

# Private-placement problems zap 12 indie B-Ds

More than a dozen firms have run into trouble since selling Provident Royalties private placement, a lawsuit shows

**By Bruce Kelly**

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Selling private placements has turned into a disaster for some independent broker-dealers.

Roughly one in five broker-dealers that sold the Reg D deals issued by Provident Royalties LLC have either gone bust or are no longer sanctioned by the Financial Industry Regulatory Authority Inc. to conduct securities transactions. One, United Securities Alliance Inc., was acquired by Royal Alliance Associates Inc.

In total, those 12 firms sold \$56.7 million of Provident offerings, according to a lawsuit filed last week in federal bankruptcy court in Dallas.

On June 21, the liquidating trustee in the matter, Milo H. Segner Jr., in a complaint against 49 broker-dealers, alleged that they “failed miserably in upholding their fiduciary obligations” when selling the series of Provident Royalties private placements. In total, the lawsuit lists 61 firms that sold the product. ([View the full list of B-Ds that sold Provident, as well as the amounts sold and commissions collected.](#))

Last summer, the Securities and Exchange Commission charged Provident, its founders and various related businesses with fraud. In total, Provident sold \$485 million of private placements through dozens of broker-dealers from 2006 to 2009.

Broker-dealer executives, as well as their reps and advisers, are facing a swarm of litigation from angry investors over Provident and other, non-related private deals that have wiped out hundreds of millions of dollars of investors' money.

Below is a list of the firms that ran into difficulties after purportedly selling Provident private placements. The list includes the reason for each firm's post-private-placement fate. Included parenthetically are the amounts of Provident private placements the firms sold, according to the lawsuit.

Two of the most notable entries on the list are GunnAllen Financial Inc. and Okoboji Financial Services Inc. Respectively, the two were the fourth and fifth biggest sellers of the Provident product, selling \$22.3 million and \$21.9 million. Here's the full list:

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- AFA Financial Group LLC — Weighed down by legal and insurance costs, AFA in April said it was shutting its doors (the firm sold \$2.5 million of Provident private placements).
- Barron Moore Inc. — Finra expelled the firm in June 2008 over penny stock sales (\$250,000).
- Community Bankers Securities LLC — Ended its affiliation with Finra in December 2009 (\$2.8 million).
- Empire Financial Group Inc. — Finra expelled the firm in March 2009 for failing to pay unknown fines and/or costs (\$2.8 million).
- Empire Securities Corp. — Finra suspended the firm in May 2010 for failing to pay arbitration fees (\$205,000).
- ePlanning Securities Inc. — Withdrew from Finra in February 2009 (\$3.8 million).
- GunnAllen Financial Inc. — Shut down in March 2010 when it failed to meet Finra's net-capital rules (\$22.3 million).
- Jesup & Lamont Securities Corp. — Shut down in June 2010 when it failed to meet Finra's net-capital requirements (\$100,000).
- Main Street Securities LLC — The firm withdrew its registration from Finra in November 2009 (\$205,000).
- Okoboji Financial Services Inc. — In May, it filed forms with Finra and the SEC to withdraw as a broker-dealer (\$21.9 million).
- Private Asset Group Inc. — Finra suspended in May 2010 for failing to pay arbitration fees (\$2 million).
- Provident Asset Management — Expelled in March after selling oil and gas private placements that promised returns of 18% per year (\$50,000).

*Sources: InvestmentNews; Finra records in BrokerCheck; U.S. bankruptcy court filings, Northern District of Texas, Case 09-33886.*



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