

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT  
NO. 2013035055101**

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

RE: LaSalle St. Securities, LLC, Respondent  
CRD No: 7191

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 Respondent 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**

LaSalle St. Securities, LLC ("LSS"), has been registered with FINRA as a broker-dealer since 1976. It has 232 registered representatives and 107 branch offices, and its principal place of business is in Chicago, Illinois. LSS has various business lines, including its broker-dealer business, as well as investment-advisory business, among other things.

**RELEVANT DISCIPLINARY HISTORY**

LSS has no relevant disciplinary history.

**OVERVIEW**

In the course of two routine examinations, FINRA staff found certain deficiencies that occurred at various times during a four-year period. With respect to a private placement offering involving Seat Exchange Corporation LSS failed to exercise adequate due diligence before allowing a registered representative to recommend the

offering to four accredited investors. With respect to a private offering by Revitalight Operators, LLC, LSS distributed a private-placement memorandum to potential investors that did not include certain material facts and relied on a flawed methodology for projecting return on investment. LSS also was aware of an offering of Platinum Wealth Partners, Inc. ("PWP"), with which one of its registered representatives was associated. LSS failed to supervise adequately the representative's participation in the offering. LSS also failed to ensure that the offering documents were appropriately filed with FINRA. Independently, a second representative of LSS participated in private securities transactions away from the Firm, which the Firm did not supervise adequately. Finally, LSS allowed its representatives to send consolidated reports to its customers, but failed to adequately supervise those reports. As a result of the above, LSS violated FINRA Rules 2010, and 5122, and NASD Rules 3010 and 3040.

## **FACTS AND VIOLATIVE CONDUCT**

### **1. Seat Exchange Corporation Offering**

In April 2010, a registered representative of LSS, PL, sought the firm's approval to recommend the purchase of shares in Seat Exchange Corporation, a Regulation D offering, to four customers, as well as the President of LSS. Seat Exchange had only one director, RL, who also owned 21.5% of the outstanding shares in Seat Exchange. The placement agent for the Seat Exchange offering was Chicago Investment Group ("CIG"). CIG was also an affiliate of Seat Exchange.

LSS's written supervisory procedures in effect at that time required that any private-placement offering be reviewed and approved by the firm's New Product Evaluation Committee before it could be recommended to customers. The WSPs also stated:

[MG], Corporate Finance principal, is responsible for ensuring that all appropriate due diligence efforts on behalf of any private placement offering are undertaken (and documented), or that we obtain sufficient documentation from a third party that they have undertaken sufficient due diligence.

As had been its practice for several years, LSS engaged an affiliated entity, LSCM, to review the Seat Exchange offering for it. LSCM reviewed the private-offering memorandum ("POM") dated May 8, 2009, and other information provided by CIG. The POM had shortcomings, which LSCM identified and communicated to LSS, including:

- The POM failed to explain what the company did or intended to do;

- The POM lacked financial statements and projections, conflict-of-interest disclosures, management discussion and information, and a capitalization table;
- Seat Exchange had a one-person board of directors;
- Whereas the POM stated on one page that Seat Exchange was not involved in any legal proceedings, it disclosed a lawsuit against Seat Exchange seeking \$481,000 in damages on a different page;
- Although Seat Exchange stated in the POM that it did not believe that it could accurately project revenues, it nonetheless projected revenues of \$20 million for 2012 in the Executive Summary, which is not technically part of the POM.

LSCM advised LSS that, before approving the Seat Exchange offering, substantial changes and additional disclosures about Seat Exchange's business plan, financial condition and capital structure were needed.

After receiving LSCM's analysis, LSS's Investment Committee decided – without any further investigation – to permit PL, on a very limited basis, to recommend participation in the offering to four accredited customers who were familiar with Seat Exchange's business, as well as LSS' President. LSS provided the customers with an "Acknowledgment of Additional Risks" that described the material shortcomings identified by LSCM above. The four customers each signed the Acknowledgement of Additional Risks and invested a total of \$157,500 in the Seat Exchange offering.

Although CIG was an affiliate of Seat Exchange and the placement agent for the offering, LSS relied on CIG's investigation of the offering, rather than conducting its own independent investigation, because no independent third-party investigation of the Seat Exchange offering was available. LSS did question CIG and the Officers of Seat Exchange regarding the information that it provided. As LSS stated in the Acknowledgment of Additional Risks:

LSS is not aware of any third party due diligence investigation of SEC or the Offering and is relying on the due diligence information provided by CIG.

In addition, LSS did not disclose that both RL and CIG had, in June 2008, signed AWCs in which FINRA alleged that RL and CIG had sold shares of a private-placement offering pursuant to an offering document that contained material misrepresentations or omissions. CIG was censured and fined \$75,000. RL was censured and fined \$15,000 and the firm was required to retain an independent consultant to review the adequacy of the firm's procedures which did occur. The

Firm could not determine whether it learned of this information, which was publicly available through FINRA's BrokerCheck system, before approving the offering.

As a result, LSS failed to exercise sufficient due diligence in investigating the Seat Exchange offering, in violation of NASD Conduct Rule 3010 and FINRA Rule 2010.

## **2. Revitalight Operators, LLC Offering**

LSS served as the placement agent for a 2009 private-placement offering by Revitalight Operators, LLC. Revitalight offered 2,000 Class A Interests, at a price of \$1,000 per Interest. The private-placement memorandum ("PPM") stated that owners of Class A Interests would be entitled to a 9% "preferred return" on their outstanding investments prior to a profit split with the Class B and Class C members, but that this preferred return was not guaranteed and might never be paid. As the placement agent for the offering, LSS created the PPM and was responsible for its contents.

The PPM contained a table labeled "Summary of Financial Projections," which assumed that the offering would be fully subscribed at \$2.0 million by month 10, that the total net return over six years would be \$2.050 million, and that the Class A investors' capital contributions would be returned in the fiftieth month. The PPM stated that, under these assumptions, Class A investors could receive a 27.13% annual return on investment (ROI).

The projected annual return, however, was calculated using a flawed methodology. The projections treated the average amount of outstanding principal – i.e., the amount that, according to the projections, would not yet have been returned to investors – as the average annual investment.

This approach resulted in an annual ROI of 27.13%, which was higher than the underlying assumptions supported.<sup>1</sup>

In addition, the PPM's "Summary of Financial Projections" shows Class A investors receiving the 9% "preferred return" for the first four years without additional disclaimer indicating that the preferred return was not guaranteed. This accounts for approximately \$650,000 – nearly one-third – of the Class A investors' total projected net return distributions.

Thus, LSS created and distributed a PPM that contained flawed ROI calculations that differed from the projections as calculated by FINRA, and did not include additional disclaimers in the Summary of Financial Projections that "preferred returns" were not guaranteed. Through this conduct, LSS violated FINRA Rule 2010.

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<sup>1</sup> Given the PPM's underlying assumptions, the properly calculated annual ROI would have been 17.1%.

### 3. Platinum Wealth Partners Offering

PWP was an investment advisory business owned by a registered representative and branch manager of LSS ("DP"). LSS did not own any part of or control PWP. Sometime in late 2012, PWP decided to expand its business and needed capital. Therefore, in early 2013, PWP commenced its own private offering (the "PWP Offering") dated March 1, 2013 and subsequently amended on March 5, 2013, comprising unsecured convertible debenture units. The PWP Offering was conducted pursuant to Rule 506 of Regulation D under the Securities Act of 1933. The PWP Offering was "mini-max," with the minimum offering of 60 units for \$1,500,000 and the maximum offering of 120 units for \$3,000,000. Pursuant to the Private Placement Memorandum ("PPM"), the offering period was to expire on March 31, 2013. DP told LSS he was not being directly compensated as part of the Offering. However, as the executive managing partner, shareholder and principal of PWP, DP could be expected to be compensated as a result of the Offering in the form of potential profit participation in PWP.<sup>2</sup> Under the PPM, the funds of each investor were to be placed in a trust account maintained by PWP's attorney ("Attorney Trust Account"). The PPM further stated that the PWP financials attached to the PPM were "certified," but in fact they were "compiled."

On March 5, 2013, DP provided written notification to inform LSS that he intended to engage in the PWP Offering. LSS allowed DP to participate in the PWP Offering on certain specified conditions, as a private securities transaction ("PST") pursuant to NASD Rule 3040. PWP was selling the units in the PWP Offering directly; no broker-dealer was involved in selling the units.

PWP never raised the \$1,500,000 minimum contingency disclosed in the PPM, yet PWP caused over \$475,000 to be released from the Attorney Trust Account to PWP's operating account over four occasions between April 10, 2013 through May 15, 2013. LSS was not aware of these transfers.

Due to various regulatory concerns, including the above, the PWP Offering was subsequently unwound, with investor funds ultimately returned to the investors.

In reviewing, approving and supervising the PWP Offering, LSS failed to:

- 1) ensure that the Offering was sold through a registered broker-dealer, as required by Exchange Act Rule 3a4-1.<sup>3</sup>
- 2) ensure that investor funds received in connection with the PWP

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<sup>2</sup> DP's participation in PWP, and the expectation that the Offering would increase the profitability of PWP, constitutes "selling compensation" under NASD Rule 3040. Therefore, LSS had the responsibility to supervise the Offering under Rule 3040.

<sup>3</sup> Because DP was registered with LSS, the Offering was not exempted from the Rule.

Offering be deposited into an escrow account controlled by a broker-dealer as required by SEC Rule 15c2-4, rather than the Attorney Trust Account;

- 3) ensure that investor funds be held in the Attorney Trust Account until the minimum contingency was met;
- 4) ensure the PPM contained accurate statements. The March 1 and March 5, 2013 PPM purported that the 2011 financial statements attached to the PPM were *certified* by an independent auditor, when in fact the statements were just *compiled* by the auditor; and
- 5) recognize that the PPM should have been filed with FINRA's Corporate Finance Department pursuant to FINRA Rule 5122.

Therefore, LSS violated FINRA Rules 2010 and 5122, as well as NASD Rules 3010 and 3040.

#### **4. HCB Offering**

In July 2011, one of LSS' representatives ("JK") requested approval to be involved in a transaction with an entity called HCB Ventures LLC, in which JK agreed to loan HCB \$12,500 as a part of an effort by HCB to raise funds. At that time, JK also discussed HCB with two friends and LSS customers, who also agreed to lend HCB \$12,500 and \$25,000, respectively. LSS approved JK's request to lend HCB the funds, but failed to analyze whether the loan constituted a "security" and failed to question whether NASD Rule 3040 applied to the transactions. In December 2011, JK loaned HCB an additional \$5,000.

In February 2012, JK requested to convert his HCB loan to shares in HCB via a private offering. He told LSS he was not being compensated as a part of the Offering.<sup>4</sup> LSS ultimately determined that JK's participation in the HCB Offering did not constitute a "for compensation" PST under NASD Rule 3040, and on that basis, approved JK's request. Also at that time, JK participated in the sale of HCB Offering units to several customers, but LSS did not consider whether Rule 3040 applied to those transactions. Six of JK's customers ultimately invested \$325,000 in the HCB Offering. Because LSS determined that Rule 3040 did not apply, LSS failed to supervise these transactions. However, Rule 3040 applied to the transactions. Hence, LSS was required to supervise the transactions. LSS therefore violated NASD Rules 3040 and 3010, as well as FINRA Rule 2010, with respect to the July loans and February Offering.

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<sup>4</sup> JK received a 100% return on his July and December HCB loans (totaling \$17,500) in February 2012, even though under the terms of the loan agreement, he was no longer entitled to that payment. That payment of \$17,500 constituted "selling compensation" under NASD Rule 3040.

## **5. Consolidated Reports**

FINRA Regulatory Notice 10-19 reminds member firms that consolidated reports are communications with the public by the firm and must be clear, accurate, and not misleading. The notice makes clear that firms should have systems in place to confirm that valuations provided regarding customer assets held at the firm are consistent with the firm's official account statement distributed to the customer. The firm should also take reasonable steps to accurately reflect information regarding outside accounts and assets. The notice stressed that if a firm is unable to adequately supervise the use of the reports, the firm must prohibit dissemination of the reports and take steps to ensure that representatives comply with the ban.

LSS had WSPs in place governing consolidated reports. Specifically, as of April 8, 2011, the WSPs provided, in pertinent part, that the CCO "will ensure that all individuals engaged in preparing consolidated financial account reports ... have received sufficient training regarding the requirements attendant with such reports." The WSPs further provided that the CCO, "or specifically designated principals, will review the consolidated reports delivered to customers to ensure adherence to all applicable rules and best practices", including to: (1) determine that consolidated reports are not represented as a substitute for account statements required by SEC and FINRA rules; (2) ensure that designated supervising principals are aware of their requirement to supervise the creation of consolidated reports by representatives under their direct supervision; (3) determine whether they are in any way false or misleading; and (4) ensure all appropriate disclosures be made. LSS required that all consolidated reports be forwarded to its Compliance Department on a discrete fax line for compliance review.

Despite the above procedures, LSS had an inadequate system in place because the firm did not ensure that all representatives actually followed the proscribed procedures. Training was limited to blast emails to registered representatives advising them that consolidated statements needed to be submitted to the home office for review as correspondence. During 2013, there were approximately 24 registered representatives who issued consolidated reports without adequate principal and/or compliance review. LSS also did not require that registered representatives send back-up data to its Compliance Department to verify the substantive accuracy of the data. Therefore, for assets held-away, the compliance personnel did not have the information needed to conduct a substantive review of the consolidated reports to ensure that the valuations were accurate and not misleading. Although the consolidated reports that were sampled in this investigation were not found to be inaccurate or misleading, LSS's failure to ensure compliance with its own procedures as well as pertinent rules relating to consolidated reports violated NASD Rule 3010 and FINRA Rule 2010.

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

- A censure
- A fine in the amount of \$175,000.

I agree to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payments) are due and payable. I have submitted an Election of Payment form showing the method by which I propose to pay the fine imposed.

I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

## 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 Respondent; 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. 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 Respondent's: (1) 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 understood all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Respondent 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 Respondent to submit it.

11/6/14  
Date (mm/dd/yyyy)

Respondent, LaSalle Street Securities, LLC

By: 

Reviewed by: 

David A. Genelly  
Counsel for Respondent  
Vanasco Genelly & Miller  
33 North LaSalle Street, Suite 2200  
Chicago, Illinois 60602  
Direct 312.786.5100/Fax 312.786.5111

Accepted by FINRA:

Date: 11/10/14

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

  
Miki Vucic Tesija  
Senior Regional Counsel  
FINRA Department of Enforcement  
55 West Monroe, 27<sup>th</sup> Floor  
Chicago, IL 60603  
Phone: 312-899-4641; Fax: 312-899-4600