

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING AND SECURITIES

IN THE MATTER OF:)
PROEQUITIES, INC.)
Respondent.)
_____)

**ORDER NO. 12-900-S
CEASE AND DESIST ORDER
ASSESSING CIVIL PENALTIES
and
CONSENT TO ORDER**

WHEREAS, state regulators from multiple jurisdictions conducted coordinated investigations of Bankers Life and Casualty Company (“Bankers Life”) and BLC Financial Services, Inc. (“BLCFS”) (collectively, “Bankers”) to determine whether Bankers should have been registered as a broker-dealer and investment adviser between January 1, 2005, and December 2, 2011; and

WHEREAS, the investigations revealed that Bankers has acted as a broker-dealer and investment adviser in Alaska without being registered, exempt from registration, or a federal covered investment adviser, and has employed or associated with agents and investment adviser representatives who were not so registered on behalf of Bankers, all in violation of Alaska Statutes (“AS”) 45.55.030; and

WHEREAS, ProEquities, Inc. (“ProEquities”) entered into an agreement with Bankers effective April 30, 2010, to provide brokerage and investment advisory services out of Bankers Life branch office locations; and

WHEREAS, the conduct addressed herein has resulted in no known direct consumer harm, and the parties understand that registered agents or representatives of ProEquities participated in all securities transactions and at locations that were registered with the appropriate securities authorities as broker-dealer locations of ProEquities; and

1 registered in Alaska and a federal covered investment adviser.

2 4. Bankers Life and BLCFS entered into an agreement with ProEquities effective
3 April 30, 2010 (the “ProEquities Agreement”). The ProEquities Agreement specifies that
4 ProEquities would “exercise exclusive control” over the broker-dealer and investment advisory
5 activities of ProEquities agents who were also insurance agents for Bankers Life (the “Dual
6 Agents”). In addition, the ProEquities Agreement assigned the following securities-related
7 roles to BLCFS or to BLCFS and Bankers Life, which roles BLCFS and Bankers Life did
8 perform until December 2, 2011:

- 9 a. consulting with ProEquities on the persons to be appointed as representatives of
10 ProEquities;
- 11 b. identifying securities product training and marketing opportunities for review by
12 ProEquities;
- 13 c. conferring with ProEquities concerning the securities products made available for
14 distribution by the dual agents;
- 15 d. terminating the clearing broker selected by ProEquities (BLCFS only) in the
16 event that the clearing agent did not use commercially reasonable efforts to
17 process and service customer accounts at a level consistent with BLCFS’
18 standards;
- 19 e. paying for advertising and promotional material (BLCFS only) in the event that
20 BLCFS ordered more than a reasonable quantity of such materials or required
21 customization of them;
- 22 f. recruiting representatives for ProEquities and assisting with the licensing and
23 registration process;
- 24 g. providing marketing, training and support; and

1 h. paying for:

2 i. pre-examination training for required FINRA examinations;

3 ii. sales training materials;

4 iii. recruitment and travel costs; and

5 iv. ProEquities stationary and business cards.

6 5. Under the ProEquities Agreement, ProEquities was required to pay BLCFS
7 between 87% and 91% of revenue received by ProEquities for the securities business
8 conducted by the dual agents. ProEquities also was required to provide reports to BLCFS of
9 the amount of compensation to be paid to each dual agent for securities work, and BLCFS was
10 to retain the difference.

11 6. BLCFS, in its current Form BD filing, lists the following as other business:
12 BLC Financial Services, Inc. (BLCF) provides sales support & a marketing program to Bankers
13 Life & Casualty agents who are securities licensed with ProEquities. BLCFS will receive
14 compensation from ProEquities based on these securities sales. BLCFS will not have any
15 representatives that sell to the public.

16 7. Evidence obtained during the investigation indicated that Bankers screened
17 prospective securities agents, trained new securities agents, conducted some periodic training
18 sessions for securities agents, monitored and attempted to increase securities production of
19 securities agents, and played a significant role in determining the compensation of securities
20 agents. Additionally, evidence showed that the involvement of Bankers in securities-related
21 roles led to confusion in the reporting and responsibility hierarchies as between Bankers and
22 ProEquities.

23 8. At no time were the dual agents registered as agents or investment adviser
24 representatives of Bankers Life or BLCFS. The agents were registered representatives and

1 investment adviser representatives of ProEquities.

2 9. From April 30, 2010 through November 31, 2011, Bankers received, on a
3 nationwide basis, a total of approximately \$11 million from ProEquities under the ProEquities
4 Agreement for variable annuity and securities transactions and investment advice.

5 II. CONCLUSIONS OF LAW

6 1. Under the Alaska Securities Act, a person may not act as a broker-dealer in
7 Alaska unless registered or exempt from registration. AS 45.55.030(a).

8 2. Similarly, a person may not act as an investment adviser in Alaska unless
9 registered, exempt from registration, or a federal covered investment adviser.
10 AS 45.55.030(c).

11 3. A broker-dealer may not employ or associate with an agent, as defined in
12 AS 45.55.990(5), unless the employee or associated person is registered as an agent of the
13 broker-dealer. AS 44.55.030(b).

14 4. An investment adviser may not employ or associate with an investment adviser
15 representative unless the employee or associated person is registered as an investment adviser
16 representative of the investment adviser. AS 45.55.030(g) and AS 45.55.030(h).

17 5. By engaging in the conduct set forth above, Bankers acted as an unregistered
18 broker-dealer and investment adviser in Alaska in violation of AS 45.55.030(a) and
19 AS 45.55.030(c).

20 6. Furthermore, by employing or associating with dual agents who were not
21 registered as agents or investment adviser representatives of Bankers, Bankers violated
22 AS 45.55.030(b), AS 45.55.030(g) and AS 45.55.030(h).

23 7. By engaging in the conduct set forth above, ProEquities engaged in conduct
24 giving rise to liability under AS 45.55.920.

1 ProEquities, any agreement between Bankers and ProEquities shall be consistent with the
2 provisions set forth in a separate Consent Order executed by Bankers and the Administrator in
3 Order No. 12-898-01-S.

4 7. This Consent Order concludes the investigation by the Division of Banking and
5 Securities and any other action that the Administrator could commence under applicable law on
6 behalf of the Alaska as it relates to the violations described above, up to and including activity
7 occurring through December 2, 2011; provided, however, that excluded from and not covered
8 by this paragraph are any claims by the Division of Banking and Securities arising from or
9 relating to the "Order" provisions contained herein.

10 8. If payments are not made by ProEquities, or if ProEquities defaults in any of its
11 obligations set forth in this Consent Order, the Administrator may vacate this Consent Order, at
12 her sole discretion, upon 10 days notice to ProEquities and without opportunity for
13 administrative hearing or judicial review, and commence a separate action.

14 9. Nothing herein shall preclude the Alaska, its departments, agencies, boards,
15 commissions, authorities, political subdivisions and corporations, other than the Division of
16 Banking and Securities and only to the extent set forth herein, (collectively, "State Entities")
17 and the officers, agents or employees of State Entities from asserting any claims, causes of
18 action, or applications for compensatory, nominal and/or punitive damages, administrative,
19 civil, criminal, or injunctive relief against ProEquities.

20 10. This Consent Order is not intended by the Administrator to subject any person to
21 any disqualifications under the laws of the United States, any state, the District of Columbia,
22 Puerto Rico, or the Virgin Islands including, without limitation, any disqualification from
23 relying upon the state or federal registration exemptions or safe harbor provisions.

24 //

1 11. This Consent Order and the order of any other state in related proceedings
2 against ProEquities (collectively, the “Orders”) shall not disqualify any person from any
3 business that they otherwise are qualified, licensed or permitted to perform under applicable
4 securities laws of the Alaska, and any disqualifications from relying upon this State’s
5 registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

6 12. This Consent Order and any dispute related thereto shall be construed and
7 enforced in accordance with, and governed by, the laws of the Alaska without regard to any
8 choice of law principles.

9 13. This Consent Order shall be binding upon ProEquities, its relevant affiliates,
10 successors and assigns.

11 14. Except as set forth above, the Division of Banking and Securities agrees to take
12 no action adverse to ProEquities based solely on the same conduct addressed in this Consent
13 Order. However, nothing in this Consent Order shall preclude the Division of Banking and
14 Securities from: (a) taking adverse action based on other conduct; (b) taking this Consent Order
15 and the conduct described above into account in determining the proper resolution of action
16 based on other conduct; (c) taking any and all available steps to enforce this Consent Order; or
17 (d) taking any action against other entities or individuals, regardless of any affiliation or
18 relationship between ProEquities and the entities or individuals.

19 IT IS HEREBY ORDERED on this 17th day of December, 2012.

20 SUSAN BELL, Commissioner
21 Department of Commerce, Community and
22 Economic Development

23 /s/ Lorie L. Hovanec
24 BY: Lorie L. Hovanec, Director
 Division of Banking and Securities

1 **CONSENT TO ENTRY OF CONSENT ORDER**

2 ProEquities, by signing below, agrees to the entry of this Consent Order and waives any right to
3 a hearing or to judicial review.

4 ProEquities states that no promise of any kind or nature whatsoever that is not reflected in this
5 Consent Order was made to it to induce it to enter into this Consent Order and that it has
6 entered into this Consent Order voluntarily.

7
8 Mike Mangenast (name) represents that he or she has been authorized to enter into
9 this Consent Order on behalf of ProEquities, Inc.

10
11 ProEquities, Inc.

12
13
14 By: /s/ Mike Mangenast

15 Title: President and CEO

16 Date: 12/04/12
17

18 SUBSCRIBED AND SWORN TO before me this 4 day of December, 2012, at
19 Birmingham, Alabama.

20
21 SEAL

22 /s/ Melissa S. Sanders
Notary Public in and for Alabama

23 Melissa S. Sanders
Notary Printed Name
24 My commission expires: 05/22/14

STATE OF ALASKA
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