

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: JOHN EDWARD WATSON) No. 1100218
)

NOTICE OF HEARING

TO THE RESPONDENT: John Edward Watson (CRD #2186346)
4507 Cove Road
Osage Beach, MO 65065

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5/1, et seq] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60601 on the 23rd day of January, 2013, at the hour of 10.00 a.m., or as soon thereafter as counsel may be heard, before James Kopecky or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order should be entered which revokes the salesperson registration of John Edward Watson (the "Respondent") in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to imposition of a monetary fine in the maximum amount of \$10,000 pursuant to Section 11.E.4 of the Act, payable within ten (10) business days of the entry of the Order

The grounds for such proposed action are as follows:

1. That at all times relevant, the Respondent John Edward Watson was registered as an Illinois registered salesperson and investment adviser representative through Securities America Advisors, Inc. ("Securities America") pursuant to Section 8 of the Illinois Securities Law 815 ILCS 5/1 et seq. (the "Act"); Respondent's salesperson and investment adviser registrations were terminated in Illinois on February 23, 2011,
2. That on or about January 19, 2011, Respondent John Edward Watson recommended to MM, an Illinois resident, that MM surrender MM's two existing AIG deferred annuities and place said funds into two new MetLife variable annuities;
3. That Respondent John Edward Watson represented to MM that there would be no downside and no surrender charges to move the AIG annuities into the MetLife annuities;
4. That Respondent John Edward Watson completed a "Variable Annuity Purchase Acknowledgement" ("VAPA") for each aforesaid MetLife annuity which stated MM's existing AIG annuities had been held for 5 years and would incur no surrender charge and that the proposed MetLife annuities had a 9 year surrender period; said VAPA was signed by both MM and Watson on January 19, 2011;

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5. That, in fact, the aforesaid AIG annuities were purchased by MM through Respondent John Edward Watson on February 5, 2010, that Respondent John Edward Watson had received approximately \$40,421 in commissions for this transaction, and that said AIG annuities had been held by MM for slightly under 1 year as of January 19, 2011;
6. That as of February 5, 2011, the aforesaid AIG annuities had a combined surrender value of approximately \$808,436;
7. That each of the aforesaid AIG annuities had a surrender period of 7 years and would incur a surrender charge of 7% if surrendered within 1 year and 6% if surrendered within 2 years,
8. That MM was 58 years old at the time of the aforesaid recommended January 19, 2011, transactions;
9. That on or about August 25, 2011, the Central Registration Depository indicated that Securities America discharged Respondent John Edward Watson on February 18, 2011, for providing inaccurate information on client disclosure documents;
10. That on or about March 1, 2011, MM received a correspondence from Respondent John Edward Watson which stated, “. . . I have decided to made a change that will allow me the freedom to spend more time with my family and more time to concentrate on servicing you, my clients of 20 years”, that this correspondence stated further that “I will still be your advisor, you will continue to get the same products, planning, case design and hopefully even a higher level of service as we move forward” and that “in the next few weeks, you will be receiving paperwork from me that will allow me to move your accounts(without making any changes) to my new broker-dealer. I hope that you could get it back to us as soon as possible so that this transition can remain seamless.”
11. That said March 1, 2011, correspondence failed to disclose that Respondent was discharged from Securities America and/or the reason for said discharge;
12. That on or about January 26, 2011, JK, an Illinois resident, pursuant to the recommendation of Respondent John Edward Watson, surrendered two existing Lincoln Financial variable annuities and placed said funds into new Jackson National Life annuities;
13. That Respondent John Edward Watson represented to JK that JK would not lose money and that she would incur no surrender charges for the aforesaid January 26, 2011, transactions;

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14. That JK had purchased one of the aforesaid Lincoln variable annuities on June 11, 2009, through the Respondent, that this Lincoln variable annuity had a surrender period of 8 years, that at the time of the aforesaid January 26, 2011, transaction, said Lincoln Financial variable annuity had a surrender value of \$72,242.68, and that as a result of the aforesaid January 26, 2011, transaction, JK incurred a surrender charge of \$4,255.20;
15. That JK was 75 years old at the time of the aforesaid transaction;
16. That subsequent to being discharged from Securities America and the termination of Respondent's salesperson and investment adviser representative registration in Illinois, Respondent John Edward Watson joined and became president of Osage Financial Group located at 4507 Cove Road, Osage Beach, Missouri,
17. That subsequent to being discharged from Securities America and the termination of Respondent's salesperson and investment adviser representative registration in Illinois and during the time Respondent was president of Osage Financial Group, Respondent sent a correspondence to JB, GB and EH, all Illinois residents, which stated, "I am pleased to announce that the transition to my new firm is complete, and we can officially complete the process of bringing your accounts over so that I can continue to provide service and advice in the future", further stating that "I have included the necessary forms in this mailing that you will need to sign and return to me as soon as possible"; That said forms included a Change of Dealer Request for a change to Respondent's broker/dealer at the time and included references to specific securities and securities accounts held by JB, GB and EH; Furthermore, said correspondence failed to disclose that Respondent was discharged from Securities America and/or the reason for said discharge;
18. That during the time Respondent was president of Osage Financial Group, Respondent was not registered as a sales person for the sale of securities in the State of Illinois;
19. That each of the above variable annuities is a security as that term is defined pursuant to Section 2.1. of the Illinois Securities Law of 1953 [815 ILCS 5/1 et seq.] (the "Act");
20. That Section 5 of the Act provides, inter alia, that all securities except those exempt under Section 3 of the Act or those offered and sold in transactions exempt under Section 4 of the Act shall be registered with the Secretary of State prior to their offer or sale in the State of Illinois,
21. That Section 12 A of the Act provides, inter alia, that it shall be a violation of the Act for any person to offer or sell securities except in accordance with the provisions of the Act;
22. That Section 12.C of the Act provides, inter alia, that it shall be a violation of the Act for any person to act as a dealer, salesperson and/or investment adviser representative unless registered as such, where such registration is required;

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23. That Section 12.D of the Act provides, inter alia, that it shall be a violation of the Act for any person to fail to file with the Secretary of State any document or application required to be filed under the provision of the Act;
24. That Section 12.F of the Act provides, inter alia, that it shall be a violation of the Act for any person to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof;
25. That Section 12.G of the Act provides, inter alia, that it shall be a violation of the Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading;
26. Section 12 J of the Act provides, inter alia, that it shall be a violation of the Act for any person when acting as an investment adviser, directly or indirectly, to engage in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client
27. That Section 8.E.1(b) of the Act states, inter alia, that subject to the provisions of subsection F of Section 11 of the Act, the registration of a salesperson or investment adviser representative may be suspended or revoked if the Secretary of State finds that the salesperson or investor adviser representative has engaged in any unethical practice in the offer or sale of securities;
28. That Section 8.E 1(g) of the Act states, inter alia, that subject to the provisions of subsection F of Section 11 of the Act, the registration of a salesperson or investment adviser representative may be suspended or revoked if the Secretary of State finds that the salesperson or investor adviser representative has violated any of the provisions of this Act;
29. That 14 Ill.Admin.Code Section 130.850 of the Regulations under Illinois Securities Law of 1953 [14 Ill.Adm.Code 130 100, et seq](the "Regulations") provides, inter alia, that no dealer or salesperson shall effect transactions for a customer's account which are unsuitable and that failure to comply with said section of the Regulations shall constitute a fraudulent business practice;
30. That during the time that Respondent John Edward Watson sent the aforesaid correspondence to MM, JB and GB, Respondent acted as a dealer, salesperson, and/or investment adviser of securities while not being registered as such;

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31. That at all times relevant hereto, Respondent John Edward Watson obtained money or property through the offer or sale of securities by means of any untrue statement of a material fact or any omission to state a material fact in that Respondent represented to MM and JK that MM and JK would not incur any surrender cost in the aforesaid surrender of annuities, where, in fact, said transactions incurred substantial surrender costs for the aforesaid annuities transactions;
32. That at all times relevant hereto, Respondent John Edward Watson obtained money or property through the offer or sale of securities by means of any untrue statement of a material fact or any omission to state a material fact in that Respondent, in the aforesaid correspondence to MM, represented to MM that Respondent left Securities America for personal and business reasons and failed to disclose that he was involuntarily terminated from Securities America or the reasons for this termination; Respondent also failed to disclose said involuntary termination or the reason for said termination in the aforesaid correspondence to JB and GB;
33. That at all times relevant hereto, Respondent John Edward Watson engaged in an unethical practice in the offer or sale of securities in that the Respondent represented to MM that they MM would not incur surrender costs in the aforesaid surrender of annuities and Respondent then completed the aforesaid VAPA which Respondent presented to both MM and Securities American which stated that MM held the existing annuities for 5 years and would not incur surrender costs, where in fact MM held said existing annuities for approximately 1 year and would in fact incur substantial surrender costs if existing annuities were surrendered at that time;
34. That at all times relevant, Respondent John Edward Watson engaged in a transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof, in that Respondent represented to MM that she would not incur a surrender charge for the surrender of the aforesaid annuities and filled out and presented the aforesaid VAPA to MM as well as Securities America which stated that MM held her existing annuities for 5 years and would incur no surrender charges, where in fact MM had held said existing annuities for only 1 year and would incur substantial surrender charges if existing annuities were surrendered at that time,
35. That at all times relevant, the Respondent John Edward Watson effected or caused to be effected transactions of purchase or sale which were unsuitable for MM and JK in that Respondent recommended the sale of existing annuities which had surrender periods of 7 and 8 years, respectively, but had been held by MM and JK for approximately only a year and a year and a half, respectively, and in the case of MM, the new annuities had surrender periods of 9 years, thus causing both MM and JK to incur substantial surrender penalties; furthermore, in the case of MM, Respondent recommended that MM replace existing annuities with a 7 year surrender period and replace the existing annuity with an

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annuity with a 9 year surrender period after holding the existing annuity for only one year, thus placing MM in annuities with a longer surrender period and potentially another large surrender charge;

- 36 That at all times relevant, Respondent John Edward Watson, while acting as an investment adviser representative, by any means or instrumentality, directly or indirectly engaged in a transaction, practice or course of business which operated as a fraud or deceit upon his client in that Respondent represented to MM that she would incur no surrender charges in the aforesaid surrender of her existing annuities and presented MM and Securities America with the aforesaid VAPA which stated that MM held her existing securities for 5 years and would incur no surrender charges, when in fact MM had held her existing annuities for only one year and would incur significant surrender charges if existing annuities were surrendered at that time;
37. That by virtue of the foregoing, Respondent John Edward Watson has violated Sections 12.A, 12.C, 12.D, 12.G, 12.F and 12.J of the Act;
- 38 That Section 11.E(2) of the Act provides, inter alia, that if the Secretary of State shall find that any person has violated subsection C, D, G, F and/or J of Section 12 of the Act, the Secretary of State may by written order prohibit the person from offering or selling any securities in this State;
39. That Section 11.E.(3) of the Act provides, inter alia, that if the Secretary of State shall find that any person is engaging or has engaged in the business of selling or offering for sale securities as a dealer or salesperson without prior thereto and at the time thereof having complied with the registration or notice filing requirements of this Act, the Secretary of State may by written order prohibit the person from offering or selling any securities in this State;
- 40 That Section 11 E(4) of the Act provides, inter alia, that if the Secretary of State, after finding that any provision of the Act has been violated, may impose a fine as provided by rule, regulation or order not to exceed \$10,000.00 for each violation of the Act, as well as the costs of investigation and reasonable expenses;
- 41 By virtue of the foregoing, Respondent John Edward Watson is subject to a fine of up to \$10,000.00 per violation, costs of investigation, reasonable expenses, an order of censure, an order which permanently prohibits the Respondent from offering or selling securities in the State of Illinois as well as an order which suspends or revokes his salesperson registration in the State of Illinois;

You are further notified that you are required pursuant to Section 130 1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above or a Special Appearance pursuant to Section 130 1107 of the Rules, or other

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responsive pleading within thirty days of the receipt of this notice. Your failure to do so within the prescribed time shall be deemed an admission of the allegations contained in the Notice of Hearing and waives your right to a hearing.

Furthermore, you may be represented by legal counsel, may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default.

Delivery of notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated this 19th day of November, 2012.



Jesse White
Secretary of State
State of Illinois

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