**Supply Chain Management of JB Oxford Holdings, Inc. -** January 11th, 2011

JB Oxford Holdings, Inc. offers brokerage and financial services primarily through subsidiary JB Oxford and Company (JBOC). The company provides full-service discount and online brokerage services, including mutual funds, securities, security options, annuities, and fixed-income products. JB Oxford also offers clearing services to more than 30 independent broker-dealers as well as market maker services in stocks for about 500 corporations. The firm has three offices in the United States. JB Oxford's growing online services allow customers to access account information; place orders for equities, options, and mutual funds; and obtain news and stock information, as well as stock quotes.

Early Years As a Clearing Agent

The history of JB Oxford may be traced to OTRA Securities Group. Established in 1986 in Glendale, California, OTRA Securities Group began as a holding company that provided clearing services to securities broker-dealers, or correspondents, through primary subsidiary OTRA Clearing, Inc. OTRA processed stock trades (issuing stock to buyers and transferring the cash to sellers), confirmed securities trades, and provided financing services for about two dozen small stock brokerage firms. OTRA was incorporated on March 31, 1987, and completed its initial public offering in September. At that time OTRA was authorized to conduct business in the District of Columbia and 43 states.

OTRA's beginnings were auspicious, with revenues increasing steadily. For the nine months ended September 29, 1987, OTRA reported revenues of $3.02 million, compared to the previous year's revenues of $845,375. Cofounder, chairman, and largest stockholder William R. Stratton attributed the more than threefold revenue increase to expansion and the rise in the number of correspondents OTRA served; the company's broker-dealer list grew from 24 to 39 firms by November 1987.

To maintain its sales growth in the late 1980s, OTRA continued to expand and seek strategic acquisitions. By 1989 OTRA had 85 employees and served about 60 corporate customers. In January the company announced it would acquire Certificate Transfer Co., a seven-year-old California company that maintained stockholder lists and recorded stock transactions for about 200 companies. The transfer business was considered a logical addition to OTRA's existing services and was in line with the company's diversification strategy. By early 1991 OTRA had operations in three areas of the financial services industry: subsidiary OTRA Clearing continued to provide securities clearing services; subsidiary Oxford Transfer & Registrar, Inc. provided transfer services; and Houlihan Valuation Advisors offered evaluation and corporate business plan development services.

For the fiscal year ended December 31, 1989, OTRA reported revenues of $10.03 million. A year later sales jumped significantly, reaching $12.59 million. OTRA's clearing services had undeniably proved profitable, but chairman Stratton believed further diversification was necessary to gather momentum in the financial services sector. Because OTRA's clearing services were dependent on its network of independent broker-dealers, which numbered 26 in mid-1991, the company could not reliably predict the amount of business headed its way. 'One of the things that's always bothered me about being a wholesale clearing firm is you don't have any control over your revenue base,' Stratton explained in the Los Angeles Times. 'When we come to work, we don't know if we're going to clear 3,000 trades that day or 1,000. We have to be prepared to do 3,000, but we also have to be profitable at 1,000.' OTRA, which cleared a daily average of 1,700 trades in 1991, hoped to remedy the problem by opening its own retail brokerage firm, thus ensuring ample demand for its clearing services.

Expansion and Diversification in the Early 1990s

As promised, OTRA opened a retail brokerage division in late 1991. A division of OTRA Clearing, Reynolds Kendrick Stratton was based in San Francisco and offered full-service investor services. Continuing with its expansion strategy, OTRA also gained a 90 percent stake in Prolyx Data Systems, Inc., with Wm. Michael Reyn & Associates, a business valuation company. Prolyx was a provider of wide-area network and terminal emulation products and services.

To mark its entry in the brokerage industry and signal its expanded repertoire, OTRA changed its name to RKS Financial Group, Inc., on May 22, 1992, the initials RKS representing the name of the Reynolds Kendrick Stratton subsidiary. Stratton remarked in a prepared statement: 'This change is a reflection of the company's shift from focusing only on the securities industry to the broader, financial services area that the company now encompasses.' The newly christened company made another major change in 1992; RKS Financial moved its headquarters from Glendale to Beverly Hills. The Beverly Hills location provided 20 to 30 percent more space than the Glendale offices. RKS Financial planned to open a second Reynolds Kendrick Stratton office in the Beverly Hills office and increase its staff by about a dozen brokers. RKS also renamed OTRA Clearing in September 1992, changing the name to Reynolds Kendrick Stratton, Inc. In a company statement, William Stratton commented on the name change, 'I don't believe a generic name is suitable for a company that has as much personality as we do. ... With our new name, I believe our firm will be more readily recognized as a full service brokerage by those in the securities industry.'

Despite continually rising revenues--sales increased nearly 32 percent during the first half of 1992--RKS Financial was not without problems. In July 1991 a lawsuit was filed against OTRA. The lawsuit, which gained class-action status in 1993, alleged that OTRA defrauded more than 100,000 investors by charging illegal annual maintenance fees. OTRA did begin applying a fee, generally not exceeding $25, in 1990 for maintenance of dormant stock accounts. Investors who did not provide payment for such fees discovered that OTRA sold their stock to collect the outstanding amount. OTRA gained about $1.6 million in 1990 from such fees. The lawsuit claimed that investors were not given the opportunity to close or transfer accounts to avoid the fees; investors who chose to close accounts were charged processing fees. OTRA denied any wrongdoing and indicated that only a handful of investors voiced complaints regarding the new maintenance fee. The suit requested out-of-pocket damages of a maximum of $50 for each plaintiff, as well as millions in punitive damages. The case was settled with little fanfare in 1996.

Major Changes and Scandal in the Mid-1990s

More controversy hit RKS Financial in the mid-1990s. In the spring of 1993 a 51 percent share in RKS Financial was acquired by a group of investors that included Walter Senior, an executive for 20th Century Fox; Christopher Sues, a New York attorney; and Rafi Khan, a stockbroker with Reynolds Kendrick Stratton. The three investors gained seats on RKS Financial's board. Problems arose quickly, however, and in October of that same year, a mere six months after joining Reynolds Kendrick Stratton, Rafi Khan quit his job and resigned his seat on the board, offering little explanation. Khan was in the midst of attempting to gain control of ICN Pharmaceuticals Inc., a company in which Khan and his family had acquired a significant number of shares.

Though Khan's activities brought unwanted attention to RKS Financial, it was the company's relationship with Irving J. Kott that became increasingly troublesome and damaging. Kott became affiliated with the company when he assisted the group of investors that included Rafi Khan with the development of a turnaround strategy. Kott had a long and controversial history in the securities industry. He had been convicted of stock fraud in his native Canada in 1976 and was involved with questionable securities activities in Amsterdam in the mid-1980s. In the Amsterdam case, Kott was accused of running a boiler-room operation, a firm that employed aggressive sales tactics to promote small, highly speculative stocks, known as First Commerce. One of the stocks the company promoted was DeVoe-Holbein International, a company claiming to have developed a process for the extraction of valuable minerals from water. It was estimated that investors lost between $100 million and $400 million as a result of First Commerce's operations. Reynolds Kendrick Stratton claimed that Kott served only as a consultant, but many insiders stated otherwise. Also, it was shortly after Kott joined the company that brokers began to promote shares of Harison Corp., a company eerily similar and with strong ties to DeVoe-Holbein. Reynolds Kendrick Stratton became known as a boiler-room operation itself, and its activities sparked lawsuits and investigation by the National Association of Securities Dealers (NASD).

In 1994 RKS Financial changed its name to JB Oxford Holdings, Inc., and entered the discount brokerage industry. William Stratton left the company, and Stephen Rubenstein became CEO. Felix Oeri, a Swiss banker and a major shareholder, assumed the role of director. The company also discontinued the operations of Reynolds Kendrick Stratton in order to focus on the securities clearing and discount brokerage segments rather than the full-service brokerage business, and perhaps also to move beyond its scandalous recent past. Reynolds Kendrick Stratton was replaced by JB Oxford & Company.

JB Oxford was very active in the mid-1990s, and many changes were implemented. The company entered the Swiss market by establishing a representative office in Basel, Switzerland, headed by Felix Oeri, in 1994. A year later the office was reorganized into a full-service branch. JB Oxford sold its Houlihan Valuation subsidiaries and closed the operations of Prolyx Data Systems to focus more fully on developing JBOC. The company opened a JBOC office in New York in 1995 and later opened additional offices in Boston, Dallas, and Miami. JB Oxford also worked to gain name recognition and exposure through advertising campaigns and began to target Asian populations, such as the Los Angeles Chinese community. Asian investors were considered a key target market for discount investing services, and the company hired Chinese-speaking brokers and advertised in Chinese newspapers and on television to attract and accommodate customers.

In the hope of gaining new customers and to serve a wide range of clientele, JB Oxford adopted a restructuring strategy in late 1994. The firm planned to offer a greater array of products, including mutual funds, fixed-income products, insurance services, and variable and fixed-rate annuities. JB Oxford greatly increased its market-making stocks, from 20 in 1994 to more than 100 in 1995, and opened a capital markets division. JB Oxford also offered customers with personal computers the opportunity to place orders electronically and increased its online trading services by introducing a Windows-based product in 1996. With the rising popularity of the Internet--orders placed through JBOC's electronic trading services more than doubled during the third quarter of 1996--JB Oxford planned to continue upgrading its online products.

The changes paid off, and JB Oxford's revenues began to pick up. The company broke even in the first quarter of 1995 after six consecutive quarters of losses. Net income reached $5.02 million in fiscal 1995, compared to a loss of $7.58 million in 1994, and 1996 revenues were $57.59 million, up 45 percent from 1995 sales. Still, one thing the company seemed unable to shake was Irving Kott, who continued to resurface at JB Oxford as a marketing consultant. Though JB Oxford maintained that Kott's services were used only on occasion, Time reported that Kott spent more than half of his time at JB Oxford headquarters, in an office larger than Rubenstein's. The magazine also indicated that a number of JB Oxford's major shareholders possessed close ties to Kott or with Kott-related stocks and that Kott was instrumental in helping the company begin its discount brokerage business. Kott was also behind JB Oxford's advertising and marketing endeavors.

JB Oxford finally severed ties with Kott in September 1997, a month after agents from the Federal Bureau of Investigation raided its Beverly Hills office and seized boxes of files as part of an investigation into alleged stock manipulation and other abuses. Swiss authorities simultaneously raided the Basel, Switzerland, offices. Ian Kott, Kott's son, continued on as chief operating officer of JBOC, despite reservations concerning Irving Kott's influence.

A Clean Slate in the Late 1990s

In May 1998 a group of investors led by Christopher L. Jarratt acquired a controlling interest in JB Oxford. Jarratt, a principal of merchant banking firm Third Capital, LLC, replaced Felix Oeri as chairman and Stephen Rubenstein as CEO. James G. Lewis, also a principal of Third Capital, was appointed chief operating officer and interim president of JB Oxford. Jarratt shared his enthusiasm for JB Oxford's potential in a prepared statement and noted: 'We believe JB Oxford is a good Company with good employees and a healthy customer base from which to develop and expand existing business lines. It suffered some unfortunate setbacks recently and our immediate goal is to put these problems behind us.'

New management quickly began to implement a restructuring strategy that included streamlining operations for maximum efficiency and increased profitability. Ian Kott was dismissed from his position in June and a national search for a chief operating officer was launched. Though Rubenstein remained president of JBOC after management changes, he left the company in the fall. JB Oxford began consolidating its offices, closing branches in Dallas, Boston, and Basel, Switzerland, in 1998 and 1999. The company also consolidated its Stocks-4-Less subsidiary into JBOC and hired a new advertising agency, Tracey/Ryan & Partners, to develop an aggressive marketing campaign that spotlighted JB Oxford's discount and online trading services.

Internet trading reached a fever pitch in the late 1990s, and JB Oxford took full advantage. The firm unveiled a newly redesigned web site in July 1998 that enhanced online trading capabilities. In early 1999 the stocks of small brokerage firms offering online trading surged, JB Oxford's among them; in one day in February, according to Automatic Data Processing, more than 33 million shares of JB Oxford were traded. In the first quarter of 1999, reported Bill Burnham of CS First Boston, online trading volumes increased 30 to 35 percent over fourth quarter figures, reaching about 450,000 trades daily.

The popularity of online trading helped JB Oxford attain profitability sooner than anticipated, during the fourth quarter of 1998. Revenues reached $19.4 million, a rise of 21 percent over fourth quarter revenues in 1997. JB Oxford reported record revenues of $23.7 million for the first quarter of 1999, up 22 percent from the previous quarter. To maintain its meteoric rise in sales, JB Oxford announced plans to purchase a small brokerage to increase its accounts, which numbered 115,000 at the end of 1998. The company changed advertising agencies in May 1999, hiring Think New Ideas Inc., and nearly doubled its advertising budget for the second half of 1999 to $10 million. A national, multimedia advertising campaign was launched in September.

That same month JB Oxford launched its redesigned web site, which not only allowed customers to place online trades and access a wealth of financial information but also provided the ability to communicate in real time with a JB Oxford representative. JB Oxford also introduced the npower account, which provided free, unlimited Internet access to customers who maintained a $2,000 cash balance. The account included electronic banking services, such as online bill payment, after-hours trading, and access to up-to-date financial information.

As the company headed toward the new millennium, JB Oxford planned to continue growing its business, particularly its online division. According to Forrester Research, a market research firm, the number of online brokerage accounts was projected to grow to 14 million between 1999 and 2002. By continually upgrading its services, providing cutting-edge technology, and expanding through acquisitions and increased product offerings, JB Oxford hoped to tap into its unrealized potential and attract new customers.

Principal Subsidiaries: JB Oxford & Company; JB Oxford Insurance Services, Inc.

Principal Competitors: Charles Schwab & Co., Inc.; Fidelity Brokerage Services, Inc.; Waterhouse Securities, Inc.; Ameritrade, Inc.; E\*TRADE Group, Inc.