

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010021352601**

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

RE: Gary W. Elsmore, Respondent
Registered Principal and Financial and Operations Principal
(CRD No. 1212378)

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, I, Gary W. Elsmore, submit 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 me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. I hereby accept and consent, 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

Gary W. Elsmore ("Elsmore") entered the securities industry in December 1983 as a General Securities Representative of a FINRA firm. In December 1994, he also became registered as a General Securities Principal and a Financial and Operations Principal with another former FINRA firm. On October 30, 2008, he became registered in the same capacities described above with Potomac Securities, LLC¹ ("Potomac" or "Firm"), a FINRA registered firm. Elsmore resigned from Potomac on March 1, 2011, but his registrations with Potomac were not terminated until April 27, 2011. Elsmore is not currently registered with another FINRA firm, and he does not have any recent disciplinary history.

¹ A separate action has been brought against Potomac.

OVERVIEW

From July 2010 to January 2011, Elsmore, Potomac's President, Chief Executive Officer ("CEO") and Chief Compliance Officer ("CCO"), failed to comply with numerous rules and regulations in connection with private offerings of Potomac and its holding company. Specifically, Elsmore:

- Allowed RF, an unregistered owner of Potomac, to engage in the securities business of Potomac by participating in sales of private offerings, and to function in the capacity of a General Securities Principal, by controlling Potomac's finances;
- Failed to comply with the requirements of FINRA Rule 5122, when he failed to prepare an offering document, and when he failed to submit such document to FINRA's Corporate Finance Department and to investors, prior to their purchase of the private offerings;
- Failed to file a Form D on behalf of the Firm as required by Regulation D of the Securities Act of 1933 ("Reg. D");
- Willfully failed to amend the Firm's Uniform Application for Broker-Dealer Registration ("Form BD") to list the new owners of the Firm; and
- Failed to establish, maintain and enforce a reasonably-designed system of supervisory control policies and written supervisory procedures.

By engaging in such conduct, Elsmore violated Article IV, Section 1 of FINRA's By-Laws, NASD Rules 1021, 1031 and 3010 and FINRA Rules 2010 and 5122.

Elsmore also failed to file an application with FINRA under NASD Rule 1017 at least 30 days before Potomac was acquired by a holding company, in violation of NASD Rule 1017 and FINRA Rule 2010.

In January and February 2011, Elsmore failed to maintain and preserve Potomac's general ledgers, trial balances and net capital calculations and failed to timely file Potomac's 2010 audited financial report. By engaging in such conduct, Elsmore violated NASD Rule 3110 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Violations Related to the Offer and Sale of Private Offerings and the Firm's Acquisition

Background

1. During all relevant times, Elsmore was the President, CEO, CCO and Financial and Operations Principal of Potomac. He was responsible for supervising, monitoring and ensuring that, among other things, Potomac complied with all applicable SEC, FINRA and NASD Rules and regulations, as well as the Firm's written supervisory procedures. He was also directly responsible for Potomac's financial reporting.
2. From September 2008 to December 2010, RF owned approximately 50% of Potomac. After January 2010, RF owned approximately 50% of Potomac Financial Holdings, LLC ("Potomac Financial"). Potomac Financial was a holding company for Potomac and its affiliated company.
3. From July to November 2010, Potomac offered and sold \$203,125 worth of Membership Interests in the Firm through a member private offering ("Potomac Offering"), pursuant to the exemption from registration in Rule 504 of Reg. D. Membership Interests were sold to the following members of the public: P&TG and B&AM on or about July 2, 2010; DW on or about October 7, 2010; and RM on or about November 30, 2010.
4. On or about December 31, 2010, all of the owners of the Potomac Offering sold their Membership Interests to Potomac Financial, and received a similar percentage of Membership Interests in Potomac Financial.¹ On January 18, 2011, Potomac Financial offered and sold a 1% Membership Interest in Potomac Financial to an additional member of the public through a separate member private offering ("Potomac Financial Offering"), pursuant to the exemption from registration in Rule 504 of Reg. D.

Registration Violations

5. NASD Rule 1031 requires that all persons who engage in a firm's investment banking or securities business shall be registered with FINRA as general securities representatives. NASD Rule 1021 requires that all persons who engage in the management of a firm's investment banking or securities business, including the supervision, solicitation or conduct of business, shall be registered with FINRA as general securities principals.

¹ Potomac Financial was then the sole owner of Potomac and an affiliated company.

6. RF entered the securities industry in or about December 2007, when he became associated with Potomac as an owner of the Firm. From September 2008 to December 2010, RF owned approximately 50% of Potomac. Prior to February 2011, RF did not file a Uniform Application for Securities Industry Registration or Transfer ("Form U4") to become registered with Potomac, took no securities examinations and was not registered with FINRA in any capacity.
7. From July 2010 to November 2010, RF solicited P&TG, B&AM, DW and RM to purchase interests in the Potomac Offering. RF also met with these investors when they signed purchase agreements to acquire their Membership Interest in Potomac. In addition, RF received checks from P&TG, B&AM, DW and RM for their purchase of interests in Potomac during these meetings. Based on this conduct, RF engaged in the solicitation of securities business and in securities transactions, and was required to be registered as a representative of Potomac. Elsmore was aware of RF's conduct and allowed him to engage in these activities without being registered as a securities representative.
8. In July 2010, RF opened a checking account in the name of Potomac ("New Account"). RF used his home address for the New Account, rather than using the Firm's address. RF was also the sole signator on the New Account.
9. From July to November 2010, RF deposited the checks received from P&TG, B&AM, DW and RM into the New Account, instead of in Potomac's operating bank account. RF then controlled the funds deposited in the New Account. RF wrote checks made payable to himself and to others employed at the Firm, drawn from the funds deposited in the New Account. In fact, from July to December 2010, RF wrote five checks against the New Account, which totaled \$70,000, payable to himself as a salary from Potomac. Based on his conduct, RF engaged in managing certain financial affairs and securities business of Potomac, and should have been registered as a General Securities Principal of Potomac.
10. By October 2010, Elsmore learned that RF had opened and was writing checks from the New Account when he received monthly account statements for the New Account. Despite this knowledge, Elsmore allowed RF to continue to engage in managing Potomac's financial affairs and securities business without being registered as a securities principal.
11. By virtue of the foregoing, Elsmore violated NASD Rules 1021 and 1031 and FINRA Rule 2010.

Failure to Comply with FINRA Rule 5122

12. FINRA Rule 5122, which became effective on June 17, 2009, requires, among other things, that FINRA firms and associated persons offering or selling a private placement of unregistered securities issued by the firm or its control entity: prepare a private placement memorandum, term sheet or other offering document that addresses the intended use of the offering proceeds and discloses the offering expenses and selling compensation paid to the firm and its registered persons; file such offering document with FINRA's Corporate Finance Department at or prior to the first time the document is provided to any prospective investor; and provide a copy of the offering document to prospective investors.
13. On July 2, 2010, Elsmore permitted the initial sales of the Potomac Offering, while failing to meet the conditions of FINRA Rule 5122. Specifically, Elsmore failed to prepare an offering document prior to July 2, 2010. He also failed to file an offering document with FINRA's Corporate Finance Department, and failed to provide an offering document to P&TG and B&AM prior to their purchase of Membership Interests in the Potomac Offering.
14. After Potomac Financial became the sole owner of Potomac on December 31, 2010, it became a control entity of Potomac and was subject to FINRA Rule 5122. On January 18, 2011, Elsmore permitted the initial sale of the Potomac Financial Offering, while again failing to meet the conditions of FINRA Rule 5122, in that he failed to file an offering document with FINRA's Corporate Finance Department, on behalf of the Firm.
15. By virtue of the foregoing, Elsmore violated FINRA Rules 2010 and 5122.

Failure to Comply with Reg. D

16. Rule 503(a)(1) of Reg. D requires an issuer engaged in offering or selling unregistered securities based on exemptions from registration set forth in Rules 504, 505 or 506, to file with the Securities and Exchange Commission ("SEC") a notice of sales ("Form D") for each new offering of securities no later than 15 calendar days after the first sale of securities in the offering.
17. Potomac relied on the exemption from registration promulgated in Rule 504 of Reg. D of the Securities Act of 1933. Elsmore failed to file on behalf of Potomac a Form D with the SEC within 15 calendar days after Potomac began selling the Potomac Offering.

18. By virtue of the foregoing, Elsmore caused Potomac to fail to file a Form D with the SEC in contravention of Rule 503 of Reg. D, and in violation of FINRA Rule 2010.

Failure to File an Application to Change Potomac's Ownership

19. NASD Rule 1017(a)(4) requires a FINRA firm to file an application for approval whenever a change in ownership resulting in one person or entity directly owning 25% or more of the firm's equity or partnership capital is contemplated. NASD Rule 1017(c)(1) requires a firm to file such application for approval at least 30 days prior to the change in ownership. As President, CEO and CCO of Potomac, Elsmore was responsible for filing the Rule 1017 applications.
20. On or about December 31, 2010, the ownership of Potomac changed and Potomac Financial became a direct owner of 100% of Potomac, which triggered the Rule 1017 filing requirement. Elsmore failed to file an application for approval of the change in ownership with FINRA at least 30 days before Potomac Financial acquired Potomac.
21. By virtue of the foregoing, Elsmore violated NASD Rule 1017 and FINRA Rule 2010.

Willful Failure to Amend Potomac's Form BD

22. Article IV, Section 1(c) of the FINRA By-Laws requires all FINRA registered firms to keep their Form BD current at all times by filing required supplementary amendments. Amendments to the Form BD are required if there are any changes to the ownership of a firm. Such amendments are required no later than 30 days after learning of facts or circumstances giving rise to the amendments.
23. Prior to his resignation on March 1, 2011, Elsmore willfully failed to amend Potomac's Form BD to disclose that:
- Customers P&TG, B&AM, DW and RM became owners of the Firm from July 2010 to November 2010; and
 - Potomac Financial became the sole owner of Potomac on December 31, 2010.
24. By virtue of the foregoing, Elsmore violated Article IV, Section 1 of FINRA By-Laws and FINRA Rule 2010.

Failure to Supervise and Inadequate Written Supervisory Procedures

25. NASD Rule 3010(a) requires FINRA firms to establish, maintain and enforce a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations and NASD and FINRA Rules. NASD Rule 3010(b) requires that FINRA registered firms establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations.
26. From July 2010 through January 2011, Elsmore was responsible for establishing, maintaining and enforcing Potomac's supervisory systems and written procedures. During this time Elsmore failed to establish, maintain and enforce adequate supervisory systems and written supervisory procedures for Potomac related to the sales of unregistered private securities offerings. Specifically, the Firm had no supervisory system or written supervisory procedures related to the sale of member private placements, in that the Firm's procedures failed to: a) provide a process for determining if an offering qualified as a member private offering as described by FINRA Rule 5122; b) require the creation of a private placement memorandum, term sheet or other offering document for submission to FINRA's Corporate Finance Department before giving to a prospective investor; and c) require a Form D filing be made with the SEC if the member private offering is exempt from registration.
27. From July 2010 through March 2011, Elsmore also failed to follow Potomac's written supervisory procedures to ensure compliance with FINRA By-Laws and Rules. Specifically, Elsmore failed to follow the Firm's written supervisory procedures when he failed to file the required amendments to the Firm's Form BD within 30 days after learning of facts giving rise to the amendments.
28. By virtue of the foregoing, Elsmore violated NASD Rule 3010 and FINRA Rule 2010.

OTHER VIOLATIONS

**Failure to Maintain and Preserve General Ledgers,
Trial Balances and Net Capital Calculations**

29. SEC Rule 17a-3 provides that every broker-dealer registered with FINRA shall make and keep current books and records relating to its business, including but not limited to, general ledgers, trial balances, net capital computations or other records, reflecting all assets and liabilities, income

and expense, and capital accounts. SEC Rule 17a-4 requires that firms maintain and preserve all trial balances, computations of aggregate indebtedness, net capital computations (with working papers in connection therewith) and financial statements relating to the business of the firm, for not less than six years, and for the first two years being maintained in an easily accessible place.

30. On March 15, 2011, while Elsmore was still registered with Potomac, FINRA staff requested that Potomac provide its general ledger, trial balances, and net capital computations for the months ending January and February 2011. Potomac was unable to provide these documents because Elsmore, who worked from a private residence in Ohio, failed to promptly forward the general ledgers, trial balances, net capital computations and other records to the owner of Potomac, who worked in Maryland. The requested documentation has never been provided to FINRA staff.
31. As a result of the above, Elsmore failed to create, maintain and preserve Potomac's financial books and records in an easily accessible place, in contravention of SEC Rules 17a-3 and 17a-4, and in violation of NASD Rule 3110 and FINRA Rule 2010.

Failure to Timely File Annual Audit

32. SEC Rule 17a-5(d) requires firms to file an annual audited financial report no more than 60 days after the date of the year-end financial statements. Potomac's 2010 annual audited financial report was required to be filed by March 1, 2011. On March 1, 2011, Elsmore requested an extension of time to file the annual audit, but the request was denied as untimely. Elsmore failed to file the report on behalf of Potomac by March 1, 2011. Potomac's 2010 annual audited financial report was not filed until June 17, 2011.
33. As a result of the above, Elsmore caused Potomac to file its 2010 audited financial report late, in contravention of SEC Rule 17a-5, and in violation of FINRA Rule 2010.

- B. I also consent to the imposition of the sanction of a bar from association with any FINRA firm in any principal capacity.

Respondent has submitted a sworn financial statement and demonstrated an inability to pay. In light of the financial status of Respondent, no monetary sanctions have been imposed.

I understand that if I am barred or suspended from associating with any FINRA member in any principal capacity, I become subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, I may not be associated with any FINRA member in any principal capacity, during the period of the bar or suspension (see FINRA Rules 8310 and 8311). Furthermore, because I am subject to a statutory disqualification during the bar, if I remain associated with a member firm in a non-barred capacity, an application to continue that association may be required.

I understand that this settlement includes a finding that I willfully omitted to state a material fact on Potomac's Form BD, and that under Section 3(a)(39)(F) of the Securities Exchange Act of 1934 and Article III, Section 4 of FINRA's By-Laws, this omission makes me subject to a statutory disqualification with respect to association with a member.

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

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- 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, I specifically and voluntarily waive 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.

I further specifically and voluntarily waive 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

I understand that:

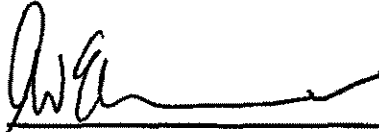
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
 - 1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my 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. I 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. I 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

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

- 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.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have 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 me to submit it.

12-13-12
Date (mm/dd/yyyy)



Gary W. Elsmore
Registered Principal and Financial and Operations
Principal

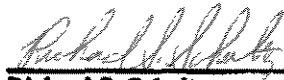
Reviewed by:

Counsel for Respondent

Accepted by FINRA:

1/8/12
Date

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



Richard S. Schultz
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