

**BEFORE THE INVESTOR PROTECTION DIRECTOR
OF THE STATE OF DELAWARE**

In the Matter of)	
)	
KOVACK ADVISORS, INC.,)	Investor Protection Matter No. 22-0081
)	
)	
Respondent.)	

ADMINISTRATIVE CONSENT ORDER

WHEREAS, Respondent Kovack Advisors, Inc. ("KAI" or the "Firm"), Central Registration Depository ("CRD") No. 140808, has been registered as a federal covered investment adviser with the Securities and Exchange Commission since April 4, 2004, and notice filed in Delaware since May 1, 2008;

WHEREAS, Kovack Securities, Inc. ("KSI"), CRD No. 44848, has been registered as a broker-dealer with Delaware since August 28, 1998;

WHEREAS, KAI is wholly owned by Kovack Financial, LLC and is affiliated with KSI through common control, management, and ownership. All three entities are headquartered in Ft. Lauderdale, Florida;

WHEREAS, the Investor Protection Unit of the Delaware Department of Justice (the "Unit") opened an investigation into whether KAI filed a materially inaccurate application for professional registration ("Form U4");

WHEREAS, the Firm neither admits nor denies the Findings of Fact and Conclusions of Law contained herein;

WHEREAS, the Firm has agreed to resolve the Unit's investigation pursuant to the terms specified in this order (the "Administrative Consent Order" or the "Order");

WHEREAS, the Firm elects to waive permanently any right to a hearing and appeal of this Administrative Consent Order;

WHEREAS, the Firm admits both the subject matter and personal jurisdiction of the Unit in this matter;

WHEREAS, the Firm wishes to avoid the uncertainties of protracted litigation and therefore consents to the entry of this Administrative Consent Order; and

WHEREAS, the Director finds based on the following that this Administrative Consent Order and the relief set forth herein are appropriate and in the public interest;

NOW THEREFORE, the Director, hereby enters this Administrative Consent Order:

FINDINGS OF FACT

1. Robert Brandon Prettyman ("Prettyman"), CRD No. 5613767, was a registered investment adviser representative and a broker-dealer agent when he was terminated by a non-respondent employer in May 2019 for document irregularities.

2. The Financial Industry Regulatory Authority ("FINRA") launched an investigation into Prettyman, which culminated in a settlement agreement titled Letter of Acceptance, Waiver and Consent ("AWC"), which, *inter alia*, required Prettyman to file an amended Form U4.

3. Prettyman, meanwhile, contacted a recruiter to assist in securing a new employer. The recruiter put Prettyman in contact with the Firm.

4. Prettyman planned to move more than \$55 million in assets under management ("AUM") to the Firm. The Firm's income is primarily tied to the amount of assets its representatives and affiliates have under management.

5. As Prettyman explained to representatives of the Firm, in addition to the \$55 million in assets currently under management in fee-based accounts, there was another \$15 million in client assets tied up in annuities that could be surrendered and transferred into fee-based

accounts, *i.e.*, the total assets under management he would bring to the Firm almost immediately was actually \$70 million.

6. The Firm was aware of FINRA's investigation into Prettyman, as a draft settlement document was provided to the Firm.

7. Wanting Prettyman's book of business, the Firm continued to recruit him, and on June 11, 2021, Prettyman committed to joining the Firm.

A. The Firm Files Three Inaccurate Form U4s

8. The Firm knew that it would have to submit a Form U4 on behalf of Prettyman to get him registered as an investment adviser representative so that he could work in the industry.

9. On June 16, 2021, the Firm filed its first Form U4 for Prettyman seeking to register Prettyman. However, the Form U4 failed to disclose FINRA's investigation into Prettyman, or the fact that Prettyman had signed the AWC.

10. Section 14G of the Form U4 requires the filing party to check "yes" or "no" boxes next to the following questions:

Have you been notified, in writing, that you are
now the subject of any:

- (1) Regulatory complaint or proceeding ...
- (2) Investigation ...

11. The Firm checked "no" next to both of those questions. This was incorrect, as Prettyman and the Firm had been notified, in writing, and the FINRA investigation was still pending at the time of filing.

12. The first Form U4 also contained inaccuracies. Section 15B of the Form U4

contains the following language:

This firm has communicated with all of [Prettyman's] previous employers for the past three years and has documentation on file. . . . I have taken appropriate steps to verify the accuracy and completeness of the information contained in and with this application ...

13. Both statements, submitted by KAI, were inaccurate.
14. Firm representatives never communicated with Prettyman's previous employers before filing the first Form U4. Therefore, no documentation of such communications existed. Moreover, the Firm never took steps to verify the accuracy and completeness of the Form U4.
15. On June 17, 2021, the Firm filed an amended Form U4 correcting Prettyman's business address and updating his employment history. It failed to correct the prior inaccuracies.
16. On June 18, 2021, the Firm filed a third Form U4 for Prettyman to update information on his business activity, and for a third time, did not correct the previous errors.

**B. The Firm Provides Inaccurate Information
in Response to the Unit's Inquiry**

17. On July 13, 2022, the Unit sent the Firm an inquiry notice requiring the Firm to submit a sworn statement in response to allegations that it submitted three Form U4 filings that were inaccurate.
18. The Firm's response on August 4, 2022, the "First Affidavit", failed to provide much of the information sought. It also contained inaccurate statements, including that one of the Form U4s was filed by a clerical employee "who was unaware of Prettyman's disciplinary history."
19. The Unit issued another inquiry on August 15, 2022.

20. The Firm responded on September 21, 2022 (the “Second Affidavit”).

21. The Second Affidavit stated that Prettyman’s hiring process involved the “efforts of several different departments” including the “registration department, to gather and input information from Mr. Prettyman that would be used to submit his Form U-4 ...”

22. In the Second Affidavit, the Firm inaccurately claimed not to have discovered the existence of FINRA’s investigation into Prettyman until after its filing of the Form U4s.

C. The Pre-registration Documents

23. In its second inquiry notice, the Unit also requested that the Firm provide “documentation the Firm maintains on file regarding the Firm’s communications with Mr. Prettyman’s previous employers,” as represented in its first Form U4. However, the Firm did not have such documentation for Prettyman – nor did it have such pre-registration documentation for dozens of other Form U4 applications that had been submitted by the Firm.

24. Between May 2019 and September 2022, the Firm filed on behalf of at least 36 of its applicants an initial Form U4 that inaccurately claimed the Firm had contacted the applicant’s prior employers.

25. After receipt of the Unit’s second inquiry, the Firm instructed a clerical employee to draft and send “pre-registration” investigation letters to all employers who had not received them – despite the fact that the Firm had already registered the applicants.

26. The clerical employee completed the first set of letters, which were required to have been created and sent years prior, on or about August 25, 2022, and the second set on or about September 27, 2022 (together, the “Letters”). The Letters were signed by the Firm.

27. In response to the Unit’s subpoena seeking all documents and communications

regarding or related to Prettyman, the Firm produced an email referencing "Prettyman" and the attachments to that email, which were the Letters.

28. In addition, contrary to the Firm's obligations to preserve documents relevant to the Unit's investigation, documents relevant to the Unit's investigation were not preserved, including text messages sought by the Unit.

29. On July 16, 2024, the Firm provided the Unit with a letter supported by affidavits. The letter and supporting affidavits contained several inconsistencies:

- The Firm claimed to have discovered that the Letters were missing in "late September 2022," however, the first batch of Letters intended to replace the missing letters was dated Aug. 25, 2022.
- The clerical employee stated the practice of sending pre-registration inquiry letters to prior employers ended in "late 2019," but at least three of the Form U4s that inaccurately claimed the Firm had complied with its pre-registration obligations were filed in May of 2019.
- According to the Firm, the clerical employee prepared all 42 of the Letters to former employers on the morning of Sept. 28, 2022, before emailing the Letters for signature at 10:30 a.m., but 36 of the Letters were dated Aug. 25, 2022, and the remaining six Letters were dated Sept. 27, 2022.
- The Firm claimed to have discovered that the pre-registration inquiry letters were missing in "late September 2022," however, the former compliance officer, who was previously responsible for signing the letters, left the Firm in October of 2020.
- The Firm failed to address why the Letters were written in the present tense – in the context of potentially registering individuals (who had long ago been registered) – or why each of the Letters is described as a "2nd Request," despite admitting that no prior requests had been sent.

30. The Letters served solely to fill the void in each of the 36 personnel files that were missing the letters – a void that would only concern a regulator during future examinations or inquiries and which would mislead a regulator into believing that the Firm was following applicable rules.

CONCLUSIONS OF LAW

31. The Director has jurisdiction over this matter pursuant to Section 73-501 of the Delaware Securities Act, 6 *Del. C.* § 73-101, *et seq.* (the "Act").

32. The Director concludes that, by engaging in the acts and practices described above, the Firm has violated the Act as follows:

- a. The Firm violated or failed to comply with any lawful order by filing incomplete registration materials in violation of Section 73-304(a)(12) of the Act;
- b. The Firm filed incomplete registration materials in violation of Section 73-304(a)(12) of the Act;
- c. The Firm failed to supervise its employees in violation of Section 73-304(a)(10) of the Act;
- d. The Firm failed to adhere to its own Written Supervisory Procedures in violation of Section 73-304(a)(10) of the Act;
- e. The Firm violated Delaware law regarding preregistration investigation in violation of Section 73-304(a)(12) of the Act;
- f. The Firm failed to maintain records and documents that should have been preserved as relevant to the Unit's investigation in violation of Section 73-304(a)(12).

ORDER

Based on the above Findings of Fact and Conclusions of Law, and the Firm's consent to the entry of this Consent Order, IT IS HEREBY ORDERED that:

1. This Order concludes the investigation of the Firm by the Unit and any other action

that the Unit could commence against the Firm under applicable Delaware law regarding this specific investigation as described in the Findings of Fact.

2. The Unit agrees to refrain from taking any further enforcement action against the Firm based solely on the aforementioned investigation, provided that the Firm fully complies with the terms and conditions of this Order. Failure to comply with this Order will be a basis for action by the Unit.

3. The Firm is hereby ordered to pay the sum of 995,180.00 to the Unit within fourteen (14) business days of this Administrative Consent Order, with such amount representing a fine for its violations of the Act and the Rules as described above. The total payment shall be made by ACH, with payment instructions to be provided to counsel for the Firm.

4. The Firm is hereby ordered to remove the Letters from its active personnel files and to ensure that they are not provided to regulators as evidence of having complied with the applicable law and rules.

5. The Firm is hereby ordered to refrain from committing any future violations of the Act.

6. This Order shall not (a) form the basis for any disqualification of the Firm from registration as a broker-dealer, investment adviser, or issuer under the laws, rules, and regulations of any state, or for any disqualification from relying upon the securities registration exemptions or safe harbor provisions to which the Firm or any of its affiliates may be subject under the laws, rules, and regulations of the settling states; or (b) form the basis for any disqualification of the Firm under the laws of any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands; under the rules or regulations of any securities or commodities regulator or self-regulatory

organizations; or under the federal securities laws or the Commodity Exchange Act, including but not limited to, § 3(a)(39) of the Securities Exchange Act of 1934, Rule 262 of Regulation A and Rules 504 and 506(d) of Regulation D under the Securities Act of 1933 and Rule 503 of Regulation CF or safe harbor provisions; this Order is not a final order of any court; or (c) form the basis for disqualification of the Firm under the FINRA rules prohibiting continuance in membership or other SRO rules prohibiting continuance in membership. This order does not constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative or deceptive conduct. The Unit has not found that the Firm has willfully made or caused to be made in any application for registration or report required to be filed with the Unit any statement which was at the time and in light of the circumstances under which it was made, false or misleading with respect to any material fact, or to have omitted to state in any such application or report any material fact which is required to be stated therein.

7. Except in an action by the Unit to enforce the obligations in this Order, this Order is not intended to be deemed or used as (a) an admission of, or evidence of, the validity of any alleged wrongdoing, liability, or lack of any wrongdoing or liability; or (b) an admission of, or evidence of, any such alleged fault or omission of the Firm in any civil, criminal, arbitration, or administrative proceeding in any court, administrative agency, or other tribunal. Nothing in this Order affects the Firm's testimonial obligations or right to take legal positions in litigation in which the Unit is not a party. Evidence of any compromise offers and negotiations of the parties related to the Order, including the Order and its terms and any conduct or statements made during compromise negotiations, should not be used as evidence against any Party in any proceeding to prove or disprove the validity or amount of a disputed claim except in an action or proceeding to interpret or enforce the Order.

8. This Administrative Consent Order is entered into solely for the purpose of resolving the investigation and is not intended to be used for any other purpose.

9. The Firm waives any right or ability to seek judicial review with respect to the terms of this Administrative Consent Order.

10. This Administrative Consent Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of Delaware without regard to any choice of law principles. The exclusive venue for any litigation related to this Administrative Consent Order shall be in New Castle County, Delaware.

SO ORDERED this 21st day of November, 2025.

Jillian Lazar

Jillian Lazar
Director of Investor Protection

CONSENT TO THE ENTRY OF THE ADMINISTRATIVE CONSENT ORDER

The Firm hereby acknowledges that it has been served with a copy of this Administrative Consent Order, has read the foregoing Administrative Consent Order, has reviewed it with counsel, is aware of the right to a hearing in this matter, and has waived the same.

The Firm accepts the jurisdiction of the Director and consents to the entry of this Administrative Consent Order by the Director as settlement of the issues addressed in this Administrative Consent Order.


The Firm states that no promise of any kind or nature whatsoever – outside of this Administrative Consent Order – was made to induce them to enter into this Administrative Consent Order and that they have sought advice of counsel and have entered into this Administrative Consent Order voluntarily.

Dated this 21 day of November, 2025.


Jordan Cushner, Assistant General Counsel
On behalf of Respondent Kovack Advisors, Inc.

SUBSCRIBED AND SWORN TO before me this 21st day of November, 2025

[Affix seal]


Notary Public

My commission expires: July 26, 2026

