

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012034574501**

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

RE: Bay Mutual Financial, LLC, Respondent
Member Firm
CRD No. 130535

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Bay Mutual Financial, LLC (BMF 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

Bay Mutual Financial, LLC (BMF) has been a FINRA member since September 2004 and its registration remains effective. BMF's business mix consists primarily of retail sales of over the counter equities, bonds, and mutual funds. BMF is also engaged in brokering U.S. government, municipal securities, and options. BMF operates on a fully-disclosed clearing arrangement through another FINRA member. BMF does not hold or carry customer funds or securities. At all relevant times hereto, BMF's required minimum net capital was the greater of \$5,000 or 6 2/3% of its aggregate indebtedness (AI).

RELEVANT DISCIPLINARY HISTORY

BMF has no relevant disciplinary history.

OVERVIEW

On at least four days between September 5, 2012 and February 28, 2013 (Relevant Period): BMF conducted securities business while failing to maintain its required minimum net capital in violation of Section 15(c) of the Securities Exchange Act of 1934 (Exchange Act), Exchange Act Rule 15c3-1, promulgated thereunder, and FINRA Rule 2010; and BMF failed to prepare accurate net capital computations in violation of Exchange Act Section 17(a), Exchange Act Rule 17a-3)(11), NASD Rule 3110(a) and FINRA Rule 2010.

Further, as of December 31, 2012, BMF failed to make and keep an accurate general ledger in violation of Exchange Act Section 17(a), Exchange Act Rule 17a-3)(2), NASD Rule 3110(a) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Deficient Net Capital

1. During the Relevant Period, BMF's required net capital was the greater of \$5,000.00, or 6 2/3% of aggregate indebtedness pursuant to Exchange Act Rules 15c3-1(a)(1)(i) and 15c3-1(a)(2)(vi). On at least September 5, 2012, October 23, 2012, December 31, 2012 and February 28, 2013, BMF used the mails or other means or instrumentalities of interstate commerce to effect transactions in securities while failing to maintain its required minimum net capital, as detailed below:
 - a. On September 5, 2012, BMF's net capital was approximately \$9,707; its required minimum net capital was \$11,267 (based on AI of \$168,994), resulting in a net capital deficiency of (\$1,559).
 - b. On October 23, 2012, BMF's net capital was approximately (\$7,218); its required minimum net capital was \$11,408 (based on AI of \$171,107), resulting in a net capital deficiency of (\$18,626).
 - c. On December 31, 2012, BMF's net capital was approximately \$873; its required minimum net capital was \$10,335 (based on AI of \$154,951), resulting in a net capital deficiency of (\$9,462).
 - d. On February 28, 2013, BMF's net capital was approximately \$4,050; its required minimum net capital was \$11,103 (based on AI of \$166,534), resulting in a net capital deficiency of (\$7,053).
2. BMF's net capital deficiencies that occurred during the Relevant Period resulted from several factors, including the following:

- a. The net capital deficiencies that occurred on September 5, 2012 and October 23, 2012 resulted from extraordinary legal expenses incurred by BMF, and BMF's failure to control cash outlays and to maintain proper internal controls to monitor its cash flow.
- b. The net capital deficiency that occurred on December 31, 2012 resulted from BMF's failure to properly accrue liabilities related to unpaid payroll. On April 22, 2013, BMF filed an amended annual audit for the period ending December 31, 2012. The amended notes to the audit report contained adjustments for payroll liabilities that were not initially accrued as of December 31, 2012, increasing BMF's AI.
- c. The net capital deficiency that occurred on February 28, 2013 resulted from excessive expenditures by the Firm, which increased BMF's AI, and thereby, increased the Firm's required minimum net capital.

Based on the foregoing conduct, BMF violated Exchange Act Section 15(c), Exchange Act Rule 15c3-1 and FINRA Rule 2010.

Inaccurate Net Capital Computations

3. BMF failed to make and keep current accurate books and records, in that the Firm's September 5, 2012, October 23, 2012, December 31, 2012, and February 28, 2013 net capital computations and records thereof were materially inaccurate and overstated the Firm's net capital, in part, due to the reasons discussed above in paragraphs 1 through 2.

Based on the foregoing conduct, BMF violated Exchange Act Section 17(a), Exchange Act Rule 17a-3(11), NASD Rule 3110(a) and FINRA Rule 2010.

Inaccurate Books and Records

4. The Firm is required to make and keep current, ledgers (or other records) reflecting all assets and liabilities, income and expense and capital accounts. However, BMF's general ledger as of December 31, 2012 did not accurately reflect certain accrued liabilities as explained above in paragraphs 1c and 2b. Consequently, the Firm's general ledger as of December 31, 2012 contained material inaccuracies.

Based on the foregoing conduct, BMF violated Exchange Act Section 17(a), Exchange Act Rule 17a-3(2), NASD Rule 3110(a) and FINRA Rule 2010.

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

BMF is censured and fined \$5,000.00.

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondent has submitted an Election of Payment form showing the method by which it 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 sanctions 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 waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- 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:

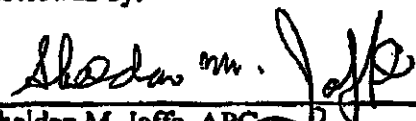
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;**
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against it; 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 it;**
 - 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. 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: (i) testimonial obligations; or (ii) 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.**

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that the Firm 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 the Firm to submit it.

12/2/2013
Date (mm/dd/yyyy)


Bay Mutual Financial, LLC, Respondent
By: Martin W. Pernoll, Chief Executive Officer

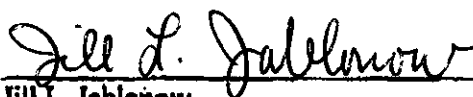
Reviewed by:


Sheldon M. Jaffe, APC
Counsel for Respondent
12100 Wilshire Blvd, Suite 1960
Los Angeles, CA 90025
Phone Number: (310) 826-2848

Accepted by FINRA:

12/19/2013
Date

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


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