

**UNITED STATES OF AMERICA**  
Before the  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
Release No. 59988 / May 27, 2009

**ADMINISTRATIVE PROCEEDING**  
File No. 3-13490

In the Matter of

**BRADLEY E. MORGAN,**

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE AND  
CEASE-AND-DESIST PROCEEDINGS,  
PURSUANT TO SECTIONS 15(b) AND 21C OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-AND-  
DESIST ORDER**

**I.**

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Bradley E. Morgan ("Respondent").

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that

#### **Summary**

These proceedings arise out of Respondent's failure reasonably to supervise James Patrick Reedy ("Reedy") with a view to preventing and detecting his violations of the federal securities laws. During the period that Respondent supervised Reedy, a registered representative at Geo Securities, Inc. ("GSI"), a broker-dealer registered with the Commission, Respondent failed reasonably to supervise Reedy in connection with his misrepresentations and omissions to investors in the offer and sale of oil and gas joint venture interests. Respondent also knew or was reckless in not knowing that Reedy sent investors false and misleading written communications relating to the status of their joint venture interests. Finally, Respondent caused GSI's violations of the Commission's net capital, books and records, and reporting requirements, as well as GSI's failure to notify the Commission of such violations by failing to properly account for an arbitration award for which GSI was jointly and severally liable.

#### **Respondent**

1. Bradley E. Morgan, age 44, resides in Fort Worth, Texas. Between January 2004 and January 2006, Morgan was the president, the compliance officer and the financial operations principal ("FINOP") for GSI, a Dallas, Texas registered broker-dealer. Prior to becoming GSI's principal, from January to December 2003, Morgan was associated with GSI as a registered representative. Although he is not currently associated with any broker or dealer, Morgan holds Series 6, 7, 9, 10, 24, 27, 31, 63 and 65 securities licenses.

#### **Other Relevant Entities and Persons**

2. GSI (File No. 8-50862) has been a broker-dealer registered with the Commission since 1998. On January 10, 2006, GSI filed a Rule 17a-11 notice and voluntarily ceased conducting its securities business based on net capital deficiency resulting from its failure to record liabilities totaling \$949,688 associated with a civil lawsuit.

3. Geo Companies of North America, Inc. ("GCNA") is a Texas corporation with its principal place of business in Dallas. GCNA issued securities in the form of oil and gas joint ventures and offered and sold them through its wholly-owned and captive broker-dealer, GSI. GCNA also wholly owns Geo Natural Resources, Inc. ("GNR"), a company that operated the wells for GCNA's oil and gas projects.

4. Reedy, age 48, resides in Dallas Texas. From 1998 through January 2006, Reedy was associated with GSI as a registered representative and vice president of sales. Reedy was also vice president of GNR. Reedy held Series 22 and Series 63 securities licenses, but is not currently associated with any broker or dealer.

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

### **Morgan's Failure to Supervise Reedy**

5. From January 2004 through August 2005 (the "relevant period"), Reedy, as GSI's vice president of sales, conducted meetings in which he introduced GCNA's offerings and instructed the sales staff on how to "spin" the drilling projects. The sales staff followed Reedy's direction and parroted his statements to prospective investors, including false and misleading representations about GCNA's and GNR's (collectively "Geo") track record, inflated oil and gas production from previous projects and the status of current projects. In many cases, however, Reedy personally closed sales with prospective investors.

6. When closing a sale, Reedy typically engaged in high-pressure sales tactics. For example, he routinely stressed to prospective investors, without basis in fact, that there were immediate, but limited opportunities to invest with Geo and encouraged them to act quickly. Reedy also made claims to investors alluding to great returns with minimal risk. Other GSI representatives often overheard Reedy making statements to investors such as, "A year from now we will be on a cruise drinking champagne" and "Geo hasn't stayed in business over 15 years by drilling dry holes." In reality, Geo had drilled numerous dry holes and enjoyed only limited success; indeed, only a few of its investors received any returns.

7. Throughout the relevant period, Reedy sent GSI's customers "updates" and "reports to partners." Reedy issued these documents to convince GSI's customers that their current investment would soon see oil and/or gas revenues and to promote the next project based on the purported success or imminent success of the on-going projects. Morgan typed the updates or reports to partners composed by Reedy.

8. During the relevant period, Morgan was the president and compliance officer for GSI. Morgan had sole supervisory responsibility for four registered representatives, including Reedy.

9. During the relevant period, Morgan ignored several "red flags" that should have alerted him to Reedy's misleading oral sales presentations. In January 2004, when Morgan became GSI's compliance officer, one GSI registered representative told Morgan that she had witnessed Reedy, on numerous occasions, during his telephone solicitations with prospective investors, overstate production from previous wells and downplay the risks associated with the oil and gas investments. Morgan disregarded her complaint because he believed it was based solely on her personal dislike of Reedy. On or about September 2004, another GSI registered representative raised similar concerns with Morgan about Reedy's false and misleading statements during his telephone solicitations.

10. Morgan neither spoke with Reedy nor conducted any investigation of the complaints. Additionally, contrary to GSI's written supervisory procedures, Morgan did not monitor Reedy's telephone calls.

11. Morgan further failed to discharge his supervisory responsibilities by not reviewing and approving the updates Reedy sent to investors. GSI's written supervisory procedures required Morgan to review and approve all outgoing GSI correspondence. Morgan knew that Reedy authored the updates, because Morgan typed them as Reedy dictated the contents, which contained numerous false and misleading statements. Morgan, as the president

of GSI, knew or should have known that Reedy's updates could entice current investors (all of whom were current GSI customers) to purchase interests in upcoming projects by exaggerating the success of prior projects. Morgan should have reviewed the updates and determined whether they contained any false or misleading information.

### **Morgan Caused GSI to Violate the Net Capital, Books and Records, and Notice Provisions**

12. During the relevant period, Morgan, as GSI's FINOP, was responsible for calculating its net capital computations, preparing its quarterly FOCUS reports and maintaining its books and records. In January 2004, when Morgan became GSI's FINOP, he was aware that GSI was a defendant in two lawsuits.<sup>2</sup> On January 9, 2004, the court issued an order in the consolidated lawsuit enforcing a disputed settlement agreement in which the defendants had agreed to pay \$217,220. The order also required the parties to submit to binding arbitration to determine the amount of attorney's fees. On April 27, 2005, the arbitrator determined that the defendants, including GSI, were jointly and severally obligated to pay \$949,688 in legal fees (the "Arbitrator's award").

13. Morgan failed to properly account for the Arbitrator's award in calculating GSI's net capital. In early May 2005, Morgan contacted outside counsel about the appropriate treatment of the Arbitrator's award in computing GSI's net capital requirements. Outside counsel provided Morgan with NASD materials, which clearly stated that an arbitration award, even if appealed, should be recorded as an actual liability.<sup>3</sup> Ignoring the NASD's guidance, Morgan did not record the Arbitrator's award on GSI's balance sheet and incorrectly treated it as a contingent liability for the purposes of computing GSI's net capital. As a result, combined with GSI's other liabilities, the Arbitrator's award resulted in a net capital deficiency on GSI's part of approximately \$1 million, which placed GSI in violation of Rule 15c3-1 under the Exchange Act.

14. From May 2005 through January 2006, when GSI ceased its securities business, Morgan caused GSI to fail to record properly the Arbitrator's award of \$949,688 as a liability on its books and records. As a result of Morgan's failure to record properly the Arbitrator's award, GSI did not maintain accurate books and records throughout this period as required by Rule 17a-3 under the Exchange Act.

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<sup>2</sup> The complaints in *T.C. Woodworth, et al. v. Geo Securities, Inc., et al.*, No. 1:00-CV-1495-WBH (N.D. Ga. filed June 14, 2000) and *Leipman, et al. v. Geo Securities, Inc., et al.*, No. 1:02-CV-369-WBH (N.D. Ga. filed February 8, 2002), which were ultimately consolidated, alleged that GSI, GCNA, GNR, Reedy and others fraudulently offered and sold, without registration, joint venture partnership interests.

<sup>3</sup> Counsel provided Morgan with NASD Notice to Members No. 00-63, *Arbitration Awards*, which states that for the purposes of the Commission's net capital rule, "A broker/dealer that is the subject of an adverse award in an arbitration proceeding should book said award as an actual liability at the time the award is made, even though the appeal process has not been exhausted and no judgment has been rendered, because grounds for revision on appeal are very limited." See also *In the matter of the Application of Fox & Company Investments, Inc. and James W. Moldermaker* (October 28, 2005). Counsel also provided Morgan with an example NASD judgment sanctioning a broker-dealer and its compliance officer, in part, for failing to record an arbitration award for net capital purposes. See, *In the Matter of Monterey Bay Securities and Kenneth Mark Doolittle* (July 9, 1998).

15. Also, as a result of Morgan's failure to record properly the Arbitrator's award, GSI's FOCUS reports were inaccurate for the quarters ending June, September and December 2005 and for its year ending July 31, 2005, thus placing GSI in violation of Rule 17a-5 under the Exchange Act.

16. Had Morgan properly recorded the Arbitrator's award as a liability, combined with its other liabilities, GSI's financial statements would have revealed a net capital deficiency of approximately \$1 million.<sup>4</sup> As a result, pursuant to Rule 17a-11 under the Exchange Act, GSI should have provided the Commission with same-day notice of the existence of a net capital deficiency as a result of the Arbitrator's award.

### **Violations**

17. As a result of the conduct described above, Morgan failed reasonably to supervise Reedy with a view toward preventing his violations of the federal securities laws. Section 15(b)(6)(A) of the Exchange Act, which incorporates by reference Section 15(b)(4)(E) of the Exchange Act, provides for the imposition of sanctions against persons associated with a broker or dealer who have failed reasonably to supervise, with a view to preventing violations of the federal securities laws, another person who commits such a violation, if such other person is subject to his supervision.

18. As a result of the conduct described above, Morgan caused GSI to violate Section 15(c)(3) of the Exchange Act and Rule 15c3-1 thereunder.

19. As a result of the conduct described above, Morgan caused GSI to violate Section 17(a) of the Exchange Act and Rules 17a-3, 17a-5 and 17a-11 thereunder.

### **Civil Penalty**

20. Respondent has submitted a sworn Statement of Financial Condition dated November 25, 2008 and other evidence and has asserted his inability to pay a civil penalty.

## **IV.**

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Morgan's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

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<sup>4</sup> GSI's required minimum net capital, during the relevant period, was the greater of \$5,000 or 6.7 percent of its aggregate indebtedness. After properly recording the Arbitrator's award, GSI's required minimum net capital was \$5,000 (March 31, 2005); \$65,729 (June 30, 2005); \$64,142 (July 31, 2005); and \$63,823 (September 30, 2005).

A. Respondent Morgan cease and desist from causing any violations and any future violations of Sections 15(c) and 17(a) of the Exchange Act and Rules 15c3-1, 17a-3, 17a-5 and 17a-11 thereunder;

B. Respondent Morgan be, and hereby is barred from association in a supervisory capacity with any broker or dealer with the right to reapply for association after three (3) years to the appropriate self-regulatory organization, or if there is none, to the Commission;

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Based upon the Respondent's sworn representations in his State of Financial Condition dated November 25, 2008 and other documents submitted to the Commission, the Commission is not imposing a penalty against Respondent.

E. The Division of Enforcement may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of a penalty should not be ordered; (3) contest the imposition of the maximum penalty allowable under the law; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Elizabeth M. Murphy  
Secretary