

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

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

Basis Financial, LLC
(CRD No. 43694),

Armen Karapetyan
(CRD No. 2634993), and

Gabriel Goldfine
(CRD No. 1971502),

Respondents.

Disciplinary Proceeding No.
2009016158001

Hearing Officer: LBB

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Dated: September 28, 2012

INTRODUCTION

Disciplinary Proceeding No. 2009016158001 was filed on December 20, 2011 by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). FINRA amended its Complaint on February 16, 2012. Respondents Basis Financial LLC ("Basis" or "the Firm"), Armen Karapetyan, and Gabriel Goldfine submitted an Offer of Settlement (Offer) to Complainant dated September 21, 2012. 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, Respondents have consented, without admitting or denying the allegations of the Amended Complaint, 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 Amended Complaint (as further amended herein), and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA.

SUMMARY

1. For more than three years, Basis, its owner and CEO, Karapetyan, and one of its registered representatives, Goldfine, repeatedly violated FINRA and SEC securities rules and regulations in selling four private placement offerings involving highly suspect and financially struggling issuers. The pattern of violations across these offerings included both material misrepresentations and omissions.

2. In three of the offerings, Respondents received substantial undisclosed compensation – commissions, fees, mark-ups, salary, or loans – and also failed to disclose other material facts to investors: (i) the issuers had substantial outstanding debts to be paid from proceeds raised in the offerings; (ii) the proceeds from the offerings were to be used to make unsecured loans to other entities Karapetyan owned and controlled; or (iii) the issuers' financial condition was tenuous.

3. To induce investors, Respondents also made baseless representations that IPOs were imminent in three of the offerings and, for each, highly specific representations that the shares would substantially increase after the IPO. Finally, in one of the offerings, Respondents

fraudulently misrepresented the share price, resulting in \$55,000 in additional compensation (\$25,000 of which was ultimately received as compensation by Karapetyan and Goldfine).

4. Basis collected approximately \$1.8 million from 43 customers while earning approximately \$228,000 in commissions and fees. Through these private placements, Respondents violated NASD Rules 2120 and 2110, and FINRA Rules 2020 and 2010.

5. In addition to the violations occurring during the offerings set forth herein, Basis and Karapetyan violated several other NASD and FINRA rules by (i) failing to conduct reasonable due diligence (NASD Rules 2310 and 2110; and FINRA Rule 2010); (ii) participating in the sale of unregistered shares (NASD Rule 2110); (iii) failing to meet its AML compliance, testing, and training obligations (NASD Rule 3011); (iv) failing to capture and preserve business email communications sent through personal email accounts (Section 17(a) of the Exchange Act, Rule 17a-4 promulgated thereunder (Basis only); NASD Rules 3110, 3010, and 2110); (v) failing to establish and maintain reasonable supervisory systems and procedures (NASD Rule 3010); (vi) failing to report customer complaints (NASD Rule 3070); and (vii) failing to establish and maintain a supervisory system to review and monitor customer accounts of Karapetyan (NASD Rule 3012(a)(2)(A), (C)) (Basis only).

RESPONDENTS AND JURISDICTION

6. Basis has been a member of FINRA since October 1997 and is a privately-held broker dealer which operates one branch in Florida. Basis employed approximately seven registered representatives. At all times relevant to the Complaint, Basis was a member of FINRA and remains subject to the jurisdiction of FINRA under Article IV, Section 1 of FINRA's By-Laws.

7. Karapetyan entered the securities industry in 1995 as a registered representative of another FINRA member. Karapetyan passed his Series 7 and 63 examinations in August 1997, and passed his Series 24 examination in July 2001. From approximately June 1995 to July 2003, Karapetyan worked in a registered capacity for seven different FINRA members. Karapetyan has worked for Basis since August 2003, where he is the majority owner, registered representative and registered principal. During the period from March 16, 2006 to October 8, 2010, Karapetyan was the Firm's Chief Executive Officer, Chief Compliance Officer and AML Compliance Officer. In these capacities, Karapetyan was responsible for the overall supervision of the Firm, including supervision of all registered representatives at the Firm, supervision of the Firm's private placement business, and supervision of all AML-related activities. In addition, Karapetyan was responsible for creating and maintaining the Firm's written supervisory procedures ("WSPs"). At all times relevant to the Complaint, Karapetyan was registered through FINRA and remains subject to FINRA's jurisdiction under Article IV, Section 1 of FINRA's By-Laws.

8. Goldfine entered the securities industry in 1990 as a registered representative of another FINRA member. Goldfine passed his Series 7 examination in April 1991 and passed his Series 63 examination in May 1991. From approximately May 2006 to July 2008, Goldfine was a registered representative of Basis. Goldfine is currently a registered representative of another FINRA member. At all times relevant to the Complaint, Goldfine was registered through FINRA and remains subject to FINRA's jurisdiction under Article IV, Section 1 of FINRA's By-Laws.

FIRST CAUSE OF ACTION¹
NASD Conduct Rules 2110 and 2120, and FINRA Rules 2010 and 2020
-- Use of Manipulative, Deceptive or Other Fraudulent Devices

9. The Department realleges and incorporates by reference paragraphs 1-8 above.

10. NASD Conduct Rule 2120 and FINRA Rule 2020 provide that no member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive, or other fraudulent device or contrivance.

11. Respondents, by making a series of material misrepresentations and omissions, and engaging in other misconduct in connection with the sale of private placement offerings to investors outside the state of Florida using the mails or other means or instrumentalities of interstate commerce, violated NASD Conduct Rule 2120 and FINRA Rule 2020.

12. Respondents' conduct was also inconsistent with high standards of commercial honor and just and equitable principles of trade, and therefore in violation of NASD Rule 2110 (for conduct occurring prior to December 15, 2008) and FINRA Rule 2010 (for conduct occurring thereafter).

FORUS FUND/ACCOONA STOCK

13. Accoona was founded in February 2004. The company was a venture between Marc Armand Rouso ("Rouso") and the China Daily Information Corporation and claimed to be developing an internet search engine. After an unsuccessful attempt to sell shares publicly in London in 2007, the company began to pursue a public offering in the United States.

14. In or around January 2007, Karapetyan and Goldfine became aware that 2,000,000 shares of Accoona stock were available for purchase in a private sale at \$5.00 per share, with a 100,000 share minimum.

¹ As amended herein.

15. In or around March 2007, Karapetyan and Goldfine began soliciting investors for the private offering of Accoona stock. Lacking customers with sufficient liquidity to meet the 100,000 share minimum, Karapetyan and Goldfine incorporated an entity named the Forus Partner Fund, L.P. ("Forus Fund") to pool investor funds.

16. Basis did not create or provide any offering documents to investors in the Forus Fund.

17. During March and April 2007, Basis, Karapetyan and Goldfine succeeded in getting 12 people to invest \$605,000 in the Forus Fund for 110,000 shares of Accoona. The Forus Fund used the proceeds from investors to purchase 100,000 shares of Accoona directly and 10,000 shares indirectly through an undisclosed fund called the Edge Fund.

Name	Date of Investment	Amount
RS	3/21/2007	\$110,000
PL	3/26/2007	\$22,000
KC	4/2/2007	\$55,000
AB	4/5/2007	\$5,500
EH	4/6/2007	\$55,000
AR	4/12/2007	\$55,000
JL	4/12/2007	\$20,000
RS	4/18/2007	\$110,000
JR	4/18/2007	\$100,000
GT	4/19/2007	\$22,000
JL	4/19/2007	\$7,500
JR	4/24/2007	\$10,000
GT	4/24/2007	\$21,000
GL	4/24/2007	\$1,000
IL	4/24/2007	\$11,000

18. Accoona's planned IPO was unsuccessful. In December 2007 Accoona informed its investors that it was going out of business because it was insolvent and its line of credit had

been terminated. The Firm's customers who invested in Accoona lost the entire amount of their investment.

Fraudulent Undisclosed Compensation from the Sale of Accoona Stock

19. Basis and Karapetyan misrepresented the price of Accoona shares offered through the Forus Fund and received additional undisclosed compensation.

20. From March 20, 2007 to July 12, 2007, Karapetyan sent letters to customers RS, PL, JR, MK, and AB stating that the Accoona shares, offered through the Forus Fund, were purchased at price of \$5.50 per share. Contrary to what these customers were told, the shares were actually purchased for \$5.00 per share.

21. Neither the Firm, nor Karapetyan or Goldfine disclosed to investors that the investors would be paying 10% (\$55,000) more for the 110,000 shares of Accoona stock by purchasing through the Forus Fund.

22. Karapetyan and Goldfine split \$25,000 of the additional \$55,000, with each receiving \$12,500.

23. The Firm, Karapetyan and Goldfine did not disclose to investors in the Forus Fund that investors would pay \$55,000 more for Accoona shares than what the Forus Fund and Edge Fund paid for the shares or that Karapetyan and Goldfine would be paid \$25,000 out of the excess funds collected. Information regarding such compensation was material and should have been disclosed.

Material Omissions Regarding Transfer of Assets to the Edge Fund

24. On June 4, 2007, Basis and Karapetyan transferred approximately \$93,000 of the proceeds raised in the Forus Fund offering into a newly formed hedge fund known as the Edge Fund. The Forus Fund investors received "Class A" shares of the Edge Fund, which, according

to the private placement memorandum, had a lock-up provision and was “long-term, illiquid, and subject to unique risks.” This transfer was made without disclosure to the Forus Fund investors, who had not been informed prior to the transfer of the existence of the Edge Fund or of any conditions or limitations regarding their investments in the Forus Fund. Further, the Edge Fund offering memorandum did not disclose the existence of the Forus Fund or its previous investment into Accoona.

25. The Edge Fund used a portion (\$50,000) of the \$93,000 to purchase 10,000 shares of Accoona. The additional undisclosed \$25,000 in compensation paid to Karapetyan and Goldfine as set forth above was paid from the remaining \$43,000. The transfer of proceeds to the Edge Fund was a material fact that should have been disclosed.

Material Omissions Regarding Compensation

26. Pursuant to an agreement between Basis and Prestige Financial Center, Inc. (“Prestige”), Basis received an additional 10% commission payment for all funds received for the purchase of Accoona shares.

27. On April 30, 2007, Basis received a commission payment in the amount of \$50,000 (for the original 100,000 shares purchased directly by the Forus Fund). Goldfine personally received \$25,000 out of the \$50,000 in commissions received by Basis. On June 8, 2007, Basis received an additional commission payment of \$5,000 (for the additional 10,000 shares purchased by the Edge Fund).

28. Basis, Karapetyan, and Goldfine failed to disclose the commission arrangement with Prestige to investors in the Forus Fund, and also failed to disclose the actual receipt of commissions. The receipt of commissions was a material fact that should have been disclosed.

Material Misrepresentations Regarding Accoona IPO and Expected Share Price

29. Basis, Karapetyan, and Goldfine made material misrepresentations to investors regarding when Accoona's planned IPO would occur and what would happen to Accoona's share price following such IPO.

30. In March 2007, Karapetyan and Goldfine called customer RS and recommended that he invest in Accoona. During this call, Karapetyan and Goldfine told RS that Accoona would have an IPO within six months, and that after the IPO the stock would go to \$25 per share.

31. In March 2007, Karapetyan and Goldfine called customer PL and recommended that he invest in Accoona. During this call, Karapetyan and Goldfine told PL that Accoona would have an IPO within two to three months and that he needed to invest in the Forus Fund immediately in order to buy Accoona stock before the IPO. During the same call, Karapetyan and Goldfine told PL that they projected that after the IPO Accoona stock would go up to \$15 to \$20 per share.

32. In April 2007, Karapetyan and Goldfine called customer EH and recommended that he invest in Accoona. During this call, Karapetyan and Goldfine told EH that Accoona would have an IPO within two to three months and that he needed to invest in the Forus Fund immediately in order to purchase Accoona stock ahead of the IPO. Karapetyan and Goldfine told EH during the same call that after the IPO the Accoona investment would double in value.

33. In March 2007, Karapetyan and Goldfine called customer AB and recommended that he invest in Accoona. During this call, Karapetyan and Goldfine told AB that Accoona would have an IPO within two to three months.

34. Karapetyan and Goldfine had no reasonable basis for the representations made to customers RS, AB, PL, and EH regarding the timing of an Accoona IPO and the predicted increases in share price thereafter.

PHARMCO

35. Pharmco, LLC ("Pharmco") was established in 2005 as a Florida Limited Liability Corporation by George and Elena Romanenko. Pharmco operated a single retail pharmacy store located in North Miami Beach, Florida.

36. On July 2, 2007, George Romanenko ("Romanenko") relinquished control of Pharmco to Karapetyan and two of Karapetyan's business associates, Avraham Friedman and Andy Subachan, by signing an assignment of ownership agreement. The same day, Pharmco, through Karapetyan, signed a promissory note in which it agreed to pay Romanenko \$222,886 plus interest by no later than April 3, 2009.

37. On February 1, 2010, Pharmco entered into an "Investment Banking Agreement" with Basis. The agreement provided that Basis would receive \$5,000 per month in compensation for providing "ongoing investor awareness and business advisory services" to Pharmco. In addition, Pharmco agreed to pay Basis a commission of 10% on all "principal money raised pursuant to any investment banking activities that Basis Financial is engaged on behalf of" Pharmco.

38. A total of 16 Basis customers invested approximately \$500,000 in Pharmco from January 28, 2010 through October 22, 2010:

Name	Date of Investment	Amount
ML	1/28/2010	\$50,000
RB	1/29/2010	\$50,000
CD	2/3/2010	\$20,000
PH	3/3/2010	\$25,000

JH	3/5/2010	\$50,000
TW	4/13/2010	\$15,000
GW	4/30/2010	\$100,000
CM	5/4/2010	\$10,000
TC	5/7/2010	\$10,000
GW	6/28/2010	\$10,000
CG	7/7/2010	\$25,000
GW	7/15/2010	\$10,000
CH	7/15/2010	\$30,000
JL	8/5/2010	\$20,000
KR	8/17/2010	\$20,000
RT	8/27/2010	\$30,000
TC	10/4/2010	\$15,000
MB	10/22/2010	\$10,000

39. Investors in the Pharmco offering received a document entitled “Executive Summary,” which, according to the Firm, was intended to provide information about Pharmco to investors. The last page of the Executive Summary, entitled “Capital Needs,” stated that Pharmco was currently raising \$500,000 to expand its business into new arenas and planned to take the company public. The Capital Needs section disclosed that the funds would be used in one of two ways, as follows:

1. \$75,000- Repayment of a 2007 note from SFH-1, now Protech Global Holdings Corp.
2. \$100,000- Costs incurred as part of the merger and acquisition process with a public entity; *i.e.*, accounting fees, auditor fees, legal fees, etc.
3. \$120,000- Advertising and Marketing: direct mailing, local cable television ads, print ads, marketing materials, etc.
4. \$60,000- Three new marketing and delivery vehicles
5. \$75,000- Increasing the sales force
6. \$70,000- General expansion and improvements

Alternatively:

1. \$75,000- Repayment of a 2007 note from SFH-1, now Protech Global Holdings Corp.
2. \$400,000- Acquisition of a publicly traded company and the costs associated with such an acquisition
3. \$25,000- General Expansion and improvements

40. Basis and Karapetyan failed to disclose numerous material facts to investors solicited in the Pharmco offering that should have been disclosed.

Material Omissions Concerning Debt Owed to George Romanenko

41. At the time of the Pharmco offering, the promissory note issued to Romanenko on July 2, 2007 in the amount of \$222,886 was still outstanding and was in default, as Pharmco never tendered any of the payments due to Romanenko.

42. On March 31, 2010, counsel for Romanenko sent Pharmco a letter demanding repayment of the debt, threatening legal action. On May 5, 2010, Pharmco agreed to pay Romanenko \$100,000 to settle the claim. The settlement was paid out of funds raised from investors in the Pharmco offering.

43. Basis and Karapetyan did not disclose to investors in the Pharmco offering the existence of the promissory note, the subsequent default on the note, Romanenko's demand for repayment of the note, or the payment to Romanenko of \$100,000 from investor funds to settle the debt, all of which were material facts that should have been disclosed.

44. The amount of both the debt (\$222,996) and the ultimate settlement (\$100,000) dwarfed Pharmco's assets and net income around the time of the offering, which were \$23,059 and \$8,117, respectively, according to the company's 2009 year-end financial statements.

Material Omissions Concerning Commissions and Consulting Fees

45. Pursuant to its investment banking agreement with Pharmco, Basis was to receive \$5,000 per month in advisory fees as well as a 10% commission on all funds raised in the offering.

46. Basis and Karapetyan failed to disclose the advisory fee or commissions to seven customers who invested in Pharmco prior to May 2010. The customers who did not receive this disclosure were ML, RB, CD, PH, JH, TW, and GW.

47. Basis ultimately received \$15,000 in undisclosed advisory fees and \$60,000 in undisclosed commissions through the Pharmco offering. These were material facts that should have been disclosed.

Material Omissions Concerning Pharmco's Poor Financial Condition

48. Pharmco's balance sheet for year-end 2008 shows that it had no assets, a negative bank account balance of (\$8,380.63), and liabilities of \$84,524, while its 2008 year-end income statement indicates that it had a net loss of (\$14,881).

49. Pharmco's balance sheet for year-end 2009 shows that Pharmco's only asset was \$23,053 in cash held in three bank accounts, while its total liabilities had increased to \$101,464. According to its 2009 income statement, Pharmco had a net income of \$8,117.00.

50. In contrast, the Executive Summary provided to investors in the Pharmco offering falsely stated that Pharmco "has experienced dramatic growth over the past two years," that "the company has become a known name in Miami-Dade County," offered "an extraordinary range of Durable Medical Equipment (DME) not usually seen in retail pharmacies" as well as "unparalleled" personal service. These representations falsely portrayed Pharmco as an established, successful business. In fact, Pharmco was a single, stand-alone pharmacy with virtually no assets or earnings and significant liabilities.

51. The Executive Summary and other offering documents did not disclose any risks associated with the Pharmco offering. In particular, the offering documents did not contain any

discussion of Pharmco's poor financial condition and lack of realistic prospects for improving its business.

52. The fact that Pharmco was an extremely risky investment due in part to its poor financial condition was material and should have been disclosed to investors.

SFH1

Material Omissions/Misuse of Proceeds in the Sale of SFH1 Acquisition Corp.

53. Karapetyan incorporated SFH1 Acquisition Corporation ("SFH1") in November 2006 and is an officer and director of the company. Karapetyan paid \$250 to acquire 50% of the shares of SFH1. The remaining 50% of the shares were owned by a Basis customer, Joseph Rached. SFH1, a shell company, was purportedly formed to identify potential merger and acquisition candidates. Prior to the SFH1 offerings, SFH1 issued two promissory notes totaling \$30,000 to Joseph Rached.

54. Basis conducted two offerings for SFH1 pursuant to Rule 506 of Regulation D. The first offering began in or around August 2007 and raised \$300,000 from 11 investors between August 2, 2007 and October 1, 2007. The second offering began in or around February 2008 and raised \$306,500 from two investors, on March 24, 2008 and April 3, 2008. At the time of these offerings, there was no public market for the company's stock.

55. Pursuant to the private placement memoranda, the SFH1 offerings proposed to use proceeds "for general working capital purposes including payment of professional fees associated with completing our due diligence, audit and legal fees." The offering memorandum also stated that SFH1 "reserves the right to retain broker/dealers and pay the broker/dealer a commission of up to 10% of the securities sold."

56. On October 15, 2007, shortly after the first SFH1 offering closed, SFH1 made an unsecured loan in the amount of \$50,000 to Pharmco, a company for which Karapetyan was an owner and served as a managing member. On December 3, 2007, the SFH1 made a second unsecured loan to Pharmco in the amount of \$25,000.

57. Basis and Karapetyan failed to disclose to investors in either SFH1 offering that Karapetyan would use investor funds to make two unsecured loans to Pharmco. The offering memoranda did not disclose that investor funds could be used to make unsecured loans to third parties such as Pharmco. These were material facts that should have been disclosed.

58. Karapetyan wrote himself two checks for \$10,000 each from the SFH1 bank account, funded from proceeds from the first SFH1 offering. The first check was written on February 21, 2008; the second check was written on March 21, 2008.

59. Basis and Karapetyan failed to disclose to investors in the first SFH1 offering that Karapetyan would receive compensation from the proceeds from their investment. The first offering memorandum (September 2007) did not disclose that officers of SFH1 would be compensated in any way. This compensation was a material fact that should have been disclosed.

60. On July 2, 2008, Basis and Karapetyan paid off the promissory notes to Rached in the amount of \$44,913.72 (including the \$30,000 of principal plus interest) from the proceeds of the SFH1 offering.

61. Basis and Karapetyan failed to disclose to investors SFH1's outstanding obligation to Rached and misused investor proceeds by paying off the company's debt to Rached using funds collected in the SFH1 offerings. The debt to Rached and payment of the debt from proceeds of the offerings were material facts that should have been disclosed.

Material Misrepresentations in the Sale of SFH1 Acquisition Corp.

62. Basis and Goldfine made material misrepresentations to customer SM to induce him to invest in the second SFH1 offering. In or around September 2007, Goldfine called SM to recommend that he invest in SFH1. During this call, Goldfine told SM that SFH1 was going to go public within three to six months of SM's investment. During that call and later calls in or around September 2007, Goldfine told SM that once SFH1 went public the shares would be worth \$1.00 each, meaning that an investment of \$30,000 would be worth \$500,000 at the time of the offering.

63. Based on these representations, in or around October 2007, SM invested \$30,000 to purchase 500,000 shares of SFH1 stock.

64. Subsequent to SM's investment, Goldfine continued to represent that SFH1 was going to go public in the near future. There has been no public market for SFH1 stock at any time.

65. Goldfine had no reasonable basis for the representations he made to SM regarding the timing of SFH1 going public or price predictions for the stock thereafter.

MMAX

Material Misrepresentations in the Sale of MMAX

66. Basis and Goldfine made material misrepresentations and omissions in the sale of an 8% convertible promissory note offered by MMAX, a Florida company purportedly involved in the production of mixed martial arts fight events in Latin America. This note was sold to one customer, SM, who invested \$120,000 in a convertible note dated November 16, 2007.

67. Goldfine recommended that SM invest in MMAX during a series of telephone calls in or around November 2007. During these telephone calls, Goldfine told SM that MMAX

was a profitable company that owned all of the rights to mixed martial arts fights in Latin America and had already booked several fights in the region. Goldfine also told SM, without any factual basis, that MMAX was going to go public through an initial public offering within 12-18 months of his investment. In addition, Goldfine told SM during these calls that after the IPO he would be able to convert the note into free-trading shares of MMAX and that the shares would be trading at four-to-twelve times SM's investment of \$120,000.

68. During a telephone call in approximately August 2008, Goldfine told SM that a registration statement had been filed for MMAX with the SEC, although no such statement had in fact been filed. To date, MMAX has not made any filings with the SEC, or taken any steps to go public.

69. In so doing, all Respondents violated NASD Rules 2120 and 2110 (for conduct occurring prior to December 15, 2008), and Respondents Basis and Karapetyan also violated FINRA Rules 2020 and 2010 (for conduct occurring thereafter).

**SECOND CAUSE OF ACTION
(Against Basis and Karapetyan)
NASD Rules 2310 and 2110 – Reasonable Basis Suitability**

70. The Department realleges and incorporates by reference paragraphs 1-69 above.

71. Basis and its registered representatives have a duty to conduct a reasonable investigation concerning securities prior to recommending the securities to customers, to understand the potential risks and rewards associated with securities and to determine whether the recommendations are suitable for at least some customers based on that understanding.

72. Basis and Karapetyan failed to conduct a reasonable investigation prior to recommending that its customers invest in the Forus Fund.

73. Despite the presence of obvious red flags as alleged below, Basis and Karapetyan failed to conduct a reasonable investigation prior to recommending that customers invest in the Forus Fund to purchase Accoona stock. Had they conducted a reasonable investigation, they would have determined that this security was not suitable for any of the Firm's customers.

74. Rather than conducting a reasonable investigation, Basis and Karapetyan relied almost entirely on unsubstantiated statements touting the company as "the next Google" and indicating that the company was planning an IPO. Although Respondents Basis and Karapetyan requested audited financial data from Accoona, they never received audited information. Basis and Karapetyan also asked repeatedly for the identity of the shareholder selling the large block of shares being offered by the Firm to its customers, but were never given this information. As it turns out, the selling shareholder was Rousso, the company's founder, who continued to provide consulting services to Accoona, but who had been convicted of securities fraud in both the United States and France and had been banned from working in the securities industry. Karapetyan was aware of Rousso's criminal history prior to offering the security to customers.

75. Even the very limited due diligence actually conducted by Karapetyan and Goldfine raised significant red flags that should have prompted additional investigation. The fact that the issuer did not provide the audited financial information requested by the Firm was itself a significant red flag. In addition, the March 2006 Accoona business plan reviewed by Karapetyan and Goldfine contained unaudited financials indicating that the company generated almost no revenues from its search engine technology. The financials also stated that Accoona experienced net losses in 2004 in the amount of \$4,833,354 and anticipated losses in 2005 and 2006.

76. By virtue of the foregoing conduct, Basis and Karapetyan violated NASD Rules 2310 and 2110.

**THIRD CAUSE OF ACTION
(Against Basis and Karapetyan)
NASD Rule 2110 – Unregistered distribution of Aurus Corporation Stock**

77. The Department realleges and incorporates by reference paragraphs 1-76 above.

78. Aurus Corporation (“AURUS” or “AURC”) was incorporated in Delaware on July 6, 2005.

79. On or about October 14, 2006, Normand Terroux (“Terroux”) opened customer accounts at Basis for three entities incorporated in the British Virgin Islands. The account opening documents for all three list Terroux as the sole officer and individual with power of attorney. All three Terroux entities were incorporated approximately one month prior to the opening of the accounts at Basis.

80. Karapetyan was the registered representative of record for each of these accounts and was responsible for each account as well as for executing transactions in these accounts.

81. Two days later, on October 16, 2006, each of the three Terroux entities deposited AURUS share certificates into their accounts at Basis as follows:

Customer	Total Shares	Total # of Certificates	Certificate #'s
[REDACTED]	6,300,000 shares	7	[REDACTED]
	6,140,000 shares	7	
	6,560,000 shares	7	
Total Shares	19,000,000		

82. The deposits totaled 19 million shares, which represented approximately 17% of AURC’s 109,671,530 outstanding shares as of January 20, 2006.

83. At the time of the deposit, there was no registration statement in effect for AURC and there was no applicable exemption from registration requirements.

84. AURC never submitted any SEC filings or published any information indicating how the Terroux entities received AURC shares.

85. One of the accounts, Strathcon, purchased an additional 200,000 shares of AURC on the open market. After this purchase and the deposit of the certificates, the three accounts sold AURC shares as follows:

Customer	Total Shares Sold	Date Range of Sales	Price Range of Sales	Sales Proceeds (net of commissions)	Total Commissions
	6,300,000	11/08/2006- 4/20/2007	\$0.09 - \$0.19	\$785,445.45	\$33,735
	6,140,000	5/11/2007 – 5/29/2007	\$0.094 - \$0.16	\$789,512.52	\$31,530
	6,760,000	2/9/2007 – 5/24/2007	\$0.055 - \$0.17	\$625,637.01	\$28,980
TOTAL	19,200,000			\$2,200,594.98	\$94,245.00

86. Karapetyan had the sole responsibility at Basis for selling the AURC shares from the Terroux accounts on the open market. These transactions generated \$94,245 in commissions for the Firm.

87. No registration statement was in effect for the AURC shares at the time of these sales and there was no applicable exemption from registration requirements.

88. Almost all of the proceeds from the sale of AURC stock were wired out of the accounts shortly after the sales. On March 6 and March 19, 2007, the Upper creek account sent wire transfers to a bank in Monaco for \$250,000 and \$470,000, respectively. On April 5, May 4, and May 24, 2007, the Strathcon account sent wire transfers to a bank in Monaco for \$145,000, \$300,000 and \$181,000, respectively. On June 7, 2007, the Flarefort account sent a wire transfer to a bank in Gibraltar for \$790,747.53.

89. In total, \$2,136,747.53 of the \$2,200,594.98 in net proceeds from the sale of AURC shares was wired out of the three Terroux accounts held at Basis.

90. The activity in AURC stock raised several red flags that should have prompted the Firm to investigate the facts and circumstances surrounding these transactions. These red flags include the following:

- a. the AURC stock certificates deposited at the Firm were all issued on October 2, 2006, just prior to their deposit at the Firm on or around October 16, 2006;
- b. the Terroux entities Flarefort, Strathcon and Upper creek had no apparent business purpose, and appeared to have been set up simply to liquidate the shares of AURC stock;
- c. the Terroux entities were incorporated in the British Virgin Islands, designated as a jurisdiction of money laundering concern by the State Department in 2006 and 2007;
- d. there was no registration statement in effect at the time of the deposit or sale of the AURC shares; and
- e. the deposited shares represented a significant portion (approximately 17%) of all outstanding AURC shares.

91. Notwithstanding these obvious red flags, Basis and Karapetyan failed to undertake any investigation to determine the circumstances under which the Terroux entities obtained the AURC shares, including when the shares were obtained, how the shares were obtained, and whether the shares were paid for.

92. Section 5(a) of the Securities Act of 1933 prohibits any person, directly or indirectly, from selling a security using interstate commerce unless a registration statement is in

effect as to the offer and sale of that security or there is an applicable exemption from registration requirements. Section 5(c) of the Act prohibits the offer or sale of a security unless a registration statement is available as to such security and has been filed with the SEC, or an exemption is available.

93. Basis and Karapetyan participated in the sale of unregistered shares of AURC. In so doing, they violated NASD Rule 2110 by failing to comply with the requirements of Section 5 of the Securities Act of 1933.

**FOURTH CAUSE OF ACTION
(Against Basis and Karapetyan)
NASD Rules 3011(a), (c) and (e) and 2110**

**– Failure to Establish and Maintain Reasonable Suspicious Activity Monitoring Program;
Failure to Conduct Independent AML Testing; Failure to Conduct AML Training**

94. The Department realleges and incorporates by reference paragraphs 1-93 above.

95. As the Firm's AML Compliance Officer, Karapetyan was responsible for creating and maintaining the Firm's AML procedures. In addition, Karapetyan was responsible for reviewing trading activity at the Firm in order to detect and, when appropriate, report transactions as required by the Bank Secrecy Act. Karapetyan was also responsible for the ensuring that the Firm complied with its AML testing and AML training requirements under NASD Rule 3011.

96. Between October 1, 2006 and May 31, 2007, the Firm's AML procedures concerning the identification and detection of suspicious activity consisted of 18 "red flags." For example, the Firm's AML procedures identified the following red flags:

- a. "The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business strategy."
- b. "The customer exhibits a lack of concern regarding risks, commissions, or other transaction costs."

c. “The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent business purpose or other purpose.”

d. “The customer appears to be acting as agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reason, to provide information or is otherwise evasive regarding that person or entity.”

e. “The customer account has wire transfers that have no apparent business purpose to or from a country identified as a money laundering risk or a bank secrecy haven.”

97. The Firm’s AML procedures required Karapetyan to conduct due diligence with respect to any of the red flags prior to proceeding with the transaction.

98. The activity in AURC stock was highly suspicious, and raised several of the red flags identified in the firm’s AML procedures. In particular:

a. Terroux held three accounts at Basis (Flarefort, Strathcon, and Uppercreek), which had no apparent purpose other than liquidating AURC stock and transferring the proceeds from the accounts. The entities were incorporated in the British Virgin Islands, designated as a jurisdiction of money laundering concern by the State Department in 2006 and 2007, shortly before the accounts were opened at Basis. All three accounts had the same residential address (in Quebec, Canada) and the same sole officer (Terroux).

b. The three Terroux accounts deposited AURC certificates, liquidated the positions and wired out the funds, notwithstanding the accounts’ stated investment objectives of long term growth. The shares deposited in the three Terroux accounts constituted approximately 17% of the total outstanding shares of AURC.

c. Between November and December 2006, the Uppercreek account paid approximately \$94,245 in commissions on 140 sell transactions with proceeds of approximately \$2.2 million. The commissions amounted to more than 4% of total proceeds.

d. Terroux appeared to be acting on behalf of control persons of AURC.

e. Over a three-month period the three Terroux accounts wired out over \$2.1 million in six wire transactions, five of which were sent to Monaco or Gibraltar, both of which were designated as jurisdictions of concern by the State Department.

f. In or around May 2007 the Firm was notified that its clearing agent, Penson, would cease conducting business with Select American Transfer Company (“Select American”), a transfer agent operating out of Toronto, Canada following notification that the Ontario Securities Commission was conducting an investigation into the activities of the agent. Select American registered the AURC shares. As such, Penson refused to effect transactions in AURC for the three accounts. Nevertheless, Basis allowed the liquidations of AURC stock to continue.

g. The stock was unregistered; there was no applicable exemption from registration requirements; and therefore the transactions constituted violations of Sections 5(a) and 5(c) of the Securities Act.

99. Despite the numerous red flags relating to the AURC transactions, Basis and Karapetyan failed to conduct any substantive due diligence before proceeding with the AURC transactions. Specifically, Basis and Karapetyan failed to conduct any inquiry into (i) the source of the AURC shares deposited into each of the three Terroux accounts; (ii) the registration status of the large number of AURC shares deposited into each of these accounts; (iii) Terroux’s role in acting at the behest of an undisclosed principal or a control person of AURC; and (iv) the execution of the wire transfers promptly following the sales of AURC stock.

100. NASD Rule 3011 requires firms to develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the firm’s compliance with the requirements of the Bank Secrecy Act. Pursuant to Rule 3011(a), the AML programs required

by Rule 3011 must establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under the Bank Secrecy Act.

101. Basis and Karapetyan violated NASD Rule 3011(a) by failing to establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of suspicious activity.

102. NASD Rule 3011(c) requires that firms provide for annual (on a calendar-year basis) independent testing for compliance by member personnel or by a qualified outside party.

103. Basis and Karapetyan failed to conduct an AML test during the calendar year 2008, in violation of NASD Rule 3011(c).

104. The Firm's 2007 AML test was conducted by Jay Weisberg, who at the time was the Firm's FINOP and Chief Financial Officer and reported to Karapetyan, the Firm's AML Compliance Officer. IM-3011-1 provides that independent testing may not be conducted by a person who reports to a firm's AML compliance officer. Weisberg was not independent for purposes of Rule 3011(c) and IM-3011-1. By failing to conduct an independent AML test in 2007, Basis and Karapetyan violated NASD Rule 3011(c).

105. NASD Rule 3011(e) requires that firms provide ongoing AML training for appropriate firm personnel. Basis and Karapetyan failed to conduct AML training during calendar year 2008, in violation of NASD Rule 3011(e).

106. By virtue of these violations of NASD Rule 3011(a), (c) and (e), Basis and Karapetyan also violated NASD Rule 2110.

FIFTH CAUSE OF ACTION
(Against Basis)
NASD Rules 3012(a)(2)(A), (C) and 2110; FINRA Rule 2010
– Failure to Establish and Maintain a Supervisory System to Review and Monitor
Customer Accounts of Karapetyan

107. The Department realleges and incorporates by reference paragraphs 1-106 above.

108. Karapetyan, the Firm's President, CEO, CCO and AML Compliance Officer, was also a producing manager. Between October 2008 and February 2009, Karapetyan was responsible for generating more than 20% of the revenues of the Firm based on a rolling 12-month period.

109. The Firm's written supervisory procedures state that a "Designated Principal" who is senior to or otherwise independent from a producing manager shall perform day-to-day supervisory reviews of the producing manager. Karapetyan is also the Designated Principal identified in the Firm's procedures.

110. Rule 3012(a)(2)(A) requires firms to establish, maintain and enforce written supervisory control procedures to review and supervise the customer account activity conducted by the firm's "branch office managers, sales managers, regional or district sales managers, or any person performing a similar supervisory function." In addition, Rule 3012(a)(2)(C) requires that producing managers who generate more than 20% of a firm's revenues be subject to heightened supervision.

111. Basis failed to identify Karapetyan as a producing manager generating more than 20% of the firm's revenue subject to heightened supervision. The Firm also failed to designate any individual at the Firm as responsible for his supervision. As a result, Karapetyan reviewed his own trades and his customer account activity was not supervised by any other individual at the Firm.

112. The failure of Basis to identify Karapetyan as a producing branch manager and to designate an appropriate individual as responsible for his supervision constituted a violation of NASD Rule 3012(a)(2)(A), (C), and NASD Rule 2110 (for conduct occurring prior to December 15, 2008) and FINRA Rule 2010 (for conduct occurring thereafter) by virtue of that violation.

**SIXTH CAUSE OF ACTION
(Against Basis and Karapetyan)
Exchange Act Rule 17a-4, NASD Rules 3110, 3010 and 2110
– Failure to Capture and Preserve Business Email Communications Sent Through
Personal Web-Based Email Accounts**

113. The Department realleges and incorporates by reference paragraphs 1-112 above.

114. Karapetyan used two outside, web-based (Yahoo!) email accounts for Firm business. Karapetyan used his Yahoo! accounts for business-related correspondence. Between March 20, 2007 and July 12, 2007, Karapetyan listed his personal Yahoo! email address rather than his Basis email address on confirmation letters sent to investors in the Forus Fund.

115. Basis did not store nor back up any emails from Karapetyan's Yahoo! accounts using its capture and storage service, Seccas. Basis failed to collect and retain the Yahoo! emails in any organized manner or systematic practice. As the CEO and CCO of the Firm, Karapetyan was responsible for making sure that the Firm complied with rules regarding capturing and preserving business email communications sent through personal, web-based email accounts. While one Yahoo email account was empty of emails when reviewed by Staff, the Staff found business emails had been exchanged through this account upon reviewing Karapetyan's other Yahoo! email account.

116. The failure to capture and preserve business email communications sent through personal, web-based email accounts constituted a willful violation by Basis of Section 17(a) of

the Exchange Act, Rule 17a-4 promulgated thereunder, and violations of NASD Rules 3110 and 3010, and NASD Rule 2110 by virtue of those violations, by Basis and Karapetyan.

**SEVENTH CAUSE OF ACTION
(Against Basis and Karapetyan)
NASD Rule 3070 and NASD Rule 2110; FINRA Rule 2010
– Failure to Report Customer Complaints**

117. The Department realleges and incorporates by reference paragraphs 1-116 above.

118. In a handwritten letter dated October 20, 2008, Basis customer PL requested that his account be closed, stating “I have repeatedly asked Armen [Karapetyan] to show me specific proof of where my 22,500 dollars went to and where it is now. . . . My next recourse and only available recourse is to seek legal advice and pursue this avenue vigorously.” As the CEO and CCO, Karapetyan was responsible for ensuring the Firm’s compliance with customer complaint reporting requirements. Neither Basis nor Karapetyan, however, reported this customer complaint to FINRA as required.

119. Basis received a complaint relating to the Forus Fund from Firm customers GL and IL in 2008. The complaint, dated September 5, 2007 and addressed to Richard Bookstaver (a manager of the Edge Fund), demanded immediate repayment of \$33,000 invested in the Edge Fund which was “taken . . . under false pretext and in gross violation of regulations governing securities transactions.” The complaint was sent to the Firm by Bookstaver in 2008. Neither Basis nor Karapetyan reported this customer complaint to FINRA as required.

120. On August 22, 2008, Firm customer AK sent a complaint to the Firm, noting poor performance in his account and citing losses resulting from trades in Akena Solar and MCG Capital Corporation. Neither Basis nor Karapetyan reported this customer complaint to FINRA as required.

121. In addition to failing to report these three customer complaints, Basis failed to report two other customer complaints in a timely manner to FINRA. Firm customer AB sent a complaint to the Firm via email on December 30, 2008, noting, in pertinent part, that “I have lost a bundle of money, which I can not afford to lose, with almost every position that you [Karapetyan] or Gabe [Goldfine] recommended to me . . . Several important positions that were recommended to me went to near worthless levels very quickly (e.g., Accoona, Syntax-Brilliant), and I’ve seen huge losses on others.” Karapetyan and Basis were required to report this complaint to FINRA by January 15, 2009. Karapetyan did not report this customer complaint until September 2, 2009.

122. In addition, Firm customer EH sent a complaint relating to his purchase of Accoona stock to Karapetyan on December 1, 2008. In his complaint letter, EH stated that “Accoona was never a traded or registered security and their website folded” and concluded the letter by stating “I now expect the full return of 55000 + interest and a detailed letter with the check! I can’t believe you would do this to me.” Karapetyan and Basis were required to report this complaint to FINRA by January 15, 2009. Karapetyan did not report this customer complaint until September 2, 2009.

123. The failure to report three customer complaints and to report two additional customer complaints in a timely manner to FINRA constituted a violation by Basis and Karapetyan of NASD Rule 3070 and NASD Rule 2110 (for conduct occurring prior to December 15, 2008) and FINRA Rule 2010 (for conduct occurring thereafter).

EIGHTH CAUSE OF ACTION
(Against Basis and Karapetyan)
NASD Rules 3010 and 2110 and FINRA Rule 2010
– Failure to Establish and Maintain Reasonable Supervisory Systems and Procedures

124. The Department realleges and incorporates by reference paragraphs 1-123 above.

125. In his capacity as the Firm's CEO, CCO and AML Compliance Officer, Karapetyan was responsible for the supervision of all registered representatives at the Firm, for the supervision of the Firm's private placement business, and for creating and maintaining the Firm's WSPs.

126. Basis and Karapetyan failed to establish and maintain a supervisory system, and failed to establish, maintain and enforce WSPs reasonably designed to achieve compliance with applicable laws, rules and regulations with respect to the Firm's business.

127. Between October 1, 2006 and May 31, 2007, Basis and Karapetyan failed to establish and maintain written procedures for the handling of deposits and liquidations of large blocks of low-priced securities to ensure that the Firm did not participate in or permit an unregistered distribution of securities. The Firm's WSPs did not address how the Firm would determine whether securities deposited and sold at the Firm were registered or exempt from registration. As a result, the unregistered distribution of Aurus stock proceeded without appropriate review by the Firm.

128. Basis and Karapetyan had inadequate systems and procedures relating to the reporting of customer complaints and, as a result, the Firm failed to report three customer complaints and failed to file two customer complaints in a timely manner.

129. Basis and Karapetyan also failed to establish and maintain written procedures to ensure that business email correspondence from personal web-based email accounts would be captured and preserved, as required by Exchange Act Rule 17a-4. Accordingly, two personal

email addresses belonging to Karapetyan were used for business communications, but were not captured or preserved by the Firm's email storage and retention system.

130. Basis and Karapetyan failed to establish and maintain a reasonable supervisory system, and failed to establish and maintain written procedures regarding the Firm's private placement business. The Firm's WSPs do not contain any procedures with respect to the review and approval of the content of private placement memoranda or any other offering materials used by the Firm in the sale of private placement offerings. Further, there is no requirement that Karapetyan, or any other principal of the Firm, review offering materials for accuracy or to determine whether material facts were disclosed. As a result, Basis and Karapetyan omitted numerous material facts in connection with private placement offerings sold by the Firm, including Forus Fund/Accoona, Pharmco, and SFH1.

131. In addition, Basis and Karapetyan failed to adequately supervise the registered representatives who participated in the sale of private placement offerings sold by the Firm. As a result, Goldfine made material misrepresentations in connection with the Forus Fund and SFH1 private placement offerings.

132. The failure of Basis and Karapetyan to establish and maintain a supervisory system, and establish, maintain and enforce written supervisory procedures, reasonably designed to achieve compliance with applicable laws, regulations and rules constituted violations by Basis and Karapetyan of NASD Conduct Rules 3010(a) and 3010(b), and, by virtue of violating those rules, NASD Rule 2110 (for conduct occurring prior to December 15, 2008) and FINRA Rule 2010 (for conduct occurring thereafter).

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondents from any future

misconduct, and represent a proper discharge by FINRA of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

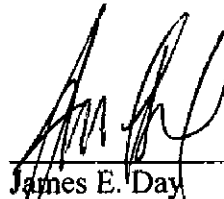
It is ordered that Basis Financial LLC be expelled from membership in FINRA; Armen Karapetyan be barred from association with any member firm; and Gabriel Goldfine be suspended from association in any capacity with any member firm for one year and fined \$37,500, due and payable either immediately upon reassociation with a member firm following the one-year suspension noted above, 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.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to FINRA Rule 8313(e), 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

A handwritten signature in black ink, appearing to read 'James E. Day', is written over a horizontal line.

James E. Day
Associate Vice President & Chief Counsel
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