**FINANCIAL INDUSTRY REGULATORY AUTHORITY**
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**
**NO. 2015046056405**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: First American Securities, Inc., Respondent (CRD No. 35841)

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent submits 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 it alleging violations based on the same factual findings described herein.

I.

## ACCEPTANCE AND CONSENT

A. Respondent hereby accepts and consents, 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

Respondent First American Securities, Inc. ("FAS" or the "Firm") became a FINRA member on December 15, 1994 and was headquartered in Orville, Ohio. The Firm engaged in general securities business and employed approximately 22 registered representatives. FAS filed a Broker-Dealer Withdrawal ("BDW") Form on April 22, 2016, which became effective on July 28, 2016. The Firm remains subject to FINRA's jurisdiction pursuant to Article IV Section 6 of FINRA's By-Laws.

### RELEVANT DISCIPLINARY HISTORY

In December 2014, the Firm entered into an Acceptance, Waiver and Consent with FINRA relating to a failure to establish and maintain a supervisory system, including written policies and procedures, regarding the sale of leveraged, inverse, and inverse-leveraged Exchange Traded Funds. The Firm was censured and paid a $10,000 fine.

## OVERVIEW

In 2013 and 2015, Respondent engaged in two separate private placements which were rife with supervisory and substantive violations, including: (1) inadequate due diligence; (2) failure to have a reasonable basis to recommend the private placements to customers; (3) investor offering documents which contained misleading and unwarranted statements, omitted material information and made material misrepresentations; (4) failure to supervise one of the offerings as a private securities transaction; (5) failure to file offering documents for one of the offerings; and (6) failure to supervise one offering to ensure compliance with the accredited investor requirements of Section 5 of the Securities Act. Consequently, Respondent violated FINRA Rules 3110, 2111, 2210(d)(1), and 5123, NASD Rules 3010 and 3040, and acted in contravention of Section 17(a)(2) of the Securities Act of 1933 ("Securities Act") thereby violating FINRA Rule 2010. In addition to the above, the Firm engaged in securities business while being net capital deficient and filed inaccurate FOCUS reports. Therefore, the Firm violated Sections 17(a) and 15(c) of the Securities Exchange Act of 1934, and SEC Rule 17a-3(a)(2), SEC Rule 17a-3(a)(11), SEC Rule 17a-5, and SEC Rule 15c3-1(a)(2)(iv). The above also constitute violations of FINRA Rule 2010.

## FACTS AND VIOLATIVE CONDUCT

### A. The PGC Offering

On July 1, 2013, FAS entered into a placement agreement for the sale of securities offered in a private placement by a corporation called "PGC" (the "PGC Offering"). PGC was founded and owned by two individuals, one ("CP") who was an indirect owner of FAS by virtue of 50% ownership of FAS' holding company.[1]

CP presented the PGC Offering to FAS. The primary purpose of the PGC Offering was to raise funds to lend money to third-party entities that would purchase, rehab, and resell distressed real estate in Michigan. The PGC Offering offered two share classes: (1) A-class, which was a short-term (1 year) investment with a 7% return; and (2) B-class, which was a medium-term investment (3 years) with an 8% up-front bonus and 8% interest accruing on the principal and the bonus. In total, 76 of the Firm's customers invested in the PGC Offering, raising $3.25 million. The Firm received a 9% commission (less the payout to the selling representatives), totaling $190,000.

#### 1. Failure to Conduct Adequate Due Diligence

NASD Rule 3010 required that a member firm establish, maintain and enforce a supervisory system and written supervisory procedures ("WSPs") that were

[1] Effective January 21, 2016, CP was barred from associating with any FINRA member in any capacity. CP appealed the bar to the Securities Exchange Commission, which appeal is pending.

reasonably designed to achieve compliance with applicable laws, rules and regulations. With respect to private placements, FINRA Regulatory Notice 10-22 ("NTM 10-22") reminded firms of their obligations to conduct a reasonable investigation of the issuer and the securities they recommend.[2] NTM 10-22 further reminded firms that they must have supervisory procedures under NASD Rule 3010 that are reasonably designed to ensure that the firm's personnel, *inter alia*, "engage in an inquiry that is sufficiently rigorous to comply with their legal and regulatory requirements," including a reasonable investigation concerning: (1) the issuer and its management; (2) the business prospects of the issuer; (3) the assets held by or to be acquired by the issuer; (4) the claims being made by the issuer; and (5) the intended use of the proceeds of the offering. NTM 10-22 also required firms to retain records documenting their investigation and the results of the investigation.

The Firm's WSPs had similar language to the above, and listed specific steps to be taken as a part of the due diligence of a private placement, including among other things:

- a description of the value of the drivers of the business, including a list of key strengths of the business, for example, market niche, customer relationships, and barriers-to-entry;
- a description of the company's competitive advantages and disadvantages, an identification of the company's major competitors, and market analysis;
- identification of industry market trends;
- biographical information for key managers; and
- any current financial projections or business plans, with a discussion of assumptions.

The WSPs designated its then President ("TB") as the principal responsible for ensuring compliance with all procedures relating to private placements, including the due diligence requirements.[3] TB, however, was not aware that he was the designated principal under the WSPs and had no experience in selling or supervising private placements prior to the PGC Offering. The WSPs further stated that the Firm's compliance department was also responsible for reviewing the issue, the PPM, and performing due diligence regarding the issue and the issuer. In light of TB's lack of knowledge about private placements, the Firm's then-CCO undertook the responsibility to supervise the due diligence relating to the PGC Offering.

The Firm hired a third-party outside consultant to conduct due diligence in connection with the PGC Offering. This consultant subcontracted with another individual to conduct due diligence and prepare a due diligence report ("Due Diligence Report"). The Due Diligence Report was nothing more than a verbatim

[2] FINRA Regulatory Notice 10-22, *Regulation D Offerings, Obligation of Broker-Dealers to Conduct Reasonable Investigations in Regulation D Offerings* (April 2010).

[3] TB signed a separate Acceptance, Waiver and Consent in this matter.

cut and paste from the Private Placement Memorandum for the PGC Offering dated July 1, 2013 ("PGC PPM"), with no independent assessment, or any substantive analysis, of the issue or issuer. According to the Due Diligence Report, in conducting the due diligence, the author reviewed the (1) PGC PPM, (2) PGC certificate of incorporation, (3) PGC form stock certificate, and (4) the PGC form subscription agreement. The Report did not reflect the review of any other documents or information. The Due Diligence Report also stated:

> In conducting a review of the PPM and producing this report, [the author] was advised that he may rely upon, and therefore have relied upon and assumed, without independent verification, the accuracy and completeness in all material respect of all financial and other information furnished or otherwise communicated to [the author] through the documents reviewed above. [The author] has not performed an independent assessment of [the company], as they are start-up.

Although the Firm selected the first due diligence provider, PGC paid for the due diligence of its offering and for the preparation of the Due Diligence Report.

In addition to the above, the Firm conducted some additional diligence, including: (1) TB and another Firm representative met and spoke with PGC's founders and CEO, but did not request any documentation regarding the CEO's background; (2) TB and a Firm representative visited a few properties whose rehabbing was being financed by the issuer, but did not ask to review any documentation; (3) the Firm's then-CCO conducted a Google search on the CEO, but did not discover a bankruptcy the CEO had filed in 1998 (described below), and did not document the search; and (4) the Firm's then-CCO conducted an analysis of the issuer's potential profitability and ability to repay the investors, but did not document this analysis, and failed to take into account material facts affecting the issuer's ability to repay the investors' principal and interest in accordance with the terms of the promissory notes.

The Firm failed to conduct adequate diligence regarding the PGC Offering and failed to enforce its own WSPs relating thereto. The "due diligence" reflected in the Due Diligence Report fell far short of the "reasonable investigation of the issuer and the securities" set forth in NTM 10-22. The Firm also failed to: (1) investigate and describe the value of the drivers of PGC's business; (2) investigate and describe PGC's competitive advantages and disadvantages, identify its major competitors, or conduct any market analysis; (3) investigate any industry market trends; (4) investigate the biographical information for key managers; or (5) adequately analyze any financial projections or business plans, despite express reference to these steps in the WSPs. In addition to the above, the Firm failed to document any additional due diligence it conducted, other than the Due Diligence Report. Therefore, the Firm failed to follow its own WSPs relating to due diligence requirements for private placements. As a result of all of the above, from June 2013 (when the due diligence began) and March 2014 (when the last

PGC sale occurred), the Firm violated NASD Rule 3010 and FINRA Rule 2010.

In addition to supervisory deficiencies, the inadequate due diligence caused the Firm to lack a reasonable basis to recommend the PGC Offering to customers. As the Supplementary Material (.05) to the version of FINRA Rule 2111 in place at the time stated: "[t]he reasonable-basis obligation requires a member or associated person to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least some investors.... A member's or associated person's reasonable diligence must provide the member or associated person with an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule." In light of the above, from July 2013 (when the first PGC sale occurred) and March 2014 (when the last sale occurred), the Firm also violated FINRA Rules 2111 and 2010.

### 2. Negligent Misrepresentations, Misleading, Exaggerated and Unwarranted Statements, and Material Omissions in Investor Documents

Section 17(a)(2) of the Securities Act makes it unlawful "for any person in the offer or sale of any securities ... by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly to obtain money or property 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 light of the circumstances under which they were made, not misleading." Similarly, FINRA Rule 2210(d) contains the "Content Standards" for communications with the public by FINRA registered firms. Among other things, the content standards set forth in Rule 2210(d)(1) require that communications with the public: (i) be fair and balanced, (ii) provide a sound basis for evaluating any facts relating to a particular security, and (iii) do not contain any exaggerated, unwarranted or misleading statements.

In soliciting customers to purchase the PGC Offering, the Firm provided customers with the PGC PPM and a "Program Summary," the latter which provided a brief summary of the PGC Offering. By distributing the PGC PPM and Program Summary to investors, the Firm: (1) negligently made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, and (2) made statements which were not fair and balanced, and were misleading, exaggerated, and unwarranted.

Specifically, both the PGC PPM and the Program Summary contained several statements that claimed or implied that the investments were secured, or suggested a level of safety in the investments, or reliability in forecasting returns by investors. For example, the Program Summary stated that the "real estate backed investment ... concurrently affords the investor an unencumbered security

interest in zero-leveraged, pre-screened residential real estate..." The Program Summary also stated that the PGC "model enables the investor the diversification of absolute returns ... and therefore our investment strategy aims to produce a positive return regardless of the traditional equity/debt markets' direction." In fact, the investments were not secured and were highly risky and speculative.

The PGC PPM also represented that PGC would lend to "as few as one, and as many as five, third party businesses with which the Issuer will contract ("Borrowers")," and that the issuer had yet to contract with, or identify, its first Borrower. This statement was not true. In fact, the PGC Offering was created for the purpose of providing funding to only *one, pre-identified Borrower*, whose owner had a long-standing relationship with CP.

Both the PGC PPM and the Program Summary contained material omissions of fact. Neither the PGC PPM nor the Program Summary disclosed a "going concern" note in PGC's Form 10-Q filed with the SEC on June 30, 2013. Moreover, both the PGC PPM and the Program Summary included a background of PGC's CEO, which touted the CEO's business acumen generally, and in the real estate industry specifically, since 1986, but failed to disclose that he filed for Chapter 7 bankruptcy in 1998. The Program Summary also failed to disclose or discuss a single risk associated with the investment, and therefore omitted material facts.

By reason of the foregoing, from July 2013 (when the first PGC sale occurred) and March 2014 (when the last sale occurred), the Firm violated FINRA Rules 2210(d)(1) and 2010, and acted in contravention of Section 17(a)(2) of the Securities Act thereby again violating FINRA Rule 2010

### 3. Supervision Regarding Accredited Status of Investors

Section 5 of the Securities Act makes it unlawful to sell or offer to sell a security for which no registration statement is in effect, unless there is an exemption from registration. Rule 506 of Regulation D of the Securities Act ("Rule 506") provides a safe harbor for private offerings.

The PGC Offering was offered and sold pursuant to the exemption from registration provided in Rule 506. Generally, Rule 506 permits the sale of private offerings to (i) an unlimited number of "accredited investors," and (ii) up to 35 non-accredited investors, provided that such non-accredited investors are sophisticated.

The Firm had WSPs addressing Rule 506 offerings, and the WSPs set forth the requirement that a maximum of 35 non-accredited investors invest in those offerings. The WSPs identified TB as the designated principal to ensure compliance with these provisions. Yet, TB did not know that he was the designated principal and was not familiar with Regulation D or any rules thereunder, including Rule 506. The Firm sold the PGC Offering to exactly 35

investors it believed were non-accredited. But, there were an additional 12 investors whose information in the new account form contradicted the information in the subscription agreements, and suggested that the investors may in fact have been non-accredited. The Firm failed to detect and/or sufficiently follow up on these discrepancies and did not determine whether the investors were in fact non-accredited.

As a result of the above, the Firm failed to establish, maintain and enforce a supervisory system or written procedures to ensure compliance with the Rule 506 safe harbor for private offerings, and failed to enforce its related WSPs. Therefore, from July 2013 (when the first PGC sale occurred) and March 2014 (when the last sale occurred), the Firm violated NASD Rule 3010 and FINRA Rule 2010.

**B. The UR LLC Offering**

"UR LLC" is a limited liability company that was established in March 2015 to provide a funding vehicle to physicians, medical practices, and other types of regulated healthcare providers ("Practices") to finance Practice-owned laboratories that conducted certain urine toxicology tests. UR LLC had three founders and originally three members -- CP (indirect owner of FAS, as defined above) who conceived of the idea, as well as "KG," and "PL." The UR LLC business model contemplated that each Practice would sign a promissory note, agreeing to repay the loan from UR LLC at a negotiated interest rate (the "Practice Loan(s))." The model also contemplated that the Practices would assign to UR LLC a security interest in the medical receivables associated with the laboratory testing ("Medical Receivables"), with UR LLC receiving 100% of the payment on the Medical Receivables until full repayment of the Practice Loans. Once the Practice Loans with UR LLC were fully repaid, the Practices were to receive a portion of the profit associated with the lab testing. The Practice Loans were not to be paid to the Practices themselves, but were to be paid directly to another limited liability company called "NLMS," which was the entity that actually built the laboratory space for the Practices, leased the testing equipment, and provided the personnel for the testing, billing and other related services. CP was also a founder and owner of NLMS.

UR LLC was seeking to raise $7,500,000 by issuing short term (1 year) and medium term (3 year) notes that both paid 7% per annum ("UR Offering"). The UR Offering purported to be a Regulation D Rule 506 offering, although no Form D was filed with the SEC. CP presented TB with an exclusive opportunity to sell units of the UR Offering to his customers, in exchange for an 11.5% commission. Beginning on or about March 23, 2015, TB began soliciting investors to invest in the UR Offering. By the end of July 2015, TB raised a total of $1.63 million from 20 FAS customers. Due to the initiation of FINRA's investigation, TB ceased soliciting additional investors in the UR Offering by the end of July 2015.

### 1. Failure to Treat TB's Participation in the UR Offering as a Private Securities Transaction

NASD Conduct Rule 3040 provides: "If [a] member approves a person's participation in a [private securities transaction for which the associated person has or may receive selling compensation], the transaction shall be recorded on the books and records of the member and the member shall supervise the person's participation in the transaction as if the transaction were executed on behalf of the member."[4] Rule 3040 is broadly interpreted to reach a representative who participates in any manner in the transaction, with the goal of both protecting investors and permitting a member firm to supervise transactions occurring outside of its normal course of business in which its representative becomes involved.

The Firm's WSP's mirrored the language in Rule 3040, and also required the Firm's CCO to review all requests by registered persons to participate in outside business activities ("OBAs") to determine, among other things, whether the activity should more properly be designated a private securities transaction ("PST") governed by NASD Rule 3040, and whether to approve the activity. If the activity was more properly considered as a PST, then the CCO had the obligation under the WSPs to ensure that the Firm adequately supervised the representative's activities, that the transactions were included in the Firm's books and records, and that proper documentation was maintained.

When CP presented TB with the exclusive opportunity to sell the UR Offering, CP instructed or advised TB that his participation in the Offering should be treated as an OBA, and not a PST subject to the requirements of NASD Rule 3040. TB heeded these instructions or advice, filled out the Firm's OBA form, and submitted the form to the Firm – through the CCO -- for approval. In the OBA form, TB disclosed that: (1) the nature of the business was "private placement," (2) the business was investment-related, and (3) his position and duties were sales-related. In addition, the CCO understood that TB would be compensated for the sales activity.

The Firm, through the CCO, approved TB's request to participate in the UR Offering as an OBA, despite the obvious indications that his participation in the Offering constituted outside securities activities for compensation subject to NASD Rule 3040. Therefore, the Firm failed to adhere to the requirements of the WSPs that OBA requests be evaluated to determine whether the activity should more properly be considered outside securities activity, and also failed to adhere to its procedures applicable to PSTs, in violation of FINRA Rule 3110.

In addition, as a result of the treatment of TB's participation in the UR Offering as an OBA and not a PST for compensation, the transactions were not in FAS' books and records and FAS did not supervise the activity. Therefore, from March 2015

[4] *See also, e.g.*, NASD Notice to Members 96-33, *NASD Clarifies Rules Governing RR/IAs* (May 1996).

(when the first sale occurred) and July 2015 (when the last sale occurred), the Firm violated NASD Rule 3040. For both of these reasons, the Firm also violated FINRA Rule 2010.[5]

**2. Negligent Misrepresentations, Misleading, Exaggerated and Unwarranted Statements, and Material Omissions in Investor Documents**

In soliciting investors for the UR Offering, the Firm – through TB -- provided each investor with an application form, a subscription agreement, a promissory note, and an "Executive Summary" describing the UR Offering generally. At various times from March through July 2015, while TB was soliciting investors in the UR Offering, CP told TB that a Private Placement Memorandum ("UR PPM") was forthcoming. But, the UR PPM was not completed until August 2015, after FINRA's investigation of the UR Offering began and well after TB had ceased soliciting investors. Hence, the UR PPM was not provided to investors.

By distributing the Executive Summary, and other documents, to investors, the Firm: (1) negligently made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, and (2) made statements which were not fair and balanced, and were misleading, exaggerated, and unwarranted.

First, the subscription agreements falsely represented that the broker would receive a 10% commission, when in reality TB (the only broker) received an 11.5% commission.

Second, the Executive Summary falsely stated that it "highlights information contained" in the UR PPM and is "qualified in its entirety by the more detailed information appearing elsewhere therein." In fact, at the time that the Executive Summary was distributed and sales to investors made, the UR PPM had not even been created.

Third, the Executive Summary contained claims that stated or implied that the investors had a security interest or capital protection. For example, the Executive Summary implied that investors had an "unencumbered Security Interest in Medical Receivables." In fact, the investors had no security interest in the Medical Receivables -- the issuer, UR LLC, had the security interest. The Summary also stated that "Physician's personal guarantees further support the loan." But, the physicians did not, in fact, personally guarantee the Practice Loans.

The Executive Summary also failed to disclose certain material information to investors. First, it failed to include any discussion of any risks associated with the

[5] The Firm's then-CCO signed a separate Acceptance, Waiver and Consent relating to this charge.

investment. In fact, investment in the UR Offering was highly speculative and risky. The UR PPM, which was not provided to investors, disclosed those risks, for example, stating: "the Notes are speculative securities that involve a high degree of risk. No Person guarantees that an Investor will realize a significant return on (or even the return of) his or her investment." The Executive Summary, however, contained no discussion of a single risk associated with the investment.

In addition, neither the Executive Summary, nor any other information provided to investors, disclosed that the CEO of UR LLC, "PL," was barred by FINRA in a disciplinary action in November 2011. Pursuant to the "bad actor" rule of the Dodd-Frank Act, this disciplinary event was a required disclosure to investors.

Finally, the Executive Summary referenced the federal Stark/Anti-kickback laws,[6] and stated unequivocally, that if a "physician group maintains ownership in a clinical laboratory, they are permitted to participate in the reimbursements directly associated with their allocated testing samples, thereby capturing the currently outsourced revenue." However, the Executive Summary did not reference the basis upon which this claim was made, and was misleading because it suggested certainty as to the legality of the business structure. In fact, there was a risk that a regulatory body may find that the business structure violated the federal Stark/Anti-kickback laws, or similar state laws. The underlying parties to the business arrangement (the Practices and NLMS) recognized these legal risks by drafting an agreement that allowed a party to terminate the agreement if its attorney provided a "reasonable opinion" that the agreement posed "a significant risk ... under applicable state or federal regulations or laws, including but not limited to the Stark Law ... or the Anti-Kickback Statute." None of the materials provided to investors disclosed any risk relating to the legality of the underlying business arrangement.

By reason of the foregoing, from March 2015 (when the first UR Offering sale occurred) and July 2015 (when the last sale occurred), the Firm violated FINRA Rules 2210(d)(1) and 2010, and acted in contravention of Section 17(a)(2) of the Securities Act thereby again violating FINRA Rule 2010

### 3. Failure to Conduct Adequate Due Diligence

The Firm failed to conduct a reasonable investigation into any of the areas set forth in NTM 10-22 (*see* above discussion in section A.1). In addition to NTM 10-22, the Firm's WSPs required that all appropriate due diligence be conducted for private placements, as set forth above in connection with the PGC Offering.

[6] The Stark Law generally prohibits the referral of Medicare/Medicaid beneficiaries by a physician to an entity for the provision of "designated health services" if the physician, or the physician's immediate family member, has a financial relationship with the entity, unless a statutory exception applies to that financial relationship. The Federal Anti-Kickback Statute prohibits providers of services or goods covered by a federal healthcare program ("Federal Healthcare Program") from knowingly and willingly soliciting or receiving or providing any remuneration, directly or indirectly, to induce either the referral of an individual, or furnishing or arranging for a good or service for which payment may be made under a Federal Healthcare Program. *See http://legal.uclahealth.org/body.cfm?id=26.*

No one at the Firm conducted the diligence required by the Firm's WSPs.

TB assumed that the due diligence of the UR Offering had been conducted by another principal of the Firm. But that principal was unaware of the Offering and conducted no due diligence. In advising TB to treat the UR Offering as an OBA, CP sought to, among other things, avoid the perceived additional cost of due diligence required for PSTs. TB's review of the UR Offering was limited to talking with CP, and discussing the UR LLC business plan with a few people in the medical or pharmaceutical industries for the purpose of understanding the market demand for the self-owned toxicology laboratories.

The Firm failed to conduct reasonable diligence regarding, among other things, the following areas:

- There was no independent investigation of the issuer or the individuals involved in its management. As stated above, a founder and CEO of UR LLC was permanently barred by FINRA in November 2011. No one at the Firm knew about PL's disciplinary history.
- There was no investigation of the economic feasibility of the issuer or its ability to repay the investors investment. In addition, there was no evaluation of the legality of the issuer's business plan, as described above.
- There was no investigation of the claims made by the issuer. As stated above, there were many misrepresentations, material omissions, and misleading, exaggerated and unwarranted statements made in the materials provided to investors.

As a result of all of the above, from March 2015 (when the first sale occurred) and July 2015 (when the last sale occurred), the Firm violated FINRA Rule 3110 and FINRA Rule 2010. In addition to the supervisory deficiencies, the inadequate due diligence caused the Firm to lack a reasonable basis to recommend the UR Offering to customers. Therefore, from March 2015 (when the first sale occurred) and July 2015 (when the last sale occurred), the Firm violated FINRA Rule 2111 and 2010.

#### 4. Failure to Submit Offering Document to FINRA

Pursuant to FINRA Rule 5123, each member that sells a security in a non-public offering in reliance on an available exemption from registration under the Securities Act must: (i) submit to FINRA, or have submitted on its behalf, a copy of any private placement memorandum, term sheet or other offering document, used in connection with such sale within 15 calendar days of the date of first sale, or (ii) notify FINRA that no such offering documents were used. With respect to the UR Offering, FAS failed to submit a copy of the offering document, or notify FINRA that no offering documents were used. Therefore, the Firm violated FINRA Rules 5123 and 2010.

**C. Net Capital Violation**

The Firm conducted a securities business while failing to maintain required minimum net capital during the period December 27, 2014 through January 31, 2015. Specifically, on December 31, 2014 the net capital was ($3,374), and on January 31, 2015 the net capital was $676. The Firm also prepared inaccurate net capital computations, and general ledgers and trial balances for the periods ending December 31, 2014 and January 31, 2015. As of December 31, 2104, the Firm stated its net capital as $7,491, but in reality it should have been ($3,374). Similarly, as of January 31, 2015, the Firm stated its net capital as $11,991, but in reality it should have been $676. Consequently, the Firm prepared and filed with FINRA inaccurate FOCUS Reports. As a result of the above, the Firm violated Sections 17(a) and 15(c) of the Securities Exchange Act of 1934, and SEC Rule 17a-3(a)(2), SEC Rule 17a-3(a)(11), SEC Rule 17a-5, SEC Rule 15c3-1(a)(2)(iv), as well as FINRA Rule 2010.

B. Respondent also consents to the imposition of the following sanctions:

A fine of $150,000, disgorgement of commissions of $190,000 and a censure.

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

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. The Firm has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

Disgorgement of commissions received, which is ordered to be paid to FINRA in the amount of $190,000, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621, from July 1, 2013 until the date this AWC is accepted by the NAC.

**II.**

**WAIVER OF PROCEDURAL RIGHTS**

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

A. To have a Complaint issued specifying the allegations against it;

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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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.

Respondent further specifically and voluntarily waives 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

Respondent understands 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 it; and

C. If accepted:

1. this AWC will become part of its permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;

2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;

3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. Respondent 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. Respondent 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 its: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it 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.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has 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 the Firm to submit it.

10/14/2016
Date (mm/dd/yyyy)

Respondent, First American Securities, Inc.

By: Christopher Parris

Reviewed by:

Alan M. Wolper
Counsel for Respondent
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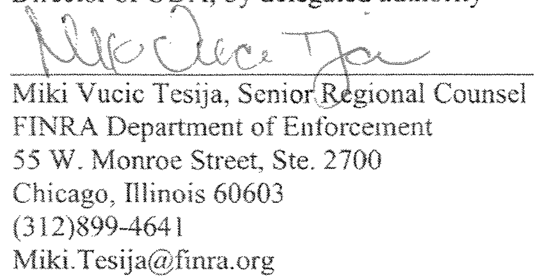
Accepted by FINRA:

11/7/2016
Date

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



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