

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
OFFICE OF HEARING OFFICERS

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REGISTRATION & DISCLOSURE

DEPARTMENT OF MARKET REGULATION,

Complainant,

v.

ALLERTON TOWNE
(CRD No. 1212315)



Respondent.

DISCIPLINARY PROCEEDING
No. 20050030310

HEARING OFFICER:

COMPLAINT

Upon information and belief, the Department of Market Regulation alleges as follows:

Overview

1. Respondent Allerton Towne made improper use of customer funds, failed to notify his firm of outside business activities, and failed to respond to requests for information made pursuant to NASD Procedural Rule 8210.

Respondent

2. Towne was first registered with FINRA in 1989. From 1998 until September 2006, he was registered first with Merit Capital Associates, Inc. and then with its successor firm, Source Capital Group, Inc. Towne resigned from Source Capital effective September 20, 2006, after he was suspended by the firm for failing to cooperate fully with FINRA's investigation. Towne has not been registered with a FINRA member firm since then.

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Jurisdiction

3. FINRA has jurisdiction over this matter under Article V, Section 4(a), of NASD's By-Laws. Section 4(a) provides for continued jurisdiction over a person whose association with a member has been terminated, for two years after the effective date of termination of registration, "based upon conduct which commenced prior to the termination" of registration, or "upon such person's failure, while subject to the NASD's jurisdiction as provided herein, to provide information requested by the NASD pursuant to the Rules of the Association."

FACTS

4. At all times relevant to this Complaint, Towne had as a client Plymouth Capital Inc., which was incorporated in the Bahamas in 1997 ("Plymouth Bahamas").

5. At all times relevant to this Complaint, Towne and his former wife were the owners of a Florida corporation, also called Plymouth Capital, Inc. ("Plymouth Florida"), which Towne caused to be incorporated in 2000. Plymouth Florida had no ownership or control connection with Plymouth Bahamas.

6. On or about January 11, 2006, Towne ordered the sale of 25,000 shares of IDS Worldwide, Inc, which were in Plymouth Bahamas's account at Source Capital. As a result of the sale, Plymouth Bahamas's account was credited with \$4,256.41.

7. On or about January 17, 2006, Towne, intentionally and without authorization from Plymouth Bahamas, converted money belonging to Plymouth Bahamas by wiring \$4,181.81 from Plymouth Bahamas's account at Source Capital to a bank account at Wachovia Bank in the name of Plymouth Florida, which was controlled by Towne.

8. On or about January 17, 2006, Towne used \$1,600 of these funds to buy tickets for himself to the Daytona 500 and subsequently spent more of the money on other personal expenditures.
9. During June and July 2006, while employed at Source Capital, Towne performed consulting work regarding mergers and acquisitions for at least two corporations and was paid at least \$18,500 for this work.
10. Towne never informed Source Capital of this outside consulting work.
11. On October 6, 2006, pursuant to NASD Procedural Rule 8210, FINRA staff sent Towne a letter, via certified mail and Federal Express, requesting that he produce statements of the bank account of Plymouth Florida at Wachovia Bank for the months January through December 2005 and February through May 2006.
12. By the time Towne was interviewed on the record by FINRA staff on December 1, 2006, he had neither produced the requested statements nor otherwise responded to the Rule 8210 request.
13. During his testimony, the staff again requested that Towne produce these bank statements, and he agreed to do so.
14. Nevertheless, Towne never produced the statements or otherwise responded to the outstanding document request.

FIRST CAUSE OF ACTION

Violations of NASD Conduct Rules 2110 AND 2330 (Improper use of customer funds)

15. The foregoing allegations are re-alleged and incorporated by reference.
16. Beginning on or about January 17, 2006, Towne made improper use of funds belonging to his customer, Plymouth Bahamas, in violation of NASD Conduct Rule 2330, and

thereby also failed to observe high standards of commercial honor and just and equitable principles of trade, in violation of NASD Conduct Rule 2110.

SECOND CAUSE OF ACTION

Violations of NASD Conduct Rules 2110 and 3030 (Undisclosed outside business activity)

17. The foregoing allegations are re-alleged and incorporated by reference.
18. In June and July 2006, Towne, while associated with a member firm in a registered capacity, was employed by outside persons and accepted compensation from them as a result of business activities, other than passive investments, outside the scope of his relationship with his employer firm, and failed to give his employer notice of these activities, in violation of NASD Conduct Rule 3030. Towne thereby also failed to observe high standards of commercial honor and just and equitable principles of trade, in violation of NASD Conduct Rule 2110.

THIRD CAUSE OF ACTION

Violations of NASD Conduct Rule 2110 and NASD Procedural Rule 8210 (Failure to provide information)

19. The foregoing allegations are re-alleged and incorporated by reference.
20. By failing to respond to the staff's Rule 8210 requests for documents, Towne violated NASD Procedural Rule 8210 and also failed to observe high standards of commercial honor and just and equitable principles of trade, in violation of NASD Conduct Rule 2110.

RELIEF REQUESTED

WHEREFORE, the Department of Market Regulation respectfully requests:

- A. an order that one or more of the sanctions provided under NASD Rule 8310(a), including a bar from association with any member of FINRA, be imposed; and

- B. an order that the Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with NASD Rule 8330.

Respectfully submitted,

Date: June 20, 2000



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