

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 1, 2018

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COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. SEC-2016-00014

LINCOLN FINANCIAL SECURITIES CORPORATION,  
Defendant

SETTLEMENT ORDER

The State Corporation Commission's ("Commission") Division of Securities and Retail Franchising ("Division") conducted an investigation of Lincoln Financial Securities Corporation ("LFSC") pursuant to § 13.1-518 of the Virginia Securities Act ("Act"), § 13.1-501 *et seq.* of the Code of Virginia ("Code").

LFSC is a New Hampshire corporation registered with the Commission as a broker-dealer and investment advisor.

LFSC has been registered in Virginia as a broker-dealer since 1981 and as an investment advisor since 1977. Randy Z. Watts ("Watts") was a registered representative for LFSC and was continuously registered from June 2007 through November 2015 (hereinafter, "relevant time period") at 25 South Kent Street, Winchester, Virginia 22601. Watts was the principal for an entity named Watts Financial Group, LLC ("Watts Financial"). Watts Financial was a Virginia limited liability company that was registered with the Commission from July 2004 until October 2016.

The Division alleges that beginning in 2009, Watts devised a scheme in which he defrauded clients, long-time friends, and elderly residents of the Winchester community by selling them a variety of bogus investments he called "fixed rate investments." Watts often

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included the names of real financial institutions to these bogus investments to give his investors a false sense of comfort and to give the investments an air of legitimacy. Watts had the investors write checks payable to either Watts Financial or directly to him. Watts then deposited the funds into one of his personal or business checking accounts, accounts over which Watts had sole control. During the relevant time period, Watts misappropriated approximately \$400,000 from at least 12 Virginia investors.

The Division further alleges that during the relevant time period, LFSC was aware of ongoing financial difficulties Watts was experiencing. Despite placing Watts on heightened supervision plans on two separate occasions because of federal tax liens filed against him, LFSC failed to adequately supervise and monitor Watts' securities activities that led to the client abuses.

The Division further alleges that, in certain instances, LFSC failed to verify independently the information provided to it by Watts. Most notably, during an audit of Watts in 2013, LFSC failed to independently identify sources of funds deposited into the Watts Financial checking account, an account whose statements LFSC admits reviewing. Watts told LFSC that the deposits were the proceeds of loans from a personal friend, and he provided LFSC with copies of promissory notes. Had LFSC independently verified the information and documents provided by Watts, LFSC would have discovered evidence of Watts' improper conduct while under LFSC's supervision and may have been able to prevent Watts from continuing to solicit funds from additional unwitting investors between 2013 and 2015.

It should be noted that once LFSC discovered the fraud perpetrated by Watts, LFSC repaid investors for their losses. In addition, LFSC fully cooperated and assisted with the Division's investigation.

Based on the investigation, the Division alleges that LFSC violated 21 VAC 5-20-260 (A) and 21 VAC 5-20-260 (B) of the Commission's Rules on Supervision of Agents, 21 VAC-5-20-10 *et seq.*, by failing to supervise diligently the securities activities of Watts during his affiliation with LFSC.

If the provisions of the Act are violated, the Commission is authorized by § 13.1-519 of the Act to issue temporary or permanent injunctions; by § 13.1-521 of the Act to impose a civil penalty; and by § 12.1-15 of the Code to settle matters within its jurisdiction.

The Defendant neither admits nor denies the allegations herein but admits to the Commission's jurisdiction and authority to enter into this Settlement Order ("Order").

As a proposal to settle all matters arising from these allegations, the Defendant has made an offer of settlement to the Commission wherein the Defendant will abide by and comply with the following terms and undertakings:

(1) The Defendant will pay to the Treasurer of Virginia, contemporaneously with the entry of this Order, the amount of Ten Thousand Dollars (\$10,000) in monetary penalties;

(2) The Defendant will pay to the Treasurer of Virginia, contemporaneously with the entry of this Order, the amount of Ten Thousand Dollars (\$10,000) to defray the costs of investigation; and

(3) The Defendant will not violate the Act in the future.

The Division has recommended that the Commission accept the offer of settlement of the Defendant.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Division, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendant in settlement of the matter set forth herein is hereby accepted.
- (2) The Defendant shall fully comply with the aforesaid terms and undertakings of this settlement.
- (3) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:  
Michael W. Arnold, Assistant Vice President and Senior Counsel, Lincoln Financial Securities Corporation, 1300 South Clinton Street, Fort Wayne, Indiana 46802; and a copy shall be delivered to the Commission's Office of General Counsel and Division of Securities and Retail Franchising.

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Defendant

ADMISSION AND CONSENT

Lincoln Financial Securities Corporation ("Defendant") admits to the jurisdiction of the State Corporation Commission ("Commission") as to the party and subject matter hereof and, neither admits nor denies the allegations made herein by the Division of Securities and Retail Franchising, hereby consents to the form, substance and entry of the foregoing Settlement Order ("Order").

The Defendant further states that no offer, tender, threat or promise of any kind whatsoever has been made by the Commission or any member, subordinate, employee, agent or representative thereof in consideration of the foregoing Order.

Lincoln Financial Securities Corporation

Date: 5/29/18

By: James C. Egan, Jr.

Its: Senior Vice President

Seen and Approved By:

Michael W. Arnold

Michael W. Arnold, Esquire