

**STATE OF ALABAMA  
ALABAMA SECURITIES COMMISSION**

\_\_\_\_\_  
IN THE MATTER OF: )

PRUDENTIAL SECURITIES INC. )

RESPONDENT )  
\_\_\_\_\_ )

**ADMINISTRATIVE ORDER  
NO. CO-2005-0020**

**CONSENT ORDER**

The Alabama Securities Commission ("Commission"), having the power to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, the Alabama Securities Act ("Act"), upon due consideration of the subject matter hereof, and having confirmed information of the offers for sale and/or sale of securities into, within or from the state of Alabama, has determined as follows:

**RESPONDENT**

1. PRUDENTIAL EQUITY GROUP, INC. ("PEG") formerly known as PRUDENTIAL SECURITIES INC. ("PSI") has been a broker-dealer registered with the Alabama Securities Commission since October 24, 1981. The firm is a member of all principal securities and commodity exchanges, as well as the NASD. PEG's principal offices are located at One New York Plaza, 15th Floor, New York, New York.

**STATEMENT OF FACTS**

2. During the periods December 4, 2001 through December 6, 2001, December 11, 2001 through December 13, 2001, and March 12, 2002 through March 14, 2002, an examination of the books and records of the Huntsville, Alabama branch office of PSI was conducted under the authority of the Code of Alabama 1975, 8-6-3(i). This examination was initiated in order to investigate customer complaints and as a direct result of a civil lawsuit filed against certain agents employed in this branch office by the agents' clients.

3. Upon arrival at the branch office, the staff of the Alabama Securities Commission ("Staff") served upon the Branch Manager, Mr. Brad Flowers: (i) a request for records to which access should be immediately provided to the Staff; and (ii) a request for copies of records to be immediately provided to the Staff.

4. The Staff requested immediate access to internal audits of the branch. The Branch Manager contacted the Firm regarding the Staff's request for immediate access to internal audits. Subsequent to the difficulty of receiving access to the internal audits, the Commission's legal counsel contacted PSI's Law Department to discuss the possible issuance of a Show Cause Order. At that time, the Staff was provided copies of the internal branch audit documents. The branch's refusal to provide immediate access resulted in a lack of convenient access to the files.

5. The Staff requested immediate access to the PSI procedures manuals and supervisory procedures. The Staff was informed that responsive documents were stored solely in an electronic format. The Staff was refused access until Mr. Flowers consulted with the Law Department, and subsequently the Staff received documents responsive to its request at a later date. The branch's denial of electronic access to records resulted in a lack of convenient access to the files required to complete the audit process.

6. Customer account statements and other data were also maintained electronically by PSI. The Staff requested immediate electronic access to the material. Prior to providing electronic access to the Staff, Mr. Flowers sought advice regarding protocols for electronic access. Subsequent to Mr. Flowers' consultation, the Staff was offered paper copies of any account statements and other data and/or access to the Firm's proprietary systems containing the requested information while in the presence of a branch employee. The Firm offered to request paper copies of account statements and other requested data from PSI's home office and submit such data directly to the Staff. After completion of the onsite audit, the Firm provided copies of documents responsive to the Staff's request. The Staff believes that it was denied convenient access to the files.

7. The Staff requested the e-mail files of the following employees:

William "Billy" Wesley Neighbors, Sr., Registered Agent

William Wesley "Wes" Neighbors, Jr., Registered Agent

Jill Weckwarth, Registered Sales Associate

John L. "Jack" Heiss, former Branch Manager of the Huntsville, Alabama office

8. A review of the e-mail files determined that many of the e-mails' content was prohibited by PSI's Corporate E-mail Policy K.1 and several Compliance Alert Memoranda.

9. William Wesley Neighbors, Jr. violated PSI's Corporate E-mail Policy due to the nature and content of a limited number of the e-mail files that he accessed in his PSI e-mail account. Mr. Neighbors also utilized his PSI e-mail account for non-work activity, in violation of the Corporate E-mail Policy. John Heiss, Mr. Neighbors' Branch Manager at the time that Neighbors accessed the prohibited e-mail content and used his PSI e-mail for non-work activity, directed Mr. Neighbors to cease and desist the violative activity. Despite Mr. Heiss' order, Mr. Neighbors continued the conduct. Mr. Heiss failed to take further action regarding Mr. Neighbors' continued violative activity. Subsequently, Mr. Heiss was permitted to resign from PSI as a result of his failure to supervise Mr. Neighbors' e-mail activity. Mr. Neighbors' employment with PSI was terminated due to his violation of firm policy.

10. The Staff identified certain documents bearing client signatures in which some or all of the remaining data fields on the documents were not completed. These documents included: stock/bond powers of attorney, full power of attorney, customer account transfer forms, pledge agreements, and seller's representation letters. These documents were maintained in customer files and complaint files. Additionally, Mr. Heiss' signature was evident on several blank Letters of Authorization forms which were located in a number of customer files serviced by Mr. Neighbors. The branch staff was initially unaware of the existence of these incomplete documents. After the Staff located the documents cited above, the branch staff took action to isolate and confiscate such documents upon identification.

11. Several customer files did not contain completed client agreement forms, in that, client signatures were missing. Certain PSI client agreement forms identified in the exam were incomplete and did not capture certain suitability information such as client objectives.

#### CONCLUSIONS OF LAW

12. Section 8-6-3(i) Code of Alabama 1975, states that "... all the records of any registrant are subject at any time or from time to time to such reasonable periodic, special or other examinations by representatives of the commission, within or without this state, as the commission deems necessary or appropriate in the public interest or for the protection of investors." Failure to provide convenient access to files constitutes a violation of Section 8-6-3(i) Code of Alabama 1975.

13. Section 8-6-3(j)(7) Code of Alabama 1975, states that the "Commission may by order deny, suspend or revoke any registration, or censure or bar any applicant or registrant or any officer, director, partner or person occupying a similar status or performing similar functions for a registrant, from employment with a dealer or investment adviser, or restrict or limit a registrant as to any function or activity of the business for which registration is required in this state if the commission finds that the order is in the public interest and that the applicant or registrant or in the case of a dealer or investment adviser, any partner, officer or director, any person occupying a similar status or performing similar functions, or any person directly or indirectly controlling the dealer or investment adviser... has engaged in dishonest or unethical practices in the securities business." Maintenance of documentation bearing signatures that are otherwise incomplete constitutes a violation of Section 8-6-3(j)(7) Code of Alabama 1975.

14. Commission Rule 830-X-3-.12 states that "every dealer, investment adviser and every associated person thereof who recommends to a customer the purchase, sale or exchange of any security shall have reasonable grounds to believe and shall believe that the recommendation is suitable for such customer on the basis of information furnished by such customer after reasonable inquiry concerning the customer's investment objectives, financial situation and needs, and any other information known by such dealer, investment adviser or associated person thereof." Failure to record complete suitability information constitutes a violation of Commission Rule 830-X-3-.12

15. Commission Rule 830-X-3-.13(1) states that "every dealer, issuer, or investment adviser, and officers, directors and partners thereof, shall exercise diligent supervision over all the securities activities of its associated persons." Mr. Heiss' acts or omissions, as described above, constitute a violation of Commission Rule 830-X-3-.13(1).

16. Commission Rule 830-X-3-.13(3) states, "As part of its responsibility under this rule, every dealer, issuer or investment adviser shall establish, maintain and enforce written procedures..." Mr. Heiss' failure to enforce PSI's email policies constitutes a violation of Commission Rule 830-X-3-.13(3).

17. Commission Rule 830-X-3-.14(6) states that "All records required to be kept hereunder shall be in such form as may conveniently be examined by the commission or its staff without the necessity of employing mechanical methods or inspections." Commission Rule 830-X-3-.15(m) states that "All records required to be preserved hereunder shall be in such form as may conveniently be examined by the commission or its staff." Commission Rule 830-X-3-.16(8) states that "All books, records or other documents required to be maintained and preserved under this rule may be stored on microfilm, microfiche, or electronic processing system or similar system utilizing an internal memory device provided a printed copy of any such record is immediately accessible." Documents requested were not made conveniently available in violation of Commission Rules 830-X-3-.14(6), 830-X-3-.15(m) and 830-X-3-.16(8).

### ORDER

WHEREAS, the Commission and the Respondent are desirous of settling this matter as herein set forth and agree to the entry of this Order towards that end;

WHEREAS, the Respondent neither admits nor denies any of the findings of the examination conducted by the Alabama Securities Commission, nor does it admit or deny any statement of fact or conclusion of law contained herein;

WHEREAS, the Respondent has voluntarily waived all rights to a hearing upon entry of this Order;

WHEREAS, the Commission finds this Order necessary and appropriate in the public interest for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Act;

AND WHEREAS, the Commission, having the power to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, the Alabama Securities Act, and upon due consideration of the subject matter hereof, has determined as follows:

IT IS HEREBY ORDERED THAT,

1. RESPONDENT shall pay to the state of Alabama an administrative assessment in the total sum Thirty Five Thousand Dollars (\$35,000), said funds to be tendered in certified funds contemporaneously with the entry of this Order, in accordance with Section 8-6-19(j)(1), Code of Alabama-1975; and
2. RESPONDENT shall pay to the Alabama Securities Commission, as partial reimbursement for the Commission's cost for investigating this matter, the sum of Ten Thousand Dollars (\$10,000), said funds to be tendered in certified funds contemporaneously with the entry of this Order, in accordance with Section 8-6-19(k)(1), Code of Alabama 1975.
3. The Commission recommends that all newly hired employees at the Huntsville, Alabama branch office attend a minimum of eight hours of training on compliance policies and procedures as a part of new employee orientation and that all existing employees attend no less than eight hours of training on compliance policies and procedures on a biannual basis. The Commission further recommends that all employees with management or supervisory responsibilities attend no less than eight hours of training on supervisory procedures on an annual basis. PSI as RESPONDENT shall forward these recommendations to the operators of the Huntsville branch and suggest that these recommendations be implemented.

AGREED AND CONSENTED to on date indicated:

PRUDENTIAL EQUITY GROUP, INC.  
formerly known as  
PRUDENTIAL SECURITIES INC.

  
DATE: 3/23/05

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ORDERED AND APPROVED this 22<sup>nd</sup> day of April, 2005



ALABAMA SECURITIES  
COMMISSION 770 Washington Avenue,  
Suite 570 Montgomery, AL 36130-4700  
(334) 242-2984

BY:

  
JOSEPH P. BORG

Director