

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

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FINRA FINRA E DISCLOSURE

Department of Enforcement,

Complainant,

v.

Charles Anthony Chatman,

Respondent.

Disciplinary Proceeding
No. 20050003461-01

Hearing Officer - DRP

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: October 5, 2007

INTRODUCTION

Disciplinary Proceeding No. 20050003461-01 was filed on April 13, 2007, by the Department of Enforcement of the Financial Industry Regulatory Authority ("FINRA"). ("Complainant").

Respondent Charles Anthony Chatman ("Chatman") submitted an Offer of Settlement ("Offer") to Complainant on September 4, 2007. Pursuant to NASD Rule 9270(e), the Complainant and the National Adjudicatory Council ("NAC"), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA") have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to NASD Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, and solely for the purposes of this proceeding and any other

proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Chatman entered the securities industry on October 20, 2003 as a General Securities Representative of a member of NASD. Between the dates of October 20, 2003, and April 18, 2005, he was registered in this capacity with Emmett A. Larkin Co, Inc., a NASD member. He has no disciplinary history.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

Prior to October 2003, Chatman was a minister with a wide group of friends and acquaintances. One of his friends, parishioner K.W., was a registered representative and principal of Emmett A. Larkin Co., Inc. K.W. suggested that Chatman join him as a partner. K.W. promised to teach Chatman the securities business and to share commissions with Chatman for all existing and future clients. Chatman accepted the opportunity. On or about October 20, 2003, Chatman became associated with Emmett A. Larkin Co., Inc. as a Registered Representative. As soon as he became associated with the firm, Chatman entered into a verbal partnership arrangement with K.W., which included the agreement to share commissions on generally an equal basis. They began sharing commissions and responsibilities for all existing customers of K.W., and any new

customer accounts either person opened. Before Chatman joined the partnership, K.W. was recommending and implementing transactions involving stocks and options trading to his customers. Chatman solicited new customers and brought them to Emmett A. Larkin Co., Inc., encouraging them to follow K.W.'s recommendations. Chatman entered and executed transactions in these accounts at the direction of K.W. Also, Chatman worked in close proximity to K.W. in a small office. Chatman was at all times aware of the trading activity that occurred in these accounts. Based on the above, Chatman and K.W. were responsible for any and all transactions recommended to these customers.

All of the trading activity in the subject accounts was solicited. Many trades were executed simultaneously in several of the customer accounts. The affected customers were a diverse group with different financial needs and goals with varying levels of trading experience. Chatman and K.W. applied stock and option strategies without regard to the individual needs of the customers and instead they treated the customers as a homogenous group.

Chatman and K.W. recommended and executed option trading strategies for their customers. Chatman and K.W. had only a rudimentary understanding of the effects the trades would have on profitability. Chatman and K.W. failed to account for the effect of commissions and fees on their trading activity. Chatman and K.W. did not know how market movements would affect the profitability of the positions that were recommended and entered in each of the customer accounts. Chatman and K.W. never performed calculations to assess the maximum gain and potential losses of the specific trades that were implemented. Further, they frequently reacted to minor movements in the market in pursuit of small short term profits. Chatman and K.W.

quickly liquidated positions, thereby impairing potential gains that could have been realized by holding the options positions through (or close to) expiration.

The frequent trading increased commission costs and fees to the customers. Chatman and K.W. frequently utilized options in combination with stock trading, incurring two or three commissions each time a position was opened or closed. Many of the stock purchases made were accompanied by a married put position (a long stock position accompanied by a long put in the same stock for the identical quantity) that could act as insurance against a decline in the stock's value. However, many of the stocks and married puts were sold within a short period of time, often when the stock suffered a slight decline in price. In several of these instances, the customer accounts lost money because the slight increase in the puts' premium did not compensate for the decline in the stocks' value, not including commissions, as the two prices have an inverse, but not one-for-one, relationship.¹

There were also occasions when both the stock and put positions were sold at a loss, doubling the harm to the customer, while generating multiple commission payouts for Chatman and K.W. In these instances, the strike prices of the married puts was typically far out of the money, so a decrease in the stocks' value was not accompanied by a corresponding increase in the puts' value. This rapid trading undermined the intended reason for establishing the stock and married put position - to provide unlimited upside potential on a stock over a period of time ending with the puts' expiration, and downside protection over that same period.

¹ Whether an option premium will move on a one-to-one basis with the underlying stock is based on the following factors: the volatility of the underlying stock, the time left until the option's expiration, and whether the option is in-the money, at-the-money or out-of the money.

In other situations, Chatman and K.W. would sell a stock that had a small rise in value in a short period of time. Although the stock had increased in value, it was not enough to compensate for the losses on the put position and the multiple commissions received by Chatman and K.W. By not factoring in these costs to the customers, even the sale of stock that appreciated in value resulted in a net loss to the customers.

In another instance, on February 23, 2004, Chatman and K.W. recommended to eight of his customers² a trade that involved the purchase of a stock and married puts on the stock. They simultaneously sold covered calls (where a call was sold while holding or purchasing a position in the same stock) on the new stock position. This is commonly known as a "collar" strategy. Chatman and K.W. received three separate commissions for the opening trades. The maximum gain of \$.488 to \$.538 per share,³ not including commissions, would be realized if the stock rose above the call's strike price. However, the customers were exposed to maximum risk of \$4.462 to \$4.512 per share, not including commissions. In short, Chatman and K.W.'s trading strategy created potential losses nearly ten times the potential gains for all the affected customers.

Activity in Customer Accounts

Account of MM

Beginning in November 2003, Chatman and K.W. began jointly servicing the account of MM. MM was a 45 year old divorced schoolteacher with 2 dependent children. Prior to opening this account, MM's investment experience was limited to mutual funds. MM funded this account

² The individual customers are discussed below. This trade was entered in the accounts of JL and NL, MM, RM, GS and PS, DS and CS, CV, DW and LC.

with a cash deposit of \$49,000. MM's investment objectives were listed as growth and speculation. MM relied on Chatman and K.W. to make appropriate investment decisions in the account. Between November 2003 and November 2004, Chatman and K.W. exercised control over MM's account and effected or caused to be effected numerous and excessive purchase and sale transactions in MM's account.

Chatman and K.W.'s trading activity in MM's account from November 2003 through November 2004, consisted of 58 opening⁴ option trades and 53 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 49.60% and an annualized Turnover Ratio of approximately 15.72 (stock trades only), with the total monthly fees reaching approximately \$22,795. Accordingly, MM's account would have had to earn an annual return of 49.60% just to break even.

Account of RM

Beginning in November 2003, Chatman and K.W. began jointly servicing the account of RM. RM was a 59 year old married real estate agent who earned less than \$40,000 annually. Prior to opening this account, RM had no options trading experience. RM funded this account with a cash deposit of \$63,000. RM's investment objectives were listed as growth and speculation. RM relied on Chatman and K.W. to make appropriate investment decisions in the account. Between November 2003 and August 2004, Chatman and K.W. exercised control over RM's

³ The put positions were purchased at \$.20 in some customer accounts and at \$.25 in other customer accounts.

⁴ An opening trade for a stock or option is defined as a transaction that increases a position either on the long or short side.

account and effected or caused to be effected numerous and excessive purchase and sale transactions in RM's account.

Chatman and K.W.'s trading activity in RM's account from November 2003 through August 2004, consisted of 36 opening option trades and 28 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 47.08% and an annualized Turnover Ratio of approximately 12.05 (stock trades only), with the total monthly fees reaching approximately \$12,892.88. Accordingly, RM's account would have had to earn an annual return of 47.08% just to break even.

Account of GS and PS

Beginning in December 2003, Chatman and K.W. began jointly servicing the joint account of GS and PS. GS was a 41 year old married operations manager at a meat packing plant and PS, his wife, was a homemaker. They had a combined annual income of less than \$65,000. Prior to opening this account, GS and PS had no options trading experience. They funded this account with a cash deposit of \$50,000. Their investment objectives were listed as growth and income. GS and PS relied on Chatman and K.W. to make appropriate investment decisions in the account. Between December 2003 and March 2005, Chatman and K.W. exercised control over GS and PS's account and effected or caused to be effected numerous and excessive purchase and sale transactions in their account.

Chatman and K.W.'s trading activity in GS and PS's account from December 2003 through March 2005, consisted of 28 opening option trades and 30 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 40.62% and an annualized Turnover Ratio of approximately 12.21 (stock trades only), with the total monthly fees reaching approximately \$13,020.14. Accordingly, GS and PS's account would have had to earn an annual return of 40.62% just to break even.

Account of DS and CS

Beginning in November 2003, Chatman and K.W. began jointly servicing the joint account of DS and CS. DS was a 53 year old married, unemployed former minister. DS and CS listed a combined income of less than \$125,000. Prior to opening this account, DS and CS had no options trading experience. They funded this account with a cash deposit of \$144,000. Their investment objectives were listed as growth and speculation. DS and CS relied on Chatman and K.W. to make appropriate investment decisions in the account. Between November 2003 and September 2004, Chatman and K.W. exercised control over DS and CS's account and effected or caused to be effected numerous and excessive purchase and sale transactions in their account.

Chatman and K.W.'s trading activity in DS and CS's account from November 2003 through September 2004, consisted of 50 opening option trades and 36 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 67.16% and an annualized Turnover Ratio of approximately 20.70 (stock trades only), with the

total monthly fees reaching approximately \$33,611.86. Accordingly, DS and CS's account would have had to earn an annual return of 67.16% just to break even.

Account of DW

Beginning in November 2003, Chatman and K.W. began jointly servicing the account of DW. DW was a 64 year old retired nurse. DW earned less than \$40,000 per year. Prior to opening this account, DW had only invested in mutual funds. DW funded the account with a cash deposit of \$100,000. Her investment objectives were listed as growth and speculation. DW relied on Chatman and K.W. to make appropriate investment decisions in the account. Between November 2003 and January 2005, Chatman and K.W. exercised control over DW's account and effected or caused to be effected numerous and excessive purchase and sale transactions in their account.

Chatman and K.W.'s trading activity in DW's account from November 2003 through January 2005, consisted of 51 opening option trades and 49 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 53.95% and an annualized Turnover Ratio of approximately 14.36 (stock trades only), with the total monthly fees reaching approximately \$28,724. Accordingly, DW's account would have had to earn an annual return of 53.95% just to break even.

Account of CV

Beginning in November 2003, Chatman and K.W. began jointly servicing the account of CV. CV was a 27 year old consultant with an income listed as over \$50,000 and a net worth of \$10,000. Prior to opening this account, CV had two years experience trading stock and options. CV funded the account with a cash deposit of \$41,181. CV's investment objectives were listed as growth and short term trading. CV relied on Chatman and K.W. to make appropriate investment decisions in the account. Between November 2003 and July 2004, Chatman and K.W. exercised control over CV's account and effected or caused to be effected numerous and excessive purchase and sale transactions in their account.

Chatman and K.W.'s trading activity in CV's account from November 2003 through July 2004, consisted of 41 opening option trades and 36 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 53.40% and an annualized Turnover Ratio of approximately 18.15 (stock trades only), with the total monthly fees reaching approximately \$23,358. Accordingly, CV's account would have had to earn an annual return of 53.40% just to break even.

Account of OJ and VJ

Beginning in November 2003, Chatman and K.W. began servicing the account of OJ and VJ. OJ was a 35 year old self employed real estate developer with an income listed as over \$125,000. Prior to opening this account, OJ had no options experience. OJ and VJ funded the account with a cash deposit of \$100,000. OJ's and VJ's investment objectives were listed as growth and

income. OJ and VJ relied on Chatman and K.W. to make appropriate investment decisions in the account. Between November 2003 and May 2004, Chatman and K.W. exercised control over OJ's and VJ's account and effected or caused to be effected numerous and excessive purchase and sale transactions in their account.

Chatman and K.W.'s trading activity in OJ's and VJ's account from November 2003 through May 2004, consisted of 25 opening option trades and 17 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 39.19% and an annualized Turnover Ratio of approximately 12.88 (stock trades only), with the total monthly fees reaching approximately \$13,037. Accordingly, OJ's and VJ's account would have had to earn an annual return of 39.19% just to break even.

Account of CE and ME

Beginning in May 2004, Chatman and K.W. began jointly servicing the joint account of CE and ME. CE was a 39 year old married customer service representative. CE listed 3 dependents and an annual income of less than \$40,000. Prior to opening this account, CE and ME had no investment experience. The account was funded with a deposit of \$49,980. The account's investment objectives were listed as growth and income. CE and ME relied on Chatman and K.W. to make appropriate investment decisions in the account. Between May 2004 and March 2005, Chatman and K.W. exercised control over CE and ME's account and effected or caused to be effected numerous and excessive purchase and sale transactions in their account.

Chatman and K.W.'s trading activity in CE and ME's account from May 2004 through March 2005 consisted of 37 opening option trades and 59 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 78.18% and an annualized Turnover Ratio of approximately 23.54 (stock trades only), with the total monthly fees reaching approximately \$23,875. Accordingly, CE and ME's account would have had to earn an annual return of 78.18% just to break even.

Account of JL and NL

Beginning in November 2003, Chatman and K.W. began jointly servicing the joint account of JL and NL. JL was a 40 year old self employed writer. JL listed no dependents and an annual income of less than \$125,000. Prior to opening this account, JL and NL had no options experience. The account was funded with deposits totaling about \$250,000. The account's investment objectives were listed as speculation and income. JL and NL relied on Chatman and K.W. to make appropriate investment decisions in the account. Between November 2003 and September 2004, Chatman and K.W. exercised control over JL and NL's account and effected or caused to be effected numerous and excessive purchase and sale transactions in their account.

Chatman and K.W.'s trading activity in JL and ML's account from November 2003 through September 2004 consisted of 71 opening option trades and 51 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 77.13% and an annualized Turnover Ratio of approximately 17.95 (stock trades only), with the

total monthly fees reaching approximately \$47,461. Accordingly, JL and NL's account would have had to earn an annual return of 77.13% just to break even.

Account of LC

Beginning in November 2003, Chatman and K.W. began jointly servicing the account of LC. LC was a 53 year old administrative assistant. LC had an annual income of over \$50,000. Prior to opening this account, LC had 1 year of options experience. The account's investment objectives were listed as income and growth. LC relied on Chatman and K.W. to make appropriate investment decisions in the account. Between November 2003 and March 2004, Chatman and K.W. exercised control over LC's account and effected or caused to be effected numerous and excessive purchase and sale transactions in their account.

Chatman and K.W.'s trading activity in LC's account from November 2003 through March 2004 consisted of 29 opening option trades and 23 opening stock trades which resulted in an annualized Cost-to-Equity Ratio (converted to a percentage) of approximately 38.59% and an annualized Turnover Ratio of approximately 13.39 (stock trades only), with the total monthly fees reaching approximately \$27,144. Accordingly, LC's account would have had to earn an annual return of 38.59% just to break even.

The transactions recommended and executed by Chatman and K.W. were excessive and unsuitable for all the customers described above, based on their investment objectives, financial

situation and needs, and lack of knowledge and experience necessary to understand the risks associated with the transactions recommended.

Chatman and K.W. also lacked a reasonable basis for believing that the customers had such knowledge and experience that he or she could be expected to evaluate the risks of the option transactions and were able to financially bear those risks.

Chatman and K.W. exercised de facto control over the accounts described above. The trading in the accounts was excessive.

By virtue of this conduct, Chatman, by the use of any means or instrumentality of interstate commerce or of the mails, intentionally or recklessly engaged in manipulative or deceptive devices or contrivances in connection with the purchase or sale of securities, and intentionally or recklessly effected transactions in, or induced the purchase or sale of, securities by means of manipulative, deceptive or other fraudulent devices or contrivances.

From approximately October 20, 2003 to April 18, 2005, Chatman and K.W. exercised discretion in making stock and option transactions in the accounts of JL and NL, MM, RM, GS and PS, DS and CS, CV, DW, OJ and VI, CE and ME, and LC with Emmett A. Larkin Co., Inc. This discretion was exercised without prior written authorization from any of the customers. Furthermore, Emmett A. Larkin Co., Inc. did not accept any of the customer accounts as discretionary accounts (in writing or otherwise) prior to Chatman and K.W.'s exercise of discretionary power.

In February 2004, Chatman and K.W. entered into a partnership with a customer of Emmett A. Larkin Co., Inc., named OJ. This partnership was called TKO LLC. In February 2004, Customer OJ withdrew the total account balance, over \$45,000, from his Emmett A. Larkin Co., Inc. securities account, although the securities account was not closed. At the same time, Customer OJ funded the TKO LLC with approximately \$180,000 and was the only financial contributor to the LLC. TKO LLC opened a commodities account with a non-NASD member firm with the intention to raise profits from commodities trading and to use the proceeds to invest in real estate. Chatman and K.W. began trading commodities in the account but were unsuccessful, and the account lost about \$80,000 between February 2004 and April 2004. Customer OJ returned \$100,000 back into his Emmett A. Larkin Co., Inc. securities account in April 2004. The LLC was dissolved in July 2004. Chatman did not disclose to Emmett Larkin that he was involved in TKO LLC in any way.

Based on the foregoing, Respondent violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, NASD Conduct Rules 2110, 2120, 2310, and 2860(b) (19) and IM-2310-2 (Excessive Trading, Unsuitability, Fraud); NASD Conduct Rules 2110, 2510(b) and 2860(b)(18)(A)(i) (Discretionary Trading without Written Authorization); and NASD Conduct Rules 3030 and 2110 (Undisclosed Outside Business Activities).

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and

represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

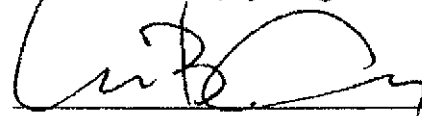
It is ordered that Respondent be barred from association with any member of FINRA.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to IM-8310-3(e), a bar or expulsion shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA

Signed on behalf of the
Director of ODA, by delegated authority

A handwritten signature in black ink, appearing to read 'UnBo Chung', is written over a horizontal line.

UnBo Chung
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