

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016048484001**

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

RE: James O. Conaway, Respondent
CRD No. 1920946

Lorraine A. Conaway, Respondent
CRD No. 2104502

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, James O. Conaway and Lorraine A. Conaway (collectively, "Respondents") 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents 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

James Conaway entered the securities industry in 1988 and became associated with a FINRA-registered firm as an Investment Company and Variable Contracts Products Representative after obtaining his Series 6 license in 1989. He obtained his Series 63 license in 1991, his Series 7 license in 1996, his Series 26 license in 1998, and his Series 24 license in 1999. Between 1988 and September 30, 2015, James Conaway was registered through seven FINRA-registered firms.

Lorraine Conaway entered the securities industry in 1990 and became associated with a FINRA-registered firm as an Investment Company and Variable Contracts Products Representative after obtaining her Series 6 license in 1992. She obtained her Series 63 license in 1992, and her Series 65 license in 2009.

Between 1990 and September 30, 2015, Lorraine Conaway was registered through seven FINRA-registered firms.

As of October 1, 2015, Respondents became registered with USA Financial Securities Corporation ("USAF"). Effective May 9, 2016, Respondents' registration with USAF was terminated. Respondents are not currently registered with a FINRA-registered firm. They remain subject to FINRA's jurisdiction for purposes of this AWC, pursuant to Article V, Section 4 of FINRA's Bylaws, because (i) the AWC was filed within two years following the termination of their registration with FINRA; and (ii) the AWC concerns conduct that occurred while they were associated with a FINRA registered firm.

RELEVANT DISCIPLINARY HISTORY

Respondents have no relevant disciplinary history.

OVERVIEW

James and Lorraine Conaway failed to timely and completely disclose the scope of their real estate related outside business activities ("OBAs") to their FINRA-registered firm. They also provided their firm with inaccurate information about those OBAs in response to its investigation of them. As a result, they violated FINRA Rules 3270 and 2010.

FACTS AND VIOLATIVE CONDUCT

1. The Conaways established Tycon Properties to refer clients to investments in rental real estate properties.

In early 2012, James and Lorraine Conaway established Tycon Properties as an OBA. The Conaways owned two-thirds of Tycon and managed it with TB, Tycon's other one-third owner. Tycon's day-to-day operations were generally conducted by TB and two employees.

The Conaways referred individuals who were interested in purchasing investment rental properties to real estate vendors through Tycon. Each referral was calculated in advance to result in the sale of at least one rental property sold by a vendor to one individual purchaser. If the referral resulted in a transaction, Tycon received a fixed referral fee from the vendor. Some of the individuals that the Conaways referred to real estate vendors through Tycon included the Conaways' securities clients, who were customers of the FINRA-registered firms with which the Conaways were associated.

In mid-2013, the Conaways began a business relationship with a vendor of distressed rental properties in St. Louis, Missouri. The vendor was a company controlled by a person named GK. In 2003, GK had pleaded guilty to unrelated federal charges arising from his role, with others, in submitting false loan applications to banks, and had been sentenced to fifteen months imprisonment. GK claimed, in promotional materials, to offer a "program" for investing in rental property that would provide high returns, stability, and a solid cash flow month after month. GK promised to find and acquire discounted properties in St. Louis, rehabilitate each property to high standards, and set up professional property management to find suitable tenants.

Between 2013 and 2015, approximately one-third of Tycon's referral business was directed to GK's program for selling and rehabbing distressed rental property in St. Louis. The remaining referral business was directed to other third-party real estate vendors. During this period, Tycon received over \$450,000 in referral fees from GK's vendor company and referred to GK more than 35 individuals who contracted to purchase one or more rental properties from GK's vendor company.

2. The Conaways expanded the scope of their real estate OBAs in an attempt to address grievances from clients they had referred to GK.

By February 2015, the Conaways became aware that some rental properties that Tycon clients had contracted to purchase from GK were not performing or were under-performing. The Conaways also began receiving grievances from clients about GK's real estate program and about GK.

The grievances that the Conaways received from Tycon clients relating to the non-performing or under-performing rental properties included: (a) that the rehab construction work promised by GK was being done to a low standard or not done at all; (b) that the rehabs were being delayed and not completed as scheduled; (c) that clients were having to arrange for additional rehab work to be done on the properties at their own expense, in order to rent the properties; and (d) that GK was failing to pay property taxes, utilities, and other expenses during the rehabbing period, as he had promised to do, resulting in the risk of fines, foreclosures, liens, court summonses, and injuries to the clients' credit.

The Conaways did not terminate Tycon's business relationship with GK. Beginning in February 2015, the Conaways expanded Tycon's business activities to include oversight of various aspects of GK's real estate program. At the Conaways' direction, Tycon attempted, on an on-going basis, to: (a) track the progress of GK's rehab work on client properties; (b) coordinate with GK to confirm that scheduled rehab work was being done as agreed; (c) monitor whether

clients' rental properties were non-performing or under-performing; and (d) direct GK to address client grievances.

Also beginning in February 2015, the Conaways expanded Tycon's business activities to include workouts of the most troubled real estate transactions between Tycon's clients and GK. At the Conaways' direction, Tycon negotiated concessions from GK on behalf of dissatisfied clients, up to and including having GK repurchase the non-performing or under-performing rental properties. The Conaways also purchased or attempted to purchase GK rental properties from dissatisfied clients through Tycon. In April 2015, the Conaways and another individual additionally organized a company named STL100 as an OBA to buy and hold rental properties and then used this entity to make an acquisition from a dissatisfied client.

Separately from the workouts of GK real estate transactions, in April 2015 the Conaways and another individual also organized a company named Ten Vest as an OBA to buy and hold other rental properties for their own account.

3. The Conaways' initial written disclosure of the Tycon OBA was incomplete and inaccurate; and their initial written disclosures of the STL100 and Ten Vest OBAs were untimely.

By September 2015, the FINRA firm that the Conaways were registered with had announced it was winding down. Accordingly, the Conaways were seeking to become registered through USAF, and to continue engaging in their OBAs while associated with USAF.

FINRA Rule 3270 requires registered persons to disclose their OBAs in writing to their firm and obtain prior approval before engaging in them. FINRA Rule 2010 requires that registered persons observe high standards of commercial honor and just and equitable principles of trade.

On September 2, 2015, James and Lorraine Conaway disclosed the Tycon OBA to USAF in writing. The Conaways did not disclose the STL100 or Ten Vest OBAs to USAF in writing at this time. The Conaways represented to USAF that Tycon was not an investment-related OBA, and described the business activity as: "Referral Source, 5 hours / week, compensation varies by referral fee, conducted in office, at client meetings or on the telephone."

The Conaways' written disclosure of their Tycon OBA to USAF on September 2, 2015 was incomplete and inaccurate. Tycon was not merely a "referral source." Rather, Tycon's business activities still included oversight of various aspects of GK's investment real estate program and arranging workouts

for non-performing or under-performing GK rental properties. Further, the Conaways' role at Tycon included participating in making the corporate decisions relating to its activities, Tycon's relationships with GK and other real estate vendors, as well as the workouts of non-performing or under-performing GK rental properties.

USAF approved the Tycon OBA, and as of October 1, 2015, the Conaways became registered through USAF.

On February 17, 2016, in connection with a branch examination, the Conaways first disclosed their STL100 and Ten Vest OBAs to USAF in writing. The Conaways stated to USAF that those OBAs held investment real estate properties and earned rental income.

The Conaways' written disclosure of their STL100 and Ten Vest OBAs to USAF on February 17, 2016 was untimely. The Conaways had established these companies to engage in real estate activities in April 2015.

4. The Conaways failed to provide accurate information about their OBAs in connection with their firm's review and evaluation of them.

Following the Conaways' February 17, 2016 disclosure of the STL100 and Ten Vest OBAs, USAF sought additional information from the Conaways in order to evaluate whether any of their OBAs would interfere with or otherwise compromise their responsibilities to the firm and/or the firm's customers; and, if warranted, prohibit or impose specific conditions or limitations on the OBAs. Accordingly, the Conaways met with and provided additional information to USAF about their OBAs, including through their former counsel. The additional information that the Conaways provided, however, was incomplete and inaccurate.

First, on March 29, 2016, USAF asked the Conaways to confirm the firm's understanding, based on meetings with the Conaways about the STL100 and Ten Vest OBAs, that no securities clients were involved in any way with those OBAs. The Conaways failed to disclose to USAF that, through STL100, the Conaways had purchased one rental property from a securities client who was also a USAF customer. Further, the Conaways were offering to purchase a second rental property through STL100 from another securities client. That client was still a customer at their former FINRA-registered firm, and the Conaways were attempting to bring securities business from that client to USAF. Moreover, through Ten Vest, the Conaways had purchased a rental property from another securities client while they were at their former firm. The Conaways were also attempting to bring securities business from that client to USAF.

Second, on April 12, 2016, USAF requested that the Conaways identify all of the real estate transactions by securities clients or prospects who had been referred to or had invested in real estate through Tycon since October 1, 2015. The Conaways failed to disclose to USAF five GK real estate transactions involving securities clients or prospects and Tycon. Two of those transactions related to workouts of non-performing or under-performing GK rental properties.

Third, on April 26, 2016, the Conaways submitted to USAF revised written OBA disclosures for STL100 and Ten Vest stating that these were personal investment entities. The Conaways further stated that STL100 and Ten Vest would most likely obtain their investment real estate on the open market or from Tycon's vendors, not from the Conaways' securities clients. The Conaways failed to disclose to USAF that the business of STL100 and Ten Vest had consisted of purchasing or attempting to purchase rental properties from their securities clients.

By virtue of the foregoing, James and Lorraine Conaway violated FINRA Rules 3270 and 2010.

B. Respondents also consent to the imposition of the following sanctions:

- A suspension for each Respondent from association with any FINRA registered firm in any capacity for a period of nine months; and
- A deferred fine for each Respondent of \$10,000.

Respondents each understand that if they are barred or suspended from associating with any FINRA member, they 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, Respondents may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of their bar or suspension (see FINRA Rules 8310 and 8311).

Each fine shall be due and payable either immediately upon reassociation with a member firm, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against Respondents;
- 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, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the Chief Legal Officer, 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.

Respondents 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

Respondents 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 Respondents; and
- C. If accepted:

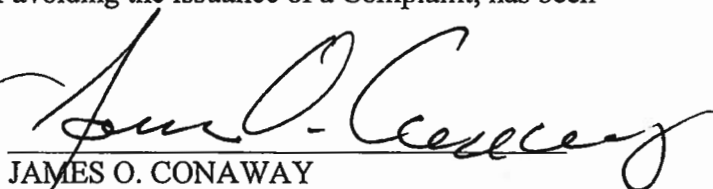
1. this AWC will become part of each Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against that Respondent;
2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. Respondents 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. Respondents 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 Respondents': (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.

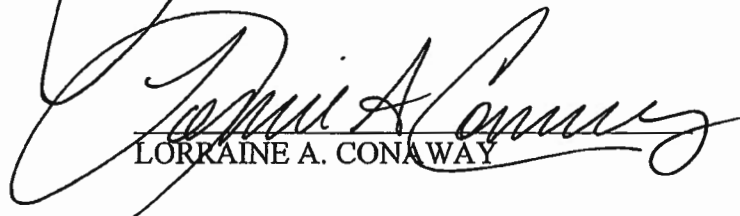
D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

Each Respondent certifies that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that they 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 them to submit it.

4/27/2018
Date (mm/dd/yyyy)

4/27/2018
Date (mm/dd/yyyy)


JAMES O. CONAWAY


LORRAINE A. CONAWAY

Reviewed by:

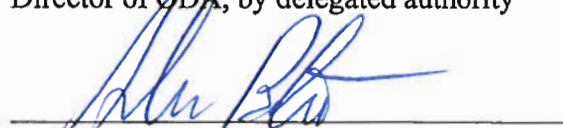


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Counsel for Respondents

Accepted by FINRA:

5/2/18
Date

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



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