

**POTOMAC CAPITAL MARKETS
LIMITED LIABILITY COMPANY**

8926 Mt Tabor Road • Middletown, Maryland 21769
240-409-3867

Via Email and Facsimile

July 31, 2020

Office of the Secretary
U.S. Securities and
Exchange Commission
100 F Street, NE
Mail Stop 1090
Washington, DC 20549

Alan Lawhead, Esq.
Office of General Counsel
FINRA
1735 K Street, NW
Washington, DC 20006

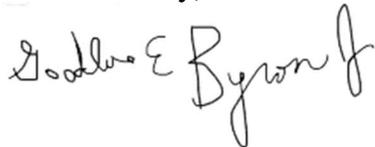
**Re: Application for Appeal
Potomac Capital Markets, LLC CRD# 39800**

To Whom It May Concern:

Attached for your review, please find an Application for Appeal in response to FINRA's letter dated July 6, 2020, notifying Potomac Capital Markets, LLC of its expulsion from FINRA membership.

Should you have any questions or require additional information with regard to the attached Application, please contact me. Thank you in advance for your review of the attached.

Sincerely,

A handwritten signature in black ink that reads "Goodloe E. Byron, Jr." with a stylized flourish at the end.

Goodloe E. Byron, Jr.
President

APPLICATION OF APPEAL

POTOMAC CAPITAL MARKETS, LLC, (hereinafter, "Potomac"), hereby gives notice of appeal of FINRA's expulsion determination letter dated July, 6, 2020. This Application of Appeal is accompanied by the following Memorandum of Appeal of Goodloe E. Byron, Jr., President of Potomac (a/k/a the "Firm").

MEMORANDUM OF APPEAL

This Application for Appeal is based on the following representations:

(1) As of January 2020, Potomac's FINRA Coordinator was replaced with a new contact, now known as a Risk Monitoring Analyst, (RMA).

(2) In preparation of filing the December 2019 Annual Audit Report, Potomac underwent a change in accounting firms in February of 2020. Potomac was able to engage with the accounting firm in March 2020, just prior to a State ordered shut down due to the current pandemic.

(3) Following the initial State ordered shutdown, Potomac was forced to relocate their offices to a new facility in March 2020.

(4) The Firm's Annual Filing of their completed audit was due to be filed on or before March 2, 2020.

(5) Based on the foregoing, the Firm spoke with their assigned RMA to request an extension for filing.

(6) Simultaneously, the Firm worked with their Auditor to complete the above-referenced filing; at which time the Firm was allotted 90 days (3 months) to file the completed audit before automatic expulsion on July 2, 2020.

(7) During the course of completing the above-referenced filing, it was discovered that FINRA had failed to issue the Firm's Exam Report, Examination Number: 20190639753, to the firm via the CRD Firm Gateway. As such, the Auditor was unable to continue the audit.

(8) FINRA reissued the Exam Report, dated June 22, 2020, providing a 30 day response period. A copy of the Report is attached hereto as Exhibit "A".

(9) Following the reissuance of the Exam Report, the Auditor partially resumed the Audit, however it was indicated, on July 2, 2020, that the Audit would not be completed within the allotted 90 day period prior to automatic expulsion on July 2, 2020.

(10) As a result of this information, the Firm contacted FINRA on July 2, 2020. A copy of the Firm's letter to FINRA is attached hereto for your reference as Exhibit "B".

(11) On July 6, 2020 the Firm received a letter from FINRA notifying the Firm of their expulsion from FINRA membership.

(12) On July 15, 2020, the Firm prepared a response to FINRA's Exam Report dated June 22, 2020; a copy of which was sent to the Auditor. A copy of the Response is attached hereto as Exhibit "C".

(13) Upon receipt of the Firm's response to FINRA, it was indicated by the Auditor that the audit would not resume until a response was received from FINRA regarding the Exam Report Response submitted by the Firm on July 15, 2020.

(14) Based on this determination, the Firm contacted the Ombudsman Department of FINRA requesting an update with regard to a response from FINRA. As of today's date, it is estimated that a response from FINRA will not be completed until at least August 10, 2020.

(15) As such, the Auditor has indicated that the audit will not resume until such response is received, on or about August 10, 2020.

CONCLUSION

Based on the aforementioned, POTOMAC CAPITAL MARKETS, LLC, is appealing FINRA's determination of expulsion, received on July 6, 2020. The Firm cites undue hardship and extreme delay in response to the above matter as a direct result of the pandemic and inability to reach all parties in a timely matter. Further, the Firm cites FINRA's failure to provide the Exam Report via the CRD Gateway as an extreme delay in the completion of the Firm's audit and filing. In conclusion, the Firm requests this review and appeal of FINRA's expulsion. The Firm's contact information is listed below for your reference.



By: _____

Goodloe E. Byron, Jr., *President*
Potomac Capital Markets, LLC
CRD# 39800
8926 Mt. Tabor Road
Middletown, MD 21769
(240) 409-3867



June 22, 2020

Goodloe Bryon, Chief Executive Officer
Potomac Capital Markets, LLC
8926 Mt. Tabor Road
Middletown, MD 21769

Re: Cause Examination of Potomac Capital Markets, LLC
Examination Number: 20190639753; Firm CRD Number: 39800

Dear Mr. Bryon:

We have recently completed an examination of your firm. We would like to thank the firm for the assistance extended to our staff during the examination. Attached is an Examination Report with our noted exceptions.

Please provide a written response, via the Firm Gateway, addressing the following exceptions within 30 days from the date of the Report. Your written response should detail:

- The circumstances that caused the noted exceptions (to the extent that information has not been previously provided during the course of the Examination).
- The corrective action taken to date to address each exception. For any in which corrective action is ongoing, please provide the date by which full implementation is expected and the individual responsible for monitoring the implementation effort.
- Any updated policies and procedures the firm will utilize to ensure that repeat deficiencies do not occur.

To the extent there is documentation available to demonstrate the corrective action taken, include copies with your written response, when practical. Member Regulation's disposition related to this examination will be communicated to you under separate cover after Management's review of the written response submitted to this Examination Report.

Preventive compliance is an important area of FINRA's emphasis, thus one purpose of our examination program is to help members understand relevant securities rules and regulations. I hope we have been of help in this respect.

If you have any questions or comments concerning this report, please contact Joyce Campbell at 215-209-7064.

Sincerely,

AnnMarie McGarrigle, Risk Monitoring Director

**Report on the Examination of
Potomac Capital Markets, LLC**

The following have been brought to the attention of the appropriate firm personnel:

1. EXCEPTION:

The firm was not in compliance with:

- **Securities Exchange Act of 1934 240.17a-3 (a) (11)**
Books & Records

DETAILS:

The Firm failed to maintain accurate books and records as of February 28, 2018, March 31, 2019, June 30, 2019 and August 31, 2019 with respect to the accrual of expenses and the computation of Net Capital.

2. EXCEPTION:

The firm was not in compliance with:

- **Securities Exchange Act of 1934 240.17a-5 (a) (2)**
Filing of Monthly and Quarterly Reports

DETAILS:

The Firm filed inaccurate FOCUS Reports as of March 31, 2019 and June 30, 2019 with respect to inaccurate computations of net capital resulting from the failure to accrue certain expenses (Part-time FINOP/Consulting fees).

3. EXCEPTION:

The firm was not in compliance with:

- **FINRA Rule 4360**

Fidelity Bonds

DETAILS:

The Firm did not maintain fidelity bond coverage between October 17, 2018 and September 16, 2019.

4. EXCEPTION:

The firm was not in compliance with:

- **Securities Exchange Act of 1934 240.17a-11 (b)**
Notification Provisions

DETAILS:

The Firm failed to file notice that its net capital was below the minimum amount required for Feb 28, 2019, Mar 31, 2019, June 30, 2019 and Aug 31, 2019. Financial Notification to report the net capital deficiencies should be filed for these dates.

This form does not in any way constitute a waiver of the notification prohibitions set forth in 31 U.S.C. 5318(g) with respect to any suspicious activity report discussed herein. Consequently, any references in this letter to a suspicious activity report or its existence are confidential, and may not be disclosed by you to the subject of the report, or otherwise disclosed in a manner outside your firm that would lead to the subject of the report being notified. The improper disclosure of a suspicious activity report, either in contravention of section 5318(g) or of a related rule implementing that authority, is punishable by criminal and civil penalties. See 31 U.S.C. 5321 and 5322.

**POTOMAC CAPITAL MARKETS
LIMITED LIABILITY COMPANY**

8926 Mt Tabor Road • Middletown, MARYLAND 21769
301-695-9229

July 2, 2020

Mr. Shahzad Sultan
FINRA San Francisco District Office
100 Pine Street
Suite 1800
San Francisco, CA 94111

RE: Potomac Capital Markets
CRD 39800

Dear Shaz:

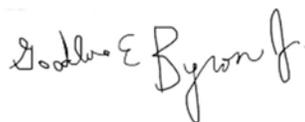
As you are aware, we have been actively working on getting our annual financial audit completed for 2019 to meet our submission deadline of today, July 2, 2020. We have learned that Tara Oskins from the auditing firm, left for vacation on June 30 and is not expected back to the firm until July 8. When inquiring with the firm on the status of our audit, we were informed that it had not been finalized. They stated that although they would be looking at it on Monday, they do not plan to finalize it until sometime after Tara returns

We unfortunately, just learned of this today when speaking with Tara's supervisor. We are fully aware that the deadline for submission of the audit was today and we remain determined to deliver the audit as soon as possible. We will contact you on Monday to provide an update and I assure you that this is our top priority. We are confident that we will be able to provide you with the full audit in the near future, to your satisfaction, and never again will we ask for pandemic relief.

Due to the auditing firm not completing the audit within the time frame required, we are respectfully requesting an extension for submitting the completed audit since this delay is out of our control. We would be happy to provide you with documentation, as needed, to show you the progress of our audit if that would be helpful for FINRA to review regarding our request for an extension.

Thank you Shaz for your patience.

Sincerely,



Goodloe (Geb) E. Byron
President

POTOMAC CAPITAL MARKETS LIMITED LIABILITY COMPANY

8926 Mt Tabor Road • Middletown, MARYLAND 21769
301-695-9229

July 15, 2020

Ms. AnnMarie McGarrigle
Risk Monitoring Director
FINRA Firm Gateway

RE: Cause Examination of Potomac Capital Markets, LLC
Examination Number: 20190639753
Firm CRD Number: 39800

Dear Ms. McGarrigle:

We are in receipt of your letter dated June 22, 2020 regarding our Examination Report for the Exam that was recently completed. In response to that letter, please note the following:

1. Securities Exchange Act of 1934 240.17a-3 (a) (11)

Books and Records

The Firm failed to maintain accurate books and records as of February 28, 2018, March 31, 2019, June 30, 2019 and August 31, 2019 with respect to the accrual of expenses and the computation of Net Capital.

Potomac Capital Markets (PCM) believes the **February 28, 2019** Net Capital of \$6,309 to be correct given the two reasons below.

- Potomac Capital Markets (PCM) believes the \$25,000 reduction to its February books is not appropriate as PCM believes generally accepted accounting principles require expenses to be accrued as services are incurred. There was no audit work performed in February as PCM's auditors require prepayment prior to providing services. The audit invoice was billed and received in March and for the "*Prepayment for the audit*". PCM paid the fees in March and the audit subsequently began. PCM believes it is appropriate to expense the fee in March as it did as work commenced in March and not in February.
- The firm agrees it did not deduct Enderson expenses as PCM expenses are processed under a service agreement with its affiliate, Potomac Investment Services (PIS) and are billed periodically under the agreement. However, if Enderson's February expenses were billed and recognized in PCM's books in February, the entry to increase PCM's expense would be offset by a reduction in the \$16,021 Due From asset balance to PIS by \$950. Since Due From assets are nonallowable deductions to Net Capital, the deduction of nonallowable assets to Net Capital would be \$950 less with Enderson processing for February, offsetting the \$950 reduction to Owner Equity from Enderson expenses. The result would be no change in the Net Capital amounts calculated by the Firm in February 2019.

PCM believes as it outlined in the February response, that **March 31, 2019** Net Capital would not be different from the reported calculations for the \$2,625 Enderson expenses as PCM's entry to account for March Enderson expenses would be to increase expense for \$2,625 and reduce March's Due From assets of \$12,021 by \$2,625. As the Due From assets are nonallowable assets in the calculation of Net Capital, the deduction of nonallowable assets to Net Capital would be lower by \$2,625 with Enderson expenses offsetting the \$2,625 reduction to Owners Equity from the expenses. The result is that March's Net Capital and Excess Net Capital amounts would be the same with Enderson expenses included as the Firm calculated for March.

As outlined in the February and March responses, PCM believes the recognition of Enderson expenses to the **June 30, 2019** Net Capital should reflect the accounting of reducing the nonallowable Due From balances as part of the expense entry. For June, the firm agrees there would be a Net Capital difference calculated. The Net Capital would be lower by \$921. The June entry to increase expense by \$7,942 for Enderson expenses would be offset by entry to reduce the June Due From asset balance of \$7,021 to \$0. The result to Net Capital of the reduction of \$7,942 to Owner Equity from Enderson expense and \$7,021 lower nonallowable assets deduction to Capital is to lower total Net Capital by \$921 from the firm's calculation. Net Capital calculated would change from \$8,034 reported to \$7,311 and Excess Net capital would be \$2,311.

As outlined in prior responses, PCM believes the recognition of Enderson expenses to the **August 31, 2019** Net Capital should reflect the accounting of reducing nonallowable Due From balances as part of the expense entry. For August, the firm agrees there would be a Net Capital difference if Enderson expenses were recognized. The revised Net Capital amount would be \$8,178 with Excess Net Capital of \$3,178. The Enderson expense increase of \$12,172 would be offset by a reduction in the Due From asset balance of \$6,521 to \$0. The reduction of \$12,172 of Owner Equity from Enderson expense would be offset by \$6,521 lower nonallowable assets deducted from Net Capital, lowering the calculated Net Capital by \$5,651. The revised August Net Capital calculation would be \$8,178 (\$13,829-6,051) and Excess Net Capital of \$3,178.

To address FINRA's concerns and to avoid this type of issue from occurring again in the future, we implemented additional procedures when calculating our Firm's Net Capital so Enderson expenses were reflected in Net Capital beginning with the September 30, 2019 through 2020 to date. Expenses, such as those for Enderson noted above, will be accrued on a monthly basis going forward, as needed, for PCM.

2. **Securities Exchange Act of 1934 240.17a-5 (a) (2)**
Filing of Monthly and Quarterly Reports

The Firm filed inaccurate FOCUS Reports as of March 31, 2019 and June 30, 2019 with respect to the accrual of expenses and the computation of Net Capital.

As noted in the information provided for Item #1 above, the firm acknowledges the differences in the Net Capital calculations referenced and has implemented changes to the

accounting accrual process for quarterly New Capital reporting as of September, 30, 2019 to ensure information is reported accurately going forward.

3. FINRA Rule 4360 (a)(1) Fidelity Bond

The Firm did not maintain Fidelity Bond coverage between October 17, 2018 and September 16, 2019.

The Firm unintentionally had a lapse in Fidelity Bond coverage due to transition in staffing involving the employee who oversaw insurance and bond coverages. When the firm purchased expanded fiduciary insurance coverage, staff believed the coverage met bond requirements. Upon discovery of the lapse, the firm sought immediately to restore its Fidelity Bond and prepaid for two years coverage to lower the risk of future lapses in coverage.

4. Securities Exchange Act of 1934 240.17a-11 (b)

The Firm failed to file notice that its net capital was below the minimum amount required for February 28, 2019; March 31, 2019; June 30, 2019; and August 31, 2019. Financial Notification to report the net capital deficiencies should be filed for these dates.

The Firm is not in agreement with FINRA that the Net Capital calculations for February 28, 2019; March 31, 2019; June 30, 2019; and August 31, 2019 created a deficiency requiring the Firm to file notice of such. As described in Item #1 above, although the firm agrees that a change in Net Capital calculations could be processed for June 30, 2019 and August 31, 2019, the Firm does not agree that the Net Capital for the firm fell below the required amount during any of these periods. Since the Firm's calculations do not show a deficiency in the Net Capital requirements, the Firm does not agree that Financial Notifications need to be filed or reported at this time.

Thank you, Ms. McGarrigle, for your assistance with this matter. Should you have any questions regarding this information, please feel free to contact me directly at 301-695-9229.

Sincerely,

A handwritten signature in cursive script that reads "Goodloe E. Byron, Jr.".

Goodloe E. Byron, Jr.
President