

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

JERRY D. MCGLOTHLIN
(CRD No. 702205),

Respondent

Disciplinary Proceeding
No. 2012031915901

Hearing Officer – MAD

DEFAULT DECISION

June 10, 2013

Respondent is barred from associating with any member firm in any capacity for: (1) engaging in outside business activities without providing his employer with prior written notice, in violation of NASD Conduct Rules 3030 and 2110, and FINRA Conduct Rules 3270 and 2010; (2) engaging in private securities transactions without providing his employer with prior written notice, in violation of NASD Conduct Rules 3040 and 2110, and FINRA Conduct Rule 2010; (3) providing false responses on annual compliance questionnaires, in violation of NASD Conduct Rule 2110 and FINRA Conduct Rule 2010; and (4) failing to fully respond to FINRA requests for information, in violation of FINRA Procedural Rule 8210 and Conduct Rule 2010.

Appearances

Jennifer L. Crawford, Esq., Perry Hubbard, Esq., and Samuel Israel, Esq., for the Department of Enforcement.

No appearance by or on behalf of Jerry D. McGlothlin.

DECISION

I. Introduction

On January 22, 2013, the Department of Enforcement filed the attached Complaint in this disciplinary proceeding against Respondent Jerry D. McGlothlin. The Complaint charges that McGlothlin: (1) engaged in outside business activities without providing his employer, FINRA member firm Lincoln Financial Securities Corp., LLC ("Lincoln Financial"), with written notice

of his activities, in violation of NASD Conduct Rules 3030 and 2110, and FINRA Conduct Rules 3270 and 2010; (2) engaged in private securities transactions without providing his employer with written notice of his activities, in violation of NASD Conduct Rules 3040 and 2110, and FINRA Conduct Rule 2010; (3) provided false responses on annual compliance questionnaires, in violation of NASD Conduct Rule 2110 and FINRA Conduct Rule 2010; and (4) failed to fully respond to FINRA requests for information, in violation of FINRA Procedural Rule 8210 and Conduct Rule 2010.¹

McGlothlin did not answer or otherwise respond to the Complaint. Consequently, on April 15, 2013, Enforcement filed a Motion for Entry of Default and Imposition of Sanctions ("Default Motion"), supported by the Declaration of Jennifer L. Crawford, Esq. ("Decl.") and five exhibits. Respondent did not file a response to the Default Motion.

II. Findings of Fact and Conclusions of Law

A. Jurisdiction

McGlothlin was first employed in the securities industry in November 1979.² Between May 2003 and October 2012, McGlothlin was registered with FINRA as an Investment Company and Variable Contracts Limited Representative, and Direct Participating Programs Limited Representative, through his association with Lincoln Financial and its predecessor Jefferson Pilot Securities, Inc.³ On October 12, 2012, Lincoln Financial filed a Uniform

¹ As of July 30, 2007, NASD consolidated with the member regulation and enforcement functions of NYSE Regulation and began operating under a new corporate name, the Financial Industry Regulatory Authority (FINRA). References in this decision to FINRA include, where appropriate, NASD. Following consolidation, FINRA began developing a new FINRA Consolidated Rulebook. The first phase of the new consolidate rules became effective on December 15, 2008, including certain conduct rules and procedural rules. *See* Regulatory Notice 08-57 (Oct. 2008). This decision refers to and relies on the NASD Conduct Rules that were in effect at the time of Respondent's alleged misconduct. The applicable rules are available at www.finra.org/rules.

² CX-1, at 4.

³ Decl. ¶ 6

Termination Notice for Securities Industry Registration (“Form U5”), terminating McGlothlin’s registration. McGlothlin has not been registered or associated with any FINRA member since he resigned on October 10, 2012.⁴

Although McGlothlin has not been registered with a member firm since October 10, 2012, he remains 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 following the termination of his last registration with a FINRA member, and (2) the Complaint charges him with misconduct that occurred while he was registered with a FINRA member firm and with failing to fully respond to FINRA requests for information during the two-year period following his voluntary termination of FINRA registration.⁵

B. Respondent’s Default

On January 22, 2013, Enforcement served McGlothlin with the Notice of Complaint and Complaint by certified mail, return receipt requested, addressed to his residential address recorded in the Central Registration Depository (the “CRD Address”).⁶ The U.S. Postal Service (“USPS”) delivered the certified mailing on January 25, 2013, and McGlothlin signed the certified mail receipt.⁷

On February 25, 2013, Enforcement served the Second Notice of Complaint and Complaint on McGlothlin in the same manner.⁸ The USPS delivered the certified mailing on February 28, 2013.⁹ Ute McGlothlin, who resides with McGlothlin, signed the certified mail

⁴ CX-1, at 2-3.

⁵ Article V, Sec. 4(a), FINRA By-Laws, *available at* www.finra.org/rules (then follow “FINRA Manual” hyperlink to “Corporate Organization: By-Laws”).

⁶ Decl. ¶ 8; CX-1.

⁷ Decl. ¶ 9; CX-3, at 1.

⁸ Decl. ¶ 11; CX-5.

⁹ Decl. ¶ 11; CX-4.

receipt.¹⁰ To date, McGlothlin has not filed an answer with the Office of Hearing Officers or otherwise responded to the Complaint.

The Hearing Officer finds that Enforcement properly served McGlothlin by mailing the Complaint and the First and Second Notices of Complaint in accordance with Procedural Rule 9134(b)(1). McGlothlin signed for the First Notice of Complaint, giving him actual notice of this disciplinary proceeding. McGlothlin defaulted by failing to answer the Complaint. Accordingly, pursuant to Procedural Rules 9215(f) and 9269(a)(2), the Hearing Officer deems the allegations in the attached Complaint admitted and grants Enforcement's Default Motion.

C. Origin of the Underlying Investigation

On March 26, 2012, FINRA received a regulatory tip concerning possible selling away and undisclosed business activities by McGlothlin.¹¹ Based on its review of the tip, Enforcement initiated an investigation into McGlothlin's activities.¹²

D. Outside Business Activities

The First Cause of Action alleges that McGlothlin engaged in outside business activities without notifying Lincoln Financial, in violation of NASD Conduct Rules 3030 and 2110, and FINRA Conduct Rules 3270 and 2010. Specifically, during McGlothlin's employment with Lincoln Financial, he engaged in business activities with International Business Law Center, Inc. ("IBLC"), a/k/a Internet Business Law Services, and IBLS Online Education, Inc. ("IBLS Online"), companies that provided Internet legal services and learning programs.¹³

McGlothlin's affiliation with IBLC and IBLS Online was significant. First, both companies used the same physical address and telephone number as McGlothlin's Lincoln

¹⁰ Decl. ¶ 11; CX-4, CX-5.

¹¹ Decl. ¶ 5.

¹² *Id.*

¹³ Compl. ¶¶ 5, 6.

Financial branch office.¹⁴ Second, McGlothlin owned a significant portion of IBLC and IBLS Online. Since 2003, he has been a 15 percent owner of IBLC, and a 20 percent owner of IBLS Online.¹⁵ Third, McGlothlin held officer positions at each company. At IBLC, McGlothlin has been the Chief Financial Officer (“CFO”) and President since May 2003. At IBLS Online, McGlothlin has been the President since December 2003, and the CFO since November 2009.¹⁶ As the President of both companies, McGlothlin paid contractors and employees, and maintained the corporate records for each company.¹⁷

At no time did McGlothlin ever notify Lincoln Financial of his outside business activities with IBLC or IBLS Online, or obtain permission from Lincoln Financial to participate in outside business activities.¹⁸

FINRA Conduct Rule 3270, and its predecessor NASD Conduct Rule 3030, provide that no registered person “may be an employee, ... officer, ... or be compensated, or have the reasonable expectation of compensation, from any other person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member, in such form as specified by the member.” The purpose of the rule is to provide member firms with an opportunity to raise any objections to such activities at a meaningful time and to exercise appropriate supervision as necessary under

¹⁴ *Id.* ¶ 7.

¹⁵ *Id.* ¶¶ 8, 9.

¹⁶ *Id.* ¶¶ 8, 9, 10.

¹⁷ *Id.* ¶ 11.

¹⁸ *Id.* ¶ 13.

applicable law.¹⁹ The rule requires disclosure of all outside business activity, not just securities-related activity.²⁰

The Hearing Officer finds that the allegations in the First Cause of Action are sufficient to establish that McGlothlin violated NASD Conduct Rules 3030 and 2110, and FINRA Conduct Rules 3270 and 2010, by failing to provide Lincoln Financial with written notice of his outside business activities.

E. Private Securities Transactions (Selling Away)

The Second Cause of Action alleges that McGlothlin engaged in private securities transactions without providing Lincoln Financial with written notice of his activities, in violation of NASD Conduct Rules 3040 and 2110, and FINRA Conduct Rule 2010. Specifically, during McGlothlin's association with Lincoln Financial, he participated in the sale of common stock for both IBLC and IBLS Online, and also issued shares of IBLC and IBLS Online to himself and employees.²¹

IBLC raised \$976,689 by selling over one million shares of common stock to 31 investors through a private placement offering between July 2001 and July 2007.²² At least \$238,312 of the \$976,689 was raised by selling 238,200 common shares to 15 investors during the time period that McGlothlin was registered with Lincoln Financial.²³ From June 2003 to November 2006, IBLC issued 48,000 shares of common stock to six employees as

¹⁹ *Proposed Rule Change by NASD Relating to Outside Business Activities of Associated Persons*, Exchange Act Release No. 26063, 1988 SEC LEXIS 1841 (Sept. 6, 1988), adopted at Exchange Act Release No. 26178, 1988 SEC LEXIS 2032 (Oct. 13, 1988).

²⁰ *Dep't of Enforcement v. Schneider*, No. C10030088, 2005 NASD Discip. LEXIS 6, at *13-14 (N.A.C. Dec. 7, 2005) (citing *District Bus. Conduct Comm. v. Cruz*, No. C8A930048, 1997 NASD Discip. LEXIS 62, at *96 (N.B.C.C. Oct. 31, 1997)).

²¹ All of the common stock offered and sold by IBLC and IBLS Online were securities as defined by Section 3(a)(10) of the Securities Exchange Act of 1934. 15 U.S.C. § 78c(a)(10). Compl. ¶ 20.

²² *Id.* ¶ 15.

²³ *Id.*

compensation, and issued 1,000 shares to McGlothlin.²⁴ McGlothlin, as the President of IBLC, signed the stock certificates for the 15 investors, the six employees, and himself.²⁵

IBLS Online raised \$1,010,709 by selling 1.045 million shares of common stock to 43 investors between December 2003 and November 2007.²⁶ IBLS Online also issued 136,000 shares of common stock to six employees as compensation, and issued 1,000 shares to McGlothlin, between December 2004 and December 2008.²⁷ In his capacity as President of IBLS Online, McGlothlin signed the stock certificates for the IBLS Online investors, employees, and himself.²⁸ Through at least October 4, 2011, McGlothlin continued to participate in private securities transactions with IBLS Online by re-issuing and replacing stock certificates for investors and responding to investor inquiries about their investments.²⁹

As with McGlothlin's outside business activities, McGlothlin never notified Lincoln Financial of his private securities transactions with IBLC or IBLS Online, or sought permission from Lincoln Financial to participate in the private securities transactions.³⁰

NASD Rule 3040 provides, in pertinent part, "[p]rior to participating in any private securities transaction, an associated person shall provide written notice to the member with which he is associated describing in detail the proposed transaction and the person's proposed role therein and stating whether he has received or may receive selling compensation in connection with the transaction"

²⁴ *Id.* ¶ 16.

²⁵ *Id.* ¶¶ 15, 16.

²⁶ *Id.* ¶ 17.

²⁷ *Id.* ¶ 18.

²⁸ *Id.* ¶¶ 17, 18.

²⁹ *Id.* ¶ 19.

³⁰ *Id.* ¶ 22.

The Hearing Officer finds that the allegations in the Second Cause of Action are sufficient to establish that McGlothlin violated NASD Conduct Rules 3040 and 2110, and FINRA Conduct Rule 2010, by failing to provide Lincoln Financial with written notice of his private securities transactions.

F. False Responses on Annual Compliance Questionnaires

The Third Cause of Action alleges that McGlothlin provided false responses on every annual compliance questionnaire he completed during the time he was registered with Lincoln Financial. From November 2003 to November 2011, McGlothlin provided false answers to 36 questions that probed his involvement in outside business activities, private securities transactions, and the use of e-mail addresses and internet websites to conduct outside business activities.³¹

McGlothlin's false responses are inconsistent with the "high standards of commercial honor" and "just and equitable principles of trade" that NASD Conduct Rule 2110 and FINRA Conduct Rule 2010 require registered representatives to observe. The Hearing Officer finds that the allegations in the Third Cause of Action are sufficient to establish that McGlothlin violated Conduct Rules 2110 and 2010.

G. Failure to Respond to FINRA Requests for Information

The Fourth Cause of Action alleges that McGlothlin failed to fully respond to FINRA requests for information and documents. On September 21, 2012, and October 17, 2012, pursuant to FINRA Procedural Rule 8210, Enforcement sent McGlothlin letters requesting that he respond to 19 items that sought information and documentation relating to his engagement in outside business activities and participation in private securities transactions. On October 23,

³¹ *Id.* ¶ 24.

2012, Enforcement received a partial production of documents from McGlothlin.³² Twelve of the 19 items requested by Enforcement remained entirely unanswered.³³ The 12 unanswered items, nine of which called for information only, concerned: (1) the scope of McGlothlin's outside business activities and private securities transactions such as his role in any outside businesses; (2) his participation in the offer and sale of securities through his outside businesses; (3) his role in drafting and reviewing offering materials; and (4) the identification of brokerage accounts, bank accounts, e-mail accounts, and telephone lines.³⁴

Upon receiving McGlothlin's incomplete response, Enforcement called him.³⁵ McGlothlin told Enforcement that he did not intend to make any further production in response to the Rule 8210 request letters.³⁶ Enforcement has not received any additional materials from McGlothlin.³⁷

The Hearing Officer finds that McGlothlin failed to provide a complete production of documents and information requested by Enforcement's September 21 and October 17, 2012, Rule 8210 request letters.³⁸ By failing to fully respond to the request letters, McGlothlin violated FINRA Procedural Rule 8210 and Conduct Rule 2010.

³² *Id.* ¶ 40.

³³ *Id.*

³⁴ *Id.* ¶ 41.

³⁵ *Id.* ¶ 42.

³⁶ *Id.*

³⁷ *Id.* ¶ 43.

³⁸ *Id.*

III. Sanctions

A. Outside Business Activities

The FINRA Sanction Guidelines (“Guidelines”) governing outside business activities recommend a fine of \$2,500 to \$50,000, and a suspension of up to 30 business days where there are no aggravating circumstances.³⁹ Where the outside business activities involve aggravating circumstances, the Guidelines recommend consideration of a suspension of up to one year. In egregious cases involving substantial activity or significant injury, the Guidelines recommend consideration of a longer suspension or a bar.⁴⁰

Under the facts of this case, the relevant principal considerations in determining sanctions for engaging in outside business activities in violation of Conduct Rule 3030 include: (i) the duration of the outside activity; and (ii) whether the respondent misled his or her employer member firm about the existence of the outside activity or otherwise concealed the activity from the firm. McGlothlin has engaged in outside business activities at IBLIC and IBLIS Online since 2003. He held officer positions at both companies, and issued stock certificates to investors, employees, and himself. At no time did he ever disclose these outside business activities to Lincoln Financial. As noted above, for approximately eight years, in each compliance questionnaire, McGlothlin specifically misled Lincoln Financial by affirmatively denying any involvement with outside business activities. The record contains no mitigating factors.

After consideration of these factors, the Hearing Officer finds that McGlothlin’s conduct was egregious and concludes that the appropriate sanction for his violation of NASD Conduct Rules 3030 and 2110, and FINRA Conduct Rules 3270 and 2010, is a bar from associating with any FINRA member in all capacities.

³⁹ FINRA Sanction Guidelines 13 (2011), available at www.finra.org/sanctionguidelines.

⁴⁰ *Id.*

B. Private Securities Transactions (Selling Away)

The Guidelines relating to private securities transactions violations recommend a fine ranging from \$5,000 to \$50,000, and a suspension of up to a year, and, in cases involving sales of over \$1,000,000, a 12-month suspension or bar.⁴¹ The Guidelines also state that "[t]he presence of one or more mitigating or aggravating factors may either raise or lower the above-described sanctions."⁴² Thus, the Guidelines direct the Hearing Officer to consider 13 additional principal considerations and the general considerations applicable to all violations in determining the appropriate sanction. These factors include: (1) the dollar volume of sales; (2) the number of customers; (3) the length of time over which the selling away activity occurred; (4) whether the respondent had a beneficial interest in the issuer; (5) whether the respondent attempted to create the impression that his or her member firm sanctioned the activity; and (6) whether the respondent misled or otherwise concealed the selling away activity from the firm.

In this case, the Hearing Officer found several aggravating factors and no mitigating factors. Here, McGlothlin raised over \$1.2 million through his private securities transactions. His misconduct continued for approximately four years and involved over 50 investors. As an owner of each company, McGlothlin had a beneficial interest. Additionally, McGlothlin misled Lincoln Financial on his annual compliance questionnaires by certifying that he had not engaged in private securities transactions without obtaining prior written approval. Because McGlothlin did not fully cooperate with FINRA by fully responding to its requests for information, it is not possible to determine if he attempted to create the impression that his member firm sanctioned the activity.

⁴¹ *Id.* at 14.

⁴² *Id.*

After careful consideration of these factors, the Hearing Officer concludes that a bar is the appropriate sanction for violating NASD Conduct Rules 3040 and 2110, and FINRA Conduct Rule 2010.

C. False Responses on Compliance Questionnaires

The most analogous Sanction Guideline for this violation is "Forgery and/or Falsification of Records," which recommends consideration of a bar, as well as a fine, in egregious cases. The Hearing Officer finds that this is an egregious case. The record reflects that for eight years, during which McGlothlin responded to approximately 36 questions, he falsely reported that he did not participate in any outside business activities, private securities transactions, or use e-mail addresses and internet websites to conduct outside business activities. If he had answered the questions truthfully, Lincoln Financial would have known about his extensive involvement with both IBLC and IBLS Online.

The Hearing Officer finds that a bar is the appropriate sanction under the facts and circumstances of this case. The record reflects no mitigating factors that would warrant a lesser sanction. Accordingly, the Hearing Officer will bar McGlothlin from associating with any FINRA member in any capacity for violating NASD Conduct Rule 2110 and FINRA Conduct 2010.

D. Failure to Respond to FINRA Requests for Information

The Guidelines recommend a bar when a respondent provides a partial but incomplete response, unless the respondent can "demonstrate that the information provided substantially complied with all aspects of the request."⁴³ Here, McGlothlin provided a partial production of documents to Enforcement that included responses to seven of 19 items requested by

⁴³ *Id.* at 33.

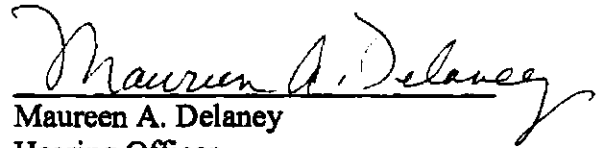
Enforcement. The 12 items that remained unanswered concerned documents and information relating to the scope of McGlothlin's outside business activities and private securities transactions.⁴⁴ McGlothlin refused to respond to the remaining 12 items. There are no mitigating factors. Accordingly, the Hearing Officer concludes that the appropriate sanction for this violation is a bar.

IV. Order

Jerry McGlothlin is barred from associating with any member firm in any capacity for:

- (1) engaging in outside business activities without providing his employer with written notice, in violation of NASD Conduct Rules 3030 and 2110, and FINRA Conduct Rules 3270 and 2010;
- (2) engaging in private securities transactions without providing his employer with prior written notice, in violation of NASD Conduct Rules 3040 and 2110, and FINRA Conduct Rule 2010;
- (3) providing false responses on annual compliance questionnaires, in violation of NASD Conduct Rule 2110 and FINRA Conduct Rule 2010; and
- (4) failing to fully respond to FINRA requests for information, in violation of FINRA Procedural Rule 8210 and Conduct Rule 2010.

The bars shall become effective immediately if this Default Decision becomes the final disciplinary action of FINRA.


Maureen A. Delaney
Hearing Officer

Copies to:

Jerry D. McGlothlin (via overnight courier and first-class mail)
Jennifer L. Crawford, Esq. (via electronic and first-class mail)
Perry C. Hubbard, Esq. (via electronic mail)
Samuel L. Israel, Esq. (via electronic mail)
Jeffrey Pariser, Esq. (via electronic mail)

⁴⁴ Compl. ¶ 40.

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Jerry D. McGlothlin (CRD No. 702205)

Respondent.

DISCIPLINARY PROCEEDING
No. 2012031915901

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Respondent Jerry D. McGlothlin ("McGlothlin"), a former registered representative at Lincoln Financial Securities Corp., LLC and its predecessor Jefferson Pilot Securities, Inc. (collectively, "Lincoln Financial" or "Firm") engaged in outside business activities and participated in private securities transactions throughout his nine-year registration with Lincoln Financial without ever disclosing those activities or transactions to the Firm. Also, during his registration, McGlothlin provided false answers to questions that related to those outside business activities and private securities transactions on every annual compliance questionnaire he completed with the Firm. In addition, McGlothlin failed to fully respond to FINRA's document and information requests, sent pursuant to FINRA Rule 8210.

2. By engaging in the foregoing conduct, McGlothlin violated NASD Rules 2110,¹ 3030² and 3040 and FINRA Rules 2010, 3270, and 8210.

RESPONDENT AND JURISDICTION

3. McGlothlin was registered with Lincoln Financial as an Investment Company and Variable Contracts Limited Representative and Direct Participation Programs Limited Representative from May 22, 2003 until his resignation on October 10, 2012. Prior to becoming registered with Lincoln Financial, he was registered with another FINRA member firm beginning in November 1979.

4. McGlothlin has not been registered or associated with any FINRA member since the termination of his registration on October 10, 2012. Although Respondent is no longer registered or associated with a FINRA member, he remains 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 Respondent's registration with Lincoln Financial, namely, October 12, 2012, and (2) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member and with failing to respond to FINRA requests for information during the two-year period after the date upon which he ceased to be registered or associated with a FINRA member.

¹ NASD Rule 2110 was superseded by FINRA Rule 2010 effective December 15, 2008.

² NASD Rule 3030 was superseded by FINRA Rule 3270 effective December 15, 2010.

FACTS

A. Outside Business Activities

5. During McGlothlin's registration with Lincoln Financial, he held various positions at International Business Law Center, Inc. ("IBLC"), a/k/a Internet Business Law Services ("IBLS"), and IBLS Online Education, Inc. ("IBLS Online").

6. IBLC was a Delaware corporation from March 28, 2000 until June 1, 2007 when its corporate status was forfeited. IBLC purports to provide global interactive Internet legal services and assists IBLC members throughout the world in establishing and maintaining an advantageous presence in business conducted over the Internet. In 2003, IBLC spun-off its online education business and incorporated it under the name IBLS Online. IBLS Online was a Delaware corporation from August 21, 2003 until November 1, 2007 when its corporate status was forfeited. IBLS Online purports to provide Internet law learning programs, both online and in person.

7. At all relevant times, IBLC and IBLS Online maintained the same physical address and telephone number as McGlothlin's Lincoln Financial branch office.

8. From at least on or about May 1, 2003, McGlothlin has been the Chief Financial Officer, President, and fifteen (15) percent owner of IBLC.

9. From at least on or about December 15, 2003, McGlothlin has been the President and twenty (20) percent owner of IBLS Online.

10. From at least in or around November 2009, McGlothlin has been the Chief Financial Officer of IBLS Online.

11. During McGlothlin's association with IBLC and IBLS Online, McGlothlin issued and signed stock certificates as the President of both companies, corresponded with investors, paid contractors and employees, and maintained the corporate records for each company.

12. At the time of McGlothlin's association with IBLC and IBLS Online, Lincoln Financial prohibited its employees from engaging in outside business activities without first notifying the Firm, in writing, of these activities.

13. McGlothlin never notified Lincoln Financial of his outside business activities with IBLC or IBLS Online, nor did he seek, or obtain, permission from Lincoln Financial to participate in outside business activities with these companies.

B. Private Securities Transactions

14. During McGlothlin's association with Lincoln Financial, he participated in private securities transactions through IBLC and IBLS Online.

15. From in or around July 2001 to in or around July 2007, IBLC raised \$976,689 by selling over 1 million shares of common stock to 31 investors through a private placement offering. At least \$238,312 of the \$976,689 was raised by selling 238,200 common shares to 15 investors while McGlothlin was registered with Lincoln Financial. McGlothlin signed and issued the stock certificates for all 15 investors as the President of IBLC.

16. From in or around June 2003 to in or around November 2006, he also issued 49,000 common shares of IBLC to six employees as compensation, of which 1,000 shares were issued to him. He signed and issued all of these stock certificates as President of IBLC.

17. From in or around December 2003 to in or around November 2007, IBLS Online raised \$1,010,709 by selling 1.045 million shares of common stock to 43 investors. McGlothlin signed and issued all of the stock certificates to the 43 investors as President of IBLS Online.

18. From in or around December 2004 to in or around December 2008, McGlothlin issued 137,000 shares of IBLS Online common stock to six employees as compensation, of which 1,000 shares were issued to him. McGlothlin signed and issued all of the stock certificates to these employees as President of IBLS Online.

19. McGlothlin continued to participate in private securities transaction with IBLS Online through at least on or about October 4, 2011, by re-issuing and replacing stock certificates for investors and responding to investor inquiries about their investment status.

20. All of the common stock offered and sold by IBLC and IBLS Online were securities as defined by Section 3(a)(10) of the Securities Exchange Act of 1934. 15 U.S.C. § 78c(a)(10).

21. During McGlothlin's registration with Lincoln Financial, the Firm's policies and procedures prohibited its employees from participating in private securities transactions without first notifying the Firm and obtaining written permission from the Firm to participate in such transactions.

22. McGlothlin never notified Lincoln Financial of his intention of participating in the private securities transactions before participating in them, nor did he seek, or obtain, permission from Lincoln Financial to participate in the private securities transactions.

C. False Responses on Annual Compliance Questionnaires

23. McGlothlin provided false responses on every annual compliance questionnaire he completed during the time he was registered with Lincoln Financial.

24. From on or about November 2003 to on or about November 2011, McGlothlin provided false answers to 36 questions that probed his involvement in outside business activities, private securities transactions, and the use of e-mail addresses and internet websites to conduct outside business activities. The questions and false responses are provided in Exhibit A attached hereto.

**FIRST CAUSE OF ACTION
(Undisclosed Outside Business Activities)
(NASD Rules 3030 and 2110 and FINRA Rules 3270 and 2010)**

25. The Department realleges and incorporates by reference paragraphs 1 through 24 above.

26. McGlothlin was employed by persons other than Lincoln Financial as a result of his business activities performed with IBLC and IBLIS Online that were outside the scope of his relationship with Lincoln Financial.

27. McGlothlin did not provide written or oral notice to Lincoln Financial of these activities, and did not seek, or obtain, permission from Lincoln Financial to participate in such activities.

28. By virtue of the foregoing conduct, McGlothlin violated NASD Rules 3030 and 2110 and FINRA Rules 3270 and 2010.

**SECOND CAUSE OF ACTION
(Undisclosed Private Securities Transactions)
(NASD Rules 3040 and 2110 and FINRA Rule 2010)**

29. The Department realleges and incorporates by reference paragraphs 1 through 28 above.

30. While McGlothlin was registered with Lincoln Financial, he engaged in private securities transactions by participating in two private placement offerings through his undisclosed outside businesses.

31. Prior to engaging in these private securities transactions, McGlothlin neither provided written or oral notice to Lincoln Financial about his private securities transactions, nor did he seek, or obtain, permission from Lincoln Financial to engage in such transactions.

32. By virtue of the foregoing conduct, McGlothlin violated NASD Rules 3040 and 2110 and FINRA Rule 2010.

**THIRD CAUSE OF ACTION
(False Responses on Annual Compliance Questionnaires)
(NASD Rule 2110 and FINRA Rule 2010)**

33. The Department realleges and incorporates by reference paragraphs 1 through 32 above.

34. Between 2003 and 2011, McGlothlin provided false answers to 36 questions on annual compliance questionnaires that solicited information about his outside business activities and private securities transactions.

35. By virtue of the foregoing conduct, McGlothlin violated NASD Rule 2110 and FINRA Rule 2010.

**FOURTH CAUSE OF ACTION
(Failure to Provide Documents and Information)
(FINRA Rules 8210 and 2010)**

36. The Department realleges and incorporates by reference paragraphs 1 through 35 above. During the course of the Department of Enforcement's ("Enforcement") investigation of McGlothlin, on September 21, 2012 and October 17, 2012, Enforcement sent McGlothlin letters, pursuant to FINRA Rule 8210, requesting that he provide certain documents and information relating to his engagement in any outside business activities and participation in private securities transactions.

37. In accordance with FINRA Rule 8210(d), the September 21 and October 17 request letters were sent to McGlothlin's residential address as listed in the Central Registration Depository ("CRD address").

38. A copy of the September 21 letter was sent to McGlothlin via certified mail and first class mail and requested that he provide documents and information no later than October 10, 2012. On October 12, 2012, the September 21 letter sent via certified mail was returned to Enforcement and marked "unclaimed" by the United States Post Office ("USPS"), but tracking on the USPS website noted that notice was left for McGlothlin at his CRD address. The September 21 letter sent via first class mail was not returned to Enforcement.

39. A copy of the October 17 letter was sent to McGlothlin via FedEx and first class mail and requested that he provide documents and information no later than October 26, 2012. The letter was delivered by FedEx and signed for by McGlothlin on October 22, 2012. The letter sent via first class mail was not returned to Enforcement.

40. On October 23, 2012, Enforcement received a partial production of documents from McGlothlin. The documents and information provided were either entirely or partially responsive to seven (7) of the nineteen (19) items requested by Enforcement. As such, twelve (12) of the nineteen (19) items requested by Enforcement remained entirely unanswered, of which nine (9) called for information only.

41. The twelve (12) items that remained entirely unanswered called for documents and information concerning the scope of McGlothlin's outside business activities and private securities transaction such as his role in any outside businesses; his participation in the offer and sale of securities through his outside businesses; his role in drafting and reviewing offering materials; and the identification of brokerage accounts, bank accounts, e-mail accounts, and telephone lines.

42. Accordingly, on October 23, 2012, Enforcement contacted McGlothlin by telephone to discuss the outstanding items. During that call, McGlothlin told Enforcement that he did not intend to make any further production.

43. Enforcement has not received any additional productions from McGlothlin. As such, McGlothlin failed to provide a complete production of documents and information requested by Enforcement's September 21 and October 10 letters.

44. By virtue of the foregoing conduct, McGlothlin 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 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 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: January 22, 2013

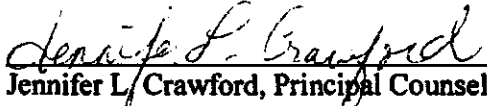

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EXHIBIT A

2011 LFG Certificate of Interest Activities & LFG Mandatory Annual Compliance Questionnaire	
Question	McGladwin Response
I have not acted as an officer, director, employee, consultant, agent, committee member, representative or expert witness for any person not affiliated with LFG without prior written permission from my broker-dealer's Compliance Department.	TRUE
Do you conduct any investment-related activities at your primary business location other than being a registered representative or investment advisor representative or life insurance/annuity agent?	NO
Are you engaged in any Outside Business Activities that have not been reported to and authorized in writing by the Compliance Department within the past 24 months either during the recruiting process or through the Compliance Online Workflow System (OWS)	NO
Do you maintain an e-mail address for any fixed insurance business or other outside business activity? Please exclude email addresses that are solely for personal use.	NO

2010 LFG Conflict of Interest Affidavit & LFG Mandatory Annual Compliance Questionnaire	
Question	McClatchie Response
I have not acted as an officer, director, employee, consultant, agent, committee member, representative or expert witness for any person not affiliated with LFG without prior written permission from my broker-dealer's Compliance Department.	YES
Do you conduct any investment-related activities at your primary business location other than being a registered representative or investment advisor representative or life insurance/annuity agent?	NO
Are you engaged in any Outside Business Activities or Private Securities Transactions that have not been reported to and authorized in writing by the Compliance Department?	NO
Do you maintain an e-mail address for non-Investment-Related Business? Please exclude e-mail addresses that are solely for personal use.	NO
Do you maintain a website on the internet that refers or relates to your investment-related or non-investment-related activities	NO

2009 Mandatory Registered Representative Questionnaire	
Question	Matching Response
I have not acted as an officer, director, employee, consultant, agent, committee member, representative or expert witness for any person not affiliated with LFG without prior written permission from my broker-dealer's Compliance Department.	YES
Do you conduct any investment-related activities at your primary business location, other than being a registered representative or investment advisor?	NO
Have you engaged in any private securities transactions?	NO
Do you use an email address for non-securities business (excluding email addresses that are solely for personal use)?	NO
Do you maintain a website on the Internet that refers or relates to your non-securities, securities or advisory activities that have NOT been approved in writing by Compliance?	NO
Are you engaged in any outside business activities that have NOT been reported to and authorized in writing by the compliance department?	NO

2008 Mandatory Registered Representative Questionnaire	
Question	McClintock Response
Do you conduct any Investment-Related Activities at your primary business location, other than being a registered representative or investment advisor?	NO
Have you engaged in any Private Securities Transactions?	NO
Do you maintain more than one business email address?	NO
Do you maintain a website on the Internet that refers or relates to your non-securities, securities or advisory activities that have NOT been approved in writing by Compliance?	NO

2007 Mandatory Registered Representative Questionnaire	
Question	McClatchy Response
Do you conduct any Investment-Related Activities at your primary business location, other than being a registered representative or investment advisor?	NO
Have you engaged in any Private Securities Transactions?	NO
Do you maintain more than one business email address?	NO
Do you maintain a website on the Internet that refers or relates to your non-securities, securities or advisory activities?	NO
Are you engaged in any outside business activities that have NOT been reported to and authorized in writing by the compliance department?	NO

2006 Mandatory Registered Representative Questionnaire	
Question	McClatchie Response
Do you conduct any Investment-Related Activities at your primary business location, other than being a registered representative or investment advisor?	NO
Have you engaged in any Private Securities Transactions?	NO
Are you engaged in any Outside Business Activities that have NOT been reported to and authorized in writing by the compliance department?	NO

2005 Mandatory Registered Representative Questionnaire	
Question	McGlothlin Response
Have you engaged in any private securities transactions that have NOT been approved in advance and in writing by the broker/dealer?	NO
Do you maintain a website on the Internet that refers or relates to your non-securities, securities or advisory activities that has NOT been approved by the broker/dealer?	NO
Have you been engaged in any other business activity outside of your relationship with the broker/dealer either as a proprietor/owner, partner, officer, director, employee, trustee, agent or otherwise that has NOT been reported to the broker/dealer?	NO

2004 Mandatory Registered Representative Questionnaire	
Question	McClatchie Response
Have you engaged in any private securities transactions that have not been approved by JPSC?	NO
Do you maintain a website on the Internet that refers or relates to your securities or advisory activities that has not been approved by JPSC?	NO
Have you been engaged in any other business activity outside of your relationship with the broker/dealer either as a proprietor/owner, partner, officer, director, employee, trustee, agent or otherwise that has not been reported to JPSC?	NO

2013 Registered Representative Questionnaire	
Question	Yes/No/Other
Have you engaged in any private securities transactions that have not been approved by JPSC?	NO
Do you maintain a website on the Internet that refers or relates to your securities or advisory activities that has not been approved by JPSC Compliance?	NO
Have you been engaged in any other business activity outside of your relationship with the broker/dealer either as a proprietor/owner, partner, officer, director, employee, trustee, agent or otherwise that has not been reported to JPSC?	NO