

BEFORE THE ARKANSAS SECURITIES COMMISSIONER

CASE NO. S-14-0008

ORDER NO. S-14-0008-17-OR04

RECEIVED
17 SEP 21 PM 3:42

ARKANSAS SECURITIES DEPT.

IN THE MATTER OF:

REGAL SECURITIES, INC.

RESPONDENTS

CONSENT ORDER

This Consent Order (“Order”) is entered pursuant to the Arkansas Securities Act (“Act”), codified at Ark. Code Ann. §§ 23-42-101 through 23-42-509, the Rules of the Arkansas Securities Commissioner promulgated pursuant to the Act (“Rules”), and the Arkansas Administrative Procedures Act, codified at Ark. Code Ann. §§ 25-15-201 through 25-15-219, in accordance with an agreement between the Staff of the Arkansas Securities Department (“Staff”) and the Respondent, Regal Securities, Inc. (“RSI”).

The Respondent admits the jurisdiction of the Act and the Arkansas Securities Commissioner (“Commissioner”), waives its right to a formal hearing and appeal, consents to the entry of this Order, and agrees to abide by its terms in full and final settlement of all claims that could be brought on the basis of the facts set forth herein.

The Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of the Commissioner, or to which the Commissioner is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by the Commissioner.

RESPONDENT

1. RSI, CRD No. 7297, is an Illinois-based corporation registered as a broker-dealer with the Arkansas Securities Department (“Department”). RSI’s principal place of business is

located at 950 Milwaukee Avenue, Suite 102, Glenview, Illinois 60025. RSI has been registered with the Department as a broker-dealer since September 27, 1993.

RELATED PARTIES

2. Raymond Dickie Adcock (“Adcock”), CRD No. 1592822, is an individual resident of the state of Arkansas. Adcock was formerly registered with the Department as a broker-dealer agent employed with RSI from July 5, 2007, until April 8, 2015, where he was a general securities principal with supervisory authority. Adcock worked out of and was the branch manager for an RSI branch office in Little Rock, Arkansas (“RSI Branch Office”). Adcock is not currently registered with the Department in any capacity.

3. Charles Bailey Ferrill, Jr. (“Ferrill”), CRD No. 1046104, is an individual resident of the state of Arkansas. Ferrill was formerly registered with the Department as a broker-dealer agent with RSI from July 5, 2007, until May 9, 2011. While employed by RSI, Ferrill worked in the RSI Branch Office supervised by Adcock. Ferrill is not currently registered with the Department in any capacity.

4. Talon Capital, LLC (“Talon LLC”) is a limited liability company organized and existing under the laws of the state of Arkansas. Talon LLC is currently in a revoked status with the Arkansas Secretary of State’s office. At all relevant times herein, Talon LLC had a principal place of business located at the RSI Branch Office. Talon LLC has never been registered with the Department in any capacity.

5. Talon Capital, LP (“Talon LP”) (collectively with Talon LLC, “Talon Entities”) is a limited liability company organized and existing under the laws of the state of Delaware. Talon LP is currently in a revoked status with the state of Delaware. At all relevant times herein, Talon

LP had a principal place of business located at the RSI Branch Office. Talon LP has never been registered with the Department in any capacity.

RELATED ACTIONS

6. On September 12, 2016, the Commissioner entered a Cease and Desist Order (Order No. S-14-0008-16-OR03) against Ferrill and the Talon Entities. A copy of the Cease and Desist Order can be found on the Department's website at <http://www.securities.arkansas.gov/>. The Staff's investigation in this matter concluded facts listed in the following subparagraphs. RSI has no firsthand knowledge of these facts and cannot vouch for the correctness.

(a). The facts in the Cease and Desist Order provided that the Talon Entities, through Ferrill, sold unregistered, non-exempt securities in two separate offerings to eight Arkansas investors between August 2011 and November 2013. Talon LLC was marketed as a "hedge fund incubator" for an eventual hedge fund to be started by Talon LP. The Talon Entities operated out of the RSI Branch Office and shared a phone number with RSI. The two offerings raised a combined total of \$540,000.00 in investor funds, with the Talon LLC offering raising a total of \$465,000.00 and the Talon LP offering raising a total of \$75,000.00. The private placement memorandum (PPM) for the Talon LLC offering omitted to disclose material information to investors and included information that was deemed misleading to investors. Ferrill withdrew approximately \$259,000.00 in investor funds and used the vast majority of those funds for his personal use. Ferrill's personal use of funds included approximately \$52,000.00 for personal credit card payments, \$65,000.00 for personal automobile loan and mortgage payments, and \$32,000.00 in payments on private country club dues. Talon LLC returned some funds to investors in the form of purported quarterly interest payments, even though the underlying investment strategy was not

generating profits. Investors in the Talon Entities lost approximately \$335,000.00 of their total \$540,000.00 principal investment.

(b). The Cease and Desist Order found that Talon LLC and Ferrill committed two types of securities fraud in the offer and sale of the securities to investors. The Order further found that Ferrill served as an unregistered agent of the Talon Entities and that Ferrill and the Talon Entities sold unregistered securities to investors.

7. On September 1, 2016, the Commissioner entered a Consent Order (Order No. S-14-0008-16-OR02) against Adcock. A copy of the Consent Order can be found on the Department's website at <http://www.securities.arkansas.gov/>.

(a). The facts in the Consent Order primarily detailed Adcock's involvement as the founder and broker-dealer agent for the Talon Entities. Adcock opened separate brokerage accounts at RSI for each of the Talon Entities. Adcock was responsible for employing the underlying investment strategy for the "hedge fund incubator" and hedge fund, which involved executing covered options over several types of exchange traded funds. From August 3, 2011 through September 4, 2013, Adcock executed liquidation trades in the Talon LLC brokerage account and wired funds back to the Talon LLC bank account at Ferrill's suggestion. Subsequently, Talon LLC made purported quarterly interest payments to investors even though the brokerage account was failing to generate the profits to do so. Adcock received a total of approximately \$78,070.00 in commissions on trades performed in the Talon LLC brokerage account. Adcock also received payments from Talon LLC totaling \$15,800.00 that were not approved by RSI.

(b). The Consent Order found that Adcock violated the suitability rules governing the transactions of broker-dealer agents when he liquidated funds in Talon LLC's

brokerage account to fund the supposed interest payments sent to investors, even though the brokerage account was failing to generate profits and the liquidation trades incurred additional commissions and fees for his client. The Consent Order also found that Adcock violated the suitability requirements for investment adviser representatives and engaged in unfair, misleading, or unethical practices as a broker-dealer agent by cashing three checks totaling \$15,800.00 out of Talon LLC's checking account. Without admitting or denying the findings of fact or conclusions of law, Adcock agreed to a revocation of his registrations in Arkansas as a broker-dealer agent and investment adviser representative and to a permanent bar from any future registrations with the Department in any capacity.

FINDINGS OF FACT

8. The Staff's investigation in this matter revealed that RSI should have had ample notice that the Talon Entities, through Adcock and Ferrill, were operating an unapproved "hedge fund incubator" and an unapproved hedge fund out of the Talon Entities' brokerage accounts at RSI.

(a). On March 15, 2011, Adcock emailed compliance officers at RSI and explained his interest in pursuing a "hedge fund incubator" through Talon LLC. The email attached the proposed drafts of the PPM, unsecured convertible promissory notes, and indemnification agreements designed to accompany the Talon LLC offering. The email also included details and information regarding the planned Talon LP hedge fund. The PPM attached to the email showed that Talon LLC's address and email would be the same as the RSI Branch Office where Adcock and Ferrill were located.

(b). On March 16, 2011, Adcock and Ferrill each amended their Form U4's to include Talon LLC as an investment-related business. The amendments were signed and approved by the appropriate compliance personnel at RSI.

(c). On May 9, 2011, Ferrill voluntarily ended his employment relationship with RSI and withdrew his registration with the Department as a registered agent with RSI. Ferrill's decision to end his employment and withdraw his registration came after RSI compliance denied Adcock's approval request to run a "hedge fund incubator" through RSI. RSI compliance had suggested to Ferrill that he needed to withdraw his registration if he wanted to solicit investment and manage the Talon Entities. Ferrill's decision to follow this advice signaled his clear intent to move forward with the plan to operate a "hedge fund incubator" and hedge fund through the Talon Entities.

(d). On August 31, 2011, Talon LLC opened its brokerage account at RSI. RSI opened the Talon LLC account subsequent to Adcock's email to compliance and Ferrill's decision to end his employment and withdraw his registration. Talon LP opened its brokerage account at RSI on April 30, 2012. RSI had the opportunity to conduct thorough due diligence regarding the business purposes of the accounts prior to granting approval of the new account applications.

(e). On June 6, 2013, Adcock amended his form U4 to include an update regarding his investment-related business through Talon LLC. The amendment was signed and approved by the appropriate compliance personnel at RSI.

(f). On August 12, 2013, compliance personnel at RSI conducted an in-house compliance exam of the RSI Branch Office. The Talon Entities were operating out of the RSI Branch Office at the time of the exam. A post-examination letter issued by the examiner acknowledged Adcock's involvement with Talon LLC but recommended no corrective actions

with regard to the Talon Entities because Adcock attested and confirmed to RSI that he was acting only as designated executing broker.

9. Despite the notice events outlined above, RSI's attempts were unsuccessful to ensure compliance with its established guidelines necessary to prevent the Talon Entities' operation, through Adcock and Ferrill, of an unapproved "hedge fund incubator" and an unapproved hedge fund in RSI brokerage accounts.

10. Talon LLC closed its brokerage account with RSI on October 31, 2013. Talon LP closed its brokerage account with RSI on November 30, 2013. RSI received approximately \$11,879.31 in total commissions from the trades performed by Adcock in the Talon Entities' two brokerage accounts.

11. RSI fully cooperated with the Staff's investigation and review of this matter and has assured the Staff that it has implemented the proper internal controls and supervisory procedures necessary to ensure future compliance with the Act and Rules.

LEGAL AUTHORITY AND CONCLUSIONS OF LAW

12. Ark. Code Ann. § 23-42-308(a)(2)(J) provides that the Commissioner may suspend or revoke any registration or impose other appropriate penalties if he finds that a registered broker-dealer has failed reasonably to supervise its agents or employees. RSI violated Ark. Code Ann. § 23-42-308(a)(2)(J) when it failed to establish, maintain, and implement proper supervisory procedures and compliance guidelines, as set forth above in paragraphs eight through eleven.

13. Ark. Code Ann. § 23-42-308(g)(1) provides that the Commissioner may impose an appropriate fine against RSI.

14. Ark. Code Ann. § 23-42-308(h) provides that matters may be resolved by consent order in lieu of a formal proceeding.

UNDERTAKINGS

In settlement of this matter, RSI agrees to pay a civil penalty to the Department in the total amount of \$36,879.31 upon the entry of this Order. The amount of this civil penalty includes the \$11,879.31 received by RSI in trade commissions from the Talon Entities' brokerage accounts, plus an additional fine to the Department.

OPINION

This Order is in the public interest. The facts as set forth in paragraphs eight through eleven support the violations of the Act as set forth in paragraphs twelve through fourteen.

ORDER

IT IS THEREFORE ORDERED that in accordance with its undertaking RSI shall pay a civil penalty to the Department in the amount of \$36,879.31 upon the entry of this Order. This Order is not intended by the Commissioner to subject RSI to any disqualification under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands, including, without limitation, any disqualification from relying upon the state or federal registration exemptions or safe harbor provisions. This Order shall not disqualify RSI from any business that it is otherwise qualified, licensed, or permitted to perform under the Act and Rules and any disqualification from relying upon Arkansas registration exemptions or safe harbor provisions that arise from this Order are waived.

WITNESS MY HAND AND SEAL this the 21st day of September, 2017.



B. Edmond Waters
Arkansas Securities Commissioner

I hereby agree to the entry of this Order; consent to all terms, conditions, and orders contained therein; and waive any right to appeal from this Order.



Shawn Herrin
President
Regal Securities, Inc., Respondent

Date 9/19/2017

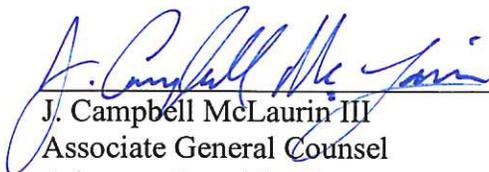
Approved as to Form:



Byron J. Walker, Counsel
Regal Securities, Inc., Respondent

Date 9/21/17

Approved as to Content and Form:



J. Campbell McLaurin III
Associate General Counsel
Arkansas Securities Department

Date 9/21/17