

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Douglas Edmond Inlay
(CRD No. 4770488)

Respondent.

DISCIPLINARY PROCEEDING
No. 2010023753901

Hearing Officer:

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between November 2009 and April 2010 (“the relevant period”), while working as an insurance agent for Liberty Mutual (“LM”), Douglas E. Inlay (“Inlay” or “Respondent”) misappropriated \$160 from an insurance customer. This conduct violated FINRA Rule 2010.

2. Inlay also submitted false information to LM on behalf of two insurance customers, one of which served to conceal his misappropriation. This conduct also violated FINRA Rule 2010.

3. Additionally, Inlay failed to appear for testimony as requested pursuant to FINRA Rule 8210. By doing so, Inlay violated FINRA Rule 8210 and FINRA Rule 2010.

RESPONDENT AND JURISDICTION

4. Inlay entered the securities industry in 2004 as an Investment Company Products/ Variable Annuity Contracts Representative (“IR”) with registered firm Pruco Securities (“Pruco”

or “the firm”) and remained in that capacity until his voluntary resignation on July 1, 2010.

Inlay worked for another registered firm as an IR from July to December 2010.

5. Throughout the relevant period, Inlay also worked as an insurance agent for LM, a property and casualty insurance company affiliated with Pruco.

6. Through LM, Inlay offered insurance products, including automobile, homeowner’s and health insurance from a branch office located in Sioux City, Iowa. Pruco was aware of and had approved Inlay’s insurance business activities during the relevant period.

7. Inlay is not currently associated with a registered firm. However, Inlay is subject to FINRA’s jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA’s By-Laws, because (1) the Complaint was filed within two years after the effective date of termination of Inlay’s registration with a FINRA registered firm, namely, December 2, 2010 and (2) the Complaint charges him with misconduct committed while he was registered with a registered firm and with failing to appear for on-the-record testimony during the two-year period after the date upon which he ceased to be registered or associated with a registered firm.

FACTS COMMON TO ALL COUNTS

Inlay misappropriated \$160 from insurance customer RR.

8. During the first quarter of 2010, Inlay met with customer RR to discuss the purchase of an LM automobile insurance policy for RR’s vehicle. During the meeting, RR provided Inlay with a \$160 down payment to purchase an automobile insurance policy. However, Inlay failed to submit RR’s payment to LM. Instead, Inlay converted the funds for his own purposes.

9. On March 26, 2010, following a complaint by customer RR, an LM representative interviewed Inlay about the customer's \$160 cash payment. Inlay confirmed that RR had given him \$160 to purchase an insurance policy, but Inlay falsely claimed that he had received a money order instead of cash. Inlay blamed his former marketing assistant for misplacing the payment. Inlay falsely claimed to have discovered RR's money order in the customer's file on March 25, 2010. Inlay also falsely stated that he had mailed the customer's insurance payment to LM for processing on the same day that he discovered it.

10. On April 6, 2010, Inlay provided a copy of a money order to LM that he claimed to be from RR. But Inlay had actually purchased the money order after RR complained and then altered its date to show a false date of purchase of March 22, 2010. In fact, Inlay purchased the money order on March 30, 2010.

Inlay provided false information to LM about a customer's insurance application.

11. On November 11, 2009, Inlay initiated a homeowner's insurance policy for customer DG at LM. On the same day, LM ordered a property inspection of the exterior of DG's residence due to its age and DG's prior poor credit history.

12. On December 2, 2009, DG's residence failed LM's home inspection. LM's Underwriting Department determined that her insurance policy would be cancelled due to poor physical condition of the residence.

13. On December 18, 2009, LM's Underwriting Department sent a cancellation letter to DG notifying her that her LM homeowner's insurance policy would be cancelled effective January 22, 2010.

14. On January 12, 2010, Inlay established a second homeowner's insurance policy at LM for DG by providing false information on the homeowner's insurance application on behalf of DG and submitting it to LM. Specifically, Inlay provided the following false information: (1) Inlay falsely labeled DG's second policy as a "rewrite" or re-issuance of an existing LM homeowner's insurance policy that was in good standing at LM; (2) Inlay provided a false expiration date for the prior insurance carrier; (3) Inlay falsely answered "no" to LM's question of whether any of DG's previous homeowner's or renters policies had been cancelled, non-renewed or declined in the past 12 months; (3) Inlay falsely answered "no" to LM's question whether DG's residence has "any physical conditions of property in need of repair or which clearly present likelihood for injury; (4) Inlay also falsely indicated that a down payment was not required for DG because the second policy was a "rewrite."

15. Unaware that Inlay had provided false information on DG's application, LM established a homeowner's insurance policy for DG using the false information provided by Inlay.

FIRST CAUSE OF ACTION
MISAPPROPRIATION FROM AN INSURANCE CUSTOMER
FINRA Rule 2010

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

17. As set forth above, Inlay converted \$160 from insurance customer RR.

18. As a result of the foregoing conduct, Inlay willfully violated FINRA Rule 2010.

SECOND CAUSE OF ACTION
PROVIDED FALSE INFORMATION TO LM
FINRA Rule 2010

19. The Department realleges and incorporates by reference paragraphs 1 through 18 above.

20. On April 6, 2010, Inlay provided LM with a falsely altered money order in order to conceal his misappropriation of RR's \$160 insurance payment. He also made several false statements to LM to conceal the misappropriation.

21. On January 12, 2010, Inlay provided an application that contained several false statements to LM in order to establish a homeowner's insurance policy for DG. Inlay did so because he knew that DG's residence did not otherwise meet LM's insurability requirements.

22. By providing false information to LM as described above, Inlay violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
FAILURE TO APPEAR FOR ON-THE-RECORD TESTIMONY
Violation of FINRA Rules 8210 and 2010

23. The Department realleges and incorporates by reference paragraphs 1 through 22 above.

24. Pursuant to FINRA Rule 8210, on July 28, 2011, the staff sent a letter to Inlay requesting that he appear for testimony in FINRA's Washington, DC, office on August 25, 2011. The letter was sent to Inlay's CRD address. Inlay failed to appear for testimony on the date set in the letter.

25. On September 15, 2011, the staff sent a second 8210 request letter to Inlay requesting that he appear for testimony in FINRA's Washington, DC, office on September 29,

2011. The second letter was also sent to Inlay's CRD address. Inlay failed to appear as requested.

26. Each of the above 8210 requests for testimony were sent using the following three methods: Fed Ex (no signature required), Certified Mail, and First Class Mail. The Certified Mailed letters were returned "unclaimed."

27. The staff made efforts to find another address used by Inlay, but all searches yielded the CRD address.

28. By virtue of the foregoing, Inlay violated FINRA Rules 8210 and 2010.

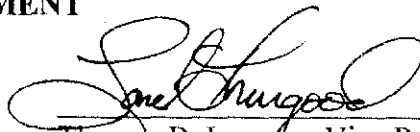
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent(s) 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.
- C. order that Respondent(s) 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: April 9, 2012



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