

STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
THE FIRST NATIONAL CENTER
120 N. ROBINSON, SUITE 860
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

Rodney Larry Watkins, Jr. (CRD #3091936);
Southeast Investments, N.C. Inc. (CRD #43035); and
Frank H. Black (CRD #22451);

Respondents.

ODS File No. 12-058

SUPPLEMENTAL ENFORCEMENT DIVISION RECOMMENDATION

Pursuant to Section 1-602 of the Oklahoma Uniform Securities Act of 2004 (Act), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (2011), the Oklahoma Department of Securities (Department) conducted an investigation into certain activities of Rodney Larry Watkins, Jr. (Watkins), Southeast Investments, N.C. Inc. (Southeast), and Frank H. Black (Black) (collectively, Respondents) in connection with the offer and/or sale of securities in and/or from Oklahoma.

On March 26, 2013, the Department filed an Enforcement Division Recommendation against Watkins, Southeast, and Black (Recommendation). On April 30, 2014, the Department entered into an agreement with Watkins, leaving only Southeast and Black as parties. In discovery, Southeast and Black provided the Department with copies of Southeast's Written Supervisory Procedures dated August 2013 (WSPs). During discovery, the Department uncovered additional facts supporting a claim against Southeast and Black that is broader than failing to supervise Watkins as the Department alleged in its Recommendation. Specifically, Southeast has failed to establish, maintain and enforce written procedures that enable the firm to supervise properly the activities of Southeast's registered agents and associated persons to assure compliance with applicable securities laws, rules, and regulations as required by 660:11-5-42(b)(22) of the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities (Rules), Okla. Admin. Code §§ 660:1-1-1 through 660:25-7-1. Black, as principal, failed to enforce the WSPs.

Findings of Fact

1. – 25. See Findings of Fact set forth in the Recommendation and incorporated by reference herein.

26. Watkins continued to be affiliated with Southeast after the dates set forth in the Recommendation¹ and continued to offer and sell securities as an agent of Southeast.

27. Lamar Guillory (Guillory) became affiliated with Southeast as a registered agent on April 24, 2012. Guillory offered and sold securities in and/or from Tulsa, Oklahoma.

28. Black is Southeast's "Designated Supervisory Principal," Chief Compliance Officer, and Financial and Operations Principal. In addition to these duties, Black is Southeast's Chief Executive Officer and Chief Financial Officer.

29. Black is responsible for directly supervising all of Southeast's approximately one hundred and forty-five (145) agents as well as its associated persons.

30. The Southeast agents are geographically dispersed throughout the United States mostly in one or two-agent offices. Many of the agents are independent contractors who conduct outside business activities.

31. For purposes of supervision, Southeast does not maintain a system of branch offices or regional offices of supervisory jurisdiction, but instead relies entirely on Black to supervise all agents.

Black's Abdication of Supervisory Responsibilities

32. To purportedly affirm their compliance with regulatory requirements, Southeast agents, must fill out and sign a "Biannual Certification of Representative's Declaration to Supervisory Office" (Declaration).

33. In the Declaration, agents acknowledge that they received by email a copy of the WSPs. Southeast distributes copies of its WSPs to agents by email, but Black has stated that only twenty-seven (27) of Southeast's agents use email.

34. Southeast does not provide compliance training to its agents but merely distributes the WSPs and any regulatory updates via email. In connection with his duty to ensure compliance, Black relies primarily upon representations made by the agents in the Declaration and statements made in their purported annual compliance interviews. Although written records of such interviews are required by the WSPs, Southeast and Black have not provided written records of the compliance interviews with Watkins and Guillory in response to two separate discovery requests.

35. Black supervises all agents in the same manner regardless of disciplinary history or any other reason that might justify heightened supervision.

¹ The facts on which the Recommendation was based covered the time period of May 11, 2012, to September 19, 2012.

Electronic Communications

36. The WSPs provide that electronic communications shall be reviewed and approved by Black and retained by Southeast.

37. Southeast has no procedure in place to enable Southeast or Black to see and approve agents' securities related emails, but merely relies on the agents' good faith efforts to forward their emails to Southeast.

38. Contrary to the WSPs, Guillory stated that he does not provide his emails to Southeast and that Southeast has never requested he provide copies of his emails.

CRD Updates

39. The WSPs provide that Southeast and Black must report to the Central Registration Depository (CRD) any disclosable event, including administrative actions, within ten (10) days of the event.

40. Southeast and Black did not timely report the proceeding on the Recommendation on CRD with regards to Watkins.

41. When Southeast and Black finally reported the Recommendation, more than a year after the Recommendation was filed, the information was not reported accurately.

42. In June 2013, Watkins directed Southeast to update his business and residential addresses on CRD. Neither Southeast nor Black updated Watkins' business and residential addresses until November 2013, leaving Watkins' CRD profile inaccurate for almost five (5) months.

Order Tickets

43. The WSPs provide that the agent shall complete order tickets and submit them to Black for approval.

44. Contrary to the WSPs, agents do not complete order tickets, but instead call in orders over the phone to one or more of Southeast's employees in the firm's Charlotte, North Carolina office.

45. The WSPs provide that Black review all order tickets daily to determine, *inter alia*, suitability of each trade for each customer.

46. Black approves the securities transactions by initialing the daily trade blotter but does not review all of the transactions for suitability purposes.

To the extent any of these Findings of Fact are more properly characterized as Conclusions of Law, they should be so considered.

Authority

1. 660:11-5-42 of the Rules states in pertinent part:

(a) Purpose. This rule is intended to set forth the standards of ethical practices for broker-dealers and their agents. Any noncompliance with the standards of ethical practices specified in this section will constitute unethical practices in the securities business; however, the following is not intended to be a comprehensive listing of all specific events or conditions that may constitute such unethical practices. The standards shall be interpreted in such manner as will aid in effectuating the policy and provisions of the Securities Act, and so as to require that all practices of broker-dealers, and their agents, in connection with their activities in this state shall be just, reasonable and not unfairly discriminatory.

(b) Standards.

(1) A broker-dealer and his agents, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade. A broker-dealer and his agents shall not violate any federal securities statute or rule or any rule of a national securities exchange or national securities association of which it is a member with respect to any customer, transaction or business effected in this state.

* * *

(22) The following standards shall apply to supervisory procedures:

(A) Each broker-dealer shall establish, maintain and enforce written procedures which will enable it to supervise properly the activities of each registered agent and associated person to assure compliance with applicable securities laws, rules, regulations and statements of policy promulgated by the Administrator and/or the Commission under the Securities Act.

(B) Final responsibility for proper supervision shall rest with the broker-dealer, the principal(s) of the broker-dealer registered in accordance with 660:11-5-11, and the principal(s) of the broker-dealer in each OSJ, including the main office, and

the registered representatives in each non-OSJ branch office designated by the broker-dealer to carry out the supervisory responsibilities assigned to that office by the broker-dealer pursuant to the rules and regulations of the NASD. A copy of the written supervisory procedures shall be kept in each office of supervisory jurisdiction and each non-OSJ branch office.

(C) Each broker-dealer shall be responsible for keeping and preserving appropriate records for carrying out such broker-dealer's supervisory procedures. Each broker-dealer shall review and endorse in writing, on an internal record, all transactions and all correspondence of its registered agents pertaining to the solicitation or execution of any securities transaction.

(D) Each broker-dealer shall review the activities of each office, which shall include the periodic examination of customer accounts to detect and prevent irregularities or abuses and conduct at least an annual inspection of each office of supervisory jurisdiction.

(E) Each broker-dealer shall have the responsibility and duty to ascertain by investigation the good character, business repute, qualifications and experience of any person prior to making such a certification in the application of such person for registration under the Securities Act.

Conclusions of Law

1.- 7. See Conclusions of Law set forth in the Recommendation and incorporated by reference herein.

8. Southeast failed to establish, maintain and/or enforce supervisory procedures to enable the firm to assure compliance with applicable securities laws in violation of 660:11-5-42(b)(22) of the Rules.

9. Black failed to enforce supervisory procedures to assure compliance with applicable securities laws in violation of 660:11-5-42(b)(22) of the Rules.

10. The Administrator is authorized, pursuant to Section 1-411 of the Act, to suspend any registration, impose a censure, impose a bar, and/or impose a civil penalty against Southeast and Black.

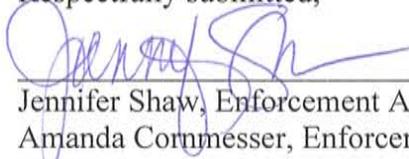
11. It is in the public interest for the Administrator to censure Black and to suspend the broker-dealer registration of Southeast.

To the extent any of these Conclusions of Law are more properly characterized as Findings of Fact, they should be so considered.

WHEREFORE, it is recommended that the Administrator issue an order imposing a censure against Respondent Black; suspending the broker-dealer registration of Respondent Southeast under the Act for a period of up to one (1) year; and imposing such other sanctions as deemed appropriate and authorized by law.

Dated this 20th day of June, 2014.

Respectfully submitted,



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