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BEFORE THE ARKANSAS SECURITIES COMMISSIONER
CASE NO S-11-0219
ORDER NO. S-11-0219-12-OR05

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ARKANSAS SECURITIES DEPT.

IN THE MATTER OF:
CAMBRIDGE LEGACY SECURITIES, L.L.C.

RESPONDENT

CONSENT ORDER

This Consent Order is entered pursuant to the Arkansas Securities Act, codified at Ark. Code Ann. §§ 23-42-101 through 23-42-509 (“Act”), the Rules of the Arkansas Securities Commissioner (“Rules”) promulgated under the Act, and the Arkansas Administrative Procedures Act, codified at Ark. Code Ann. §§ 25-15-201 through 25-15-219, in accordance with an agreement by and between the Staff of the Arkansas Securities Department (“Staff”) and John Litzler in his capacity as Chapter 7 Trustee for Cambridge Legacy Securities, L.L.C. (“Cambridge Securities”) in full and final settlement of all claims that could be brought against Cambridge Securities by the Staff on the basis of the facts set forth herein.

Cambridge Securities admits the jurisdiction of the Act and the Arkansas Securities Commissioner (“Commissioner”), waives its right to a formal hearing and appeal, and without admitting or denying the findings of facts made herein, consents to the entry of this order and agrees to abide by its terms in settlement of any possible violations committed by Cambridge Securities concerning the matters detailed in this order.

FINDINGS OF FACT

1. Cambridge Securities is a securities brokerage company with its main office located in Dallas, Texas, CRD number 103722. Cambridge Securities has been registered as a securities broker-dealer with the Arkansas Securities Department (“Department”) since January 6, 2003.

2. On or about March 28, 2012, a FINRA arbitration panel entered an award against Cambridge Securities in the amount of approximately \$1.6 million.

3. On or about April 18, 2012, Cambridge Securities filed a voluntary bankruptcy petition under chapter 7 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas.

4. In violation of Ark. Code Ann. § 23-42-501, Cambridge Securities, and its agents offered and sold unregistered, non-exempt and non-covered securities in Arkansas. The securities offered and sold to multiple Arkansas investors by agents of Cambridge Securities were private placement securities offerings issued by the Cambridge Petroleum Group. The Cambridge Petroleum Group securities offerings included Cambridge Petroleum Group 2006A, L.P. (“CPG 06A”) and the Opportunity Fund II (“Fund II”). The Staff checked the records of the United States Securities and Exchange Commission and the Department and could find no registration filings for Fund II. However, an attempt had been made by the Cambridge Petroleum Group to exempt the CPG 06A securities offerings from federal or state registration under Rule 506 of Regulation D of the Securities Act of 1933. Unfortunately, Rule 502(c) of Regulation D prohibits all forms of advertisement or general solicitation for securities offered under Rule 506 of Regulation D. However, the Staff discovered that the Cambridge Petroleum Group website did include advertisements or general solicitations for potential Arkansas investors. In addition, for a period of time potential Arkansas investors had unrestricted access through the Cambridge Petroleum Group website to view the private placement offering documents for these securities offerings. While the advertisement, general solicitation and unrestricted access to the offering documents was eventually discovered and changes made to the Cambridge Petroleum Group website, the fact that the public had access to this advertisement, general solicitation and offering documents caused the safe harbor exemption coverage offered by Rule 506 of Regulation D to be eliminated. Therefore, all of the sales of the CPG 06A to 48

Arkansas residents and the Fund II to two Arkansas residents by agents and representatives of Cambridge Securities constituted sales on unregistered, non-exempt, and non-covered securities in violation of Ark. Code Ann. § 23-42-501.

5. In violation of Ark. Code Ann. §§ 23-42-308 and Rule 308.01(D) of the Rules, Cambridge Securities failed to perform adequate due diligence concerning private placement securities offerings issued by Medical Capital Holdings, Inc. (“MedCap”) and Cornerstone Ministries Investments, Inc. (“CMI”). Both of these securities offerings were routinely sold to numerous Arkansas clients by agents of Cambridge Securities.

6. From May 2008 through June 2009, Cambridge Securities received or had easy access to numerous red flags concerning problems with the private placement securities offering issued by MedCap and called Medical Provider Funding Corporation VI (“MPFC VI”). Some of the red flags were readily apparent from sources available to the general public. Therefore, even a cursory due diligence compliance review of MedCap by Cambridge should have uncovered the red flags. These red flags included: a long history of civil and regulatory actions against the control person of MedCap, Sidney M. Fields; emails, letters, and reports concerning missed interest payments or defaults by earlier MedCap offerings; liquidity problems at MedCap; and an email and a letter concerning the delayed payment of a MPFC VI interest payment. Any of these red flags should have caused Cambridge Securities to stop its agents from selling, offering or advising Arkansas clients to purchase the MedCap securities offerings. In fact, on August 12, 2010, the President of Cambridge Securities, Ben Carroll, admitted Cambridge Securities’ due diligence failings concerning MPFC VI in an internal e-mail.

7. Cambridge Securities received or had easy access to red flags concerning CMI. The red flags were readily apparent from even a cursory due diligence compliance review of the

prospectuses and financials for the CMI securities offerings. Therefore, Cambridge Securities should have uncovered the red flags. These red flags included the fact that a majority of CMI's loans were made to companies owned by the managers of CMI. So, a majority of CMI's revenue came from related companies. Further, the prospectus for the 2006 CMI securities offering listed 12 current or past legal proceedings against CMI. However, the prospectus for the 2007 CMI securities offering listed none of the 12 legal proceedings against CMI.

8. Cambridge Securities did not have a written compliance policy concerning the sale of CMI bonds until July 15, 2007. However, this written policy concerning the sale of CMI bonds was removed from the written policy manual issued by Cambridge Securities on January 1, 2008. On February 10, 2008, CMI filed for bankruptcy protection. The fact that Cambridge Securities changed its policy manual indicates that sometime between July 15, 2007 and January 1, 2008, the management of Cambridge Securities recognized a problem with CMI and the bonds offered by CMI.

9. In violation of Ark. Code Ann. § 23-42-308(a)(2)(J), Cambridge Securities failed to reasonably supervise its agents. The supervisory failings of Cambridge Securities were the result of either a lack of a written compliance policy in a particular area or a failure by Cambridge Securities to enforce their own written compliance policy.

10. As stated in paragraph 5, Cambridge Securities and Cambridge Advisors failed to detect or prevent the sale of unregistered securities by agents and representatives to numerous Arkansas residents. These violations occurred in spite of Cambridge Securities' and Cambridge Advisors' written policy prohibiting the sale of unregistered securities.

11. Cambridge Securities failed to reasonably supervise its agents and representatives in order to detect or prevent the agents and representatives employed by Cambridge Securities from

repeatedly making unsuitable securities sales by over-concentrating Arkansas clients' investment portfolios in highly risky, illiquid, private placement securities offerings in violation of Rule 308.01(D) of the Rules. The agents of Cambridge Securities regularly sold and advised the purchase of these securities to Arkansas investors, who had little investment experience and were either retired or near retirement age. These Arkansas investors were routinely advised to concentrate anywhere from 30% to 100% of their total investment portfolios in private placement securities. These agents employed by Cambridge Securities include: Henry Horace "Buster" Godbee III ("Godbee III"), Alex L. Wittenburg ("Wittenburg"), Henry Horace "Chad" Godbee IV ("Godbee IV"), and Mark Gaydos ("Gaydos"). Further, Cambridge Securities own supervisory personnel sent internal emails concerning the excessive use of waiver forms in order to over-concentrate unaccredited investors in private placement securities offerings. In spite of the emails Cambridge Securities continued to approve the excessive sale of the private placement securities offerings to Arkansas clients. Also, prior to July 15, 2007, Cambridge did not have any written compliance policy concerning the sale of private placement securities.

12. Cambridge Securities failed to reasonably supervise their agents and representatives in order to detect or prevent the agents and representatives employed by Cambridge Securities from repeatedly misrepresenting or misstating the risks and the required holding period for the private placement securities offerings sold to Arkansas residents in violation of Rule 308.01(X) of the Rules. The agents and representatives employed by Cambridge Securities and involved in the misrepresentations or misstatements include: Godbee III, Wittenburg, Godbee IV, and Gaydos. The misrepresentations or misstatements included, but are not limited to, stating that private placement securities offerings were safe, secure, and similar to certificates of deposit. In addition, the illiquid nature and minimum holding periods of these private securities offerings

were either not mentioned at all or minimized by these agents of Cambridge Securities. Further, prior to July 15, 2007, Cambridge Securities did not have any written compliance policy concerning the sale of private placement securities.

APPLICABLE LAW

13. Ark. Code Ann. § 23-42-308(a)(2)(B) states that the Commissioner may by order suspend or revoke any registration if he finds that the registrant has willfully violated or willfully failed to comply with any provision of this chapter or a predecessor act or any rule or order under this chapter or a predecessor act.

14. Ark. Code Ann. § 23-42-308(a)(2)(J) states that the Commissioner may by order suspend or revoke any registration if he finds that the registrant has failed reasonably to supervise the agents of the broker-dealer or the representatives of the investment adviser.

15. Rule 308.01(D) of the Rules states that recommending to a customer the purchase, sale or exchange of any security when a broker-dealer or agent does not have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs, or encouraging a customer to invest beyond his immediate financial resources shall be grounds for suspension or revocation of a broker-dealer or agent registration.

16. Rule 308.01(X) of the Rules states that the non-disclosure or misstatement of material facts shall be considered grounds for suspension or revocation and the Commissioner may suspend or revoke a registration when necessary and appropriate in the public interest.

17. Ark. Code Ann. § 23-42-501 states it is unlawful for any person to offer or sell any security in this state unless: (1) it is registered under this chapter; (2) the security or transaction is

exempted under Ark. Code Ann. §23-42-503 or Ark. Code Ann. §23-42-504; or (3) it is a covered security.

18. Ark. Code Ann. § 23-42-507(2) states it is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly, to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.

CONCLUSIONS OF LAW

19. Cambridge Securities violated Rule 308.01(D) of the Rules when it failed to perform adequate due diligence on securities being offered and sold to Arkansas residents by agents of Cambridge Securities as detailed in paragraphs 5 through 7. Therefore, the registration of Cambridge Securities should be revoked.

20. Cambridge Securities violated Ark. Code Ann. § 23-42-308(a)(2)(J) when it failed to supervise its agents Godbee III, Godbee IV, Wittenburg, Graves and Gaydos to prevent these agents from violating Ark. Code Ann. § 23-42-507(2), and Rule 308.01(D) and Rule 308.01(X) of the Rules as detailed in paragraphs 8 through 12. Therefore, the registration of Cambridge Securities should be revoked.

21. Cambridge Securities violated Ark. Code Ann. § 23-42-501, when it sold unregistered, non-exempt non-covered securities as detailed in paragraph number 4.

22. The registrations of Cambridge Securities should be revoked by the Commissioner pursuant to Ark. Code Ann. § 23-42-308(a)(2)(B).

OPINION

This order is in the public interest. The facts as set out in paragraphs 4 through 12 support the violations of the Act as set out in paragraphs 19 through 22.

ORDER

IT IS THEREFORE ORDERED that the broker-dealer registration of Cambridge Securities is permanently revoked.

WITNESS MY HAND AND SEAL on this 3rd day of October, 2012.



A. Heath Abshure
Arkansas Securities Commissioner

APPROVED AS TO CONTENT
AND FORM:



Scott Freydl, Staff Attorney
Arkansas Securities Department

10/2/12
Date

John Litzler in his capacity as Chapter 7 Trustee for Cambridge Legacy Securities, LLC hereby accepts and consents, without admitting or denying the findings of fact and conclusions of law, and solely for the purpose of this proceeding, prior to hearing and without an adjudication of any issues of law or fact, to the entry of this Consent Order.



John Litzler, Chapter 7 Trustee for
Cambridge Legacy Securities, LLC

9-25-12
Date



Kathryn Reid, Attorney for the Chapter 7 Trustee
Rochelle & McCullough, L.L.P.

9-25-12
Date