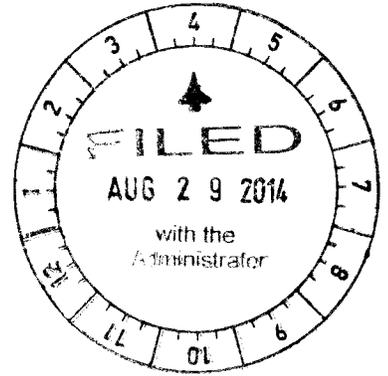


STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
THE FIRST NATIONAL CENTER
120 N. ROBINSON, SUITE 860
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

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

Respondents.

ODS File No. 12-058

FINAL ARGUMENT OF DEPARTMENT OF SECURITIES

On July 23, 2014, the Oklahoma Department of Securities (Department) filed a motion for summary decision against Respondents Southeast Investments, N.C. Inc. (Southeast) and Frank H. Black (Black) (Motion for Summary Decision). Respondents Southeast and Black, thereafter, filed their response to the Department's motion along with a renewed motion to dismiss the supplemental recommendation. On August 6, 2014, the Administrator of the Department (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 Rule 660:2-9-2(g) of the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities (Rules). The Administrator ordered the parties to submit, by August 29, 2014, any additional evidence or argument to be considered as part of the documentary record. The Department submits the affidavit attached hereto and the following argument:

The United States Securities and Exchange Commission (SEC) emphasizes that supervision is fundamental to the operation of a broker-dealer and an essential component of the regulatory scheme to advance investor protection. *In the Matter of Smith Barney, Harris Upham & Co., Inc.*, Release No. 34-21813 (March 5, 1985); *In the Matter of Prospera Financial Services, Inc.*, Release No. 34-43352 (Sept. 26, 2000). The Department maintains the same position. As with the federal regulatory scheme, a broker-dealer registered under Oklahoma law is required to establish, maintain *and* enforce written supervisory procedures under the Rules. *See* 660:11-5-42(b)(22)(A) of the Rules. The Rules have the force and effect of law. *See Toxic Waste Impact Group, Inc. v. Leavitt*, 1988 OK 20, ¶¶ 2-4, 755 P.2d 626, 630 (Okla. 1988).

The establishment of policies and procedures alone does not satisfy the broker-dealer's supervisory obligations. The broker-dealer must also ensure compliance with such policies and procedures. In doing so, the broker-dealer must develop a "system for implementing its procedures that [can] reasonably be expected *to prevent* and detect securities law violations." *In the Matter of Kirkpatrick, Pettis, Smith, Polian Inc.*, Release No. 34-48748 (Nov. 5, 2003) (emphasis added). Thus, it cannot be said that a firm's violations of its own written supervisory procedures have no legal effect.

A broker-dealer's ability to prevent and detect securities law violations is especially challenged when the firm operates from remote office locations. A supervisory system with policies and procedures that are vigorously enforced is essential in connection with such locations. *Smith Barney, Harris & Upham*. Remote offices may be geographically dispersed and staffed by one or two people who are not subject to on-site supervision of any kind. The distance between these remote offices and the firm's

“compliance and supervisory personnel can make it easier for registered [agents] to carry out and conceal” securities laws violations. *Id.* In other words, these remote offices pose a potential threat “for significant problems if subjected to inadequate supervision by the . . . home office.” *Id.* The potential threat is heightened when the registered agent is also engaged in outside business activities. *In the Matter of Prospera Financial Services, Inc.* The potential threat is heightened even more when the agent has a disciplinary history. “Extraordinary supervision of a registered representative with a disciplinary past is particularly appropriate when that representative operates out of a one-person office, a substantial distance away from supervisory or compliance personnel.” *Id.* The pending matter involves that exact scenario, *i.e.*, an agent with a disciplinary history operating, initially as a lone agent, from an office in Tulsa, Oklahoma, and “supervised” from an office in Charlotte, North Carolina.

Respondents Southeast and Black appear to scoff at the inclusion of 660:11-5-42(b)(22) in the Department’s regulatory scheme and further deride the Department’s attempt to enforce its own rule. Southeast voluntarily subjected itself to the jurisdiction of the Department when it registered as a broker-dealer under Oklahoma law. It is the Department’s position that Southeast’s supervisory system is woefully inadequate and a potential detriment to investor protection.

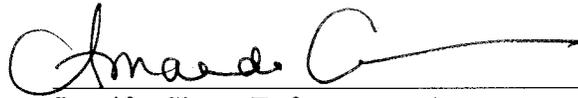
Southeast’s compliance system assigns compliance and supervisory responsibilities almost exclusively to Black in the home office in North Carolina. On one hand, Southeast has established certain necessary procedures – procedures, however, that the firm, through Black, has chosen not to enforce. For example, Black does not review each executed trade for suitability believing that a suitability evaluation is only necessary

at the time the customer account is opened. On the other hand, Southeast's supervisory system is lacking certain policies and procedures that are well established within the industry and necessary for the prevention and detection of securities law violations. For example, the firm does not have a system in place to review and retain its agents' incoming and outgoing emails relating to their securities business, relying instead on self-reporting by the agents. In addition, the firm and Black rely on unverified agent questionnaires as a substitute for critical on-site inspections.

Respondents Southeast and Black also disrespect the critical need for current and accurate information on CRD. Disclosures on the Form U-4 represent one of the most significant sources of information for the investing public and a broker-dealer. A broker-dealer should monitor the information as part of its supervisory responsibilities. Current and accurate CRD disclosures are also instrumental to the Department's discharge of its regulatory duties. Respondents' failure to disclose the nonregistered Texas location for Rodney Watkins provided the impetus of the initial recommendation filed in this matter.

In conclusion, Respondents have admitted most of the Department's facts asserted in the Motion for Summary Decision. In the instances where Respondents have denied the Department's facts, Respondents merely state that the facts are immaterial to a determination of the Department's claims rather than submitting contravening evidence. As such, those facts should be considered admitted. Such facts evidence clear violations of the Rules – violations that warrant the imposition of sanctions in and for the public interest.

Respectfully submitted,

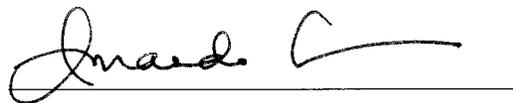


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CERTIFICATE OF MAILING

The undersigned hereby certifies that on the 29th day of August, 2014, a true and correct copy of the above and foregoing *Final Argument of Department of Securities* was mailed with postage prepaid thereon, addressed to:

Patrick O Waddel, OBA #9254
1700 Williams Center Tower
One W 3rd St
Tulsa OK 74103-3522
Attorney for Respondents



AFFIDAVIT

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

ss:

I, Carol Gruis, being of lawful age and being duly sworn, deposes and states as follows:

1. That I am the Director of Examinations and Licensing for the Oklahoma Department of Securities.
2. Effective August 8, 2014, Watkins and Associates Investment Services, LLC, was approved in the state of Oklahoma as a registered investment adviser.
3. Effective August 11, 2014, Rodney L. Watkins Jr. was approved in the state of Oklahoma as a registered investment adviser representative of Watkins and Associates Investment Services, LLC.

FURTHER AFFIANT SAITH NOT.



Carol Gruis

Subscribed and sworn to before me this 29 day of August, 2014.





Notary Public