

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: November 10, 2014

Re: ENFORCEMENT REPORT

Attached is the report of the enforcement activities of the Department for the months of September and October, 2014.

Attachment

h:/home/londonb/EnforcementReports/14_Enf-Reports_Sep-Oct_2014.doc

**OKLAHOMA DEPARTMENT OF SECURITIES
ENFORCEMENT ACTIVITIES
SEPTEMBER AND OCTOBER 2014**

		FY-15		FY-14
		YTD		YTD
I.	Enforcement Files			
	a. Enforcement Files Opened during the reporting period	36		29
	1. Securities Act	35		24
	2. Business Opportunity Sales Act	0		5
	3. Other	1		0
	b. Enforcement Files Closed during the reporting period	49		44
	c. Active Enforcement Files	175		222
II.	Actions Taken during the reporting period			
	a. Orders Initiating Investigation	0		0
	1. Securities Act	0		0
	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	4		3
	1. Securities Act-Notices	3		3
	i. Hearing Set	1		0
	ii. Hearings Held	0		0
	2. Business Opportunity Sales Act Notices	1		0
	i. Hearing Set	0		0
	ii. Hearings Held	0		0

		FY-15	FY-14
		YTD	YTD
d. Other Orders		15	10
1. Securities Act		14	10
2. Business Opportunity Sales Act		1	0
e. Public Undertakings/Agreements		2	3
1. Securities Act		2	3
2. Business Opportunity Sales Act		0	0
f. Confidential Settlement Agreements		0	0
1. Securities Act		0	0
2. Business Opportunity Sales Act		0	0
g. Letters of Caution		5	2
1. Securities Act		5	2
2. Business Opportunity Sales Act		0	0
g. Appeals from Final Orders		1	0
1. Securities Act		1	0
2. Business Opportunity Sales Act		0	0
h. Civil Penalties - Amounts Collected		\$216,690.11	\$25,000
1. Securities Act		\$216,690.11	\$25,000
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

		FY-15		FY-14
		YTD		YTD
	j. Civil Enforcement Activities			
	1. Securities Act			
	i. Subpoenas Issued	0		0
	ii. Civil Petitions Filed	2		2
	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)	19		18
	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)	0		0
	2. Trainings/Seminars Attended	5		5
	3. Coordinated Activities	0		0
	III. Inquiries and Complaints			
	a. Inquiries	16		26
	b. Referrals from Other Oklahoma Agencies	1		2
	c. Referrals from Out of State Agencies	2		1

Administrative Actions

SUMMARY

**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 July, Respondents Southeast and Black filed a motion to dismiss the Department's supplemental recommendation. The Department filed a motion for summary decision. Respondents Southeast and Black also filed a motion for recusal of the Administrator and for appointment of a neutral hearing officer to which the Department responded. The Administrator

issued an order denying Respondents' recusal motion. A pre-hearing conference was held during which the parties agreed to submit the case on the documentary record. The parties were given the opportunity to supplement the record on or before August 29, 2014.

On October 10, the Administrator issued an order requiring Respondents Southeast and Black to cease and desist from their violations of the Act in failing to establish, maintain and/or enforce supervisory procedures to enable the firm to assist compliance with applicable securities laws (Order). The Order further required Respondents to pay a monetary penalty in the amount of \$5,000 to the Department within 90 days. On October 24, Respondents Southeast and Black filed a petition to the Oklahoma Securities Commission for review of the Order.

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.

On July 9, a hearing date was set by order of the Administrator.

On August 6, a Scheduling Order was issued.

During the months of September and October, an agreed application to continue the deadlines was filed with the Administrator. The Department responded to the Respondents' discovery requests. The Department requested the production of documents from the Respondents. The Enforcement Division filed a motion for leave to supplement its Recommendation. The motion was granted and the supplement to the Recommendation was filed. Respondents filed their answers and objections to the Department's request for the production of documents.

In the Matter of: Alexander, Jerome A.
ODS File No. 14-058

On July 25, 2014, the Administrator issued an order to cease and desist (Order), and a notice of opportunity for hearing, to Jerome A. Alexander (Alexander) of El Reno, Oklahoma. Alexander was transacting business in this state as an unregistered investment adviser in violation of the Act, and engaging in the unethical practice of not providing prior written notice of outside business activities to his associated broker-dealer as required by FINRA Rule 3270.

On August 20, Respondent filed his answer admitting the Findings of Fact in the Order and requested a hearing on the issue of what sanctions should be imposed against him. In lieu of the requested hearing, Alexander and the Administrator entered into an Agreement wherein Alexander consented to pay a civil penalty in the amount of \$15,000. On September 9, the Administrator issued a final order implementing the provisions of the Agreement.

Mr. Alexander was required to update his Form U4 to disclose the final order. On October 2, a letter was mailed to Mr. Alexander cautioning him to file the required amendment to his Form U4 and to comply with Section 1-406 of the Act and Article V, Section 2, of FINRA's by-laws in the future. Mr. Alexander subsequently filed the amendment.

In the Matter of: J.P. Morgan Securities, LLC
ODS File No. 14-063

State securities regulators from multiple jurisdictions conducted an investigation into the lack of registration of sales assistants of J.P. Morgan Securities, LLC (JPMS) and JPMS's supervisory systems with respect thereto. On September 11, 2014, the Administrator of the Department issued a Consent Order. The Consent Order addressed certain remedial changes to the firm's registration policies, supervisory procedures, and order entry systems. JPMS also agreed to pay the sum of \$50,600 to the Department's Investor Education Revolving Fund.

In the Matter of: CUNA Brokerage Services, Inc. and Paul R. Sanford Jr.
ODS File No. 14-012

Beginning in August 2013, the Department conducted a for-cause examination (Examination) of CUNA Brokerage Services, Inc. (CBSI) relating to the activities of Paul R. Sanford Jr. (Sanford). The Examination, and subsequent investigation by the Enforcement Division of the Department, revealed deficiencies relating to Respondents' receipt and possession of certain checks made payable to a third party.

On September 18, 2014, CBSI, Sanford, and the Administrator entered into an Agreement wherein CBSI agreed to pay to the Department a civil penalty in the amount of \$15,000. CBSI further agreed to revise its written supervisory procedures and compliance manual to include a provision that all securities and funds received from a person for deposit into a customer account once the account is opened should be treated as securities and funds of a "customer." The firm agreed to provide training to its agents regarding the receipt of securities and funds for deposit into a "to-be-opened" account. Sanford agreed to retire from the industry effective September 30, 2014, and will not reapply for registration under the Act.

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.

On August 5, Defendant Arrowood filed a Third Party Petition in this matter against Irving L. Faught and Shaun M. Mullins, in their individual capacities, alleging defamation, invasion of privacy, and intentional interference with business relations. On August 21, the Department filed a motion to strike the Third Party Petition.

On September 8, Defendant Arrowood filed notice to withdraw the Third Party Petition.

Oklahoma Department of Securities *ex rel.* Irving L. Faught, Administrator v. Timothy P. Hamilton, Jr. aka T.J. Hamilton, Timothy P. Hamilton, and Gena C. Hamilton Civil Case No. CJ-2013-6974

On December 20, 2013, the Department filed a Petition for Permanent Injunction and Other Equitable Relief in the District Court of Oklahoma County against Timothy P. Hamilton Jr., Timothy P. Hamilton, and Gena C. Hamilton (collectively, "Defendants"), alleging violations of Sections 1-301, 1-402 and 1-501 of the Act, in connection with the offer, and/or sale of securities in and/or from Oklahoma. Investors were solicited to fund a purported sports apparel and accessories company and two nutritional supplement companies. Investor proceeds of approximately \$900,000 were not used as represented.

On February 14, 2014, Defendants filed their answer to the Department's Petition.

On June 20, 2014, the Department requested the production of documents as part of discovery.

During the month of September, the Department received Defendants' responses to the discovery requests.

Oklahoma Department of Securities *ex rel.* Irving L. Faught, Administrator v. Vernon Donell Coleman and COMO Marketing LLC Civil Case No. CJ-2014-3815

On July 3, 2014, the Department filed a Petition for Permanent Injunction and Other Equitable Relief in the District Court of Oklahoma County against Vernon Donell Coleman (Coleman) and COMO Marketing, LLC, (COMO) (collectively, "Defendants"), all of Tulsa, Oklahoma, alleging violations of Sections 1-301, 1-402 and 1-501 of the Act, in connection with the offer and sale of investment opportunities (COMO Opportunities). COMO purportedly operated a "private investment club" promising a return on investment ranging from 2.5% to 10% per month. Coleman told Investors the COMO Opportunities were without risk as the investments were insured up to One Million Dollars (\$1,000,000). COMO raised approximately Fifty-Five Thousand Dollars (\$55,000) from two Oklahoma residents. The Investors did not receive a return on their investments, the return of their principal, or any insurance proceeds. The Department alleged Coleman used Investor funds for payment of personal expenses.

On October 8, the Defendants filed their answer to the Department's Petition. On October 28, Defendants consented to the entry of a permanent injunction and waived any right to appeal the order. On October 29, Judge Patricia Parrish issued an order against Defendants permanently enjoining them from transacting business in and/or from Oklahoma as an issuer, broker-dealer, broker-dealer agent, investment adviser and/or investment adviser representative, or otherwise offering and/or selling securities.

Oklahoma Department of Securities *ex rel.* Irving L. Faught, Administrator v. William S. Dalton
Civil Case No. CJ-2014-4751

On August 25, 2014, the Department filed a Petition for Permanent Injunction and Other Equitable Relief in the District Court of Oklahoma County against William S. Dalton of Tulsa, Oklahoma, alleging violations of Sections 1-301, 1-402 and 1-501 of the Act, in connection with the offer and sell of membership interests in limited liability companies formed for the purpose of purchasing mobile home parks and mobile homes.

On September 24, Judge Barbara G. Swinton issued an order against Defendant Dalton permanently enjoining him from offering or selling any security to or on behalf of another person in and/or from Oklahoma and from advising others as to the value of securities or the advisability of investing in, purchasing, or selling securities, or otherwise operating as an investment adviser as defined by the Act.

Oklahoma Department of Securities *ex rel.* Irving L. Faught, Administrator v. Seabrooke Investments, LLC; Seabrooke Realty, LLC; Oakbrooke Homes, LLC; Bricktown Capital, LLC; KAT Properties, LLC; Cherry Hill, LLC *dba* Cherry Hill Apartments; Tom W. Seabrooke; and Judith Karyn Seabrooke
Civil Case No. CJ-2014-4515

On August 11, 2014, the Department filed a Petition for Permanent Injunction and Other Equitable Relief in the District Court of Oklahoma County against the above-named Defendants, all of Oklahoma City, Oklahoma, alleging violations of Sections 1-301, 1-402 and 1-501 of the Act. The Department also filed an Application for a Temporary Restraining Order, Order Freezing Assets, Order Appointing Receiver, Order for Accounting and Temporary Injunction. On the same date, Judge Patricia G. Parrish issued a Temporary Restraining Order, Order Appointing Receiver, Order Freezing Assets, and Order for Accounting. Judge Parrish appointed Ryan Leonard as Receiver. On August 18, Robert Edinger filed his entry of appearance as counsel for the Receiver. On August 19, the Defendants filed a motion to vacate the temporary restraining order. On August 19, a hearing was held on the Department's application for a temporary injunction and Defendants' motion to vacate the temporary restraining order. Judge Parrish ordered the entry of a temporary injunction and ordered that the asset freeze, with the exception of one bank account, and the receivership remain in effect.

On September 9, a hearing was held on the primary issue of the Receiver's emergency motion to release the Bricktown Hotel and Convention Center as an asset of the Receivership. The Receiver believed that the value of the hotel was less than the value of its existing mortgages. Upon review of an agreed order of the parties, the Court ordered that the Bricktown Hotel and Convention Center be released from the asset freeze and receivership. Upon oral motion by the Seabrookes' counsel, the Court considered compensation from the receivership estate for Tom and Karyn Seabrooke. The Court authorized a one-time \$4,000 payment to Tom Seabrooke for his prior services in management of the hotel. The Court further authorized Karyn Seabrooke to receive a monthly payment of \$2,500 for property management services so long as the Receiver continues to utilize her services and one-half of all real estate commissions earned by Seabrooke Realty, LLC so long as she is licensed to sell real estate, employed by Seabrooke Realty, LLC, and utilized by the Receiver in that regard.

On October 14, after the Court's September compensation ruling, the Department filed a motion to remove Tom and Karyn Seabrooke from employment by the receivership. This motion was heard on October 14. The Court denied the Department's motion and ruled that Karyn Seabrooke would continue to receive monthly compensation in the amount of \$2,500.