

IRVING L. FAUGHT
ADMINISTRATOR



MARY FALLIN
GOVERNOR

STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES

MEMORANDUM

To: Irving L. Faught, Administrator

From: Melanie Hall, Deputy Administrator mh

Date: September 8, 2014

Re: ENFORCEMENT REPORT

Attached is the report of the enforcement activities of the Department for the months of July and August, 2014.

Attachment

h/home/londonb/EnforcementReports/14_Enf-Reports_Jul-Aug_2014.doc

**OKLAHOMA DEPARTMENT OF SECURITIES
ENFORCEMENT ACTIVITIES
JULY AND AUGUST 2014**

		FY-15	FY-14
		YTD	YTD
I.	Enforcement Files		
	a. Enforcement Files Opened during the reporting period	20	14
	1. Securities Act	19	10
	2. Business Opportunity Sales Act	0	4
	3. Other	1	0
	b. Enforcement Files Closed during the reporting period	38	28
	c. Active Enforcement Files	171	223
II.	Actions Taken during the reporting period		
	a. Orders Initiating Investigation	0	0
	1. Securities Act	0	0
	2. Business Opportunity Sales Act	0	0
	b. Summary Orders	0	0
	1. Securities Act	0	0
	2. Business Opportunity Sales Act	0	0
	c. Notices of Opportunity for Hearing Served	4	0
	1. Securities Act-Notices	3	0
	i. Hearing Set	1	0
	ii. Hearings Held	0	0
	2. Business Opportunity Sales Act Notices	1	0
	i. Hearing Set	0	0
	ii. Hearings Held	0	0

		FY-15		FY-14
		YTD		YTD
d. Other Orders		10		2
1. Securities Act		9		2
2. Business Opportunity Sales Act		1		0
e. Public Undertakings/Agreements		0		2
1. Securities Act		0		2
2. Business Opportunity Sales Act		0		0
f. Confidential Settlement Agreements		0		0
1. Securities Act		0		0
2. Business Opportunity Sales Act		0		0
g. Letters of Caution		4		1
1. Securities Act		0		1
2. Business Opportunity Sales Act		0		0
g. Appeals from Final Orders		0		0
1. Securities Act		0		0
2. Business Opportunity Sales Act		0		0
h. Civil Penalties - Amounts Collected		\$127,882.56		\$0
1. Securities Act		\$127,882.56		\$0
2. Business Opportunity Sales Act		\$0		\$0
i. Administrative Costs - Amounts Collected		\$0		\$0
1. Securities Act		\$0		\$0
2. Business Opportunity Sales Act		\$0		\$0

		FY-15		FY-14
		YTD		YTD
	j. Civil Enforcement Activities			
	1. Securities Act			
	i. Subpoenas Issued	0		0
	ii. Civil Petitions Filed	2		1
	iii. Civil Trials Held	0		0
	iv. Criminal Referrals	0		0
	v. Civil Appeals Filed	0		0
	vi. Administrative or other Court Appearances (including pleadings filed)	6		5
	2. Business Opportunity Sales Act			
	i. Subpoenas Issued	0		0
	ii. Civil Petitions Filed	0		0
	iii. Civil Trials Held	0		0
	iv. Criminal Referrals	0		0
	v. Civil Appeals Filed	0		0
	vi. Administrative or other Court Appearances (including pleadings filed)	0		0
	k. Miscellaneous Activities			
	1. Public Information/Press Releases (copy attached)	0		0
	2. Trainings/Seminars Attended	2		2
	3. Coordinated Activities	0		0
	III. Inquiries and Complaints			
	a. Inquiries	8		11
	b. Referrals from Other Oklahoma Agencies	0		2
	c. Referrals from Out of State Agencies	0		1

Administrative Actions

SUMMARY

In the Matter of: Strickland Jr., Lynn
ODS File No. 14-028

On July 8, 2014, the Administrator issued an order to cease and desist, and a notice of opportunity for hearing, to Lynn Strickland, Jr. (Strickland) of Millsap, Texas. Strickland was not registered in any capacity under the Act and was ordered to cease and desist from offering and/or selling unregistered securities, in the nature of mutual funds, in violation of the Act. In September 2013, Strickland contacted an Oklahoma resident (Investor) for the purported purpose of setting a meeting to conduct an administrative review of the Investor's revocable trust. Strickland represented himself to be with Puritan Financial Group, Inc. Strickland did not conduct a review of the revocable trust, but rather reviewed the mutual funds in Investor's brokerage account at Waddell & Reed, Inc., a registered broker-dealer, using an old account statement he brought with him. Strickland told Investor that if she liquidated the mutual funds and transferred her funds in the brokerage account to purchase an annuity at Pacific Life, she would receive a 30% bonus that would equate to over \$30,000.

Strickland did not request a hearing. On August 21, 2014, the Administrator issued a final cease and desist order against Strickland.

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

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

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

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

On August 6, a Scheduling Order was issued.

**In the Matter of: Dennis, Keith Presley
 ODS File No. 13-057**

On July 21, 2014, the Administrator issued a notice of opportunity for hearing on an Enforcement Division Recommendation (Recommendation) against Keith Presley Dennis (Respondent) of Tulsa, Oklahoma. On April 11, 2014, in the District Court of Muskogee County, Respondent was convicted of a felony: exploitation of an elderly person or disabled adult. Respondent was sentenced to a term of imprisonment of 15 years, with the sentence suspended, and ordered to pay restitution in the amount of \$293,265.83.

Respondent did not request a hearing. On August 21, the Administrator issued an order barring Dennis from registration under the Act and from association with a broker-dealer or investment adviser registered under the Act.

**In the Matter of: Bryan Lynn Grey, individually and dba EM Business Connections,
 Advantage Merchant Network, and MP Executive Solutions
 ODS File No. 14-005**

On July 25, 2014, the Administrator issued a notice of opportunity for hearing on an Enforcement Division Recommendation (Recommendation) against Bryan Lynn Grey, individually, and doing business as EM Business Connections, Advantage Merchant Network, and MP Executive Solutions, (Respondent) of Tulsa, Oklahoma. The Department alleged Respondent offered and sold agent partnership agreements (Agreements) to individuals (Agents) that would purportedly assist the Agents in setting up a business to market merchant credit card processing machines and other services. The Agents were required to pay \$695 to Respondent for a "Business Entity Formation Package" to include articles of organization, a federal tax identification number and filing instructions with the Agents' Secretary of State. Respondent told prospective Agents that they would receive (a) \$500 for each credit card machine sold, (b) a percentage of each credit card transaction processed on the machine, and (c) a percentage of the amount of any loan made to a merchant. Respondent offered to provide assistance and training to help Agents maximize their success in owning and operating their own business. Respondent also offered Agents a way to enhance their business by purchasing leads for additional sums of between \$5,500 to \$12,000.

Respondent did not request a hearing. On August 13, an order was issued against Respondent to cease and desist from the offer and sale of business opportunities in and/or from the state of Oklahoma in violation of Sections 806 and 819 of the Oklahoma Business Opportunity Sales Act.

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

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

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

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

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

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

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

In July, the Respondents filed a motion to dismiss the Department's supplemental recommendation to which the Department responded. The Department filed a motion for summary decision to which Respondents responded. The Respondents also filed a motion for recusal of the Administrator and for appointment of a neutral hearing officer to which the Department responded. The Administrator issued an order denying Respondents' recusal motion. A pre-hearing conference was held during which the parties agreed to submit the case on the documentary record. The parties were given the opportunity to supplement the record on or before August 29, 2014.

In the Matter of: Kilmer, Donald E.
ODS File No. 12-081

The Department received information that Donald E. Kilmer (Kilmer) of Yukon, Oklahoma, may have engaged in activities relating to participation in the offer and sale of the securities of Ames International, Inc. and two oil and gas drilling programs. The matter was closed on July 10, 2014, with letter cautioning Kilmer to review and comply with the applicable provisions of the Act and the Rules in connection with his activities in and/or from the state of Oklahoma

In the Matter of: Investment Counseling Services, Inc.
ODS File No. 14-032

The Department conducted a routine examination of the books and records of Investment Counseling Services, Inc. ("ICS"), in 2013. In connection with the examination, the Department sent ICS a letter, dated August 28, 2013, that identified areas of concern and requested a written outline of the steps taken to address those areas of concern. Because ICS's response, dated September 10, 2013, was inadequate, the matter was referred to the Enforcement Division of the Department. On May 15, 2014, the Enforcement Division took the deposition of Terry C. Kingsbery. The matter was closed on July 15, 2014, with a letter cautioning ICS to comply with the Act and the Rules in connection with the offer and sale of securities in Oklahoma. ICS was further advised to amend Schedule A to ICS's Form ADV to be consistent with Mr. Kingsbery's deposition testimony that Daniel Mitchell is not a control person or owner of ICS.

In the Matter of: Main Street Investment Management and Hinkle, Bobby D.
ODS File No. 13-007

The Department conducted an investigation into the activities of Main Street Investment Management, LLC ("MSIM") and Bobby D. Hinkle ("Hinkle"), of Edmond, Oklahoma, relating to the offer and sale of securities and the provision of investment advice in and from Oklahoma. MSIM and Hinkle are registered under the Act as an investment adviser and investment adviser representative, respectively. The investigation revealed deficiencies relating to the failure to seek the Department's approval of an advertisement; inaccurate disclosures on the Form ADV; failure to disclose advisory fees or the formula for computing such fees; and failure to itemize the advisory fees deducted from client accounts. Mr. Hinkle represented that he would correct the issues raised by the investigation. The matter was closed on July 29, 2014, with a letter

cautioning MSIM and Hinkle to comply with all applicable provisions of the Act and Rules including, but not limited to, Sections 1-406(B) and 1-504 of the Act and 660:11-7-42(b)(15) and 660:11-7-48 of the Rules.

In the Matter of: Peak Acceptance, LLC
ODS File No. 12-017

The Enforcement Division opened this file to determine whether the “Enhanced Automobile Receivables” (EARs) offered and sold by Peak Acceptance (Peak) are securities under the Act. The matter was closed on July 31, 2014, with a letter cautioning Peak to assure compliance with all provisions of the Act and the Rules in connection with its activities in and/or from the state of Oklahoma.

Civil Actions

SUMMARY

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

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

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

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

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

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

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

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

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

**Oklahoma Department of Securities *ex rel.* Irving L. Faught, Administrator v. Buy Car Notes.com, Inc., Invest In Car Notes.com, Inc., and Bill R. Thompson
Civil Case No. CJ-2013-3786**

On July 8, 2013, the Department filed a Petition for Permanent Injunction and Other Equitable Relief in the District Court of Oklahoma County against Buy Car Notes.com, Inc., Invest In Car Notes.com, Inc., and Bill R. Thompson (collectively, "Defendants"), all of Oklahoma City, Oklahoma, in connection with the offer and/or sale of unregistered securities, in and/or from Oklahoma. The Department also alleged violations of the agent registration and anti-fraud provisions of the Act. The filing of this civil action followed the Defendants' failure to comply with the restitution provision of an agreement among the Administrator and the Defendants in a previous administrative action. Defendants sold "Note Purchase Agreements" that were to be funded by Defendants' sale and financing of used cars. Defendants represented that the investment would pay 8.5%-21% annually over six to twenty-four months and that such returns were guaranteed. Defendants received at least \$500,000 in investment proceeds.

On July 14, 2014, Defendants consented to the entry of a permanent injunction and waived any right to appeal the order. On August 6, Judge Barbara Swinton issued an order against Defendants permanently enjoining them from transacting business in and/or from Oklahoma as an issuer, broker-dealer, broker-dealer agent, investment adviser and/or investment adviser representative, or otherwise offering and/or selling securities.

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

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

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

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