowood filed his reply to the Department's response to the motion. On July 18, Defendant filed a motion to enter. On August 6, Judge Roger Stuart entered orders denying the Defendant's motion to compel and motion for summary judgment.

On September 10, Defendant Arrowood filed a notice to take the deposition of the Administrator. On September 17, the Department filed a motion to quash Defendant Arrowood's deposition notice and to request a protective order. On September 20, the Defendant filed his motion for a protective order. On September 27, the Department filed its response to Defendant's second motion. On September 30, Defendant filed his response to the Department's motion.

On November 13, Judge Stuart granted the Department's motion to quash the deposition notice and denied Arrowood's motion for a protective order.

On December 12, Defendant Arrowood filed a second motion for summary judgment thereby renewing his request to dismiss the case against him.

On January 3, 2014, the Department filed its response to Arrowood's renewed motion. On January 17, Judge Stuart issued an order continuing the pretrial conference to April. On January 24, Judge Stuart granted Arrowood's motion requesting that the hearing on his motion be stricken and reset. On January 30, the Department received a discovery request for documents from Arrowood.

On May 30, 2014, a hearing was held on Defendant Arrowood's renewed motion for summary judgment. Judge Stuart denied the motion.