FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement, Complainant, v. Otis Treat Bradley (CRD No. 28320), Respondent.	DISCIPLINARY PROCEEDING NO. 2013035928002 HEARING OFFICER:

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between August 1, 2012 and January 10, 2013 (the "relevant period"), Respondent Otis T. Bradley ("Bradley"), an equity research analyst with Gilford Securities, Inc. ("Gilford Securities" or the "Firm"), authored eight research reports containing false, misleading and unwarranted statements concerning a publicly traded pharmaceutical company (the "Pharmaceutical Company"). In the research reports, Bradley falsely claimed that a prominent medical research university (the "University") was conducting clinical trials on humans to study the effects of one of the Pharmaceutical Company's dietary supplements on thyroid disorders. Additionally, Bradley made unwarranted and misleading statements concerning the Pharmaceutical Company's financial prospects, based on his inaccurate claim that the University was conducting clinical trials on humans, and made false, misleading and unwarranted claims regarding the Pharmaceutical Company's announcement of preliminary results of its clinical

trials on humans. By authoring published research reports containing false, misleading and unwarranted statements, Bradley violated NASD Rule 2210(d) and FINRA Rule 2010.

2. In addition, Bradley failed to appear for on-the-record testimony requested pursuant to FINRA Rule 8210. Bradley therefore violated FINRA Rules 8210 and 2010.

RESPONDENT AND JURISDICTION

3. Bradley entered the securities industry in 1968 as a General Securities Principal with a member firm. He was registered with several member firms in various capacities before becoming registered with Gilford Securities in February 2012 as a General Securities Representative, General Securities Principal, and Research Analyst.

4. On October 2, 2014, Gilford Securities filed a Form U5 disclosing that Bradley had voluntarily terminated his registration with the Firm.

5. Although Bradley is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the effective date of termination of Bradley's registration with Gilford Securities; and (2) the Complaint charges Bradley with misconduct committed while he was registered with a FINRA member and with failing to appear for on-the-record testimony during the two-year period after the date upon which he ceased to be registered with a FINRA member.

FACTS

6. During the relevant period, Bradley was an equity research analyst with Gilford Securities. In that capacity, he authored research reports published by the Firm on the Pharmaceutical Company.

7. Bradley's research reports on the Pharmaceutical Company were distributed to Firm brokerage personnel as well as various financial media outlets, investment research firms, Firm clients and other market participants.

8. During the relevant period, the Pharmaceutical Company, through its wholly-owned subsidiary (the "Subsidiary"), manufactured, sold and marketed dietary supplements and other pharmaceutical products.

9. Among other things, the Pharmaceutical Company produced a dietary supplement containing a substance found in the tobacco plant (the "Supplement").

10. In 2012, the University conducted a study on mice of the effects of the Supplement on thyroiditis, or inflammation of the thyroid gland (the "Animal Study").

11. In 2012, the Subsidiary conducted the Human Study, an in-house clinical trial on humans to study the effects of the supplement on thyroiditis (the "Human Study"). A doctor employed by the university (the "Doctor") served in a private capacity as a consultant for the Subsidiary on the Human Study.

12. The University did not conduct, review or approve the Human Study.

13. On February 9, 2012, the Pharmaceutical Company issued a press release stating that the Subsidiary had received approval to conduct the Human Study. The February 9 press release did not reference any involvement by the University in the Human Study.

14. In its Form 10-K filed on March 15, 2012, the Pharmaceutical Company disclosed regarding the Human Trial that, "[i]n February 2012, [the Subsidiary] initiated an in-house multi-site clinical trial to study the impact of [the Supplement] on thyroid health." While the Form 10-K stated that the University had conducted research on the effects of the Supplement on

"thyroiditis in animal models of the human disease," it did not reference any involvement by the University in the Human Study.

Bradley's Unwarranted and Misleading Statements

Bradley's Initiation of Coverage on August 1, 2012

15. On August 1, 2012, Bradley authored a research report, published by the Firm, in which he initiated research coverage on the Pharmaceutical Company (the "August 1 Report").

16. In the August 1 Report, Bradley made numerous statements that the University was conducting the Human Study, which could significantly improve the Pharmaceutical Company's business prospects.

17. Bradley described the Pharmaceutical Company's "near-term potential" as follows:

> We believe it possiblet hat [sic] a release of [the University's] report describing positive test results from humans for treatment of thyroid diseases using [the Supplement] could cause the sales of [the Supplement] . . . to skyrocket from virtually nothing today to an annual run-rate over $400 million (with profit of $200 million or $1.00 per share) in 2013.

18. Bradley characterized the "test results of thyroid patients using [the Supplement] conducted by [the University]" as an "event[] of importance" and, along with an unrelated study, as potential "game changers for the Market's valuation of" the Pharmaceutical Company.

19. In describing the "release from [the University] of its test findings of the effectiveness of [the Pharmaceutical Company's] Technology," Bradley described ten "[r]easons why this is so important," including the following:

> [The University] is recognized worldwide. . . .

> If the [University] study results are positive, we anticipate that a great many doctors will follow the [University's and Doctor's] lead and recommend their thyroid patients use [the Supplement] . . . .
>
> The $400 million ofr evenue [sic] and $1.00 a share ofe rnings [sic] is computed solely from that which we believe [the Pharmaceutical Company] might be able to achieve from the [University] impact on U.S. [Supplement] results. . . .
>
> [I]f [the University] attests that [the Supplement] can be effective as a treatment orc ure fort his [sic] auto-immune disease, perhaps there are applications for other [sic] auto-immune diseases . . . . That is what this "Disruptive Science" could be all about.

20. In providing 2013 estimates for the Pharmaceutical Company, Bradley stated that "the release of [the University's] human test results using [the Supplement] for treatment of thyroid diseases will be particularly important" because "[t]he power and prestige oft he [sic] [the University] – and [the Doctor] as well – are significant." Bradley concluded that, "[i]f the results of theset ests [sic] are positive, that could potentially influence doctors worldwide."

21. Bradley's statements in the August 1 Report indicating that the University was involved in the Human Study and that, as a result, the Pharmaceutical Company could experience positive financial results were false, misleading, and unwarranted.

Bradley's Six Reports between September 18, 2012 and January 2, 2013

22. Between September 18, 2012 and January 2, 2013, Bradley authored six research reports published by the Firm on the Pharmaceutical Company in which he gave the Pharmaceutical Company a "Buy" rating, the highest rating given by Gilford Securities. In each of these reports, Bradley claimed that the University was conducting the Human Study.

23. In two reports, published on September 18 and September 24, 2012 respectively, Bradley mentioned "progress reports from [the University] re its Thyroid testing" among "events

occurring within the next week or two . . . which could be important to" the Pharmaceutical Company.

24. In another report, published on October 5, 2012, Bradley characterized the "[University's] Thyroid tests" as "extremely important."

25. In a report published on November 5, 2012 (the "November 5 Report"), Bradley reiterated that the "[r]elease of interim testing results of [the University's] work on its application of [the Supplement] on Thyroid Disease" was "extremely important." Bradley elaborated as follows:

> This is the real deal. Not petri dishes. Not mice. Human beings. Lots of them. Fully enrolled, and to be complete in December. Only two months away, but sufficiently underway that we can now at least speculate success. And, potentially, a Blockbuster.

26. In the November 5 Report, Bradley reiterated his estimate that sales of the Supplement to treat thyroid conditions could produce "a potential $400 million revenue and $1.00 per fully taxed, fully diluted per share potential for [the Pharmaceutical Company] next year."

27. In a report published on November 16, 2012, Bradley stated that the "most important event that should occur short-term is announcement of the successful completion of the Third Party CRO testing on [the University's] Thyroid application of [the Supplement]." Bradley asserted that this announcement "is scheduled to occur in mid-December, and we believe it will lend considerable credibility to the [Pharmaceutical Company's] story – 'A Disruptive Science' – that has been much needed heretofore."

28. In a report published on January 2, 2013 (the "January 2 Report"), Bradley reiterated that "[w]ithin the next few days or couple weeks at most, we expect the release of the

[University's] Third Party CRO results testing humans for its Thyroid treatment using [the Supplement]." Bradley referred to the results of the Human Study as "the most important event in [the Pharmaceutical Company's] history."

29. Further, in the January 2 Report, Bradley specifically highlighted the University's involvement in the Human Study:

> The Thyroid research has been done by [the University], certainly one of the most preeminent medical institutions in the world, under the lead of [the Doctor], [the University's] Chief Endocrinologist and one of the most preeminent in the world in his profession.

30. Bradley opined the results of the Human Study would be positive for the Pharmaceutical Company:

> It is my belief that [the Doctor] will likely champion the use of [the Supplement] in Thyroid treatment and that [the University] will continue to test this technology and its efficacy on at least two or three diseases other than Thyroid. . . . All of which will increase sales of [the Supplement] significantly.

31. Bradley's statements in research reports published between September 18, 2012 and January 2, 2013 concerning the University's purported involvement in the Human Study, and claiming that the University would imminently announce positive results of the Human Study, were false, misleading and unwarranted.

Bradley's January 10, 2013 Report on the Results of the Human Study

32. On January 7, 2013, the Pharmaceutical Company issued a press release (the "January 7 Press Release") which announced "the preliminary results of [the Pharmaceutical Company's] . . . Human Thyroid Study that analyzes the impact of [the Supplement] on thyroid health."

33. The January 7 Press Release did not state that the University was involved in the Human Study or otherwise mention the University.

34. The January 7 Press Release stated that "[i]nitial results for all study subjects suggest that dietary supplementation with [the Supplement] ameliorates the immune system's targeting of the thyroid gland in autoimmune thyroiditis." It noted, however, that "[t]he full report of the [Human Study] is still being completed" and was therefore "unavailable at this time."

35. Commenting on the "promising initial results," the Subsidiary's Medical Director was quoted in the January 7 Press Release as stating, "I look forward to following subjects over a longer period in order to establish how profound and clinically meaningful the effect is going to be."

36. On January 10, 2013, Bradley authored a research report published by the Firm, entitled: "Human Trials Indicate [the Pharmaceutical Company]'s Science Works; Reiterate Buy Rating" (the "January 10 Report").

37. In the January 10 Report, Bradley commented as follows on the January 7 Press Release:

> Monday's announcement was that for which we have been waiting. Analysts and money managers should take action, and interest from users, doctors, the media and pharmaceutical companies should escalate.

38. Bradley went on to list seven "Positives" of the Pharmaceutical Company, including the following:

> Monday's announcement was the first completion of tests by a Third Party CRO (Clinical Research Organization) judging [the Pharmaceutical Company's] technology on human beings. . . .

> The Thyroid research has been done by [the University], certainly one of the most preeminent medical institutions in the world, under the lead of [the Doctor], [the University's] Chief Endocrinologist and one of the most preeminent in the world in his profession.
>
> It is my belief that [the Doctor] will likely champion the use of [the supplement] in Thyroid treatment and that [the University] will continue to test this technology and its efficacy on at least two or three diseases other than Thyroid.
>
> All of which will increase sales of [the Supplement] significantly.
>
> Of greatest significance, now that the Thyroid results are positive (very positive), this is the first time ever that an autoimmune disease has been put into remission.
>
> [The Pharmaceutical Company's] Technology/Science works. That is the most important meaning of Monday's announcement. The scientific risk appears to have been eliminated. It is no longer in question – or at least shouldn't be, in my opinion.

39. The foregoing statements by Bradley concerning the University's purported involvement in the Human Study, and the "results" of the Human Study, were false, misleading and unwarranted.

40. On February 6, 2013, Bradley authored a research report published by Gilford Securities on the Pharmaceutical Company in which he acknowledged that "[the University] itself was not directly involved with the recent human clinical testing of the impact of [the Supplement] on thyroiditis."

Bradley's Failure to Appear for Testimony as Requested under FINRA Rule 8210

41. On August 21, 2014, in connection with FINRA's investigation of Bradley's research reports on the Pharmaceutical Company, FINRA staff sent a letter to Bradley requesting that he appear for on-the-record testimony under FINRA Rule 8210 on September 8, 2014.

42. On August 28, 2014, the staff agreed, based on Bradley's request, to reschedule Bradley's testimony to 1:00 p.m. on September 15, 2014 and sent a letter to Bradley rescheduling the testimony under Rule 8210 to that date and time.

43. Bradley appeared for testimony on September 15, 2014.

44. After just over two hours, Bradley ceased participating in the testimony. The staff had not finished questioning Bradley on the circumstances of his research reports on the Pharmaceutical Company and other related issues.

45. On September 16, 2014, the staff sent a letter requesting that Bradley appear for on-the-record testimony under Rule 8210 on October 7, 2014 (the "September 16 Letter"). The purpose of this request was to complete the testimony begun on September 15, 2014.

46. The September 16 Letter was sent to Bradley's counsel by certified first class mail and by electronic mail. The staff received confirmation of the delivery of the letter.

47. The staff received a letter dated October 3, 2014 from Bradley's counsel by mail on October 7, 2014 stating, among other things, that Bradley would "not appear for testimony on October 7, 2014 . . . or at any other time."

48. Bradley did not appear for testimony on October 7, 2014, or at any other time, as requested by the staff under Rule 8210.

FIRST CAUSE OF ACTION

(False, Misleading and Unwarranted Statements in Communications with the Public)

NASD Rule 2210(d) and FINRA Rule 2010

49. The Department realleges and incorporates by reference paragraphs 1 - 48 above.

50. NASD Rule 2210(d)(1)(B) provides as follows:

> No member may make any false, exaggerated, unwarranted or misleading statement or claim in any communication with the public. No member may publish, circulate or distribute any public communication that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.

51. NASD Rule 2210(a)(2) defines "communications with the public" to consist of, among other things, "Sales Literature," including "research reports."

52. During the relevant period, Bradley authored eight research reports published by Gilford Securities which contained false, misleading and unwarranted statements concerning the Pharmaceutical Company. Bradley falsely claimed that the University was conducting the Human Study and made unwarranted and misleading statements concerning the Pharmaceutical Company's financial prospects based on his inaccurate claim that the University was conducting the Human Study. He also made false, misleading and unwarranted claims regarding the Pharmaceutical Company's announcement of preliminary results of the Human Study.

53. As a result of the foregoing, Bradley violated NASD Rule 2210(d) and FINRA Rule 2010.

SECOND CAUSE OF ACTION
(Failure to Appear for On-the-Record Testimony)
FINRA Rules 8210 and 2010

54. The Department realleges and incorporates by reference paragraphs 1 - 53 above.

55. FINRA Rule 8210 requires members and associated persons, if requested by FINRA staff, "to provide information orally, in writing or electronically . . . and to testify at a location specified by FINRA staff, under oath or affirmation . . . with respect to any matter involved in the investigation, complaint, examination or proceeding . . . ."

56. FINRA staff requested pursuant to FINRA Rule 8210 that Bradley appear for testimony on October 7, 2014 to complete the testimony begun on September 15, 2014 in connection with the investigation of Bradley's research reports on the Pharmaceutical Company.

57. Bradley did not appear for the requested testimony on October 7, 2014, or at any other time, and informed the staff through counsel that he would not appear at any time for the requested testimony.

58. As a result of the foregoing, Bradley violated FINRA Rules 8210 and 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

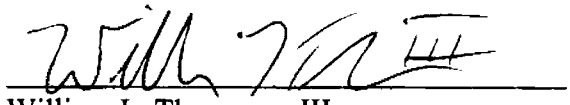
A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;

B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed; and

C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: April 27, 2015



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