

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060075263 and NO. 20090197476**

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

RE: Glendale Securities, Inc., Respondent
CRD No. 123649

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Glendale Securities, Inc. ("Glendale" 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

Respondent has been a member of FINRA since January 2003. Respondent is a fully-disclosed introducing firm which clears through another member firm. Respondent is based in Sherman Oaks, California, operates four branch offices, and has 11 registered personnel. Respondent has no relevant disciplinary history.

OVERVIEW

Glendale violated NASD Rules 3011(a) and (b), and 2110 by failing to adequately implement its Anti-Money Laundering ("AML") compliance program insofar as the firm failed to detect, analyze, and/or report suspicious transactions. In addition, Glendale violated NASD Rules 3010(a) and (b), 2110 and FINRA Rule 2010 by failing to establish and maintain an adequate supervisory system and written procedures that were reasonably designed to prevent participation in an unregistered distribution of securities.

FACTS AND VIOLATIVE CONDUCT

AML DEFICIENCIES

In July 2002, the Department of Treasury issued regulations requiring suspicious transaction reporting for broker-dealers.¹ Consequently, since 2002, broker-dealers have been required by FINRA to, among other things,

- (a) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;
- (b) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder.²

A firm's AML procedures must address a number of areas including monitoring transactions to report suspicious activity where appropriate. For example, when potentially suspicious activity that warrants investigation is identified, a firm must initiate a review of that activity promptly and complete its review within a reasonable period of time.³ Firms are required to file a Form SAR-SF ("SAR-SF") with Treasury's Financial Crimes Enforcement Network reporting "any suspicious transaction relevant to a possible violation of law or regulation."⁴

It is not necessary for a broker-dealer to prove that a customer has engaged in illegal activity or to have actual knowledge of illicit or unlawful trading by a customer; rather, it is sufficient that the broker-dealer have reason to suspect that a transaction or series of transactions involve unlawful activity or lack an apparent lawful purpose. The Treasury also has advised broker-dealers to determine whether activity raises suspicions by monitoring for various "red flags." FINRA *Notice to Members* ("NiM") 02-21 and NiM 02-47 emphasize members' duties to detect "red flags" and, if detected, to perform additional due diligence before proceeding with a suspicious transaction.

Additionally, broker-dealers should tailor their AML program to fit their business. In developing an appropriate AML program, a broker-dealer should consider factors such as its size, location, business activities, the types of accounts it maintains, and the types of transactions in which its customers engage.⁵

¹ 31 C.F.R. §103.19(a)(1) (2002).

² NASD Rule 3011.

³ See The SAR Activity Review, Issue 10 (May 2006).

⁴ 67 Fed. Reg. 44048 (July 1, 2002). See also, 31 C.F.R. §103.19(a)(1) (2002).

⁵ NiM 02-21, at 4.

From at least January 2005 through March 2008, Glendale's AML program required it to monitor for potentially suspicious activity and AML "red flags," investigate potentially suspicious activity, and report suspicious activity by filing a SAR-SF as appropriate. During this same time period, Glendale's written AML procedures identified a non-exhaustive list of AML "red flags," including, without limitation, the following:

The customer, for no apparent reason or in conjunction with other red flags, engages in transactions involving certain types of securities, such as penny stocks, Regulation S stocks, and bearer bonds, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity).

Although Glendale's written AML program required it to monitor for potentially suspicious activity and AML "red flags," investigate potentially suspicious activity, and report suspicious activity by filing a SAR-SF as appropriate, the firm failed to adequately implement or enforce its AML program and to otherwise comply with its AML obligations, as the firm did not identify and analyze numerous transactions to determine if they were in fact suspicious and were required to be reported on a SAR-SF. In this regard, Glendale permitted approximately 51 foreign corporate accounts, all of which were controlled by one individual, to deposit a total of approximately 279 million shares of low-priced securities and/or penny stocks into the accounts. After the securities were deposited into the accounts they were promptly sold and all proceeds from the transactions were disbursed by wires to first-party bank accounts maintained with a bank in Scotland. Glendale permitted these suspicious activities to occur without conducting adequate AML reviews and failed to file SAR-SFs as appropriate.

As a result of the foregoing, Glendale violated NASD Rules 3011(a) and (b) and 2110.

SUPERVISORY VIOLATIONS

Between at least April 2007 and continuing through at least April 2009 (the "Relevant Period"), Glendale's primary source of revenue was derived from transactions in low priced over-the-counter securities listed on the OTCBB or quoted on Pink OTC Markets' electronic quotation and trading system. That business included market-making activities as well as accepting deliveries, on customers' behalf, of large blocks of over-the-counter securities and then effecting sales of those securities.

NASD Notice to Members 99-45 reminded members that they are required to specifically tailor their supervisory systems to address the various types of business that they conduct. NASD Rule 3010 requires a firm to establish a supervisory system and corresponding written procedures to supervise its businesses and associated persons' activities. A failure to establish a supervisory system that includes appropriate written procedures violates the Rule.

During the Relevant Period, Glendale had no written procedures to detect and prevent participation in an unregistered distribution of securities. In particular, it had no written

procedures addressing the acceptance of securities in either certificate or electronic form and the corresponding sales of those securities.

In practice, Glendale relied primarily on transfer agents to determine whether the securities were free trading. Upon receipt of a large block of a low priced stock (which was in certain instances, unregistered), Glendale's due diligence was essentially limited to verifying that the security was electronically quoted and contacting the transfer agent to determine the number of outstanding shares and whether the shares were free trading. Among other things, Glendale failed to inquire about (i) the length of time the securities had been held; (ii) how, when, and under what circumstances the securities had been acquired; (iii) the relationship, if any, between the customer and the issuer; and/or (iv) how much stock was owned by or under the customer's control.

Reliance on transfer agents does not adequately discharge a firm's supervisory obligations. Firms that accept delivery of shares electronically or in certificate form, and effect sales in those securities, must have systems and procedures in place that are reasonably designed to prevent participation in distributions of unregistered securities.

By failing to have an adequate supervisory system and procedures designed to avoid becoming a participant in an unregistered distribution of securities, Glendale violated NASD Rules 3010(a) and (b), and 2110 for the period April 2007 through December 14, 2008, and NASD Rules 3010(a) and (b) and FINRA Rule 2010 for the period December 15, 2008 through April 2009.

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

Censure and a fine of \$45,000.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which Respondent proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction 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 Respondent;

- 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 Respondent;

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 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; and
- 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 Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to its provisions

///

///

///

///

///

///

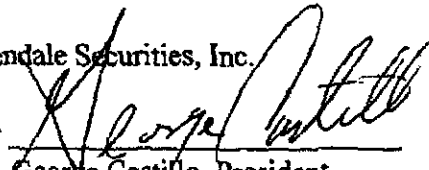
///

///

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.

Glendale Securities, Inc.

By:


George Castillo, President

Date

10/19/10

Reviewed by:


Scott Monson, Esq.
Counsel for Respondent
7600 Hollywood Blvd., Suite 303
Los Angeles, CA 90046

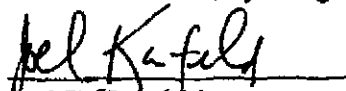
10/19/2010

Accepted by FINRA:

11/23/10

Date

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


Joel T. Kornfeld
Senior Regional Counsel
FINRA Department of Enforcement
300 S. Grand Ave., Suite 1600
Los Angeles, CA 90071-3126
(213) 613-2643, Fax (202) 721-6504

David B. Klafter
Deputy Regional Chief Counsel
FINRA Department of Enforcement
2500 N. Military Trail
Boca Raton, FL 33431-6324
(561) 443-8110, Fax (561) 443-7998

GLENDALE SECURITIES, INC.

STATEMENT OF CORRECTIVE ACTION

The following describes Glendale Securities, Inc.'s ("Glendale") corrective actions made in response to the attached Letter of Acceptance, Waiver, and Consent ("AWC"). The AWC sets forth a settlement of alleged rule violations relating to certain aspects of Glendale's general securities business that do not allege any injury to any investor, the public or the securities industry:

1) Failure to detect, analyze, and/or report suspicious transactions:

The identification of "red flags" and the determination of suspicious activity and subsequent filing of a Suspicious Activity Report are based upon subjective standards, rather than objective standards. Reasonable persons may differ in their determination of subjective standards. Based upon further discussions between Glendale and Enforcement Staff, Glendale's securities principals have an understanding of the Staff's recommended review of customer accounts, and Glendale has taken additional steps to ensure that future concerns with respect to Glendale's implementation of AML procedures will not arise. Specifically, Glendale has established procedures to obtain additional information concerning the identity of the underlying shareholders of corporate accounts. Glendale requires corporate accounts to complete the "Non-Public Corporation/Trust/LLC/Partnership Ownership Disclosure Form." This form requests information including the nature of the business conducted, the source of funds to be used in trading, disclosure of underlying beneficial owners, and other information in conformance with the Customer Identification Program.

Further, Glendale has hired an additional registered principal who has been designated as the AML Officer. Albert Laubenstein joined Glendale in February 2010, bringing with him over 30 years of brokerage industry experience. Mr. Laubenstein has a BS degree in business and economics from Lehigh University. Mr. Laubenstein started his industry career in 1974 with Merrill Lynch Pierce Fenner and Smith. He was a registered representative at Merrill Lynch for nine years before purchasing a seat on the Chicago board Options Exchange. He has worked at a number of firms over the years and his experience includes sales management, compliance and clearing firm operations. He has served as Compliance and Senior Registered Options Principal, Chief Compliance Officer, AML Compliance Officer and President and CEO of brokerage firms in the course of his career and presently holds the following licenses: Series 4, 7, 24, 32, 53, 55, 63, 66 and CA Life & Health and Variable Contract. Mr. Laubenstein has revised Glendale's AML Written Procedures to include the additional customer reviews, identification and documentation of red flags, and filing of SARs where appropriate. Glendale has revised and implemented new procedures to assure its compliance with applicable rules, including structured review of reports and other documents to detect and report suspicious activity.

This Corrective Action Statement is submitted by the Respondent.

It does not constitute factual or legal finding by FINRA, nor does it reflect the views of FINRA, or its staff.

2) Failure to establish and maintain an adequate supervisory system and written procedures that are reasonably designed to prevent participation in an unregistered distribution of securities:

Glendale has implemented additional procedures and taken corrective steps to eliminate future similar occurrences. Specifically Glendale has established a supervisory procedure whereby all customers who deposit stock complete and return the "Deposited Securities Request Questionnaire." Such Questionnaire calls for the information necessary to assess the tradability of the stock, including the length of time the securities had been held; how, when, and under what circumstances the securities had been acquired; the relationship, if any, between the customer and the issuer; and how much stock was owned by or under the customer's control; and whether the securities are registered or are exempt from registration, among other relevant information. This Questionnaire is required before deposit of, and trading in, the deposited stock.