

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20100208034 01**

**To: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)**

**Re: James Arnold Potter
General Securities Representative, General Securities Principal and
Investment Banking Representative
CRD No. 1240900**

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, I, James Arnold Potter, submit this Letter of Acceptance, Waiver and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against me alleging violations based on the same factual findings described herein.

I. ACCEPTANCE AND CONSENT

- A. I hereby accept and consent, without admitting or denying the findings, 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, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

Background

Potter entered the securities industry in June 1987. From August 1, 2003 through the present, Potter has been associated with FINRA broker-dealer The Oak Ridge Financial Services Group, Inc. and is registered with FINRA as a general-securities representative, general-securities principal, and investment-banking representative.

Relevant Disciplinary History

Potter has not been the subject of prior formal disciplinary action.

Overview

While serving as the Chief Compliance Officer for Oak Ridge, Potter was responsible for supervising H.H., a registered representative of the firm. Between May 1, 2009 and May 31, 2010, H.H. engaged in excessive trading in the accounts of four Oak Ridge customers. During that time, Potter failed to respond appropriately to red flags – namely, reports and

other information showing high turnover rates and cost-to-equity ratios. Potter failed to take any measures to prevent or limit Hunt's excessive trading in the four customers' accounts.

Through this conduct, Potter violated NASD Conduct Rule 3010 and FINRA Rule 2010.

Facts and Violative Conduct

Potter has been the Chief Compliance Officer for Oak Ridge since January 2008. In that capacity, Potter is responsible for reviewing and approving all transactions, and for reviewing all correspondence by the firm's representatives. Between May 1, 2009 and May 31, 2010, Potter was responsible for supervising transactions placed by H.H., an Oak Ridge representative.

When H.H. joined Oak Ridge in 2009, his Form U-4 disclosed multiple prior customer complaints alleging unauthorized account activity. Upon hiring him, the firm placed H.H. on heightened supervision. The firm subsequently learned of other disclosure events, including a September 2009 settlement with a customer who had alleged excessive trading by H.H. while associated with a different broker-dealer.

The heightened supervision of H.H. by Potter included quarterly letters sent to a sampling of H.H.'s customers, frequent discussions with H.H. about his customers and his personal financial situation, and a heightened review of H.H.'s correspondence. Potter was responsible for conducting all aspects of this heightened supervision.

Failure to prevent or limit excessive trading

Between May 1, 2009 and May 31, 2010, H.H. engaged in excessive trading in the accounts of four Oak Ridge customers: P.M., D.D., L.R., and J.N. (the Customers). This trading activity was quantitatively unsuitable, in violation of NASD Conduct Rule 2310.

During that period, Potter reviewed and approved all of the transactions that H.H. entered for his clients. Potter reviewed daily trade blotters showing those transactions and also received monthly "Active Account Reports" showing accounts serviced by H.H. in which trading activity exceeded one or more parameters. The Active Account Reports from

February 2010 through April 2010 showed that annualized turnover rates in the four Customers' accounts ranged from 4.51 to 15.08. Those reports also showed that cost-to-equity ratios for the Customers were between 27% and 80% on an annual basis.

The Active Account Report for March 2010 showed that customer P.M.'s account had a turnover rate of 14.03 and a cost-to-equity ratio of 80.2%. At that time, P.M.'s account had assets of approximately \$40,000. P.M. appeared on multiple Active Account reports that Potter received. Potter's notes regarding the March 2010 report show that he discussed P.M.'s account with H.H., but those notes reflect no awareness by Potter of the fact that P.M. would have had to realize extraordinarily high returns just to offset the commissions that he was paying H.H.

Likewise, customers D.D., J.N., and L.R. all appeared on multiple Active Account Reports during the first four months of 2010. All three of them had turnover rates of at least 4.96 and commission-to-equity ratios above 32%. Potter's notes regarding these customers' appearances on the Active Account Reports summarize H.H.'s responses regarding the trading activity and rationale for it. They make no mention of any concern for the cost-to-equity ratios or of any plan for curbing the commissions charged to those customers.

Potter never contacted any of the Customers to discuss particular trades in their accounts, the frequency of trading, or the commissions that were charged to their accounts. Potter also never disapproved any of the trades H.H. entered on behalf of any of the Customers.

As part of his supervision of H.H., Potter sent quarterly letters to a sampling of H.H.'s customers. Potter selected "five or six" customers whom he believed, based on his review of trade blotters, to have current or recent account activity. In the letters that he sent during the period of excessive trading by H.H., Potter did not ask customers about particular transactions or trading patterns. He instead asked the customers to contact him if they had any questions or concerns regarding their accounts. Other than sending these letters, Potter did not contact any of H.H.'s customers between May 2009 and May 2010.

The turnover and cost-to-equity figures that Potter received each month were red flags for excessive trading. Especially after learning in September 2009 that H.H. had been the subject of an excessive-trading

complaint while at another broker-dealer, a more searching inquiry and corrective action were necessary. Instead, Potter failed to respond adequately to these red flags, and preventable customer harm followed.

Through this conduct, Potter violated NASD Rule 3010 and FINRA Rule 2010.

B. I also consent to the imposition of the following sanctions:

- A suspension of twenty business days from associating in a principal capacity with any FINRA broker-dealer, and
- A \$5,000 fine.

Potter has specifically and voluntarily waived any right to claim an inability to pay at any time hereafter the monetary sanctions imposed in this matter. Potter has submitted an Election of Payment form showing the method by which he proposes to pay the fine imposed.

Potter has specifically and voluntarily waived any right to claim that he is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

Potter understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Potter may not be associated with any FINRA broker-dealer in a principal capacity during the period of the bar or suspension (*see* FINRA Rules 8310 and 8311). Furthermore, because Potter is subject to a statutory disqualification during the principal suspension, if he remains associated with a FINRA broker-dealer in a non-suspended capacity, an application to continue that association may be required.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II. WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, I specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

I further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III. OTHER MATTERS

I understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
 - 1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;

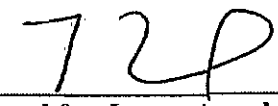
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my disciplinary record;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 4. I may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. I may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects my right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

Date: 5/9/12


JAMES ARNOLD POTTER

Reviewed by:


Counsel for James Arnold Potter

Terrence J. Fleming
Lindquist Vennum
5/10/12

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Accepted by FINRA:

5-15-12

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



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