

GURBIR S. GREWAL  
ATTORNEY GENERAL OF NEW JERSEY  
Division of Law  
124 Halsey Street  
P.O. Box 45029  
Newark, New Jersey 07101  
Attorney for Plaintiff  
(973) 648-4802

OCT 31 2019

By: Brian F. McDonough (ID No. 026121980)  
Assistant Attorney General

Andrew H. Yang (ID No. 066382013)  
Alex Schmidt (ID No. 199232016)  
Deputy Attorneys General

GURBIR S. GREWAL,  
Attorney General of New Jersey,  
on behalf of  
CHRISTOPHER W. GEROLD,  
Chief of the New Jersey Bureau  
of Securities,

Plaintiff,

v.

FIRST STANDARD FINANCIAL  
COMPANY, LLC, a New York  
limited liability company,

Defendant.

SUPERIOR COURT OF NEW JERSEY  
CHANCERY DIVISION: GENERAL  
EQUITY  
ESSEX COUNTY  
DOCKET NO. ESX-C- 204-14

Civil Action

VERIFIED COMPLAINT

Gurbir S. Grewal, Attorney General of New Jersey, on behalf of Christopher W. Gerold, Chief of the New Jersey Bureau of Securities (the "Bureau Chief"), having offices at 153 Halsey Street, City of Newark, County of Essex, State of New Jersey, alleges the following by way of Verified Complaint against the above-named defendant:

## SUMMARY

First Standard Financial Company, LLC ("First Standard") has engaged in a fraudulent course of business that consisted of excessive, unsuitable, and frequently unauthorized short-term trading in customer accounts that generated commissions for First Standard and its agents at its customers' expense.

First Standard knew or had reason to know of the potential for misconduct by its agents. First Standard hired agents with numerous customer complaints and regulatory problems, including customer complaints of unauthorized trading, unsuitable trading, and fraud. Despite the known histories of its agents, First Standard failed to take necessary steps to prevent the widespread and relentless "in-and-out" trading of its customers' accounts by its agents. In fact, First Standard was keenly aware of the conduct, as evidenced by the numerous customer complaints and customer initiated arbitration filings, daily trade reports, exception reports, and regulatory inquiries. Yet, First Standard's default responses were to defend its actions or buy off complainants with minor commission refunds, while continuing to reap the benefits of its on-going fraud.

The New Jersey Bureau of Securities ("Bureau") has taken action against a number of First Standard agents, including having summarily revoked the agent registrations of Gabriel Block, Philip Sparacino, and Philip Noto. It has also imposed several heightened

supervision agreements upon First Standard agents, including Levert Caldwell. Now, in the wake of a mass exodus of First Standard agents and increased customer complaints, contemporaneously with the filing of this Verified Complaint, the Bureau Chief has signed a Summary Revocation Order revoking the broker-dealer registration of First Standard pursuant to N.J.S.A. 49:3-58.

#### JURISDICTION AND VENUE

1. The Bureau Chief is the principal executive officer of the New Jersey Bureau of Securities (the "Bureau"), the state regulatory agency charged with the administration of the New Jersey Uniform Securities Law (1997), N.J.S.A. 49:3-47 to -83 (the "Securities Law").

2. The Bureau Chief brings this action against defendant First Standard for violations of:

a. N.J.S.A. 49:3-52(b) (making materially false and misleading statements or omitting facts necessary to make the statements made not misleading); and

b. N.J.S.A. 49:3-52(c) (engaging in any act or practice, or course of business which operates or would operate as a fraud or deceit upon any person in connection with the offer, sale, or purchase of securities).

3. Jurisdiction is proper over defendant pursuant to N.J.S.A. 49:3-51 for violations of the Securities Law that are the

subject of this Verified Complaint because each alleged violation originated from this State.

4. Venue is proper in Essex County pursuant to R. 4:3-2(a) because the Bureau is located in Essex County.

#### PARTIES

5. The Bureau Chief is the principal executive of the Bureau. This action is brought by Gurbir S. Grewal, Attorney General of New Jersey, on behalf of the Bureau Chief pursuant to N.J.S.A. 49:3-69(a)(2).

6. Defendant First Standard was formed in New York on or about March 19, 2013. First Standard has been registered with the Bureau as a broker-dealer since August 15, 2014, and maintains a main office address of 21 East Front Street, Suite 100, Red Bank, New Jersey.

7. At all relevant times, First Standard has been a member of the Financial Industry Regulatory Authority ("FINRA"), and its agents were associated persons of FINRA.

#### RELEVANT NON-PARTY

8. Hilltop Securities, Inc. ("Hilltop") is First Standard's clearing broker and maintains a main office address of 8201 Preston Rd., Suite 600, Dallas, Texas 75225. As a clearing broker, Hilltop executes trades on behalf of First Standard, maintains custody of First Standard customer accounts and assets, sends confirmation slips and monthly statements to First Standard's customers, and

remits to First Standard the portion of trade proceeds that will be paid to First Standard and its agents as commissions and sales charges.

#### FACTUAL ALLEGATIONS

##### I. First Standard's History of Hiring and Retaining Agents with Troubled Regulatory Backgrounds

9. First Standard has a history of hiring and retaining agents with troubled regulatory histories. Seventy-six of the 130 agents registered with First Standard at some point between January 2016 and October 2019, had disclosures on their regulatory record. These disclosures included customer complaints, arbitration claims, current regulatory investigations, past regulatory actions, liens and judgments, internal investigations by prior firms, and terminations for cause by prior firms.

10. On May 15, 2019, the Bureau Chief issued a Summary Penalty and Revocation Order against former First Standard agent Gabriel Block, revoking his registration and assessing \$750,000 in civil monetary penalties against him for, among other things, engaging in unsuitable and excessive trading activity. On July 12, 2019, Block contested the Summary Penalty and Revocation Order and the matter is pending before the Office of Administrative Law.

11. On September 8, 2019, the Bureau Chief issued a Summary Penalty and Revocation Order against First Standard agent Sparacino, revoking his registration and assessing \$250,000 in

civil monetary penalties against him for, among other things, engaging in unauthorized, unsuitable, and excessive trading activity.

12. On October 28, 2019, the Bureau Chief issued a Summary Revocation Order against former First Standard agent Philip Albert Noto, revoking his registration after learning that he had been permanently barred by FINRA as of July 12, 2019.

13. The Bureau's regulatory actions and investigation have brought to light First Standard's culture of ignoring compliance in search of revenues and at the expense of its customers.

14. As of December 31, 2018, First Standard had forty-four agents registered with the Bureau and had other branch offices in New York. But, more recently, it has seen an exodus of agents and principals leaving to join other broker-dealers or leaving the industry altogether. On September 18, 2019, First Standard's Chief Operating Officer left First Standard. This left First Standard with only two agents registered with the Bureau in its New Jersey location, one of whom was its Chief Compliance Officer. On September 27, 2019, a third agent (a supervisor) became registered with the Bureau in the New Jersey location. When First Standard's sole remaining producing broker at the New Jersey location, Philip J. Sparacino, had his registration revoked by a Summary Penalty and Revocation Order on October 8, 2019, First Standard's two remaining registered agents in New Jersey were involved only in

compliance and supervisory capacities.

15. First Standard has engaged in a course of business that consisted of excessive, unsuitable, and unauthorized short-term trading activities in customer accounts for the purpose of generating commissions for First Standard and its agents at the customers' expense.

16. First Standard's course of business also included the unauthorized use of margin, and misrepresentation or omission of the amount of commissions and fees to be charged to customers.

17. First Standard conducted in-and-out trading in bonds and other securities designed to be held for the long-term and active trading is unsuitable.

18. This fraudulent and systemic trading scheme unjustly enriched First Standard and its agents in excess of \$28.7 million in commissions and sales charges from January 1, 2016 to the present.

19. When customers complained to supervisors at First Standard regarding the activity in their accounts, including commissions and fees higher than what had been disclosed and unauthorized trading, First Standard placated the complainants by refunding or promising to refund commissions. In doing so, First Standard hid its misconduct and enabled its agents to continue their unauthorized, unsuitable, and excessive trading activity.

II. First Standard and its Agents Had No Reasonable Basis for the Trading Strategy

20. First Standard employed an active trading strategy that maximized commissions for First Standard without regard to its suitability to the firm's customers, as set forth throughout this Verified Complaint. This strategy included: (a) executing short-term, in-and-out trades in which the repeated commission charges made it unlikely for customers to break even, much less receive a reasonable return; and (b) employing this short-term trading scheme even in bonds and others securities intended to be held as long-term investments.

21. The turnover rate measures how often the equity value in an investor's portfolio is traded in a year. Turnover rate is calculated by dividing the total security purchases by the average month-end equity balance in an account, and then annualizing the result. Turnover rates of six or more presumptively indicate excessive trading. Turnover rates of less than six may also be excessive in cases where the level of activity is unsuitable for the investor.

22. The annualized turnover rates of many of the customers described in this Verified Complaint exceeded six by multiples, demonstrating that First Standard's recommended trading strategy was excessive and unsuitable for its customers.

23. The cost-to-equity ratio is determined by calculating



the sum of the commissions, costs, and other fees in an investor's account, and then dividing the sum by the average equity on an annualized basis. This ratio represents the percentage of investment returns needed to pay the costs and commissions of the brokerage firm and its agent before an investor can profit on their investments.

24. The cost-to-equity ratios for many of First Standard's customers ranged from approximately 10% to 25%, and were even higher in some accounts. This meant that customers would have to achieve 10% or more in returns just to cover the costs of First Standard's trading strategies. These figures show that First Standard's trading strategies were unsuitable.

25. First Standard, through its agents, engaged in widespread and pervasive "in-and-out" trading. The Bureau's investigation has determined that firmwide, from January 15, 2016 to October 7, 2019, First Standard sold over 43% of the securities purchased in customer accounts within 30 days of their purchase. First Standard sold more than 67% of the securities within 90 days of their purchase, and sold 94% of the securities within one year of their purchase. The following chart illustrates percentages based on holding periods of securities in First Standard's customer accounts from January 15, 2016 to October 7, 2019:

Period (Days)	Percentage of Securities Purchased and Sold Within this Time Period	Cumulative Percentage
0	0.58%	0.58%
31	43.27%	43.85%
60	14.98%	58.83%
90	9.06%	67.89%
120	5.97%	73.87%
150	4.46%	78.33%
180	3.96%	82.29%
270	7.53%	89.82%
360	4.22%	94.04%
Over 360	5.96%	100.00%

26. During this time period, First Standard did not employ a strategy of long-term investing, regardless of what was suitable for its customers. Instead, from January 15, 2016 to October 7, 2019, First Standard traded excessively in customer accounts, generating exorbitant commissions not for the benefit of the customers, but for the benefit of First Standard and its agents.

**III. First Standard Engaged in a Pattern of Excessive, Unsuitable, and Unauthorized Trading in Customer Accounts**

27. Between 2017 and 2019, First Standard received numerous customer complaints that had been made to Hilltop, which put First Standard on notice of misconduct by its agents. Those complaints include:

- A 74-year old customer's (Customer S.W.) letter of complaint dated August 4, 2017, complaining that his First Standard agent Alex Olsen traded on margin in his account, although S.W. had specifically told the agent not to trade on margin;
- A 41-year old customer's (Customer J.A.) electronic complaint dated February 13, 2019, complaining that

First Standard agent Chris Blumer engaged in unauthorized trading activity in his account;

- A 59-year old customer's (Customer P.M.) letter of complaint dated April 12, 2019, complaining that the funds in his account dropped by over 50%, although an agent from First Standard had assured P.M. that the stock would go up by 500%;
- A letter of complaint dated May 3, 2019 from a daughter of a 67-year old customer (Customer B.B.) who, she stated, suffers from Parkinson's disease and other disorders, alleging that First Standard agents Davis and Caldwell engaged in unauthorized, excessive, and unsuitable trading activity and unauthorized trading on margin, along with misrepresentations and omissions, causing B.B. to suffer a loss of over \$461,000;
- A 76-year old customer's (Customer L.S.) letter of complaint dated May 10, 2019, complaining that his agent Davis engaged in unauthorized and excessive trading which caused L.S. to suffer a loss of \$152,400; and
- Four customer complaints from Customers C.B., M.E., C.L., and M.M., three of which are more fully described below, regarding excessive and unauthorized trading by First Standard agent Sparacino.

28. As of October 28, 2019, there were 31 pending customer complaints against former and current First Standard agents filed between 2018 and 2019, alleging unauthorized, excessive, and/or unsuitable trades executed at First Standard. A few examples of First Standard's egregious abuse of investors are illustrated in the following customers' Statements of Claim filed against First Standard in arbitration with FINRA.

1. Customer J.V.

29. Customer J.V. was a 72-year old retired widow when she

opened four accounts at First Standard in March 2016. According to her Statement of Claim,<sup>1</sup> her four accounts in total had an opening balance of \$2,955,545 in March 2016 and a closing balance of \$1,002,881 in August 2018. She paid First Standard \$1,063,101 in commissions and sales credits between March 2016 and July 2018 (this amount was 36% of her initial investment).

30. Beginning in October 2017, and continuing until she closed her accounts, J.V.'s four accounts were heavily concentrated in one over-the-counter security - Sito Mobile Ltd.<sup>2</sup> Sito is a speculative and low priced stock that First Standard began buying for J.V. at its high price in the vicinity of \$7 per share and continued to add to and maintain it as it dwindled down to a few dollars a share for much of the time she remained in this concentrated position. Between October 20, 2017 and October 27, 2017, First Standard purchased 134,000 Sito shares for \$1,032,486 in J.V.'s four accounts, which was approximately one-third of the \$2.9 million total opening balance in the accounts. Thereafter, First Standard made additional purchases and sales that increased the size of the position to 357,844 shares.

31. In September 2018, when the accounts were closed, there

---

<sup>1</sup> Customer J.V.'s Statement of Claim in arbitration with FINRA was filed on or about April 8, 2019.

<sup>2</sup> Currently, the market price of Sito is about \$0.68 per share.

were 110,000 Sito shares left unsold - the price of Sito was \$0.87 per share on September 30, 2018. As of that date, J.V. had paid \$2,995,012 for her shares in Sito and received only \$1,533.583 in sales proceeds for the shares she sold. Her total realized and unrealized losses in Sito alone were \$1,573,925 - over 50% of the opening value of her accounts - and she paid a total of \$113,643 in commissions and sales credits in this speculative trading spree in one concentrated volatile stock that cost J.V. over \$1.5 million.

32. First Standard also heavily traded bonds in J.V.'s accounts. Bonds are generally long-term investments and are primarily purchased to provide interest income for the customer. This was not the case for J.V. Bonds were bought and then sold in her account, often within one to two months. For example, over a six-week period between August 18, 2016 and October 4, 2016, there were purchases totaling \$1,533,583 for Transocean Inc. bonds in J.V.'s accounts, which was one-half of the \$2.9 million account opening balance in March 2016. But by October 20, 2016, just two months after the initial purchases, all of these bonds were sold. These transactions generated sales credits including commissions for First Standard totaling \$45,072. The below chart details the Transocean Inc. bond transactions:

TRADE DATE	BUY/ SELL	QUANTITY BUY	QUANTITY SELL	PRICE %	AMOUNT BUY	AMOUNT SELL	TOTAL SALES CREDIT
8/18/2016	B	230,000		69.26%	\$166,170		\$4,623
8/18/2016	B	180,000		69.26%	\$130,048		\$3,618
8/18/2016	B	150,000		69.26%	\$108,375		\$3,015
8/18/2016	B	45,000		69.26%	\$32,518		\$905
9/14/2016	B	237,000		67.08%	\$159,155		\$4,622
9/14/2016	B	66,000		67.08%	\$44,327		\$1,287
9/14/2016	B	20,000		67.08%	\$13,438		\$390
9/16/2016	B	65,000		66.05%	\$43,011		\$1,248
9/16/2016	B	50,000		66.05%	\$33,087		\$960
9/16/2016	B	35,000		66.05%	\$23,163		\$672
9/22/2016	B	515,000		67.28%	\$347,642		\$10,043
9/27/2016	B	205,000		65.27%	\$134,392		\$3,895
9/27/2016	B	175,000		65.27%	\$114,726		\$3,325
9/27/2016	B	117,000		65.27%	\$76,705		\$2,223
9/27/2016	B	56,000		65.27%	\$36,718		\$1,064
10/4/2016	B	102,000		68.31%	\$70,108		\$2,020
10/20/2016	S		1,084,000	68.25%		\$748,012	\$0
10/20/2016	S		501,000	68.25%		\$345,710	\$501
10/20/2016	S		410,000	68.25%		\$282,915	\$410
10/20/2016	S		253,000	68.25%		\$174,576	\$253
		2,248,000	2,248,000		\$1,533,583	\$1,551,213	\$45,072

33. First Standard, through its agents Debra Bourne and Gabriel Block, traded J.V.'s accounts in an excessive and unsuitable manner, inflicting losses of approximately \$1.9 million upon her. While Block was trading in J.V.'s accounts, he was not even registered with the Securities Division of South Carolina, where J.V. resides.

## 2. Customer E.D.

34. Customer E.D was 75 years old when a margin account was opened with First Standard on June 7, 2017. According to First Standard's records, he had a liquid net worth of over \$3 million.

He opened the account with deposits totaling \$1,797,048. Between June 2017 and January 24, 2018, E.D. paid First Standard over \$900,000 in commissions and sales credits, plus margin interest. In just over six months, the commissions and sales credits totaled more than half of his initial investment. E.D.'s margin balance increased from \$267,987 in June to \$2,939,706 in December. When the account was closed in January 2017, E.D. had realized and unrealized trading losses of \$1,673,352. Four of the securities purchased in his account lost more than \$1.86 million.

Security	P&L
ADAMIS PHARM COR	-\$1,075,513
ENERGOUS CORP	-\$320,128
ADVANCED MICRO D	-\$292,801
GLOBALSTAR INC	-\$172,381
TOTAL	-\$1,860,823

35. The First Standard agent on E.D.'s account, William Gennity, was the subject of a regulatory action by the SEC for the same type of activity that he later engaged in at First Standard. The SEC's complaint was filed in the Southern District of New York. According to the SEC, from July 2012 to August 2014:<sup>3</sup>

William C. Gennity recommended to four customers a pattern of high-cost, in-and-out trading without any reasonable basis to believe that his customers could make a profit. Gennity's recommendations resulted in losses for the customers and gains for Gennity. Gennity allegedly also lied to his customers about the potential for the accounts to profit. The complaint also alleges that

---

<sup>3</sup> During this period, the agent was employed by another firm.

Gennity engaged in unauthorized trading and churning.

36. On March 1, 2019, the United States District Court for the Southern District of New York entered a final consent judgment against Gennity. Gennity was found to have defrauded customers by making unsuitable and unauthorized trades and churning customers' accounts, thereby enriching Gennity and his firm at the customers' expense.

37. On April 16, 2018, E.D. filed a FINRA arbitration against Gennity, First Standard, and First Standard's indirect owner Carmine Berardi, alleging that First Standard agents Gennity and Berardi and First Standard engaged in unsuitable and unauthorized trading, failed to supervise, and breached their fiduciary duty.<sup>4</sup> E.D. discontinued his action against Berardi and First Standard, but an award was entered stating, among other things, that Gennity was liable to pay E.D. the full amount of \$2,404,376 in compensatory damages and that Gennity's expungement request was denied.

### 3. Customer D.P.

38. First Standard traded excessively for enormous commissions in Customer D.P.'s account. D.P. opened an account with First Standard on February 9, 2016. At the time, he was 71

---

<sup>4</sup> First Standard is owned by Carl Standard and Co. Holding LLC, which is owned by Carmine Berardi.



years old. According to First Standard's records, D.P. had a liquid net worth of over \$3 million. Initially, the account had a balance of less than \$70,000, but by November, it had a margin balance of \$252,350 and an account balance of \$227,262. The margin balance continued growing until October 2017 when it reached its high point of \$2,014,534. The account balance also increased to \$1,890,037. Thereafter in April 2008, the margin balance and the account balance decreased to \$460,375 and \$507,000, respectively. Between February 9, 2016 and March 9, 2019, D.P. paid First Standard over \$1,104,161 in commissions and sales credits, plus margin interest - which was 58% of his highest account balance in October 2017. D.P. had realized and unrealized trading losses of \$734,773 during this period. Six of the securities purchased in his account lost more than \$1.4 million as set forth below:

Security	P&L
ADAMAS PHARM INC	-\$265,083
GLOBALSTAR INC	-\$105,736
HTG MOLECULAR DI	-\$228,851
NII HOLDINGS INC	-\$389,568
SCPHARM INC	-\$252,813
SITO MOBILE LTD	-\$229,737
	-\$1,471,788

#### 4. Customer J.M.

39. First Standard also victimized Customer J.M. through excessive and unauthorized trading. According to his Statement of

Claim against First Standard,<sup>5</sup> J.M. is a 72-year old farmer of approximately 2,500 acres of corn and beans, with cattle operations. He received a cold-call from Gennity who, unbeknownst to J.M., had been employed by ten different firms, had seven (7) customer complaints, and was the subject of a regulatory action by the SEC. J.M.'s Statement of Claim in arbitration with FINRA provides that First Standard turned J.M.'s account over 34 times. The annualized cost-to-equity ratio was 103.5%, meaning that J.M. would have had to earn over 100% annually in his account simply to break even much less earn a profit for himself. Instead, he lost \$98,198. This is not surprising over 80% of the positions were held for less than thirty days, demonstrating a voracious in-and-out trading strategy with no apparent objective other than to generate commissions for First Standard and its unsavory agents at the expense of a farmer for whom the activity was excessive and unsuitable.

#### **5. Customer J.B.**

40. First Standard also exploited Customer J.B., a 57-year old truck driver earning \$28,000 per year. According to J.B.'s Statement of Claim in arbitration with FINRA,<sup>6</sup> First Standard, through its agents Nicholas Cavalcante and Andre Davis, engaged in

---

<sup>5</sup> J.M. filed his Statement of Claim in arbitration with FINRA on or about November 21, 2018.

<sup>6</sup> Customer J.B. filed a Statement of Claim in arbitration with FINRA on or about April 11, 2019.

excessive trading in J.B.'s account, causing J.B. approximately \$135,026 in losses while the agents pocketed about \$103,109 in commissions.

41. According to J.B.'s Statement of Claim, in or around March 2015, J.B. received a cold-call from Cavalcante. He promised returns of 10 to 12%. Cavalcante successfully convinced J.B. to transfer his assets that were conservatively managed in mutual funds. Subsequently, Cavalcante sent J.B. new account forms with sticky notes indicating where J.B. should place his signature. J.B. did not understand what the forms entailed because First Standard did not explain them to him. After a few months into their broker-client relationship, J.B. never heard from Cavalcante again.

42. Thereafter, J.B. received a phone call from Davis, a new First Standard agent assigned to handle J.B.'s account. Davis convinced J.B. to trade on margin and to transfer his pension assets to First Standard as well. Davis then allegedly engaged in unauthorized and excessive trading in J.B.'s accounts. Despite J.B.'s request to stop trading on margin at one point, Davis continued trading on margin. Ultimately, between 2015 and 2018, J.B.'s accounts experienced an annualized turnover rate of 9.4 times, and a combined annualized cost-to-equity ratio of over 46%. While J.B. suffered a combined loss in both accounts of approximately \$133,643.00, Cavalcante and Davis allegedly made a

total of \$103,106.68 in commissions for themselves and First Standard from both accounts.

IV. First Standard Agent Philip Sparacino Engaged in a Pattern of Excessive, Unsuitable, and Unauthorized Trading in Customer Accounts

43. At First Standard, a sudden vacuum created by any agent's decreased volume of trading and commission generation, such as those of the agents described in the prior paragraph, was quickly filled by other agents' increase in trading and commission generation. As more and more agents left, the practice increased. This is illustrated by the conduct of former agent Sparacino.

44. Since at least June 2019 through October 8, 2019, Sparacino engaged in a pattern of unauthorized, excessive, unsuitable, and fraudulent trading activity in the accounts of customers of First Standard. The timing of this trading activity further corresponded to the departure of almost all of First Standard's agents. As those agents left the firm, many of their customers still maintained accounts at First Standard, thus creating the opportunity for Sparacino to access dozens of newly inherited customer accounts and generate commissions. In April and May 2019, Sparacino generated a total of only \$24,258 in commissions.<sup>7</sup> By comparison, from June 1, 2019 through October 4, 2019, Sparacino generated \$1,452,514 in commissions and fees.<sup>8</sup>

---

<sup>7</sup> Excluding trade cancellations and rebills.

<sup>8</sup> Excluding trade cancellations and rebills.

45. As described in the examples below, Sparacino accomplished this volume of trading and commission generation by means of fraud, including engaging in unauthorized trading, using margin without authorization, misrepresenting the amount of commissions to customers, and excessive trading, as a result of First Standard's systemic lack of reasonable supervision.

1. Customer P.B.

46. In or about August 2019, Customer P.B. received a phone call from Sparacino advising her that he was taking over P.B.'s account because the previous broker had left the firm. Sparacino informed P.B. that the portfolio was not performing well, and that he would take a look at it. P.B. never authorized Sparacino to execute any trades, but, following their conversation, P.B. received another phone call from Sparacino informing her that he had sold the stocks in her account and purchased new ones with the proceeds.

47. Sparacino did not disclose the amount of commissions that would be charged for the trades. P.B. called Sparacino to complain about the commissions. Sparacino claimed that it was customary to charge up to 50%, half the transaction cost, for commissions. Sparacino told P.B. that he would nonetheless refund her the commissions. To date, P.B. has received a \$420.00 commission refund, but other more substantial commissions have not been refunded to her.

48. Additionally, Sparacino repeatedly called P.B. and engaged in high-pressure sales tactics. In one instance, Sparacino intimated to P.B. that he had inside information about a company in negotiations with the Chinese government and advised her that he had purchased its shares for her account. However, a few days after buying shares in the company, Sparacino sold them again without an explanation and without P.B.'s authorization.

49. Due to her concerns about Sparacino's unauthorized trading, P.B. emailed Sparacino on October 2, 2019, clarifying that he was not authorized to engage in any trading in the account without her authorization.

50. Nevertheless, on October 4, 2019, P.B. received notification of a margin call on her account for \$240. P.B. not only had never authorized Sparacino to trade on margin, but did not even understand what trading on margin meant. Sparacino was trading on margin in her account without her knowledge or express authorization.

51. On August 5, 2019, immediately prior to Sparacino recommending and executing the first transaction for P.B., the total value of securities in the account of P.B. was \$34,872. From August 5, 2019 to September 25, 2019, Sparacino's trading activity generated at least \$8,565 in commissions and fees - almost 25% of the o\$34,872 account value - from his unauthorized activity.

## 2. Customer C.L.

52. In August 23, 2019, the agent assigned to Customer C.L.'s account at First Standard called C.L. to inform him that the agent was in the process of moving to another broker-dealer. The agent requested C.L. to move his accounts with the agent. C.L. declined.

53. Within several minutes, C.L. received a phone call from Sparacino who stated that he had inherited C.L.'s account at First Standard and was now in charge of the trading in the account. C.L. told Sparacino not to engage in any trading because he did not want to pay any commissions, and explained that he intended to transfer the account to another institution (not the one with the prior agent).

54. On August 26, 2019, C.L.'s account was transferred out of First Standard to the other financial institution. But, several days later, C.L. received a trade confirmation for the First Standard account showing commission and fee charges of approximately \$3,000.

55. Without C.L.'s knowledge, and despite his instructions to the contrary, Sparacino had sold C.L.'s two stock positions and subsequently purchased another stock using the sale proceeds and the \$40,000 C.L. had left in the account.

56. C.L. subsequently had a conversation with Sparacino and First Standard's Chief Compliance Officer Michael Leahy ("CCO Leahy"), demanding that they reverse the commissions and fees

charged for the unauthorized trades. C.L. was told that nothing could be done since the account had moved to another institution. C.L. continued his attempts at getting a refund for the unauthorized charges, but was repeatedly told that a refund was possible only if he signed a release absolving Sparacino of any misconduct. In early October 2019, Sparacino finally assured C.L. that a refund check was being mailed to him, along with a statement characterizing the entire episode as a misunderstanding, which C.L. would have to sign. The improper commissions charges were ultimately refunded to C.L.

### 3. Customer R.C.

57. In or about September 2019, Customer R.C. received a phone call from Sparacino who advised him that his previous agent had left First Standard and that Sparacino would be managing his account.

58. Ignoring R.C.'s instruction to the contrary, Sparacino started aggressively trading R.C.'s account on margin. Sparacino's unauthorized trading resulted in a margin deficit on R.C.'s account and commission charges totaling over \$34,000 within a few weeks.

59. When R.C. contacted Sparacino, Sparacino claimed that the commissions were charged as a mistake, and that any charges would be reversed. To date, however, R.C. is not aware of any



refunds entered for those charges or that the unauthorized trades have been reversed.

60. On September 18, 2019, immediately prior to Sparacino recommending and executing the first transaction for R.C., the total value of securities in the account of R.C. was approximately \$265,090. From September 20, 2019 to September 26, 2019, Sparacino's trading activity generated at least \$66,418 in commissions and fees - almost a quarter of the \$26,090 value of the securities in R.C.'s account.

61. On October 17, 2019, R.C. received a margin call of \$20,781 on his First Standard account.

#### 4. Customer M.E.

62. In September 2019, Customer M.E. received a phone call from Sparacino who advised him that his previous broker was terminated due to low performance. Sparacino recommended purchasing CyberArk Software Ltd. ("CYBR") and holding it for about two weeks. M.E. agreed to the purchase of CYBR and, on September 20, 2019, Sparacino purchased approximately \$149,000 of CYBR in M.E.'s account and charged \$6,219 in commissions.

63. On September 23, 2019, M.E. received another phone call from Sparacino, who recommended M.E. sell the CYBR shares and purchase another stock. M.E. refused to sell. The next day, Sparacino called again attempted to persuade M.E. to sell the CYBR shares and purchase another stock. Again, M.E. instructed

Sparacino not to sell the shares. Nevertheless, on September 26, 2019, Sparacino sold the shares without authorization and again charged \$6,687 in commissions.

64. On September 30, 2019, M.E. wrote the compliance department of First Standard complaining about unauthorized trading in M.E.'s account by Sparacino and advising that M.E. had contested the trades with Hilltop. And he further advised First Standard that he had filed a complaint with FINRA regarding the unauthorized trading. M.E. also notified First Standard that it was not authorized to make further trades in M.E.'s account since M.E. was transferring it out of First Standard.

65. On September 18, 2019, immediately prior to Sparacino recommending and executing the first transaction for M.E., the total value of securities in the account of M.E. was approximately \$160,327. In less than a week, September 20, 2019 to September 26, 2019, Sparacino's trading activity generated at least \$13,538 in commissions and fees. First Standard has refunded approximately \$13,000 in charges to M.E.

##### 5. Customer D.D.

66. On September 20, 2019, Customer D.D. received a phone call from Sparacino informing him that D.D.'s previous broker had left the firm and that Sparacino would now be handling the account. Sparacino promised that he would not charge any commissions on trades that D.D. ordered. Despite his representation that there

would be "no commissions" charged, Sparacino charged D.D. approximately \$7,000 (4.4%) in commissions and fees for transactions he entered after their conversation.

67. Further, within a few days, Sparacino entered several transactions to buy and sell shares without D.D.'s authorization or knowledge. Sparacino charged D.D. additional commissions and fees of approximately \$6,000 related to these transactions. D.D. reached out to complain about the unauthorized trades and commissions. D.D. was told that his money would be returned and was asked to sign a release statement that characterized the incident as a misunderstanding.

68. On September 18, 2019, immediately prior to Sparacino recommending and executing the first transaction for D.D., the total value of securities in the account of D.D. was approximately \$81,007. In just three days, from September 20, 2019 to September 23, 2019, Sparacino's trading activity generated at least \$14,091 in commissions and fees from the unauthorized activity.

#### 6. Customer V.H.

69. On September 19, 2019, Sparacino sold a security from Customer V.H.'s account and charged her a commission on the transaction without her knowledge or authorization. After receiving a trade confirmation disclosing the sale, V.H. authorized her husband to contact First Standard's Chief Compliance Officer, Leahy, regarding Sparacino's unauthorization.

To date, neither V.H., nor V.H.'s husband, has been notified that the account has been credited the commission charges.

70. On September 18, 2019, immediately prior to Sparacino recommending and executing the first transaction for V.H., the total value of securities in the account of V.H. was approximately \$48,303. From September 19, 2019 to September 25, 2019, Sparacino's trading activity generated at least \$4,163 in commissions and fees.

#### 7. Customer M.M.

71. In mid-August 2019, Customer M.M. received several phone calls from an unidentified number. M.M. returned these calls and reached Sparacino. Sparacino informed M.M. that his previous broker had left the firm and that Sparacino would now be handling the account. According to Sparacino, the account was underperforming. Sparacino touted his own stock-picking abilities. Sparacino recommended selling the stocks in M.M.'s account and purchasing new stocks. M.M. agreed. On August 20, 2019, Sparacino sold the four stock positions in the account, totaling approximately \$300,000. M.M. was charged \$500 in total commissions for the sales. On August 22, 2019, Sparacino purchased three new positions, including Harsco Corporation ("HSC"), with the funds in M.M.'s account, charging him approximately \$12,700 in commissions. M.M. complained to Sparacino and First Standard about the high commissions charged. Sparacino and First Standard assured

M.M. that the commissions would be less in the future.

72. On September 13, 2019, Sparacino contacted M.M. and recommended selling the three stock positions in the account, including HSC. M.M. agreed and Sparacino executed the transactions, charging \$1,500 total in commissions. On September 19, 2019, Sparacino used the proceeds from the sales to purchase CYBR stock for approximately \$284,000, charging \$8,499 in commissions. A few days later, Sparacino recommended that M.M. sell that stock position and repurchase HSC. Again, M.M. agreed. Sparacino charged M.M. commissions of \$125 to sell the stock position, but charged him \$7,828 to repurchase HSC. The very next day, Sparacino contacted M.M. and informed him that First Standard may be closing and that he needed to sell his position in HSC. As a result, Sparacino charged M.M. another \$7,962 to sell the HSC stock. M.M. was advised by First Standard that the \$7,962 commission to sell HSC would be credited back to M.M.'s account.

73. On August 19, 2019, immediately prior to Sparacino recommending and executing the first transaction for M.M., the total value of securities in the account of M.M. was approximately \$309,399. From August 20, 2019 to September 25, 2019, Sparacino's trading activity generated at least \$39,233 in commissions and fees.

V. First Standard was Complicit in its Agents' Fraudulent Trading Activity

74. First Standard was unscrupulously complicit in and failed to take reasonable steps to address its agents' unlawful conduct, including Sparacino's. First Standard received numerous customer complaints related to Sparacino's unauthorized, excessive, unsuitable, and/or fraudulent trading activity and unauthorized and/or excessive commissions and fees charged by First Standard.

75. From August 20, 2019 to September 25, 2019, at least four of First Standard's customers brought their complaints regarding Sparacino directly to First Standard's clearing firm, Hilltop. On October 1, 2019, First Standard's Chief Compliance Officer, Leahy, sent a letter to Hilltop, denying the allegations of Sparacino's unauthorized and unsuitable trading activity. Leahy stated to Hilltop that First Standard "maintain[s] a culture of compliance" and "ha[s] always addressed and reversed any commission necessary."

76. First Standard cancelled and rebilled the excessively charged commissions and reported to the complainants that those charges were mistakenly generated. First Standard failed to reasonably address the customer complaints with its agents. By doing so, First Standard kept its fraudulent trading scheme operational. Meanwhile, First Standard allowed Sparacino to

continue his unauthorized, excessive, unsuitable, and/or fraudulent trading activity in furtherance of its fraudulent trading scheme.

77. On October 8, 2019, Sparacino's registration was revoked by the Bureau. Following the revocation of Sparacino's registration in New Jersey, First Standard instructed Hilltop to suspend Sparacino's ability to log in to the system to place trades. On October 9, 2019, however, First Standard clarified that the suspension of Sparacino's log in was only temporary because they were "in process [sic] of moving him to New York."

78. This communication exemplifies First Standard's contempt for its customers and the laws and rules by which it and every broker-dealer are bound. On October 8, 2019, First Standard had received a Summary Order of Revocation against Sparacino reflecting a virtual rampage of unauthorized, excessive, and unsuitable trading that generated nearly \$1.5 million in ill-gotten gains for him and First Standard. Rather than terminating Sparacino or taking any other action against him, First Standard's initial response was to simply move him across state lines so that he could continue to exploit the investing public.

COUNT I

MAKING UNTRUE STATEMENTS OF A MATERIAL FACT OR OMITTING TO STATE A MATERIAL FACT NECESSARY IN ORDER TO MAKE THE STATEMENTS MADE, IN LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY ARE MADE, NOT MISLEADING, IN VIOLATION OF N.J.S.A. 49:3-52(b)

79. Plaintiff repeats the allegations in the preceding paragraphs as if more fully set forth herein.

80. Pursuant to N.J.S.A. 49:3-52:

It shall be unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly

(b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading[.]

81. Defendant First Standard made materially false and misleading statements and/or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading to investors.

82. As demonstrated above, First Standard made materially false and misleading statements to certain customers, including, by advising customers that they would not be charged commissions or fees for transactions.

83. Additionally, First Standard omitted to state material facts to certain customers, including:

a. the amount of commissions to be charged for certain trades;



b. the margin trading would be executed in the customer's account; and

c. that the agent would engage in unauthorized, excessive, and/or unsuitable trading.

84. Each omission of a material fact and each materially false or misleading statement is a violation of N.J.S.A. 49:3-52(b).

85. Each violation of N.J.S.A. 49:3-52(b) by defendant First Standard upon each First Standard customer is a separate violation and is cause for the imposition of a civil monetary penalty pursuant to N.J.S.A. 49:3-70.1.

#### COUNT II

ENGAGING IN ANY ACT, PRACTICE, OR COURSE OF BUSINESS WHICH OPERATES OR WOULD OPERATE AS A FRAUD OR DECEIT UPON ANY PERSON IN CONNECTION WITH THE OFFER, SALE, OR PURCHASE OF SECURITIES, IN VIOLATION OF N.J.S.A. 49:3-52(c)

86. Plaintiff repeats the allegations in the preceding paragraphs as if more fully set forth herein.

87. Pursuant to N.J.S.A. 49:3-52:

It shall be unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly

(c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

88. As demonstrated above, First Standard engaged in an act, practice, or course of business which operated or would operate as a fraud or deceit upon certain customers, including, by

facilitating a pattern of unauthorized, excessive, and/or unsuitable trading activity by its agents in the accounts of several customers, charging commissions and fees despite any assurances to the contrary, and/or by omitting the amount of the commissions and fees.

89. Each act, practice, or course of conduct that operated as a fraud or deceit upon First Standard customers is a violation of N.J.S.A. 49:3-52(c) by First Standard.

90. Each violation of N.J.S.A. 49:3-52(c) upon each customer is a separate violation and is cause for the imposition of a civil monetary penalty pursuant to N.J.S.A. 49:3-70.1.

### COUNT III

#### ASSET FREEZE PURSUANT TO N.J.S.A. 49:3-69(a)(2)

91. Plaintiff repeats the allegations in the preceding paragraphs as if more fully set forth herein.

92. Pursuant to N.J.S.A. 49:3-69(a)(2), the assets, real and personal, of defendant First Standard should be frozen in that such assets should not be disposed of, transferred, dissipated, encumbered, or withdrawn, pending further order of this Court.

#### PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully requests the entry of a judgment pursuant to N.J.S.A. 49:3-47 to -83:

A. Finding that defendant First Standard engaged in the

acts and practices alleged above;

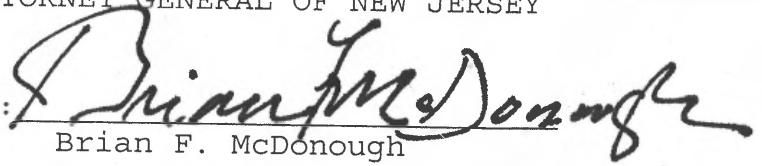
- B. Finding that such acts and practices constitute violations of the Securities Law;
- C. Permanently enjoining defendant First Standard from violating the Securities Law in any manner;
- D. Permanently enjoining defendant First Standard from engaging in the securities business in New Jersey in any capacity, including, but not limited to, acting as a broker-dealer, investment advisor representative, agent, or otherwise;
- E. Permanently enjoining the issuance, sale, offer for sale, purchase, offer to purchase, promotion, negotiation, solicitation, advertisement, or distribution from or within New Jersey of any securities, by or on behalf of defendant First Standard and its employees, agents, brokers, partners, stockholders, attorneys, successors, subsidiaries, and affiliates;
- F. Permanently enjoining defendant First Standard from controlling any issuer as that term is defined in N.J.S.A. 49:3-49(h);
- G. Freezing the assets of defendant First Standard, and enjoining all persons who receive actual or constructive notice of this Order from directly or

indirectly disposing of, transferring, selling, dissipating, encumbering, liquidating, or withdrawing any assets or property, real or personal, owned or controlled by defendant First Standard;

- H. Enjoining defendant First Standard and each and every person who receives actual or constructive notice of this order, from destroying or concealing any books, records, and documents relating in any way to the business, financial, and personal affairs of the defendant and any and all bank and/or brokerage accounts under their direct or indirect control, jointly or individually.
- I. Assessing civil monetary penalties against defendant First Standard for each violation of the Securities Law in accordance with N.J.S.A. 49:3-70.1;
- J. Requiring defendant First Standard to pay restitution and disgorging all profits or funds gained through violations of the Securities Law;
- K. Requiring defendant First Standard to disgorge all profits or funds gained directly or indirectly from violations of the Securities Law; and
- L. Affording Plaintiff any additional relief the Court may deem just and equitable.

GURBIR S. GREWAL  
ATTORNEY GENERAL OF NEW JERSEY

By:



Brian F. McDonough  
Assistant Attorney General  
Attorney ID No. 026121980

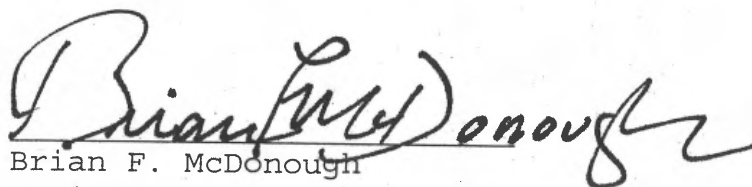
Andrew H. Yang  
Deputy Attorney General  
Attorney ID No. 066382013

Alex Schmidt  
Deputy Attorney General  
Attorney ID No. 199232016

DATED: October 31, 2019  
Newark, New Jersey

RULE 1:38-7(c) CERTIFICATION OF COMPLIANCE

I certify that confidential personal identifiers have been redacted from documents now submitted to the court, and will be redacted from all documents submitted in the future in accordance with Rule 1:38-7(b).

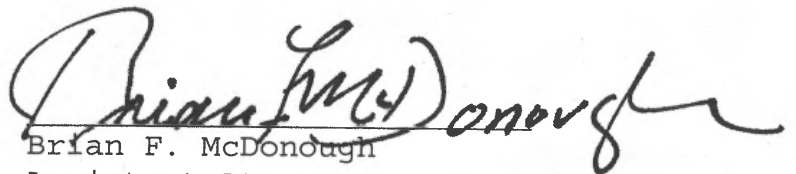
A handwritten signature in black ink, appearing to read "Brian F. McDonough", written over a horizontal line.

Brian F. McDonough  
Assistant Attorney General  
Attorney ID No. 026121980

Dated: October 31, 2019  
Newark, New Jersey

RULE 4:5-1 CERTIFICATION

I certify, to the best of my information and belief, that the matter in controversy in this action involving the aforementioned violations of the Securities Law in this complaint, is not the subject of any other action in any other court of this State, except to note that that the Bureau has issued a Summary Order of Revocation against First Standard. I certify, to the best of my information and belief, that the matter in controversy in this action is not the subject of a pending arbitration proceeding in this State, nor is any other action or arbitration proceeding contemplated. I certify that there is no other party who should be joined in this action at this time.

A handwritten signature in black ink, appearing to read "Brian F. McDonough", is written over the printed name.

Brian F. McDonough  
Assistant Attorney General  
Attorney ID No. 026121980

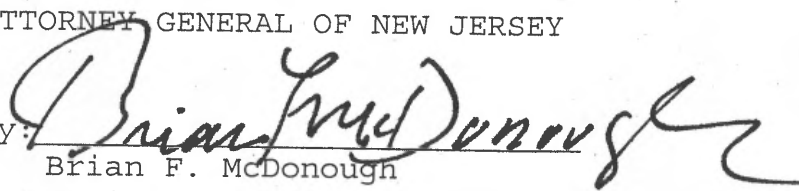
Dated:       October 31, 2019  
              Newark, New Jersey

DESIGNATION OF TRIAL COUNSEL

Pursuant to Rule 4:25-4, Assistant Attorney General Brian F. McDonough is hereby designated as trial counsel for Plaintiff in this action.

GURBIR S. GREWAL  
ATTORNEY GENERAL OF NEW JERSEY

By:

  
Brian F. McDonough  
Assistant Attorney General  
Attorney ID No. 026121980

Dated: October 31, 2019  
Newark, New Jersey

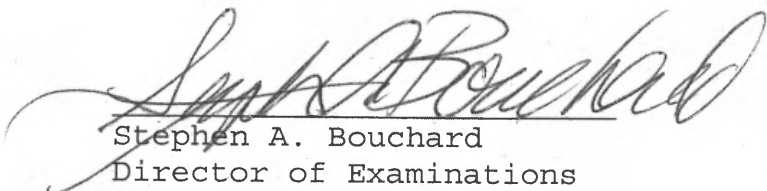


VERIFICATION

I, Stephen A. Bouchard, of full age, hereby certify:

I am the Director of Examinations with the New Jersey Bureau of Securities. I have been employed by the Bureau in this capacity since January 2012. As the Director of Examinations, I conduct examinations of firms and entities that are registered with the Bureau, and investigations of possible violations of the New Jersey Uniform Securities Law (1997), N.J.S.A. 49:3-47 to -83 and Bureau regulations promulgated thereunder, N.J.A.C. 13:47A-1.1 to -14.16. I have read the Verified Complaint and certify that the allegations contained in the Verified Complaint are true to the best of my knowledge and belief.

I certify that the foregoing statements are true. I am aware that if any statement made herein is wilfully false, I am subject to punishment.

  
Stephen A. Bouchard  
Director of Examinations

Dated: October 31, 2019  
Newark, New Jersey