

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

Department of Enforcement,

Complainant,

v.

Innovation Partners LLC
(BD No. 146344),

Patrick Emanuel Sutherland
(CRD No. 3042322),

and

Yanique Lawrence
(CRD No. 3234186),

Respondents.

DISCIPLINARY PROCEEDING
No. 2016050957901

Hearing Officer: CC

**ORDER ACCEPTING
OFFER OF SETTLEMENT
ON BEHALF OF
PATRICK EMANUEL SUTHERLAND**

Date: August 26, 2019

INTRODUCTION

Disciplinary Proceeding No. 2016050957901 was filed on November 26, 2018 by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA or Complainant). Respondent Patrick Emanuel Sutherland submitted an Offer of Settlement (Offer) to Complainant dated August 23, 2019. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent Sutherland has consented, without admitting or denying the allegations of the Complaint (as amended by the Offer), 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, to the entry of findings and violations consistent with the allegations of the Complaint (as amended by the Offer), and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent Sutherland's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Sutherland entered the securities industry in April 1998. He has been associated with several FINRA member firms, and became associated with Innovation Partners LLC (IP) in December 2007. Beginning in June 2008 through October 28, 2016, Sutherland was registered with IP as a General Securities Principal, General Securities Representative, and Financial and Operations Principal (FINOP), among other registrations. Sutherland served at various times as IP's President, CEO, Chief Compliance Officer (CCO), and FINOP. On October 28, 2016, IP submitted a Uniform Termination Notice for Securities Industry Registration (Form U5) on behalf of Sutherland with an effective termination date of October 21, 2016. On November 28, 2016, IP submitted a Form U5 amendment on behalf of Sutherland disclosing his criminal convictions.

Sutherland is not currently associated with a FINRA member firm; however, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of the FINRA By-Laws because: (i) the Complaint was filed within two years after the filing of a Form U5 amendment disclosing his criminal convictions and was filed within two years after the date upon which he ceased to be associated with a FINRA member firm, namely July 31,

2017; and (ii) the Complaint charges Sutherland with misconduct committed while he continued to associate with a FINRA member firm.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:¹

SUMMARY

From on or about October 28, 2016 through on or about August 15, 2019 (the Relevant Period), while Patrick Emanuel Sutherland was statutorily disqualified as a result of felony convictions and his FINRA registrations were terminated, Sutherland actively engaged in the management of FINRA member firm Innovation Partners LLC (IP), continued to associate with the firm, and engaged in activities on behalf of IP that required securities registration. As a result, Sutherland violated NASD Membership and Registration Rule 1021, FINRA Rule 2010 and Article III, Section 3(b) of FINRA's By-Laws.

STATEMENT OF FACTS

Innovation Partners and Related Businesses

Sutherland and Yanique Lawrence founded IP in 2007.

From IP's inception until September 21, 2015, Sutherland was the President, CEO and CCO of IP.

Prior to September 18, 2015, Sutherland and Lawrence jointly owned 100 percent of IP.

IP sells, among other products, variable universal life insurance, variable annuities, mutual funds, and direct participation programs and REITs for accredited investors.

IP has approximately 144 associated persons and 20 branch offices.

¹ The findings herein are pursuant to Respondent Sutherland's Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

IP processes fixed life insurance business, with the issuers paying commissions to IP's bank account and disbursements being made therefrom. Agents whose sales are processed through IP are licensed by IP with the various states.

IP also has an affiliated Registered Investment Advisor and conducts an actuarial business under the IP name.

Sutherland was an owner of IAC. IAC had a management consulting agreement with IP and paid the salaries of most of the IP home office staff. Sutherland maintained and used an IAC email address as well as an IP email address.

Sutherland Is Indicted

On September 17, 2015, a grand jury for the United States District Court for the Western District of North Carolina, Charlotte Division, issued a bill of indictment against Sutherland charging him with three counts of filing a false tax return and one count of obstruction of an official proceeding by providing one or more false or misleading documents in response to a subpoena by the grand jury.

Sutherland Steps Down as President of Innovation Partners

On September 21, 2015, Sutherland stepped down as President of IP and Lawrence became the firm's President.

In an email dated September 21, 2015, Sutherland informed IP's registered representatives of this change, and stated, "I will remain with the firm and continue to act in a strategic advisory and business development role."

After September 21, 2015, however, Sutherland continued to work in a principal capacity at IP.

Sutherland had no ownership interest in IP after September 18, 2015.

IP Submits a Form U5 on Behalf of Sutherland

On October 21, 2016, Sutherland submitted a resignation letter to Lawrence, who was President of IP.

On October 28, 2016, IP submitted a Form U5 on behalf of Sutherland with an effective termination date of October 21, 2016.

IP provided no written notice of Sutherland's termination to its registered representatives or staff.

Sutherland Is Found Guilty of Multiple Felonies, Resulting in Statutory Disqualification

On October 28, 2016, after a one-week trial, a jury found Sutherland guilty on four felony counts: three counts of filing a false tax return and one count of obstruction of an official proceeding by providing one or more false or misleading documents in response to a subpoena by a grand jury.

By virtue of these felony convictions, Sutherland was statutorily disqualified from association with a FINRA member firm for a ten-year period.

On November 28, 2016, IP submitted a Form U5 amendment on behalf of Sutherland disclosing his criminal convictions.

Sutherland Violated FINRA Rules by Engaging in Activities Requiring Registration and Continuing to Associate with IP While Statutorily Disqualified

During the Relevant Period, Sutherland was associated with IP and engaged in activities requiring registration with a FINRA member firm.

During the Relevant Period, Sutherland emailed associated persons of IP about securities-related matters from his IP email address and other IP email addresses, including the IP management mailbox, as well as the IAC email address associated with Sutherland.

Sutherland also spoke to associated persons of IP about securities-related matters on the telephone.

Sutherland also continued to access voicemails on IP's telephone system.

Sutherland's conduct was persistent and certain aspects occurred throughout the Relevant Period.

Commissions

During the Relevant Period, Sutherland directed IP staff regarding the amount and timing of commission payments from securities transactions.

For example, in January 2017, Sutherland forwarded an email about a registered representative's commission to IP's FINOP and a staff member who worked in commissions. Sutherland's accompanying message read, "Please go ahead and process the smaller commissions. I will review the others in a little. Thanks, Patrick."

In February 2017, AL sent an email to the IP management mailbox that read, "Management, can you please advise on the commission breakdown for [registered representative] for the below Lincoln VUL." Sutherland responded, "Entire amount goes to the grid. It's a vul. He then gets his piece." Sutherland copied Lawrence on this response.

Supervision of Registered Representatives

During the Relevant Period, Sutherland communicated directly with registered representatives of IP. Among other things, he approved outside business activities and advertising on behalf of IP.

For example, on November 11, 2016, a registered representative of IP sent Sutherland an email that read, "Please see attached request for Outside Business Activity Request Form (Tax Services)." Attached was a completed version of IP's Outside Business Activity Request Form.

Sutherland forwarded the email to Lawrence and wrote, "Yans, I spoke to him about this. It is OK. Thanks, Patrick."

In January 2017, a registered representative of IP sent Sutherland an email that read, "Hi Patrick, It was nice talking to you just now. This is just to confirm my understanding from our conversation that it is OK for me, under my Real Estate OBA, to act as an intermediary and receive commissions for helping clients make loan[s] that are secured by commercial real estate."

In March 2017, a registered representative of IP sent Sutherland an email that read, "Hi Patrick, Thank you for the call just now. I really do appreciate it. My understanding from what you said is that as long as Innovation Partners and products are not mentioned in my classes, and that the classes are purely educational then no FINRA letter is required. To be on the safe said [sic], I will email you copies of all the PowerPoint presentations I use." Sutherland responded, "Thanks [registered representative]! That is correct. Best regards, Patrick."

In March 2017, IP's compliance department rejected a seminar invitation submitted for review by an IP registered representative. When asked to reconsider, the compliance department responded, "A do not use was issued as the information contained in [sic] materially deficient and misleading. As it stands the firm has issued a do not use for the materials." The registered representative then emailed Sutherland, "Hi Patrick, Please confirm that I do not have to send this invite to IP compliance since it is not presenting securities to get an approval. Please confirm ASAP." Sutherland replied, "As long as there is no mention of Innovation Partners or securities/investments then there is no need to send it to the BD. The attachment still had Innovation Partners on it and that is what was creating the problem. Please remove these and that should do it."

Finance

During the Relevant Period, Sutherland participated in IP's financial reporting, including the review of FOCUS reports and other firm financial documents, directed IP staff, including the FINOP, on accounting issues, and responded to inquiries by firm auditors.

For example, in January 2017, Sutherland directed IP's FINOP to "prepare the SIPC report for our review." Sutherland copied Lawrence on this email.

In February 2017, Sutherland responded to an email from IP's outside auditor that contained a list of three open items for the audit. Sutherland sent the auditor's email, which had been addressed to Lawrence, to IP's FINOP and another staff member, with a copy to Lawrence. He wrote, "I will discuss" and listed two of the three open items.

In April 2017, in response to questions from an outside consultant who was engaged to prepare IP's March 2017 FOCUS Report, Sutherland sent an email to IP's FINOP that read, "Please confirm. We did not make any changes after the final one that you sent. Accordingly, the balance sheet should be the same as the one you sent her. Please confirm." The FINOP responded, "Hi Patrick, I confirmed there is no change. Thank you." Lawrence was copied on this series of emails.

In July 2017, Sutherland sent a calendar invitation from his IP email to, among others, IP's FINOP with the subject "Send Net Capital Info/Info for FOCUS/AUM info t [sic] [outside consultant] for filing FOCUS reports." The FINOP and Lawrence both accepted the invitation.

Clerical and Managerial Functions

During the Relevant Period, Sutherland engaged in clerical and managerial functions on behalf of IP, including arranging for branch office examinations, communicating with firm vendors and recruiting potential registered representatives.

For example, during the Relevant Period, Sutherland was involved in discussions with the vendor who provided support for IP's internal systems. In March 2017, Sutherland exchanged multiple emails with representatives of the vendor about adding additional fields to the ICAS system, which contained the electronic new business blotter used by registered representatives of IP. Sutherland then instructed four of IP's staff members, "Please test out these new input fields and let us know ASAP if they are working. We need to implement these ASAP for FINRA requirements. Thanks, Patrick."

In April 2017, Sutherland emailed the vendor, writing, "Please change all the passwords for our ICAS system and email us the new passwords. We terminated an employee and would like to ensure that the employee no longer has access to the ICAS system."

In January 2017, Sutherland exchanged emails with a vendor who was generating recruiting leads for IP for potential registered representatives. Sutherland complained about the quality of the leads and stated, "I am following up on the leads directly."

During the Relevant Period, Sutherland was actively involved in contacting and recruiting registered representatives who became associated with IP, including initiating contact with recruits, advising the recruits on firm payouts and production requirements, and providing the recruits with broker-dealer forms for their transition.

Personnel Management

During the Relevant Period, Sutherland participated in personnel decisions on behalf of IP, including negotiating terms of employment with IP's co-CCO and directing Lawrence regarding compensation of IP staff.

For example, in December 2016, Sutherland sent an email to co-CCO DL with a copy to Lawrence, responding to DL asking whether he would continue in his role as co-CCO of IP for

2017. Sutherland's email read, "Dear [DL], Thanks for the note, I hope you and the family are doing well. Yes, Innovation Partners will be extending the arrangement for 2017. An agreement will be sent over in the coming week or so. Thanks again for all your help. We appreciate it. Merry Christmas to you and the family! Best regards, Patrick."

On December 8, 2016, Sutherland directed IP's FINOP to pay DL's professional fees for 2017, which she did.

On April 13, 2017, in response to a calendar invitation from Lawrence for an annual review for IP's operations manager (a registered principal), Sutherland replied, "You will need to do an annual raise of about 3% to 5%."

During the Relevant Period, when an individual responsible for technology and website support for the broker-dealer told the firm she was resigning, Sutherland contacted her and tried to convince her not to resign.

During the Relevant Period, Sutherland participated in recruiting and interviewing prospective IP employees.

FIRST CAUSE OF ACTION
ENGAGING IN ACTIVITIES REQUIRING REGISTRATION WHILE NOT REGISTERED AND
DISQUALIFIED FROM ACTING IN THAT CAPACITY
(Violation of NASD Membership and Registration Rule 1021, Article III, Section 3(b) of
FINRA's By-Laws, and FINRA Rule 2010)
(Sutherland)

IP filed a Form U5 on behalf of Sutherland terminating his association with the firm effective October 21, 2016.

On October 28, 2016, Sutherland was convicted of four felonies.

Under 15 U.S.C. § 78c(a)(39)(F) (the Securities Exchange Act), Sutherland's felony convictions subjected him to a statutory disqualification from association with any FINRA member firm for a ten-year period.

FINRA Rule 2010 states that members “shall observe high standards of commercial honor and just and equitable principles of trade.”

NASD Membership and Registration Rule 1021(a) provides that all persons who are engaged in the securities business of a FINRA-registered firm who are to function as principals must be registered as principals. Under NASD Rule 1021(b) a “principal” includes any person associated with a FINRA-registered firm who is engaged in the supervision or management of the firm’s securities business. A violation of NASD Membership and Registration Rule 1021 also constitutes a violation of FINRA Rule 2010.

In addition, Article III, Section 3(b) of FINRA’s By-Laws states that no person shall become associated with a FINRA member firm or continue to be associated with a member if that person is subject to a disqualification as that term is defined in Article III, Section 4 of FINRA’s By-Laws. Section 4, in turn, defines “disqualification” as it is defined under the Securities Exchange Act. A violation of Article III, Section 3(b) of FINRA’s By-Laws also constitutes a violation of FINRA Rule 2010.

During the Relevant Period, Sutherland continued to associate with IP and undertook activities that required registration as a General Securities Principal. Sutherland, however, was no longer registered through IP as a General Securities Principal and was statutorily disqualified from associating with IP. Specifically, Sutherland, among other things: (a) communicated with IP associated persons regarding securities-related matters, including sending and receiving email from his IP email address as well as another email address; (b) supervised and directed IP associated persons regarding the firm’s securities business, including commissions, outside business activities, and advertising; (c) participated in IP’s financial reporting, including the preparation of FOCUS reports, responding to firm auditors, and directing the FINOP; (d)

engaged in clerical and managerial functions on behalf of IP, including arranging for branch office examinations, communicating with firm vendors and recruiting registered representatives; and (e) participated in personnel decisions on behalf of IP, including negotiating terms of employment with IP's co-CCO and directing Lawrence regarding compensation of IP staff.

Based upon the foregoing, Sutherland violated NASD Membership and Registration Rule 1021, FINRA Rule 2010, and Article III, Section 3(b) of FINRA's By-Laws.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

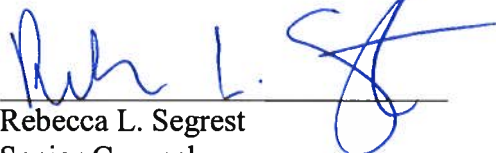
It is ordered that Respondent Sutherland be barred from association with any FINRA member firm in any and all capacities.

The sanctions imposed herein shall be effective on a date set by FINRA staff. A bar or expulsion shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA

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



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