

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008011629601**

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

RE: Charles Lee Gallamore, Respondent
General Securities Principal
CRD No. 2443271

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Charles Lee Gallamore "Gallamore" or "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

Gallamore entered the securities industry in January 1994, as a General Securities Representative with a FINRA member firm. Since then, he has been registered with three other member firms, including Southwest Texas Capital, LLC ("SWTC"), where he served as the firm's President, Chief Executive Officer and Chief Compliance Officer. SWTC filed a Form U5 on Gallamore's behalf on June 22, 2009. During his career in the securities industry, Gallamore obtained Series 3, 7, 24, 53, 63 and 65 securities licenses. Based on his termination date from SWTC, FINRA has jurisdiction over Gallamore until June 21, 2011.

RELEVANT DISCIPLINARY HISTORY

On December 30, 2005, FINRA issued a Letter of Acceptance, Waiver and Consent in which Gallamore was fined \$5,000, jointly and severally with SWTC, for conducting a securities business while failing to maintain the required minimum net capital, and for failing to establish and maintain a

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supervisory system that was reasonably designed to achieve compliance with applicable securities laws and regulations.

OVERVIEW

This matter involves a registered securities principal, Gallamore, who, through FINRA member firm Southwest Texas Capital, LLC, offered and sold securities in the form of limited partnership interests in The 80/20 Fund, LLC, (the "Fund") hedge fund to investors. Gallamore made numerous misrepresentations in connection with those offers and sales, including misrepresentations regarding the Fund's investment strategy; the concentration of investment funds in particular investments; the use of investment funds, and the amount of management fees and other expenses that would be charged to the Fund. Gallamore also omitted to timely disclose several material facts, such as the fact that he exercised sole discretion over the Fund's operations after the two other fund managers resigned, and that he was a control person of several of the entities into which the hedge fund's assets were invested. Gallamore misused customer funds received in connection with the hedge fund offering.

Additionally, Gallamore caused SWTC to conduct an unregistered offering of the securities of Inventive Products, LLC, an entity controlled by Gallamore; and failed to properly supervise the activities of a registered representative for whom he had supervisory responsibility.

FACTS AND VIOLATIVE CONDUCT

1. During the period from December 2006 through September 2008, Gallamore raised over \$1.5 million from eight investors through offers and sales of limited partnership interests in The 80/20 Fund L.P. hedge fund. Numerous misrepresentations were made in connection with the offers and sales. For example, the private placement memorandum ("PPM") for the Fund represented that the Fund's investment portfolio would consist of 80% bonds and 20% private investments. However, unbeknownst to investors, Gallamore used more than 90% (over \$1.3 million) of the funds raised in the offering to invest in promissory notes issued by private companies (Inventive Products, LLC, Linear Fox, LLC and JBG Medical Group, Inc.) in which Gallamore had a controlling interest. The PPM further represented that the Fund would not invest more than 35% of its capital contributions in any single investment. During the period from September 2007 through at least June 2008, Gallamore caused the Fund to invest amounts ranging from 38.58% to 55.05% of its capital contributions into promissory notes issues by Linear Fox, LLC.

Gallamore also caused the Fund to pay at least 125% more in management fees to SWTC, the general partner of the Fund, than the amount disclosed in the PPM. The PPM also represented that each portfolio company would be managed by its own

officers, who would generally not be affiliated with the partnership or the general partner. In reality, several of the private companies into which the Fund's assets were invested were controlled by Gallamore, who also owns SWTC. Finally, although the PPM stated that the limited partners would be provided with an audited balance sheet and statement of income and changes in the partnership's capital accounts on an annual basis, no such records were ever provided.

The partnership agreement for the Fund also contained misrepresentations. For example, the agreement represented that SWTC, in its role as the general partner, would make a capital contribution in an amount equal to one percent of the capital contributions made by the limited partners. However, no such contribution was ever made. The partnership agreement also represented that any contract or dealings between the Fund and the general partner, or any of its affiliates, would be fully disclosed to the limited partners. Although Gallamore caused the Fund to invest over \$1.3 million of its assets in private companies affiliated with himself and SWTC, no such disclosures were made to the limited partners.

2. Gallamore omitted to disclose certain material facts to investors in the 80/20 Fund offering. For example Gallamore failed to timely disclose to investors that two of the three fund managers identified in the PPM had resigned and that, consequently, he exercised sole discretion over the Fund's operations.
3. Gallamore misused customer funds received in connection with the 80/20 Fund offering. The Fund and several of the Gallamore-controlled entities into which the Fund's assets were invested maintained securities accounts at SWTC. Gallamore obtained debit cards linked to the brokerage accounts of the Fund and Inventive Products, LLC. He also obtained a debit card that was linked to Linear Fox, LLC's bank account. Gallamore utilized the debit cards to pay for a variety of personal and non-business related expenses. He also caused funds from the various accounts to be transferred to his personal brokerage account, and caused monthly payments for certain non-business related expenses to be drafted from one of the accounts.

Such acts, practices, and conduct constitute separate and distinct violations of Section 10(b) and of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder, and NASD Conduct Rules 2110, 2120 and 2330 by Charles Lee Gallamore.

4. During the period from June 2008 through September 2008, Gallamore, through SWTC, conducted an unregistered offering of the securities of Inventive Products, LLC. Specifically, the offering was not registered with the Securities and Exchange Commission or with any state, and there was no available exemption from registration due primarily to the fact that the offering was conducted pursuant to a general solicitation.
5. Gallamore failed to timely disclose to investors that SWTC was under common control with the issuer, Inventive Products, LLC, in that Gallamore owned both entities.

Such acts, practices, and conduct constitute separate and distinct violations of Section 5 (a) of the Securities Act of 1933 ("Securities Act"), and NASD Conduct Rules 2110 and 2240 by Charles Lee Gallamore.

6. During the period from January 2008 through March 2008, Gallamore failed to properly supervise the activities of a registered representative for whom he had supervisory responsibility. Specifically, Gallamore failed to review the representative's email correspondence.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 3010 by Charles Lee Gallamore.

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

A bar from association with any FINRA member firm in any capacity.

I understand that if I am barred or suspended from associating with any FINRA member, I become subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this AWC.

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 him;
- 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 General Counsel, 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 Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against him;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's 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

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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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

Respondent certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he 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 him to submit it.

8/7/2009
Date


Charles Lee Gallamore, Respondent

Reviewed by:

NA
CANNOT AFFORD COUNSEL
Counsel for Respondent

Accepted by FINRA:

8/12/2009
Date

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


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