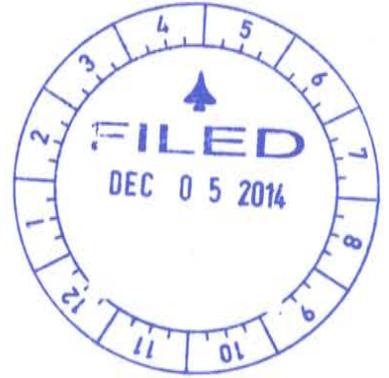


OKLAHOMASECURITIES COMMISSION  
FIRST NATIONAL CENTER, SUITE 860  
120 NORTH ROBINSON  
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

Southeast Investments, N.C. Inc. (CRD #430350);  
Frank H. Black (CRD #22451);

OSC 15-001

Appellants.

**BRIEF OF THE ADMINISTRATOR**  
**OF THE OKLAHOMA DEPARTMENT OF SECURITIES**

Respectfully Submitted,

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Appellants.

**BRIEF OF THE ADMINISTRATOR OF THE  
OKLAHOMA DEPARTMENT OF SECURITIES**

The Administrator of the Oklahoma Department of Securities (Department) issued his *Order to Cease and Desist and Imposing a Civil Penalty* (Administrator's Order) on October 10, 2014, in connection with an administrative proceeding initiated by the Department (File No. 12-058). A copy of the Administrator's Order is included as Exhibit 1. On October 24, 2014, Frank H. Black (Black) and Southeast Investments, N.C., Inc. (Southeast) (collectively, the "Appellants") filed a petition with the Administrator seeking review by the Oklahoma Securities Commission (Commission) of the Administrator's Order as set forth in Section 1-609 of the Oklahoma Uniform Securities Act of 2004 (Act), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (2013). The Administrator ordered Appellants to cease and desist their violations of the Act for failing to establish, maintain and/or enforce supervisory procedures and for failing to promptly file correcting amendments to the Form U-4 of Rodney Larry Watkins, Jr. (Watkins), an agent of Southeast (Administrator's Order). The Administrator also ordered the Appellants jointly pay a monetary penalty in the amount of \$5,000 to the Department within ninety (90) days of the date of the Administrator's Order. See Exhibit 1 at p.7.

This brief is submitted in support of the Commission affirming the Administrator's Order. Documents in the record of this proceeding (OSC 15-001 Vols. 1 and 2) are cited as "Record" followed by tab numbers, and where appropriate, page numbers.

## **I. JURISDICTION**

Southeast subjected itself to the jurisdiction of the Department when it became registered as a broker-dealer under Oklahoma law in May of 2009. (Record at Tab 43, Ex. A.) Southeast has also associated with two agents, Watkins and Lamar Guillory (Guillory), who are physically located in Oklahoma and registered under the Act as agents of Southeast. (Record at Tab 43, Ex. B and Ex. C.)

## **II. ISSUES FOR REVIEW**

Whether the Appellants' petition, the record upon which the Administrator's Order was issued, and written briefs show and support that:

- A. Southeast failed to establish, maintain and/or enforce supervisory procedures that enable the firm to assure compliance with applicable securities laws in violation of 660:11-5-42(b)(22) of the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities (Rules);
- B. Black failed to enforce supervisory procedures that enable the firm to assure compliance with applicable securities laws in violation of 660:11-5-42(b)(22) of the Rules; and
- C. the sanctions imposed by the Administrator's Order are warranted.

## **III. STATEMENT OF THE CASE**

The Administrator's Order found that the Appellants committed violations of the Act and the Rules. Specifically, Southeast failed to establish, maintain and/or enforce

supervisory procedures to enable the firm to assure compliance with applicable securities laws; Black failed to enforce supervisory procedures to assure compliance with applicable securities laws; and Appellants engaged in dishonest and unethical practices in the securities business as described in 660:11-5-42 of the Rules. (Ex.1.)

Throughout this administrative proceeding, Appellants made the same arguments as Appellants make in their petition for review and brief in support. The pertinent facts of this case, as found in the record, simply do not support Appellants' arguments.

#### **A. First Recommendation**

This saga originated with Rodney Larry Watkins, Jr., who at the time was registered as a broker-dealer agent and an investment adviser representative of Ameriprise Financial Services, Inc. (AFS) operating from Tulsa, Oklahoma. (Record at Tab 15, Ex. 8, pp.ODS Production 62-63 and 76-77.)

AFS allowed Watkins to voluntarily resign for violations of the firm's policies relating to discretionary power; unacceptable activities transactions; pre-signed forms and applications; forgery; signature stamps and other signature issues and annuity overview. (Record at Tab 15, Ex. 8, p.ODS Production 75.)

In February of 2012, Southeast entered into a broker-dealer/agent relationship with Watkins. (Record at Tab 3, p.1.)

On March 29, 2012, the Enforcement Division of the Department (Enforcement Division) filed a Recommendation to bar Watkins from association with a broker-dealer or investment adviser in any capacity based on unethical conduct while with AFS. (See admission in Record at Tab 3, p.2 and Record at Tab 15, Ex. 8, p.ODS Production 61.)

To resolve the matter, Watkins voluntarily entered into an agreement (First Agreement) with the Department in August of 2012. (See admissions in Record at Tab 2, pp.2-3 and Record at Tab 3, p.2.) The First Agreement provided for the issuance of an order (First Watkins Order) imposing a retroactive suspension for a period of nine months beginning on November 25, 2011, and ending on August 26, 2012 (the "Suspension Period"). (See admissions in Record at Tab 2, p.3 and Record at Tab 3, p.3) Prior to entering into the First Agreement, Watkins did not disclose to the Department that he had offered or sold securities during the Suspension Period. (See admissions in Record at Tab 2, p.6 and Record at Tab 3, p.6.)

#### **B. Second Recommendation**

The Department subsequently learned that between May 7 and September 20, 2012, while unregistered under the Act, Watkins solicited and/or effected securities transactions for several customers. (See admission in Record at Tab 2, pp.3-6; Record at Tab 3, pp.3-7; and Record at Tab 15, pp.4-6.) All of the transactions were executed through Southeast and approved by Black. (See admission in Record at Tab 2, p.7 and Record at Tab 3, p.7.) During the entirety of this time, the Central Registration Depository System (CRD) disclosed that Watkins was a resident of Tulsa, Oklahoma, and his employment address was 46 East 16<sup>th</sup> Street, Tulsa, Oklahoma. (Record at Tab 15, Ex. 8. Watkins' CRD record) CRD disclosed that this address was Watkins' designated location subject to supervision by Southeast. (Record at Tab 15, Ex. 8.) No other business locations were disclosed for Watkins. (Record at Tab 15, Ex. 8.)

Watkins continued to communicate with Southeast via email using his Watkins and Associates email address. His email signature line read: Rodney L. Watkins Jr.,

Watkins & Associates Financial Services, 46 East 16<sup>th</sup> Street, Tulsa, Oklahoma.  
(Record at Tab 15, Ex. 12.)

On December 27, 2012, Watkins provided the Enforcement Division with an affidavit (Watkins' Affidavit ) that states in pertinent part:

4. **My office and primary place of business** is located at 46 E. 16<sup>th</sup> Street, **Tulsa, Oklahoma** 74119. (Emphasis added.)

5. I am the owner of Watkins & Associates (Watkins & Associates) Financial Services located at 46 E. 16<sup>th</sup> Street, Tulsa, Oklahoma 74119. I devote in excess of one hundred (100) hours per month to this business.

\* \* \*

9. On May 11, 2012, while unregistered under the Act, I **may have** solicited and effected, **from the state of Oklahoma**, the purchase of 1450.512 shares of Transamerica Asset Allc Growth C (IAALX) by an existing Texas customer, Alprin, and received \$170.00 in commission. (Emphasis added.)

10. The transaction described above in Paragraph 9 was executed through Southeast Investments, N.C. Inc. located in Charlotte, North Carolina.

(Record at Tab 15, Ex. 7.)

On March 26, 2013, the Enforcement Division filed a second recommendation (2013 Recommendation) alleging that Watkins violated the First Agreement and First Watkins Order by transacting business in and/or from the state of Oklahoma as an agent without the benefit of registration under the Act. (Record at Tab 1.) The Recommendation also alleged that Appellants failed to supervise Watkins, in violation of 660:11-5-42 of the Rules. (Record at Tab 1.)

### C. Form U-4 Amendments

As part of his association with Southeast, Watkins signed the firm's *Representative's Declaration to Supervisory Office of Southeast* that states in pertinent part:

I certify that all answers I have provided on my U-4 regarding occurrences that are required to be filed have been done and I have reviewed the U-4 for completeness and accuracy. In accordance with FINRA regulations, I will **promptly** advise Southeast Investments of any occurrence that requires an amendment to my U-4. These events include, but are not limited to, customer complaints, **regulatory complaint or proceeding, change of address of home or business**, liens, court actions, arrests, warrants and bankruptcy. (Emphasis added.)

(Record at Tab 15, Ex. 1.)

In November 2013, eighteen months after the first trade during the Suspension Period and eight months after initiation of the second individual proceeding, Appellants amended Watkins' Form U-4 to reflect the change of his residential address to 9801 Royal Lane, Dallas, Texas. (Record at Tab 15, Ex.10.) Appellants also amended Watkins' Form U-4 to reflect the change of his employment address to 10000 North Central Expressway, Suite 400, Dallas, Texas, effective June 20, 2013. (Record at Tab 15, Ex. 10.)

On April 30, 2014, Watkins voluntarily entered into an agreement with the Department wherein he agreed to hire an independent compliance consultant that would oversee his securities activities for a period of three years (Second Agreement). (Record at Tab 33.) Subsequent to the execution of the Second Agreement, new evidence revealed additional instances of the Appellants' failure to supervise. (Record at Tab 38.)

On June 20, 2014, the Enforcement Division supplemented its 2013 Recommendation alleging that Appellants failed to establish, maintain and enforce written procedures that enable Southeast to supervise properly the activities of Southeast's registered agents and associated persons to assure compliance with applicable securities laws, rules, and regulations (Supplemental Recommendation). (Record at Tab 41.)

**D. Appellants' Failure to Supervise**

Southeast's main office, located in Charlotte, North Carolina, is designated as Watkins' office of supervisory jurisdiction (OSJ). (Record at Tab 43, Ex. B.) Black serves as Southeast's President, Chief Executive Officer, Chief Compliance Officer, Designated Supervisory Principal, and Financial and Operations Principal. (See admission in Record at Tab 41, p.2; Record at Tab 42, p.2; and Record at Tab 43, p.2. See also Record at Tab 55, pp. 10, 101, 104-105, 107.) Black is responsible for directly supervising all of Southeast's approximately one hundred and forty-five (145) agents as well as its associated persons. (See admission in Record at Tab 41, p.2 and Record at Tab 42, p.2.) The Southeast agents are geographically dispersed throughout the United States mostly in one or two-agent offices. (See admission in Record at Tab 41, p.2 and Record at Tab 42, p.2.) Many of the agents are independent contractors who conduct outside business activities. (See admission in Record at Tab 41, p.2 and Record at Tab 42, p.2.)

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. (See admission in Record at Tab 41, p.2; Record at Tab 42,

p.2; and Record at Tab 43, p.3.) Southeast does not provide compliance training to its agents but merely distributes its written supervisory procedures (WSPs) and any regulatory updates via email. (See admission in Record at Tab 43, Ex. D, Black Dep. 9:7-12 and 61:10-23.)

Southeast's WSPs require Black to conduct annual compliance interviews with each registered agent to discuss compliance matters relevant to the agent's activities. (Record at Tab 55, p.21.) Although written records of such interviews are required by the WSPs, Southeast and Black have not provided written records of any compliance interviews with Watkins and Guillory in response to two separate discovery requests. (Record at Tab 43, Ex. D, Black Dep. 76:2-14, and Ex. E, email with Patrick Waddel dated May 16, 2014. See also Appellants' Brief p.14, Footnote 10.)<sup>1</sup> Black also relies on bi-annual certifications by registered agents relating to compliance (Record at Tab 55, p.17 and Appellants' Brief, p.13.) The WSPs, however, do not require Black to verify the accuracy or truthfulness of the responses. (Record at Tab 55.)

Black represents that he supervises all agents in the same manner regardless of a particular agent's disciplinary history or any other reason that might justify heightened supervision. (See admission in Record at Tab 43, Ex. D, Black Dep. 20:20-22:19. See also Record at Tab 55, p.16.) Despite Watkins' disciplinary history, no heightened supervision plan was ever implemented for Watkins. (Record at Tab 43, Ex. D, Black Dep. 63:3-23.)

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<sup>1</sup> Counsel for Appellants admit in their brief that they failed to turn over documents in discovery. To date, Appellants have not provided the annual compliance interviews leaving Appellees to presume that they do not exist or the Appellants had compliance issues they did not want to be known by the Department. (Record at Tab 43, Ex. D, Black Dep. 75:12-25, 76:1-14.)

The WSPs provide that electronic communications shall be reviewed and approved by Black and retained by Southeast. (Record at Tab 55, pp.33-34.) Southeast has no procedure in place to enable Black to see and approve agents' securities related emails. (Record at Tab 43, p.4, Ex. D, Black Dep. 40:18- 41:20. See also Record at Tab 55, p.33.) Southeast simply relies on the agents' good faith efforts to forward their emails to Southeast. (Record at Tab 43, Ex. G.)

The WSPs provide that Southeast and Black must report to CRD any disclosable event, including administrative actions, within ten (10) days of the event. (See admission in Record at Tab 41, p.3 and Record at Tab 42. See also Record at Tab 55 p.35.) Southeast and Black did not timely report the initiation of the proceeding based against Watkins on the 2013 Recommendation on CRD. (See admission in Record at Tab 41, p.3 and Record at Tab 42, p.4.) When Southeast and Black finally reported the 2013 Recommendation, more than a year after the 2013 Recommendation was filed, the information was not reported accurately. (See admission in Record at Tab 41, p.3 and Record at Tab 42, p.5.) Southeast failed to report the date of the action correctly; misstated the allegations as unethical practices instead of transacting business without the benefit of registration and violating the First Watkins Order; failed to disclose the transactions as required by the First Agreement; and wrongly reported the Second Agreement as including "without admitting or denying" language. (Record at Tab 43, Ex. B, pp.26-27.)

In June 2013, Watkins directed Southeast to update his business and residential addresses on CRD. (See admission in Record at Tab 41, p.3 and Record at Tab 42, p.5.) Neither Southeast nor Black updated Watkins' business and residential addresses

until November 2013. (See admission in Record at Tab 41, p.3 and Record at Tab 42, p.5.)

The WSPs provide that the agent shall complete order tickets and submit them to Black for approval. (See admission in Record at Tab 41, p.3 and Record at Tab 42, p.5. See also Record at Tab 55, pp.40-41.) Contrary to the WSPs, agents do not complete order tickets, but instead call in orders over the phone to one or more non-registered employees in Southeast's Charlotte, North Carolina office. (See admission in Record at Tab 41, p.3 and Record at Tab 42, p.5.) The WSPs provide that Black review all order tickets daily to determine, *inter alia*, suitability of each trade for each customer. (See admission in Record at Tab 41, p.3 and Record at Tab 42, p.6. See also Record at Tab 55, p.41.) Black approves the securities transactions by initialing the daily trade blotter but does not review all of the transactions for suitability purposes. (Record at Tab 43, Ex. D, Black Dep. 37:3-38-6.)

#### **IV. LEGAL DISCUSSION**

##### **A. Southeast failed to establish an adequate supervisory system.**

Broker-Dealers must design and implement a supervisory system that is "appropriate for their specific businesses and structures." NASD Notice to Members 99-45, 1999 WL 33176539 (June 1999). Supervision is essential to broker-dealer operations. *In the Matter of Prospera Financial Services, Inc.*, SEC Release No. 34-43352, 2000 WL 1424360 \*5 (September 26, 2000).

##### **i. Southeast's off-site agents**

When determining the scope of a supervisory system, NASD Rule 3010 sets forth factors for consideration by the broker-dealer. Certain factors specifically pertain

to situations where registered representatives' locations are geographically dispersed and geographically distant from their OSJ. As offices under the supervision of a broker-dealer become more "numerous, dispersed and distant," the need for control increases. *In the Matter of Prospera Financial Services, Inc.*, \*5. A broker-dealer should, therefore, have a system in place to effectively supervise its agents when the firm's structure includes using independent contractors dispersed throughout the country. *In the Matter of Royal Alliance Associates, Inc.*, S.E.C. Release No. 34-38174, 1997 WL 13023 \*5 (1997). Furthermore, a broker-dealer should have sufficient staffing and resources to implement the system and a system for follow up and review to ensure the system is being exercised. *In the Matter of Prospera Financial Services, Inc.*, at \*5.

Southeast primarily employs independent contractors in small one or two person offices, many of which are located far from Southeast's home office in North Carolina. While this sort of structure creates greater challenges in supervision than those in a more traditional firm structure, the broker-dealer must still meet the same high standards of supervision. *In the Matter of Royal Alliance Associates, Inc.*, at \*6.

Southeast has not addressed the challenges created by its chosen structure. Instead of designating multiple OSJs and assigning registered principals to supervise particular offices or regions as provided in NASD Rule 3010, Southeast has designated its Charlotte, North Carolina office as the only OSJ and Black as the only OSJ Supervisor for all of its approximately 145 agents whether they are located in North Carolina, California or Oklahoma. Clearly, many of Southeast's agents, including Watkins and Guillory in Oklahoma, are geographically distant from their OSJ, and Southeast's agents are geographically dispersed from each other.

In addition to Black's role as the OSJ supervisor over all of Southeast's 145 agents, Black's positions at Southeast include, among others, Chief Compliance Officer, Financial and Operations Principal, and Designated Supervisory Principal. Southeast's supervisory system assigns so much responsibility to Black that it would be virtually impossible for Southeast to achieve compliance with applicable securities laws, regulations, or rules under its current structure.

Broker-dealers have also been warned that they should consider whether they have an appropriate number of registered principals located in places sufficient to effectively supervise off-site representatives. NASD Notice to Members 86-65, 1986 WL 591919 (September 1986). Although the Department is unaware of any jurisdiction that has officially set a maximum ratio of registered principal to number of agents supervised, at least two states have considered the matter in connection with a broker-dealer's supervisory system and implemented a ratio far less than Southeast's ratio of 1 principal to 145 agents. Pennsylvania issued an agreed order under its securities laws concluding that the firm failed to reasonably supervise its agents where they assigned one principal to 116 agents. *In the Matter of Ameriprise Financial Services, Inc.*, Docket No. 2008-03-25, 2009 WL 387148 (Pa. Sec. Com. 2009). Florida has issued orders under its securities laws requiring firms to maintain principal to agent ratios of 1 to 4 and 1 to 8 in connection with agreed orders. *In re: Cantella & Co., Inc.*, Admin. Proceeding No. 3424-S-02/02, 2002 WL 31235051 (Fla. Dept. Bank. Fin. 2002); *In re: FFP Securities, Inc.*, Admin. Proceeding No. 3030-S-11/00, 2003 WL 22098881 (Fla. Dept. Bank. Fin. 2003). Even with no other responsibilities than those related to supervision,

it seems incredible that one man could effectively supervise 145 agents that are so geographically dispersed and distant from that man's home base.

**ii. Heightened supervision of agents**

The implementation of an effective system for supervising remote offices becomes even more important when the broker-dealer chooses to employ agents with a history of compliance related concerns or other conduct that could be a "red flag" for future misconduct. *In the Matter of the Applications of Robert J. Prager and James Alexander for Review of Disciplinary Action Taken by the NASD*, SEC Release No. 34-51974, 2005 WL 1584983, \*11 (July 6, 2005). "Extraordinary supervision of a registered representative with a disciplinary past is particularly appropriate when that representative operates out of a one-person office located a substantial distance away from supervisory or compliance personnel." *In the Matter of Signal Securities, Inc.*, SEC Release No. 34-43350, 2000 WL 1423891, \*6 (September 26, 2000). Accordingly, Watkins clearly required heightened supervision.

Black has stated that he considers all of Southeast's agents to be on "heightened supervision," and therefore, he treats all of Southeast's agents the same despite the potential need for additional supervision. (Record at Tab 43, Ex. D, Black Dep. 20:20-22:19.) Watkins came to Southeast having been allowed to resign from his previous broker-dealer, AFS. AFS filed a Form U-5 to Watkins' CRD record stating that Watkins had violated the firm's policies relating to "discretionary power; unacceptable activities/transactions; pre-signed forms and applications; forgery; signature stamps; and other signature issues and annuity overview." In addition, the Department had filed a recommendation against Watkins in March 2012 relating to those same issues.

Watkins agreed to significant sanctions including the imposition of a back-dated suspension of his registration. Appellants should have recognized the seriousness of Watkins' prior conduct and placed him under genuine heightened supervision, even more so because Watkins was located so far from North Carolina in a small office where he was conducting other types of business.

Because Watkins' office was not identified as being a "branch office," Southeast's WSPs only required an actual on-site inspection once every three years. Even if Watkins' office was identified as a branch office, it would only be subject to on-site inspection once a year. These are not effective procedures for an agent with prior disciplinary history located in a remote small office. *In the Matter of Royal Alliance Associates, Inc.*, at \*6 (firm's pre-announced inspection even if conducted once a year would likely be inadequate supervision of small remote offices); *In the Matter of Consolidated Investment Services, Inc.*, S.E.C. Release No. 34-36687, 1996 WL 20829, \*4 (January 5, 1996) (unverified averments by agents were not adequate substitute for on-site inspections).

### **iii. Electronic correspondence**

NASD Rule 3010(d) requires that a broker-dealer establish procedures for "review by a registered principal of incoming and outgoing written and electronic correspondence of its registered representatives with the public" relating to its securities business. Effective supervisory systems for electronic communications should contain clear policies and procedures. *FINRA Regulatory Notice 07-59*, 2007 WL 4351164 (December 2007). If a firm allows its agents to communicate with clients through a third-party email platform, the firm is still required to supervise and retain those communications. *Id.* at 8.

A broker-dealer has flexibility in tailoring procedures for the review of its agent's emails in a manner that is appropriate for its business model; however, all broker-dealers must have the ability to flag emails that may evidence misconduct. FINRA News Release, FINRA Fines MetLife Securities and Affiliates \$1.2 Million for Email Supervision Failures (November 18, 2009) and related FINRA Letter of Acceptance, Waiver and Consent No. 2006006777801, MetLife Securities, Inc. et al. (November 18, 2009). MetLife's supervisory procedures mandated that a principal would review all incoming and outgoing securities-related email communications of its agents; however, MetLife relied on their agents to forward their emails to a principal for review. FINRA found MetLife had no system in place to monitor the email communications of its agents to determine if its agents actually forwarded their emails for review and as a result had failed to recognize clear indications of undisclosed outside business activities and other misconduct by agents. *Id.* FINRA found that annual branch audits and spot checking computers were not effective means of detecting deficiencies in connection with a system that provided for email forwarding. *Id.* In a press release, FINRA's Executive Vice President and Chief of Enforcement stated that "relying on brokers to provide copies of their own emails to supervisors for review is hardly an effective means to detect such misconduct." *Id.*

Southeast's supervisory system for emails does not contain effective and clear policies and procedures. Southeast's WSPs nominally address the supervision of email correspondence by providing that Black shall be responsible for ensuring that the use of electronic communications is in compliance with applicable laws. However, Southeast allows its agents to communicate with clients through their own personal email

platforms, and it does not have an effective system in place to review those emails directly and in a timely manner. Instead, Southeast's policy merely requires that the agents forward their securities related emails to Southeast. Southeast does not even require that the emails be forwarded within a particular time. Furthermore, because Southeast rarely conducts on-site inspections of its agents (in the time since Watkins and Guillory have been registered as agents of Southeast, Black has not once visited their place of business), Southeast has no way of adequately determining whether its agents are even submitting the emails they are supposed to be submitting. Appellants' reliance on the "good faith" compliance of agents to submit electronic correspondence and failure of their WSPs to address the procedure for review is inadequate.

Contrary to Appellants' assertions in its Response, the Department is not concerned with an agent's personal email accounts or those relating to an agent's other, non-securities related business, at least to the extent that those accounts are not used for securities related business. However, where an agent uses an email account, even a personal one or one designated for the agent's other business activities, in connection with his securities related business, the broker-dealer is required to have a system in place to adequately supervise those communications. *FINRA News Release, LPL to Pay \$9 Million for Systemic Email Failure and for Making Misstatements to FINRA (May 21, 2013) and related FINRA Letter of Acceptance, Waiver and Consent No. 2012032218001, LPL Financial LLC (May 21, 2013).*

In the present matter, Watkins, while suspended in Oklahoma, had email correspondence via a personal email account with at least one Oklahoma customer relating to securities business. This email correspondence was forwarded to Guillory

and was only discovered by the Department when it served discovery requests on Guillory. Southeast did not provide the email to the Department in connection with discovery requests directed to Southeast. Guillory testified that he did not forward emails to Southeast and was never asked to do so. (Record at Tab 43, Ex. H, Guillory Dep. 59:5-8.)

Southeast, under NASD Rule 3010(d), also has a duty to review and retain the emails between clients and its agents. Either Southeast did not retain the Guillory email or, as Guillory has represented, Southeast never had the email in the first place. Either way, Southeast failed to comply with NASD Rule 3010(d).

**B. Southeast and Black failed to enforce Southeast's written supervisory procedures.**

Incredibly, Appellants conclude that violations of Southeast's written supervisory procedures "have no legal effect." Appellants' Brief at pp.16-17. As a broker-dealer registered under the Act, Appellants are subject to 660:11-5-42(b)(22) of the Rules that is modeled after NASD Rule 3010. NASD Rule 3010 and 660:11-5-42(b)(22) of the Rules specifically require a broker-dealer to establish, maintain, and enforce written procedures to supervise the activities of each of its registered agents and associated persons to assure compliance with applicable securities laws, rules and regulations, and statements of policy promulgated under the Act. Written supervisory procedures document the supervisory system that has been established to ensure that compliance guidelines are being followed by registered agents and to prevent and detect prohibited practices. *NASD Notice to Members 99-45* (June 1999).

Appellants have total disregard for the essential purpose of the WSPs as "appropriately designed and implemented supervisory systems and written supervisory

procedures serve as a 'frontline' defense to protect investors from fraudulent trading practices and help to ensure that [broker-dealers] are complying with rules designed to promote the transparency and integrity of the market." NASD Notice to Members 98-96 (December 1998). A failure to *establish and maintain* a supervisory system, to include written supervisory procedures describing that the system, is a violation of NASD Rule 3010. *Id.* In addition, a failure to *enforce* a supervisory system and/or written supervisory procedures is a violation of NASD Rule 3010. *Id.*

Failures to establish, maintain and enforce written supervisory procedures also constitute violations of 660:11-5-42(b)(22) of the Rules. When violations of the Rules occur, there are legal consequences.

#### **i. Order tickets**

NASD Rule 3010(d) specifically requires a broker-dealer to make provisions for the review of all transactions. Southeast's WSPs require agents to complete an order ticket upon taking their customers' orders and send the order tickets to the Designated Supervisory Principal for review. Contrary to the WSPs, the order tickets are not completed by the customer's agent but instead are called in to Southeast's OSJ by the agent and completed by a Southeast employee. Appellants admit in their Response that they do not follow the WSPs as to this procedure.

Southeast's WSPs also require the Designated Supervisory Principal to review all orders tickets daily and evidence his approval of the transaction by initialing the daily trade blotter. According to the WSPs, the Designated Supervisory Principal should ensure that, prior to executing a transaction involving a recommended security, a review is conducted to determine *inter alia* whether a transaction is inconsistent with the client's

investment objectives and financial resources. These are issues of whether a particular transaction is suitable for a client. Appellants claim that all customers are subjected to a suitability review when their account is opened and a “review need not be repeated every time the same customer buys a share of stock.” (Record at Tab 39, pp.5-6.) And yet, Southeast’s clearly worded WSPs require that they do just that. Appellants are not fulfilling their supervisory duties by failing to execute the WSPs with respect to the suitability of transactions.

**ii. Form U-4 updates**

Appellants’ WSPs require them to report to the CRD any disclosable event, including administrative actions, within ten (10) days of the event. While employed with Southeast, Watkins became the subject of an administrative action filed by the Department, the 2013 Recommendation that constitutes a disclosable event requiring an update to his Form U-4.

Appellants were aware of the 2013 Recommendation because they were also named therein and they did disclose it on Southeast’s Form BD and Black’s Form U-4. Instead of following the firm’s own procedures, Southeast waited one (1) year to disclose the 2013 Recommendation filed against Watkins. To further show their cavalier attitude toward keeping records such as a Form U-4 current and accurate, when they finally did report the 2013 Recommendation, the filing was inaccurate.

Watkins did not disclose the existence of an office in Texas and a change in his residential address until over a year after the occurrence of the transactions at issue and months after the Watkins’ Affidavit wherein he had acknowledged Tulsa, Oklahoma as his place of business. Watkins sent a request to Southeast for his business and

residential address be updated months after this 2013 Recommendation was filed. Southeast took an additional five (5) months to follow Watkins' directions and make the requested change.

**C. Appellants failed to timely and accurately correct CRD records.**

Section 1-406(B) of the Act provides that if any information filed in a registrant's application becomes inaccurate, he shall promptly file a correcting amendment. As outlined in FINRA Rule 1122, "No member or person associated with a member shall file with FINRA information with respect to membership or registration which is incomplete or inaccurate so as to be misleading, or which could in any way tend to mislead, or fail to correct such filing after notice thereof." The Department and FINRA both require that an agent file with CRD the Uniform Application for Securities Industry Registration or Transfer (Form U-4) to become registered and keep the Form U-4 current while registered. Form U-4 requires agents to list their business and residential addresses and to list any disciplinary actions.

The CRD system is joint property of FINRA and state securities regulators, including the Department. Broker-dealers and agents applying to become registered in Oklahoma under the Act are required to file registration statements with the CRD, and amend the information if it becomes inaccurate. The Department uses the CRD system to maintain the broker-dealers and agents' registration information. Individual agents do not ordinarily have the ability to access their CRD record directly, but are required to advise their broker-dealer when a particular section needs to be updated.

During the 2013 Recommendation relevant time period, Watkins' disclosed location for purposes of supervision by Southeast and Black was Tulsa. Watkins did not

disclose the existence of an office in Texas and a change in his residential address until over a year after the occurrence of the transactions at issue and months after the Watkins' Affidavit wherein he had acknowledged Tulsa, Oklahoma as his place of business. In fact, he first indicated the existence of a Texas office in his reply to the 2013 Recommendation on which this proceeding is based. However, his website listed the Oklahoma office as his place of business. His emails listed the address for the Oklahoma office, an Oklahoma telephone number and an Oklahoma facsimile number as means of contact.

The CRD information, including business and residential addresses of agents, is relied on by the Department to present a complete and accurate record "which can be used in conjunction with, *inter alia*, license renewals or revocations, requests for public inspection and to ascertain the existence of patterns of misconduct warranting regulatory intercession." *In re UBS Fin. Servs., Inc.*, 851 N.Y.S.2d 75 (Sup. Ct. 2007).

Appellants contend that the late and inaccurate filings are not material. To determine materiality, the Administrator should determine if the failure to accurately and timely report the disclosure or omitted fact would significantly alter the "total mix" of information available to a reasonable investor. *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 449 (1976). In this case, the disclosures are public information through FINRA's BrokerCheck and current or potential clients of Southeast and/or Watkins may consider a pending action by a state regulator material to deciding whether to do business with Southeast and/or Watkins. *Dept. of Enforcement v. Wedbush Securities, Inc.*, FINRA Disciplinary Proceeding No. 20070094044 (August 2, 2012).

Without access to accurate address information, the Department would be unable to locate the agent or know where to go to conduct an examination of his business activities in carrying out the Department's duties under the Act. Without access to accurate disciplinary history, another regulator may register the agent when that regulator might otherwise object to his application or seek to place restrictions on his registration. Customers may be unable to identify the correct agent to conduct a background check and may choose to do business with an agent that they might otherwise reject.

**D. The Administrator's Order is supported by the record.**

When acting under the authority of Section 1-604 of the Act, the Administrator may impose any sanction authorized by Section 1-604 of the Act including, but not limited to, a cease and desist order.

Appellants failed to establish, maintain and/or enforce supervisory procedures to enable the firm to assist compliance with applicable securities laws in violation of 660:11-5-42(b)(22). In addition, Appellants failed to promptly file a correcting amendment of an agent's change of address and the filing of the Department's 2013 Recommendation on March 26, 2013. These actions were willful on behalf of Appellants and the conduct constituted dishonest and unethical practices in securities business.

The issue of public interest has historically been a discretionary matter placed in the hands of administrative agencies by legislative bodies at both the state and federal levels. The Oklahoma Legislature has followed historical precedent in enacting this state's securities laws. Pursuant to the provisions of Section 1-604 of the Act, the

Administrator is given the discretion to determine that it is in the public interest to issue an order under that provision or to impose a sanction authorized by the Act.

In *Johnson v. Board of Governors of Registered Dentists of the State of Oklahoma*, 913 P.2d 1339 (Okla. 1996), the Oklahoma Supreme Court considered the imposition of sanctions by an administrative agency. When given discretion by the Legislature, the decision as to what discipline is proper lies with the administrative body as long as the sanction is within the law, is justified in fact, and is not arbitrary or capricious. *Johnson*, at 1347.

In the instant matter, the Administrator issued an order based on the record. The Administrator's Order included a finding that it is in the public interest to direct the Appellants to take the necessary steps to come into compliance with the Act and Rules and to impose a civil penalty against Black and Southeast. The Administrator has been entrusted by the Oklahoma Legislature to determine the appropriate sanction or sanctions in order to achieve the protection of the investing public. Such responsibility is appropriately, and by necessity, a matter for administrative competence.

The court in *Steadman v. Securities & Exchange Commission*, 603 F.2d 1126 (5<sup>th</sup> Cir. 1979), *aff'd on other grounds*, 450 U.S. 91 (1981), established six factors for evaluating the propriety of sanctions. These factors are: 1) the egregiousness of the act; 2) whether the conduct is isolated or recurrent; 3) the degree of scienter or intent; 4) the sincerity of the appellant's assurances against future violations; 5) the appellant's recognition of the wrongful nature of the act; and 6) the likelihood that the appellant's occupation will present opportunities for future violations. *Steadman*, at 1140.

Based on the violations committed by the Appellants in this case, and their attendant actions, the requested sanctions against the Appellants are not arbitrary and capricious and are necessary to protect the public interest.

**CONCLUSION**

Public interest demands enforcement and compliance with the registration and disclosure requirements of the Act as well as the ethical practice standards for broker-dealers. Appellants have engaged in acts, practices, or courses of business that constitute material violations of the Act and/or Rules. Contrary to Appellants' assertion, these violations have "legal effect." The Department believes the ordered sanctions are fully warranted and the Order should be affirmed.

Respectfully Submitted,



Z. Faye Martin Morton (OBA #6454)  
Oklahoma Department of Securities  
120 North Robinson, Suite 860  
Oklahoma City, OK 73102  
(405) 280-7700

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the 5<sup>th</sup> day of December, 2014, a true and correct copy of the above and foregoing *Brief of the Administrator of the Oklahoma Department of Securities* was mailed with postage prepaid thereon, addressed to:

Mick Thompson  
Oklahoma State Banking Department  
2900 N Lincoln Blvd  
Oklahoma City OK 73105

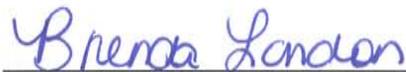
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Brenda London  
Paralegal

# EXHIBIT 1

STATE OF OKLAHOMA  
DEPARTMENT OF SECURITIES  
THE FIRST NATIONAL CENTER  
120 NORTH 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

**ORDER TO CEASE AND DESIST AND IMPOSING A CIVIL PENALTY**

On March 26, 2013, the Enforcement Division of the Oklahoma Department of Securities (Department) filed a recommendation under the Oklahoma Uniform Securities Act of 2004 (Act), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (2011), alleging that Rodney Larry Watkins, Jr. (Watkins) violated a previous order of the Administrator of the Department (Administrator) by transacting business in and/or from the state of Oklahoma as an agent without the benefit of registration under the Act and that Frank H. Black (Black) and Southeast Investments, N.C. Inc. (Southeast) failed to supervise Watkins in violation of 660:11-5-42 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 (2013 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). The Department, in April and May of 2014, deposed Black, Watkins, and Lamar Guillory (Guillory), another agent of Southeast who is located in Oklahoma. On June 20, 2014, the Department supplemented its 2013 Recommendation to allege that Southeast failed to establish, maintain and enforce written procedures that enable Southeast to properly supervise the activities of Southeast's registered agents and associated persons to assure compliance with applicable securities laws, rules, and regulations (Supplemental Recommendation). Black and Southeast (collectively, Respondents) filed their response to the Supplemental Recommendation on July 15, 2014 (Response). The parties have filed various additional pleadings but ultimately agreed to submit the case on the documentary record and waived their rights to appear at a hearing.

NOW, THEREFORE, the Administrator hereby enters this Order:

## FINDINGS OF FACT

1. Southeast became registered as a broker-dealer on May 8, 2009, under the Act, and has been a member of the Financial Industry Regulation Authority (FINRA) since July 1, 1997.

2. Black, a South Carolina resident, is the owner and control person of Southeast. In addition to these duties, Black is Southeast's Chief Compliance Officer, Financial and Operations Principal, and "Designated Supervisory Principal" (the title used to designate particular authority and responsibilities in Southeast's WSPs). Black is not and has not been registered under the Act in any capacity.

3. Watkins was first registered as an agent under the Act in December 1998. From March 2009 until October 2011, Watkins was registered as an agent of Ameriprise Financial Services, Inc. (AFS). Watkins was allowed to resign as a result of an internal AFS investigation. AFS filed a Uniform Termination Notice for Securities Industry Registration (Form U-5) with CRD stating that Watkins had violated the firm's policies relating to "discretionary power; unacceptable activities/transactions; pre-signed forms and applications; forgery; signature stamps; and other signature issues and annuity overview." Watkins became an agent of Southeast in February of 2012 and designated an address in Tulsa, Oklahoma as his business address.

4. Southeast's principal place of business located in Charlotte, North Carolina is designated as Guillory's and Watkins' office of supervisory jurisdiction.

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

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

7. 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, individually, to supervise all agents other than himself.

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

9. Southeast and Black did not timely report the proceeding on the 2013 Recommendation on CRD with regards to Watkins.

10. When Southeast and Black did report the 2013 Recommendation, the filing was inaccurate as to the date, the basis and the conditions of the action.

11. 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 during this period.

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

13. 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.

14. The WSPs provide that Southeast will conduct annual compliance interviews with each of its agents and maintain a record of all interviews. Respondents have not submitted any record of compliance interviews with Watkins and Guillory even though there were two separate discovery requests for such records.

15. On August 6, 2014, the Administrator conducted a pre-hearing conference wherein the parties agreed to waive their right to an oral hearing and to have this matter submitted on the documentary record as provided for by Section 660:2-9-2(g) of the Rules. Therein the Administrator directed that the parties submit any additional evidence or argument to be considered as part of the documentary record no later than August 29, 2014.

16. Attached as Exhibit A is a listing of the contents of the Hearing Notebook that serves as the Designation of Record for use in consideration of the instant matter.

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

#### AUTHORITIES

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 [now FINRA]. 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.

2. Section 1-406 of the Act states in pertinent part:

A. A person shall register as a broker-dealer, agent, investment adviser, or investment adviser representative by filing an application that contains:

1. The information required for the filing of a uniform application, a consent to service of process complying with Section 49 of this act [Section 1-611 of this title], the fee specified in Section 50 of this act [Section 1-612 of this title] and any reasonable fees charged by the designee of the Administrator for processing the filing; and

2. Upon request by the Administrator, any other financial or other information that the Administrator determines is appropriate.

B. If the information contained in an application that is filed under subsection A of this section is or becomes inaccurate or incomplete in any material respect, the registrant shall promptly file a correcting amendment.

3. Section 1-604 of the Act states in pertinent part:

A. If the Administrator determines that a person has engaged, is engaging, or is about to engage in an act, practice, or course of business constituting a violation of this act or a rule adopted or order issued under this act or constituting a dishonest or unethical practice or that a person has materially aided, is materially aiding, or is about to materially aid an act, practice, or course of business constituting a violation of this act or a rule adopted or order issued under this act or constituting a dishonest or unethical practice, the Administrator may:

1. Issue an order directing the person to cease and desist from engaging in the act, practice, or course of business or to take other action necessary or appropriate to comply with this act;

2. Issue an order denying, suspending, revoking, or conditioning the exemptions for a broker-dealer under subparagraph d or f of paragraph 1 of subsection B of Section 18 of this act [Section 1-401 of this title] or an investment adviser under subparagraph c of paragraph 2 of subsection B of Section 20 of this act [Section 1-403 of this title]; or

3. Issue an order under Section 9 of this act [Section 1-204 of this title].

\* \* \*

D. In a final order under subsection C of this section, the Administrator may impose a civil penalty up to a maximum of Five Thousand Dollars (\$5,000.00) for

a single violation or up to Two Hundred Fifty Thousand Dollars (\$250,000.00) for multiple violations in a single proceeding or a series of related proceedings.

4. Section 1-411 of the Act states in pertinent part:

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 . . . , from any partner, officer, or director, any person having a similar function or any person directly or indirectly controlling the . . . broker-dealer.

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;

\* \* \*

8. Has failed to reasonably supervise an agent, investment adviser representative, or other individual, if the agent, investment adviser representative, or other individuals 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 . . . business within the previous ten (10) years[.]

#### CONCLUSIONS OF LAW

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

2. 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.

3. Southeast and Black failed to promptly file a correcting amendment of Watkin's change of address and the filing of the 2013 Recommendation on March 26, 2013.

4. Southeast and Black willfully failed to comply with the Act and with a rule adopted under the Act. Such conduct constitutes dishonest and unethical practices in the securities business.

5. The Administrator is authorized, pursuant to Section 1-604 of the Act, to issue an order directing Respondents to cease and desist from engaging in the acts, practices, and courses of business necessary to comply with this act.

6. The Administrator is also authorized, pursuant to Sections 1-411 and 1-604 of the Act, to suspend any registration, impose a censure, impose a bar, and/or impose a civil penalty against Southeast and Black.

7. It is in the public interest for the Administrator to direct that Southeast and Black take the necessary steps to come into compliance with the Act and Rules.

8. It is in the public interest for the Administrator to impose a civil penalty against Black and Southeast.

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

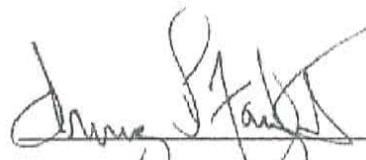
**ORDER**

**IT IS HEREBY ORDERED** Southeast and Black 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 law.

**IT IS HEREBY FURTHER ORDERED** that Respondents Southeast and Black jointly pay a monetary penalty in the amount of \$5,000 to the Department, by cashier's check or money order within ninety (90) days of the date of this order.

Witness my Hand and the Official Seal of the Oklahoma Department of Securities this 10<sup>th</sup> day of October, 2014.

(SEAL)

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

## CERTIFICATE OF SERVICE

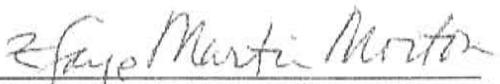
The undersigned hereby certifies that on the 10<sup>th</sup> day of October, 2014, true and correct copies of the above and foregoing *ORDER TO CEASE AND DESIST AND IMPOSING A CIVIL PENALTY* were sent in the following manner to the specified individuals:

By electronic mail and mailed with postage prepaid thereon, addressed to:

Patrick O. Waddel, OBA #9254  
J. David Jorgenson, OBA #4839  
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Tulsa OK 74103-3522  
pwaddel@sneedlang.com  
**Attorneys for Respondents**

By electronic mail to:

Jennifer Shaw, OBA #20839  
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acornmesser@securities.ok.gov  
**Attorneys for the Department**

  
Z. Faye Martin Morton, General Counsel

## EXHIBIT A

STATE OF OKLAHOMA  
DEPARTMENT OF SECURITIES  
FIRST NATIONAL CENTER  
120 NORTH 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

### HEARING NOTEBOOK

- A. Oklahoma Uniform Securities Act of 2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (2011)
- B. Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities (as amended July 1, 2007)
  1. Enforcement Division Recommendation, *filed with the Administrator on March 26, 2013*
  2. Notice of Request for Hearing by Rodney Larry Watkins, *filed with the Administrator on April 15, 2013*
  3. Notice of Request for Hearing by Southeast Investments, N.C. Inc. and Frank H. Black, *filed with the Administrator on April 15, 2013*
  4. Order Setting Hearing, *filed by the Administrator on May 9, 2013*
  5. Order Striking Hearing, *filed by the Administrator on October 22, 2013*
  6. Order Setting Scheduling Conference, *filed by the Administrator on October 23, 2013*
  7. Respondents' Motion Requesting Rescheduling of Telephone Scheduling Conference, *filed with the Administrator on October 23, 2013*
  8. Order Resetting Scheduling Conference, *filed with the Administrator on October 25, 2013*
  9. Agreed Scheduling Order, *filed by the Administrator on November 4, 2013*
  10. Respondents' Motion for Summary Disposition, *filed with the Administrator on December 2, 2013*
  11. Department's Preliminary List of Witnesses and Exhibits, *filed with the Administrator on December 11, 2013*
  12. Department's Motion to Toll Time to File Response to Respondents' Motion for Summary Disposition, *filed with the Administrator on December 17, 2013*

13. Agreed Order Tolling Time to File Response to Respondents' Motion for Summary Disposition, *filed by the Administrator on December 17, 2013*
14. Respondents' Motion for Order Compelling Response to his Motion for Summary Disposition and for Related Relief, *filed with the Administrator on February 27, 2014*
15. Department's Response to Respondents' Motion for Summary Disposition and Department's Motion for Summary Decision, *filed with the Administrator on February 28, 2014*
16. Respondents' Reply Brief in Support of their Motion for Summary Disposition and in Opposition to the Department's Motion for Summary Decision, *filed with the Administrator on March 6, 2014*
17. Order Denying Respondents' Motion for Summary Disposition and Department's Motion for Summary Decision, *filed by the Administrator on March 10, 2014*
18. Department's Motion for Resolve Discovery Issues and Request for Hearing, *filed with the Administrator on March 26, 2014*
19. Order Setting Hearing, *filed by the Administrator on March 26, 2014*
20. Subpoena Duces Tecum issued to Rodney Watkins, *filed by the Administrator on March 31, 2014*
21. Department's Notice of Deposition of Rodney Watkins, *filed with the Administrator on April 1, 2014*
22. Order Resolving Discovery Issues, *filed by the Administrator on April 1, 2014*
23. Subpoena to produce documents, appear and testify issued to Lamar Monta Guillory, *filed by the Administrator on April 1, 2014*
24. Subpoena to produce documents issued to Regus Mgmt. Group, LLC, *filed by the Administrator on April 2, 2014*
25. Subpoena to appear and testify issued to Sharmien Watkins, *filed by the Administrator on April 2, 2014*
26. Subpoena to produce documents, appear and testify issued to Lamar Monta Guillory, *filed by the Administrator on April 3, 2014*
27. Department's Notice of Deposition of Frank H. Black, *filed with the Administrator on April 3, 2014*
28. Subpoena to produce documents to CPA Site Solutions, *filed by the Administrator on April 7, 2014*
29. Subpoena to appear and testify issued to Jeanette Roberts, *filed by the Administrator on April 7, 2014*
30. Subpoena to appear and testify issued to Dominique Black, *filed by the Administrator on April 7, 2014*
31. Respondents' Motion to Quash Subpoena Duces Tecum Directed to Rodney L. Watkins, Jr., *filed with the Administrator on April 8, 2014*
32. Respondents' Motion to Compel Production of Documents, *filed with the Administrator on April 11, 2014*
33. Agreement of Rodney Larry Watkins Jr., *filed by the Administrator on April 30, 2014*

34. Subpoena to appear and testify issued to Rodney Larry Watkins, *filed by the Administrator on April 30, 2014*
35. Subpoena to appear and testify issued to Jeanette Roberts, *filed by the Administrator on April 30, 2014*
36. Subpoena to appear and testify issued to Dominique Black, *filed by the Administrator on April 30, 2014*
37. Notice of Deposition of Frank H. Black, *filed with the Administrator on April 30, 2014*
38. Department's Motion for Leave to Supplement Recommendation, *filed with the Administrator on June 10, 2014*
39. Southeast Investments, N.C. Inc. and Frank Black Response and Objection to the Department's Motion for Leave to Supplement Recommendation, *filed with the Administrator on June 19, 2014*
40. Order [granting ODS' Motion for Leave to Supplement Recommendation], *filed by the Administrator on June 20, 2014*
41. Department's Supplemental Enforcement Division Recommendation, *filed with the Administrator on June 20, 2014*
42. Southeast Investment's & Frank Black's Motion to Dismiss Supplemental Enforcement Division Recommendation and Alternative Response to the Same of Respondents Southeast Investment, N.C. Inc. and Frank H. Black, *filed with the Administrator on July 15, 2014*
43. Department's Motion for Summary Decision, *filed with the Administrator on July 23, 2014*
44. Department's Response to Respondents' Motion to Dismiss Supplemental Enforcement Division Recommendation, *filed with the Administrator on July 25, 2014*
45. Scheduling Order, *filed by the Administrator on July 29, 2014*
46. Department's Final List of Witnesses and Exhibits, *filed with the Administrator on August 4, 2014*
47. Respondents' Response to Department's Motion for Summary Disposition and Renewed Motion to Dismiss Supplemental Recommendation, *filed with the Administrator on August 4, 2014*
48. Respondents' Motion for Recusal of Administrator and for Appointment of Neutral Hearing Officer, *filed with the Administrator on August 4, 2014*
49. Department's Response to Respondents' Motion for Recusal of Administrator and for Appointment of Neutral Hearing Officer, *filed with the Administrator on August 6, 2014*
50. Order Denying Respondents' Motion for Recusal of Administrator and for Appointment of Neutral Hearing Officer, *filed by the Administrator on August 6, 2014*
51. Respondents' Final List of Witnesses and Exhibits, *filed with the Administrator on August 7, 2014*
52. Pre-Hearing Conference Order, *filed by the Administrator on August 12, 2014*
53. Department's Final Argument, *filed with the Administrator on August 29, 2014*
54. Respondents' Consolidated Response to Department's Motion for Summary Disposition and Renewed Motion for Judgment on Supplemental Recommendation, *filed with the Administrator on August 29, 2014*

55. Southeast Investments, N.C. Inc. Written Supervisory Procedures August 2013, *produced by Respondents, Bates Nos. SE-00087 through SE-00147*