

STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION

IN THE MATTER OF:)
FIRST LEGACY INVESTORS INC)
RELIANCE SECURITIES LLC)
FIRST LEGACY SECURITIES LLC)
HENRY E. WALKER)
RONALD WAYNE LANKFORD)
CHARLES THOMAS CAMMACK JR)
PAUL CLAYTON CONNER)
STEVE JEFFREY CUMMINGS)
RITA MICHELLE FARMER)
JEREMY SHANE HAY)
JASON TILTON LATHAM)
MELINDA COOK MCCULLOUGH)
WILLIAM SLAY STEVENS)
DARRYL RICHARD WILSON)
RESPONDENTS)
ADMINISTRATIVE ORDER
NO. SC 2010-00⁵⁹

SHOW CAUSE ORDER

The Alabama Securities Commission ("Commission"), having the authority 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:

RESPONDENTS

1. **FIRST LEGACY INVESTORS INC ("FL INVESTORS")** during all times involving the offer and sale of the securities relevant to this order was a North Carolina corporation with a principal business address of 15800 John J. Delaney Drive, Suite 350, Charlotte, North Carolina 28277.

2. **RELIANCE SECURITIES LLC** ("RELIANCE") for the relevant time of February 19, 2009 to April 15, 2009 was a registered broker dealer with a principal business address of 1100 Abernathy Road, 500 Northpark, Suite 400, Atlanta, Georgia 30328. On April 16, 2009, according to a purchase agreement, Reliance Financial Corporation sold 90 percent Membership Interest in **RELIANCE** to **FL INVESTORS**.

3. **FIRST LEGACY SECURITIES LLC** ("FL SECURITIES") for the relevant time of April 16, 2009 to November 25, 2009 was a subsidiary of **FL INVESTORS** and a registered broker dealer with a principal business address of 1100 Abernathy Road, 500 Northpark, Suite 400, Atlanta, Georgia 30328.

4. **HENRY E. WALKER** ("WALKER"), CRD # 2823447, during all times involving the offer and sale of the securities relevant to this order was the Board Chairman of **FL INVESTORS**. For the relevant time of February 19, 2009 to April 15, 2009, **WALKER** was a registered representative with **RELIANCE** and for the relevant time of April 16, 2009 to November 25, 2009, **WALKER** was a registered representative with **FL SECURITIES** with a principal business address of 1109 Townhouse Road, Helena, Alabama 35080.

5. **RONALD WAYNE LANKFORD** ("LANKFORD"), CRD # 1751588, for the relevant time of February 19, 2009 to April 15, 2009 was the Chief Compliance Officer for **RELIANCE** and for the relevant time of April 16, 2009 to November 25, 2009, **LANKFORD** was the Chief Compliance Officer for **FL SECURITIES** with a principal business address of 1100 Abernathy Road, 500 Northpark, Suite 400, Atlanta, Georgia 30328.

6. **CHARLES THOMAS CAMMACK JR** ("CAMMACK"), CRD # 2143498, for the relevant time of April 21, 2009 to May 12, 2009 was a registered representative with **FL SECURITIES** with a principal business address of 627 Alabama Avenue, Selma, Alabama 36701.

7. **PAUL CLAYTON CONNER (“CONNER”)**, CRD # 1061074, for the relevant time of March 27, 2009 to April 3, 2009 was a registered representative with **RELIANCE**. For the relevant time of June 17, 2009 **CONNER** was a registered representative of **FL SECURITIES** with a principal business address of 409 Lay Dam Road, Suite B, Clanton, Alabama 35046.

8. **STEVE JEFFREY CUMMINGS (“CUMMINGS”)**, CRD # 2274017, for the relevant time of February 26, 2009 to March 31, 2009 was a registered representative with **RELIANCE**. For the relevant time of April 24, 2009 to July 29, 2009, **CUMMINGS** was a registered representative with **FL SECURITIES** with a principal business address of 7050 Fain Park Drive, Suite 15, Montgomery, Alabama 36117.

9. **RITA MICHELLE FARMER (“FARMER”)**, CRD # 4616371, for the relevant transaction on March 20, 2009 was a registered representative with **RELIANCE** with a principal business address of 7050 Fain Park Drive, Suite 15, Montgomery, Alabama 36117.

10. **JEREMY SHANE HAY (“HAY”)**, CRD # 2697622, for the relevant time of February 24, 2009 to April 8, 2009 was a registered representative with **RELIANCE**. For the relevant time of June 4, 2009 to July 29, 2009 **HAY** was a registered representative of **FL SECURITIES** with a principal business address of 312 Main Street, Wadley, Alabama 36276.

11. **JASON TILTON LATHAM (“LATHAM”)**, CRD # 4665932, for the relevant time of February 19, 2009 to April 15, 2009 was a principal and Executive Vice President for **RELIANCE**. For the relevant time of April 16, 2009 to November 25, 2009 **LATHAM** was a principal and Executive Vice President for **FL SECURITIES** with a principal business address of 1109 Townhouse Road, Helena, Alabama 35080.

12. **MELINDA COOK MCCULLOUGH (“MCCULLOUGH”)**, CRD # 5109052, for the relevant time of March 19, 2009 to April 14, 2009 was a registered representative

with **RELIANCE** with a principal business address of 409 Lay Dam Road, Suite B, Clanton, Alabama 35046.

13. **WILLIAM SLAY STEVENS ("STEVENS")**, CRD # 2889238, for the relevant time of March 26, 2009 to April 15, 2009 was a registered representative with **RELIANCE**. For the relevant time of April 17, 2009 to October 22, 2009 **STEVENS** was a registered representative with **FL SECURITIES** with a principal business address of 7050 Fain Park Drive, Suite 15, Montgomery, Alabama 36117.

14. **DARRYL RICHARD WILSON ("WILSON")**, CRD # 4152258, for the relevant transaction on February 19, 2009 was a registered representative with **RELIANCE**. For the relevant time of April 24, 2009 to June 10, 2009 **WILSON** was a registered representative with **FL SECURITIES** with a principal business address of 1109 Townhouse Road, Helena, Alabama 35080.

STATEMENT OF FACTS

Promissory Notes

15. On February 16, 2010, the Commission received information that **FL INVESTORS** and **STEVENS** had offered and sold promissory notes to an Alabama resident.

16. On February 23, 2010, **STEVENS** provided testimony to the Commission that in 2009 he sold six promissory notes issued by **FL INVESTORS** to Alabama residents. **STEVENS** stated that the notes were sold at the direction of **WALKER** for the purpose of raising capital for **FL SECURITIES**. **STEVENS** said the notes had a 15% interest rate for a term of one year. **STEVENS** stated that the notes were marketed "by word of mouth."

17. On February 25, 2010, **WALKER** gave testimony to the Commission that the promissory notes were sold to raise capital for **FL SECURITIES**. **WALKER** stated that

the promissory notes were not registered as securities because **WALKER** had received legal advice that the notes were considered to be loans between **FL INVESTORS** and the individual note holders. **WALKER** stated that there was no commission paid to the **RESPONDENTS** who sold the notes.

18. On February 26, 2010, **WALKER** provided a list of promissory notes that were sold to investors in Alabama, Georgia and Florida by the **RESPONDENTS** from February 19, 2009 through May 12, 2009. **WALKER** identified the representatives who sold the notes as **CAMMACK, CONNER, CUMMINGS, FARMER, HAY, MCCULLOUGH, STEVENS, WALKER** and **WILSON**. According to **WALKER**, the **RESPONDENTS** sold a total of 40 promissory notes to 39 different investors raising a total of \$1,212,914.00. 33 of the notes were at 15% interest while the other 7 were at 20% interest. One note was paid out early at the request of the investor and it was in the amount of \$16,553.42 (principal and interest). Interest only was paid on two other notes totaling \$15,719.18, and those notes were converted to preferred stock. Most of the notes had a one year term. The promissory notes were structured to give the appearance that no interest would be paid to the note holder. However, the notes were sold at a discount, and the face value of the notes included the principal plus interest.

19. On August 11, 2010, a review of the Commission's registration files disclosed no record of registration or any perfected exemption from registration for the promissory notes offered and sold by the **RESPONDENTS**.

20. On September 1, 2010, a review of the Commission's registration files disclosed no record of registration for **FL INVESTORS** as a Dealer or Agent for securities in the state of Alabama.

Preferred Stock

21. On June 18, 2009, **FL INVESTORS** made a notice filing to the Commission in connection with the private offering of interests in **FL INVESTORS**. In the federal FORM D that **FL INVESTORS** filed with the Commission, **FL INVESTORS** represented that the

date of the first sale was June 3, 2009.

22. On August 17, 2010, a search of the United States Securities and Exchange Commission, EDGAR database website, disclosed a Form D filing on June 16, 2009 by **FL INVESTORS** for the private offering of interests in **FL INVESTORS**.

23. On February 26, 2010, **WALKER** provided a list of the **FL INVESTORS** private placement offering sales. **WALKER** identified the representatives who sold the stock as **BOFFILL, CONNER, DOZIER, HAY, STEVENS, WALKER** and **WILSON**. According to **WALKER**, the “date acquired” for the investors who purchased the offering occurred from May 22, 2009 through November 25, 2009. The “deposit date” for the funds from the sales occurred from June 3, 2009 to November 25, 2009. According to **WALKER**, 343 shares were sold to 22 investors who invested a total of \$1,715,000. The cost of each share was \$5000.

24. **FL INVESTORS** issued a Confidential Private Placement Memorandum (“PPM”) for the offering of preferred stock. Under “Management”, the **PPM** lists Bret L. Benham as Director, President and Chief Executive Officer for **FL INVESTORS**. **WALKER** gave testimony to the Commission that Benham resigned from **FL INVESTORS** in September 2009. **WALKER** also stated that around September 2009, he became aware that **FL INVESTORS** was struggling financially due to overspending. **FL INVESTORS** was also expecting some funding that did not occur, which also contributed to the financial struggles. However, **FL INVESTORS** continued to offer and sell the preferred stock beyond September 2009. **FL INVESTORS** did not amend the **PPM** to show that Benham was no longer with the company and that the company’s financial condition had deteriorated.

25. During the Commission investigation, Commission Registration Division staff conducted an examination of the books and records of **FL INVESTORS** and its subsidiaries. During the examination, Commission staff visited the **FL INVESTORS** home office in Helena, Alabama (March 10 – 11, 2010); the **FL SECURITIES** home office in Atlanta, Georgia (April 21, 2010); and the **FL SECURITIES** branch office in

Montgomery, Alabama (March 9, 2010).

The Commission's examination report contained the following findings:

- A. **FL INVESTORS** raised working capital through the offer and sale of promissory notes which were not registered with the Commission nor subject to a perfected exemption from registration.
- B. **FL INVESTORS** raised working capital through the offer and sale of preferred stock. The preferred stock offer was filed with the Commission through a Regulation D Rule 506 Form D submitted June 24, 2009. However, **FL INVESTORS** sold preferred stock as early as May 26, 2009, which exceeded the fifteen day grace period allotted in Alabama Securities Commission Policy Statement dated June 6, 1998.
- C. Based on the documentation received from **FL SECURITIES**, there were at least fourteen occasions when **FL SECURITIES** representatives sold the preferred stock in an unsuitable manner. In one instance, the customer had investment objectives of capital preservation and income growth. However, the customer was sold both promissory notes and preferred stock, which carry an inherent amount of risk inconsistent with the investor's investment objective and by their very nature are deemed speculative. The other unsuitable transactions involved customers with investment objectives of preservation of capital and/or capital appreciation and/or income growth with risk tolerance levels of either moderate or conservative. Respondents **CONNER**, **CUMMINGS**, **DOZIER**, **HAY**, **STEVENS** and **WILSON** were the representatives identified as having sold the preferred stock in what the Commission's examination deemed was an unsuitable manner based on the investors' investment objectives. The unsuitable transactions had to be approved at the Office of Supervisory Jurisdiction ("OSJ") and at the broker dealer. **LANKFORD** was the Chief Compliance Officer of the broker dealer and **LATHAM** and **WALKER** approved transactions at the OSJ level.

CONCLUSIONS OF LAW

26. Pursuant to Section 8-6-2(10), Code of Alabama 1975, Alabama's statutory definition of a security includes any note, stock or evidence of indebtedness. The promissory notes and preferred stock offered and sold by **RESPONDENTS** are securities under the Act.

27. Section 8-6-4, Code of Alabama 1975 states: It is unlawful for any person to offer or sell any security in this state unless it is registered under the Act; the security is exempt from registration under Section 8-6-10; or the transaction is exempt under Section 8-6-11. The securities offered and sold by the **RESPONDENTS**, to wit; the promissory notes were neither registered nor exempt from registration in Alabama in violation of the Act.

28. Pursuant to Section 8-6-3(j)(2), Code of Alabama 1975, the Commission may suspend, revoke, censor or bar any 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 advisor, 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 registrant or, in the case of a dealer or investment advisor, 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 advisor has violated or failed to comply with any provision of the Alabama Securities Act, or any rule issued by the Commission. **RESPONDENTS** offered and sold promissory notes that were neither registered nor exempt from registration in Alabama in violation of the Act.

29. Pursuant to Section 8-6-3(j)(7), Code of Alabama 1975, the Commission may suspend, revoke, censor or bar any 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 advisor, 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 registrant or, in the case of a dealer or investment advisor, 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 advisor has engaged in dishonest or unethical business practices. Respondents **CONNER**, **CUMMINGS**, **DOZIER**, **HAY**, **STEVENS** and **WILSON** engaged in dishonest or unethical business practices by selling the preferred stock to customers in an unsuitable manner. **WALKER** engaged in

dishonest or unethical business practice by failing to amend the **PPM** to reflect that Bret Benham was no longer with **FL INVESTORS** and to reflect that the company's financial condition had deteriorated.

30. Pursuant to Section 8-6-3(j)(10), Code of Alabama 1975, the Commission may suspend, revoke, censor or bar any 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 advisor, 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 registrant or, in the case of a dealer or investment advisor, 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 advisor has failed reasonably to supervise his agents or employees if he is a dealer. **WALKER, LANKFORD** and **LATHAM** failed reasonably to supervise their agents or employees by allowing the sale of unregistered promissory notes and the unsuitable sales of the preferred stock.

This Order is appropriate in the public interest for the protection of investors and consistent with the purposes of the Alabama Securities Act.

This Order does not prevent the Commission from seeking such other civil or criminal remedies that may be available to it under the Alabama Securities Act.

Additionally, if the allegations set forth herein are found to be true, through either administrative adjudication, failure of the **RESPONDENTS** to make a timely request for hearing, or default of the **RESPONDENTS**, it is the intention of the Commission to impose sanctions upon the **RESPONDENTS**. Such sanctions may include, *inter alia*, an administrative assessment imposed on **RESPONDENTS**, an additional administrative assessment for investigative costs arising from the investigation of the violation(s) described herein against **RESPONDENTS**, and a permanent order to bar **RESPONDENTS** from participation in any securities related industry in the state of Alabama.

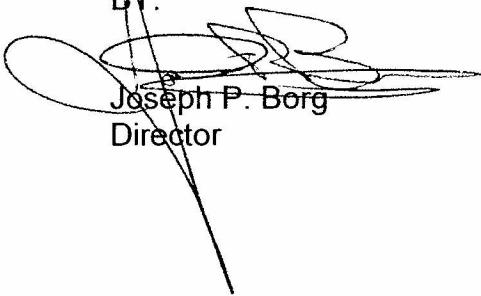
ACCORDINGLY, IT IS HEREBY ORDERED that RESPONDENTS SHOW CAUSE to the Commission, within 28 days of the date of this Order, why RESPONDENTS should not be suspended, revoked, censored or barred from the securities industry in the state of Alabama.

Entered at Montgomery, AL, this 14th day of December, 2010.



ALABAMA SECURITIES COMMISSION
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BY:


Joseph P. Borg
Director