

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

J. RANDALL GLADDEN
(CRD No. 1789356),

Respondent.

DISCIPLINARY PROCEEDING
No. 2014038996201

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. J. Randall Gladden, while associated with Securities Equity Group (“SEG” or “Firm”), conceived of and participated in creating Church Development Fund, LLC (“Church Development Fund”), and its successor, Church Fund LLC (“Church Fund”), to make loans to churches, primarily for refinancing their existing real estate loans. Gladden participated in the management of the Church Development Fund and Church Fund (together, the “Funds”) and served as a Governing Member of the Funds’ respective Managers, CDF Managing Partners, LLC (“CDF Managing Partners”) and CF Manager, LLC (“CF Manager”). From May 2011 through September 2013, Gladden also solicited seven investors to collectively invest more than \$2.1 million in the Funds through purchases of securities. However, on his 2011 and 2012 Compliance Certifications, Gladden falsely informed his Firm that he had not “engaged in any

capital raising activities for any company, corporation or business entity” and failed to inform his Firm that he was serving as a principal member of the Funds’ respective managers.

2. Gladden violated: (i) NASD Rule 3040 and FINRA Rule 2010 by participating in private securities transactions without providing prior written or other notice to his Firm and without receiving written approval from his Firm; (ii) NASD Rule 3030 and FINRA Rules 3270 and 2010 by failing to provide his Firm with prompt written notice of his participation in the Funds’ management outside the scope of his relationship with his Firm; and (iii) FINRA Rule 2010 by falsely stating that he had not engaged in any capital raising activities and failing to disclose that he was a principal member of the Funds’ Managers.

RESPONDENT AND JURISDICTION

3. From January 2002 through the present, Gladden has been associated with SEG and, since April 2002, registered with FINRA as a General Securities Representative.

4. Gladden is subject to FINRA’s jurisdiction for purposes of this proceeding, pursuant to Article V, Section 2 of FINRA’s By-Laws, because: he is currently registered with a FINRA member firm; and the Complaint charges him with securities-related misconduct committed while he was registered and associated with a FINRA member.

FIRST CAUSE OF ACTION Private Securities Transactions (NASD Rule 3040 and FINRA Rule 2010)

5. The Department of Enforcement realleges and incorporates by reference paragraphs 1- 4, above.

6. On or about September 30, 2010, Gladden established Church Development Fund, a Washington state based limited liability company and its Manager, CDF Managing Partners.

Gladden was on the Board of Managers of CDF Managing Partners and was a designated “Governing Person.”

7. Gladden conceived of and established the Church Development Fund to make loans to churches for the acquisition, construction, improvement and/or refinancing of real estate. Church Development Fund sought investments or “Capital Commitments” of between \$500,000 (“Minimum Offering Amount”) and \$10 million (“Maximum Offering Amount”) from accredited investors who agreed to invest at least \$100,000, or a lesser amount, with the Fund’s consent. The Fund represented that it would pay investors (designated as “Unitholders” in the Private Placement Memorandum) a 6% per annum “Priority Return” on their “Unreturned Capital Contributions.”

8. The Units sold through the offering are securities.

9. The Church Development Fund Private Placement Memorandum (“PPM”) authorized the fund’s Manager, CDF Managing Partners, to receive a monthly “Operator Fee,” based upon a percentage of the aggregate outstanding principal amount of the loan portfolio of the Fund, and a “Loan Fee,” based upon a percentage of the original principal amount of each loan.

10. From May 2011 through August 2011, Gladden solicited three investors to collectively invest about \$650,000 in Church Development Fund through purchases of the aforementioned Units. By September 2011, the Fund had lent \$615,000 to one borrower.

11. In late 2011, Gladden was apprised that the name “Church Development Fund” was being used by an unrelated entity. Accordingly, in December 2011, Gladden and another person

established Church Fund and its Manager, CF Manager. Gladden was one of two principal members of CF Manager.

12. As a practical matter, Church Development Fund and CDF Managing Partners were renamed Church Fund and CF Manager. Indeed, the Funds' PPMs were substantially identical, and all of the Church Development Fund investors executed new Subscription Agreements and became Church Fund investors.

13. From May 2011 through September 2013, Gladden solicited and raised more than \$2.1 million for the Funds from seven investors through sales of the aforementioned Units. The investors, subscription dates and amounts invested were as follows:

Investor	Date of Investment	Amount of Investment
JB and SB	05/31/11	\$300,000
TV	05/31/11	\$300,000
	03/12/12	\$200,000
DO	08/23/11	\$50,000
	04/03/13	\$200,000
CCNV	03/30/12	\$216,000
	12/20/12	\$64,784
VFY	05/23/12	\$215,000
	09/27/12	\$92,500
	02/20/12	\$135,000
	04/01/13	\$100,000
RS and DS	08/30/12	\$50,000
	09/01/13	\$100,000
CS and MS	06/20/13	\$100,000

14. The solicitation of investors and the sales of the Funds' Units involved securities transactions outside the scope of Gladden's employment with SEG. Gladden, however, did not give his Firm prior written or other notice of his participation in, or the selling compensation that he was entitled to receive from, any of these transactions. Moreover, he did not obtain written or other approval from the Firm to participate in the transactions and did not provide his Firm the opportunity to record the transactions on its books and records or to supervise his participation in the transactions.

15. By reason of the foregoing, Gladden violated NASD Rule 3040 and FINRA Rule 2010.

SECOND CAUSE OF ACTION
Undisclosed Outside Business Activities
(NASD Rule 3030 and FINRA Rules 3270 and 2010)

16. The Department of Enforcement realleges and incorporates by reference paragraphs 1 through 15, above.

17. From at least September 2010 to the present, Gladden was one of the principal members of the Funds' managers, CDF Managing Partners and CF Manager (together, the "Managers") and he was involved in the Funds' management and operations. Among other things, he conceived of the Funds, reviewed and approved the Funds' PPMs, evaluated the financial status of potential borrowers, met with and participated in periodic meetings involving the Funds' Managers, was involved in setting the rates that borrowers would pay and investors would receive, and spent considerable amounts of time attempting to generate investment interest in the Funds. Indeed, the Funds' PPMs informed investors that the Funds would "rely on the experience, expertise and relationships of . . . and J. Randall Gladden, the principal members of the Manager, for all aspects of the operations of the Fund."

18. Gladden failed to provide SEG with prompt written notice, prior or otherwise, of this activity even though it was outside the scope of his relationship with his Firm.

19. By reason of the foregoing, Gladden violated FINRA Rule 3270 (for conduct occurring on or after December 15, 2010), NASD Rule 3030 (for conduct occurring before December 15, 2010), and FINRA Rule 2010.

THIRD CAUSE OF ACTION
Material Misrepresentations and Omissions
(FINRA Rule 2010)

20. The Department realleges and incorporates by reference paragraphs 1 through 19 above.

21. On or about November 8, 2011, Gladden completed an annual Compliance Certification and submitted it to the Firm.

22. On the 2011 Compliance Certification, Gladden falsely stated that he had not “engaged in any capital raising activities for any company, corporation, or business entity.” Gladden failed to report to SEG that he had solicited investors for the Church Development Fund.

23. On the 2011 Compliance Certification, Gladden failed to answer the question that asked, “Are you currently acting as a principal officer, director, or trustee of any corporation, trust or other similar entity?” Gladden failed to inform his Firm that he was on the Board of Managers of CDF Managing Partners and was a designated Governing Person.

24. On or about October 29, 2012, Gladden completed an annual Compliance Certification and submitted it to the Firm.

25. On the 2012 Compliance Certification, Gladden, again, falsely stated that he had not “engaged in any capital raising activities for any company, corporation, or business entity.” Gladden failed to report to SEG that he had solicited investors for the Church Fund and its predecessor, Church Development Fund.

26. On the 2012 Compliance Certification, Gladden identified his state registered investment advisor, Lord and Gladden, in response to the question that asked, “Are you currently acting as a principal officer, director, or trustee of any corporation, trust or other similar entity?” Gladden failed to inform his Firm that he was one of two principal members of CF Manager.

27. By making material misrepresentations and failing to disclose material information to SEG in his 2011 and 2012 Compliance Certifications, Gladden violated FINRA Rule 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

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- C. order that the 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: December 28, 2015



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