

STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
FIRST NATIONAL CENTER, SUITE 860
120 NORTH ROBINSON
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

T.S. Phillips Investments, Inc. (CRD #124348),
Wanda Ross (CRD #3112244),
Sharon Allman (CRD #4290600), and
Thompson S. Phillips Jr. (CRD #843039),

Respondents.

ODS File No. 10-061

NOTICE OF SERVICE ON THE ADMINISTRATOR
AND
AFFIDAVIT OF COMPLIANCE

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA) ss.

The undersigned affiant, of lawful age, being first duly sworn upon oath deposes and states:

1. That he is the Administrator of the Oklahoma Department of Securities (“Administrator”).

2. That a copy of the Notice of Opportunity for Hearing (“Notice”) with Enforcement Division Recommendation (“Recommendation”) attached was delivered to Affiant in the office of the Administrator pursuant to Section 1-611 of the Oklahoma Uniform Securities Act (“Act”), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2009).

3. That the Administrator has received service of process on behalf of Respondents, pursuant to Section 1-611 of the Act.

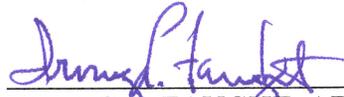
4. That a copy of the Notice, with the Recommendation attached, and a copy of this Notice of Service on the Administrator and Affidavit of Compliance are being sent this 15th day of June, 2010, by certified mail, return receipt requested, delivery restricted to addressee, to the last known addresses of Respondents, in compliance with Section 1-611 of the Act.

5. That this Affidavit of Compliance is declared filed of record as of the date set forth below in compliance with Section 1-611 of the Act.

FURTHER AFFIANT SAYETH NOT.

Dated this 15th day of June, 2010.

(SEAL)

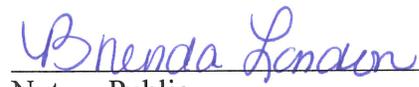


IRVING L. FAUGHT, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES

Subscribed and sworn to before me this 15th day of June, 2010.

(SEAL)





Notary Public

STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
FIRST NATIONAL CENTER, SUITE 860
120 NORTH ROBINSON
OKLAHOMA CITY, OKLAHOMA 73102



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Respondents.

ODS File No. 10-061

NOTICE OF OPPORTUNITY FOR HEARING

1. Pursuant to the Oklahoma Uniform Securities Act of 2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2009), a for cause examination was conducted into the activities of T.S. Phillips Investments, Inc. ("TSP"), Wanda Ross ("Ross"), Sharon Allman ("Allman"), and Thompson S. Phillips Jr. ("Phillips") (collectively, "Respondents"), in connection with the offer and/or sale of securities in and/or from the state of Oklahoma.

2. On the 10th day of June, 2010, the attached Enforcement Division Recommendation ("Recommendation") was left in the office of the Administrator of the Oklahoma Department of Securities ("Administrator").

3. Pursuant to 660:2-9-1 of the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities (as amended July 1, 2007) ("Rules") and Section 1-411 of the Act, the Administrator hereby gives notice to Respondents of their obligation to file an answer and their right to request a hearing to show why an order based on the Recommendation should not be issued.

4. The answer must be in writing and received by the Administrator within fifteen (15) days after service of this Notice. As required by 660:2-9-2 of the Rules, the answer shall indicate whether Respondent requests a hearing and shall specifically admit or deny each allegation contained in the Recommendation or state that Respondent does not have, and is unable to obtain, sufficient information to admit or deny each allegation.

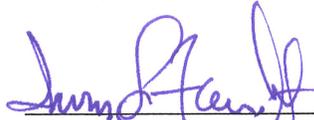
5. Failure to file an answer in compliance with 660:2-9-2 of the Rules, to include a request for a hearing as provided for herein, shall result in the issuance of an order suspending Respondent Ross's registrations under the Act for ninety (90) days and imposing civil penalties in the amount of \$10,000 each against Respondents TSP, Allman, and Phillips, pursuant to Section 1-411 of the Act and 660:2-9-2 of the Rules.

6. Upon receipt of a written request, pursuant to 660:2-9-2 of the Rules, a hearing on the Recommendation shall be promptly scheduled or a written order denying hearing shall be issued.

7. Notice of the date, time and location of the hearing shall be given to Respondents not less than forty-five (45) days in advance thereof, pursuant to 660:2-9-2 of the Rules.

Witness my Hand and the Official Seal of the Oklahoma Department of Securities this 15th day of June, 2010.

(SEAL)



IRVING L. FAUGHT, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES

CERTIFICATE OF MAILING

The undersigned hereby certifies that on the 15th day of June, 2010, a true and correct copy of the above and foregoing *Notice of Opportunity for Hearing* and the *Enforcement Division Recommendation* were mailed by certified mail, return receipt requested, delivery restricted, with postage prepaid thereon, addressed to:

Wanda Ross
3555 NW 58th St., Ste. 600
Oklahoma City, OK 73112

Sharon Allman
3555 NW 58th St., Ste. 600
Oklahoma City, OK 73112

Thompson S. Phillips Jr.
3555 NW 58th St., Ste. 600
Oklahoma City, OK 73112

T.S. Phillips Investments, Inc.
3555 NW 58th St., Ste. 600
Oklahoma City, OK 73112

The undersigned also hereby certifies that on the 15th day of June, 2010, a true and correct copy of the above and foregoing *Notice of Opportunity for Hearing* and the *Enforcement Division Recommendation* were mailed by first class mail, with postage prepaid thereon, addressed to:

Jeanette C. Timmons, Esq.
1700 One Leadership Square
211 N. Robinson
Oklahoma City, OK 73102-7101



Brenda London, Paralegal

**STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
THE FIRST NATIONAL CENTER
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OKLAHOMA CITY, OKLAHOMA 73102**



In the Matter of:

T.S. Phillips Investments, Inc. (CRD #124348),
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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 (Supp. 2009), the Oklahoma Department of Securities (“Department”) conducted a for cause examination of certain of the activities of T.S. Phillips Investments, Inc., Wanda Ross, Sharon Allman, and Thompson S. Phillips Jr. (collectively, “Respondents”), in connection with the offer and/or sale of securities in and/or from Oklahoma. Based thereon, the Enforcement Division of the Department submits the following Findings of Fact, Authorities, and Conclusions of Law to the Administrator of the Department (“Administrator”) in support of sanctions against Respondents.

Findings of Fact

Respondents

1. T.S. Phillips Investments, Inc. (“TSP”) has been registered as a broker-dealer under Oklahoma securities laws since March 2003. TSP’s main office is located in Oklahoma City, Oklahoma, and has been at all times material hereto.

2. Thompson S. Phillips Jr. (“Phillips”) has been registered under Oklahoma securities laws as an agent of TSP since March 2003. Phillips first registered as an agent under Oklahoma securities laws in 1988. In addition, Phillips has been registered under Oklahoma securities laws as an investment adviser representative of Phillips Capital Advisors, Inc., since 1990. Phillips was not registered under Oklahoma securities laws as an investment adviser representative prior to 1990. Phillips is the President, Chief Compliance Officer, majority shareholder, and control person of TSP and Phillips Capital Advisors, Inc.

3. Wanda Ross (“Ross”) has been registered under Oklahoma securities laws as an agent of TSP since March 2005. Ross first registered as an agent under Oklahoma securities laws in 1998. In addition, Ross has been registered under Oklahoma securities laws as an

investment adviser representative of Phillips Capital Advisors, Inc., since March 2005. Ross first registered under Oklahoma securities laws as an investment adviser representative in 1999.

4. Sharon Allman (“Allman”) has been registered under Oklahoma securities laws as an agent of TSP since March 2003. Allman was not registered in any capacity under Oklahoma securities laws prior to March 2003.

5. At all times material hereto, Phillips, Ross, and Allman operated from TSP’s main office. At all times material hereto, Phillips and Allman were designated supervisors for TSP’s main office.

Background on Auction Rate Securities

6. The term “auction rate securities” (“ARS”) typically refers to long-term investments, e.g. corporate or municipal bonds with long-term maturities, for which interest rates are regularly reset through Dutch auctions at predetermined short-term intervals, usually 7, 14, 28, or 35 days. These auctions can provide liquidity to investors who offer to sell their ARS at an auction.

7. An ARS auction can fail if there is not a buyer available for each ARS being offered for sale at the auction. If an auction fails, investors who want to sell their ARS are unable to do so and must wait until the next successful auction.

8. Beginning in February 2008, the ARS market has experienced widespread auction failures that have resulted in a frozen ARS market and illiquid ARS.

9. The frozen ARS market has been detrimental to investors who purchased ARS in reliance on representations that ARS are liquid or the equivalent of cash.

The Recommendation and Sale of ARS by Respondent Ross

10. At all times material hereto, Ross was the TSP broker-of-record for accounts owned by Customers S and C, who purchased ARS at the recommendation of Ross.

Customer S

11. Customer S and his wife opened a joint account at TSP on approximately May 16, 2007. In anticipation of using the funds in their account to pay taxes, Customer S and his wife titled the account, “Tax Account,” as indicated on trade confirmations, account statements, and other account documents. For simplicity purposes, this account will hereinafter be referred to as “Customer S’s Tax Account.”

12. The new account forms for Customer S’s Tax Account indicated the following:

- a. the account was funded with savings from earnings;
- b. the account had a short investment time horizon of zero to five years;

- c. the investment objectives for the account were preservation of capital, income, and capital appreciation, in that order of importance with preservation of capital being most important; and
- d. the risk tolerance was conservative.

13. During the time period May 29, 2007, through June 5, 2007, Respondent Ross recommended and effected the purchase of multiple ARS in Customer S's Tax Account. The purchases totaled approximately \$925,000. The ARS included, but were not limited to, municipal bonds issued by Tarrant County, Texas, with maturity dates of December 1, 2030. Respondent Ross represented these ARS to be safe and liquid.

14. Customer S redeemed or otherwise disposed of some of his ARS prior to April 1, 2008, on which date approximately \$125,000 of ARS remained in his Tax Account. The remaining ARS was a bond issued by Tarrant County.

15. On April 14, 2008, Respondent Ross recommended and effected the purchase of an additional auction rate bond issued by Tarrant County to mature on December 1, 2030, in Customer S's Tax Account. Customer S paid approximately \$75,000, par value, for the bond. Respondent Ross did not tell Customer S that the ARS market had been frozen since February 2008 and that the bond would be illiquid. Respondent Ross also did not tell Customer S that he was purchasing the bond from another customer who demanded the liquidation of the bond after the ARS market collapsed.

16. Customer S did not learn of the frozen ARS market until October 2009, when he received a September 2009 account statement indicating that the estimated price of the Tarrant County bond on September 30, 2009, and the estimated current market value were "unavailable." The prior account statements reflected the par value of the bond as the estimated price and current market value of the bond.

17. After Customer S reviewed his September 2009 account statement, he called Respondent Ross and asked why the estimated price and current market value of the Tarrant County bonds were being shown as "unavailable." In response, Ross represented that she, or someone in her office, had called the issuer to find out why. Customer S speculated that maybe the bonds were being called since the call date of October 29, 2009, was listed on the statement. Ross did not indicate that she disagreed with Customer S's speculation. Ross said she would get back to Customer S after she determined what was going on with the bonds. A few days later, Customer S called Ross again and was told that she was still "looking into it." Several days later, Customer S called Ross again and was told that she learned from the "bond people" at Goldman Sachs, the underwriter for the Tarrant County bonds, and other financial institutions that the ARS market had "dried up" and auctions were not being held.

Customer C

18. Customer C opened an account at TPS in the name of his business on approximately April 10, 2008. This account will hereinafter be referred to as "Customer C's Account."

19. The new account forms for Customer C's Account indicated the following:
- a. the account was funded with business revenue;
 - b. the account had a short investment time horizon of zero to five years;
 - c. the investment objectives for the account were preservation of capital, income, capital appreciation, and liquidity in that order of importance with preservation of capital being most important; and
 - d. the risk tolerance was a combination of moderate and aggressive.

20. Customer C funded his account in April 2008, with \$100,000. Respondent Ross recommended and effected the purchase of a \$100,000 auction rate Tarrant County, Texas, bond with a maturity date of December 1, 2030. Prior to purchasing the bond, Customer C informed Ross that he needed a safe and liquid investment because these funds were a reserve for his business. Ross assured Customer C that: the bond was AAA rated, the bond rolled over every week, and it would never take more than one week to sell the bond. Respondent Ross caused Customer C to feel "lucky" that he was able to purchase the bond. Ross did not inform Customer C that the ARS market had been frozen since February 2008 and that the bond would not be liquid. Respondent Ross also did not tell Customer C that he was purchasing the bond from another customer who demanded the liquidation of the bond after the ARS market collapsed.

21. Customer C did not know about the frozen ARS market until Respondent Ross finally told him on December 14, 2009, almost immediately after Ross was interviewed by an employee of the Examinations Division of the Department and asked to provide Customer C's account statements. Customer C had not noticed that his account statements for September 2009 through November 2009 stated "unavailable" for the estimated price and current market value for the ARS in his account.

Suitability

22. Respondent Ross did not have reasonable grounds for believing that her recommendation to purchase auction rate Tarrant County bonds in April 2008 was suitable for Customer S or C.

Failure to Supervise

23. TSP's Manual of Supervisory Procedures state:
- a. "[A]ll representatives agree to conduct his/her business by observing the highest standards of commercial honor and just and equitable principles of trade." (Ch. 2, pg. 1)
 - b. "In recommending to a Customer the purchase, sale or exchange of any security, the representative will have reasonable grounds for believing that the recommendation is suitable for such Customer upon the basis of the facts, if

any, disclosed by such Customer as to his other security holdings and as to his financial condition and needs.” (Ch. 3, pg. 3)

- c. “The representative must take care to insure that not only he/she is satisfied that suitability has been met, but also that the investor fully understands the significance of the suitability requirement.” (Ch. 3, pg. 4)
- d. “All recommendations made to customers must meet the investment objectives of that particular customer. Under no circumstances should recommendations be made that are not compatible with the goals of the customer.” (Ch. 3, pg. 6)
- e. “The designated Branch DP or his designee will review all transactions on a daily basis to detect indications of . . . 6. Customer suitability requirements not being met . . . 8. Activity not suitable for customer’s needs[.]” (Ch. 6, pg. 2)

24. Despite the provisions stated above, Respondents Phillips and Allman verbally approved Ross’s request to effectuate the cross trades in which the ARS were sold to Customers S and C in April 2008. Respondent Allman also approved the applicable order tickets.

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

Authorities

1. Rule 660:11-5-42 of the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities (as amended July 1, 2007) (“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.

(2) In recommending to a customer the purchase, sale or exchange of any security, the broker-dealer and his agents shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs. Prior to making a recommendation to a customer a broker-dealer shall also make reasonable efforts to obtain information concerning the customer's financial background, tax status, and investment objectives, and such other information used or considered to be reasonable and necessary by such broker-dealer or registered agent in making such recommendation.

* * *

(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.

* * *

2. Section 1-411 of the Act provides, in pertinent part:

B. If the Administrator finds that the order issued is in the public interest and subsection D of this section authorizes the action an order issued under this act may revoke, suspend, condition, or limit the registration of a registrant and if the registrant is a broker-dealer or investment adviser, any partner, officer, or director, any person having a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer or investment adviser. . . .

C. If the Administrator finds that the order is in the public interest and paragraphs 1 through 6, 8, 9, 10, 12 or 13 of subsection D of this section authorizes the action, an order under this act may censure, impose a bar, impose a civil penalty in an amount not to exceed a maximum of Five Thousand Dollars (\$5,000.00) for a single violation or Two Hundred Fifty Thousand Dollars (\$250,000.00) for multiple violations on a registrant, and/or recover the costs of the investigation from a registrant and if the registrant is a broker-dealer or investment adviser, from any partner, officer, or director, any person having a similar function or any person directly or indirectly controlling the broker-dealer or investment adviser.

D. A person may be disciplined under subsections A through C of this section if the person:

* * *

2. Has willfully violated or willfully failed to comply with this act or the predecessor act or a rule adopted or order issued under this act or the predecessor act within the previous ten (10) years;

* * *

9. Has failed to reasonably supervise an agent, investment adviser representative, or other individual, if the agent, investment adviser representative, or other individual was subject to the person's supervision and committed a violation of this act or the predecessor act or a rule adopted or order issued under this act or the predecessor act within the previous ten (10) years;

* * *

13. Has engaged in dishonest or unethical practices in the securities, commodities, investment, franchise, banking, finance or insurance business within the previous ten (10) years;

* * *

Conclusions of Law

1. Respondent Ross engaged in unethical practices in connection with the offer and sale of ARS to Customers S and C in April 2008, in violation of Rule 660:11-5-42.

2. Respondents TSP, Phillips, and Allman failed to supervise Respondent Ross, in violation of Rule 660:11-5-42, by failing to effectively enforce TSP's written procedures in connection with the offer and sale of ARS to Customers S and C in April 2008.

3. The Administrator is authorized to suspend Respondents' registrations under the Act and/or impose a civil penalty against Respondents, pursuant to Section 1-411 of the Act.

4. It is in the public interest for the Administrator to suspend Respondent Ross's registrations under the Act and impose civil penalties against Respondents TSP, Phillips, and Allman.

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 suspending Respondent Ross's registrations under the Act for ninety (90) days, imposing a civil penalty in the amount of \$10,000 each against Respondents TSP, Phillips and Allman, and imposing such other sanctions as appropriate and authorized by law.

Dated this 10th day of June, 2010.

Respectfully submitted,



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Oklahoma Department of Securities
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Oklahoma City, OK 73102
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Facsimile: (405) 280-7742