

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

V.

NICHOLAS D. SKALTSOUNIS
(CRD No. 825000),

RICHARD LANDI
(CRD No. 1336947),

AND

JOHN B. GUYETTE
(CRD No. 1711681),

RESPONDENTS.

DISCIPLINARY PROCEEDING
Nos. 20090188190

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. From August 2008 through November 2008, Community Bankers Securities, LLC (the "Firm") recommended and sold securities issued by a company known as Medical Provider Funding Corporation VI (MP VI). At that time, the Firm's President, Nicholas D. Skaltsounis (Skaltsounis), its Head of Operations, Richard Landi (Landi), and its Senior Vice President, John B. Guyette (Guyette), each knew or should have known that the Firm sold MP VI securities using misrepresentations or omissions of material information, yet failed to disclose pertinent information to

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customers. Guyette, moreover, knowingly or recklessly mischaracterized the MP VI offering and made recommendations and sales of MP VI securities that were unsuitable for his customers, who, as Guyette knew, were conservative investors. Landi, moreover, failed to ensure that the Firm established a reasonable system and procedures for supervising the Firm's offering of private placements, or enforce the Firm's written supervisory procedures for review of private placement securities and the Firm's sale of those securities.

2. The Firm, acting through Skaltsounis and Landi, authorized its registered representatives to sell MP VI securities through the use of a private placement memorandum (PPM) dated August 5, 2008, which stated that MP VI's affiliated companies had never defaulted in the payment of their obligations to their investors. Guyette, a salesman with the Firm, sold MP VI securities using the same PPM. At the time that the Firm and Guyette provided the MP VI PPM to customers, however, they knew that MP VI's affiliated companies had failed to make scheduled payments to their investors, including the Firm's and Guyette's customers.
3. By late August 2008, MP VI's affiliated companies defaulted on their payment obligations. Neither the Firm, acting through Skaltsounis and Landi, nor Guyette, disclosed the defaults, or informed investors and potential investors in MP VI securities that the PPM for that offering was materially false.
4. Guyette, moreover, knowingly or recklessly misrepresented the MP VI offering to customers as "relatively safe," "low risk," and backed by "very secure" assets when, in fact, the Firm determined that the MP VI offering was "high risk." Guyette disregarded the substantial "red flags" indicating that MP VI would have difficulty

meeting its future payment obligations, and recommended MP VI securities to customers whom Guyette knew sought conservative, income-producing investments. Many of Guyette's customers were sixty or seventy years of age, or older. Guyette's unsuitable recommendations to customers were based in part on his failure to evaluate the risks associated with the MP VI offering because he failed to conduct adequate due diligence about it. His recommendations and sales of MP VI securities were not reasonably suited to his customers' financial needs.

5. Like Guyette, the Firm, acting through Landi, failed to conduct adequate due diligence on MP VI and, indeed, misunderstood fundamental elements of MP VI's structure and the risks attendant to the offering. Landi was chairman of the Firm's Due Diligence Committee and was responsible for vetting the Firm's approval of direct placement products, including MP VI. Landi's inadequate review of the MP VI offering contravened the Firm's own due diligence guidelines and constituted a breach of the Firm's written supervisory procedures. In addition to its failure to enforce reasonable supervisory procedures, the Firm, acting through Landi, also failed to establish a system reasonably designed to train its sales force about the characteristics and risks of private placement offerings, including MP VI.
6. Through this conduct, Skaltsounis and Landi violated NASD Conduct Rule 2110. Additionally, Landi violated NASD Conduct Rule 3010. Through his acts, Guyette violated NASD Conduct Rules 2120, 2310, and 2110, and IM-2310-2, and willfully violated Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act) and Rule 10b-5 thereunder.

THE FIRM

7. The Firm became a FINRA member in 1997. It was a full service broker-dealer headquartered in Richmond, Virginia. The Firm sold securities through affiliations with community banks and through independent registered representatives. The Firm generated nearly 40% of its revenues in each of 2006 and 2007 through the sale of privately placed securities, particularly the securities of MP VI's affiliates. On December 23, 2009, the Firm filed a Form BDW, which became effective on February 22, 2010.

RESPONDENTS AND JURISDICTION

8. Skaltsounis was the Firm's President and Chief Executive Officer, and a substantial minority shareholder in the Firm's parent corporation. Skaltsounis first became registered with FINRA in July 1976 as a General Securities Representative. From February 21, 2003 to December 23, 2009, Skaltsounis was registered through the Firm as a General Securities Representative, General Securities Principal, Financial and Operations Principal, Registered Options Principal, and General Securities Sales Supervisor. Skaltsounis is currently registered through FINRA members that are owned by the company that owns the Firm.
9. Landi was the Firm's head of operations and a shareholder in the Firm's parent corporation. Landi first became registered with FINRA in March 1985 as an Investment Company and Variable Contracts Products Representative. From April 30, 2003 to December 23, 2009, Landi was registered through the Firm in that capacity and as a General Securities Representative, General Securities Principal,

Investment Company and Variable Contracts Principal, and Registered Options Principal. Landi is currently registered through FINRA members that are owned by the company that owns the Firm.

10. Guyette was a registered representative in the Firm's Greeley, Colorado office.

Guyette first became registered with FINRA in September 1987 as a General Securities Representative. From July 9, 1997 to December 23, 2009, Guyette was registered in that capacity and as a General Securities Principal and Financial and Operations Principal through the Firm and its predecessor. Although Guyette has not been associated with a FINRA member firm since March 26, 2010, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the date upon which he ceased to be associated with a FINRA member and (2) the Complaint charges him with misconduct committed while he was associated with a FINRA member.

MP VI AND MEDICAL CAPITAL HOLDINGS, INC.

11. MP VI was a subsidiary of Medical Capital Holdings, Inc. (Med. Cap.), a company that sought to profit by purchasing accounts receivables at a discount from healthcare providers, such as hospitals and physicians' groups, and collecting on the full amount of those receivables from health care insurers. Med. Cap. also extended loans to healthcare providers and other enterprises.
12. Med. Cap. sponsored MP VI, a "special purpose corporation," to raise capital from accredited investors in a private placement of MP VI's notes, which bore interest at minimum annual interest rates of 9% to 9.5%. Before organizing MP VI, Med. Cap.

sponsored five other special purpose corporations, known as Medical Provider Funding Corporations I through V (MP I – MP V), to raise money from investors. In August 2008, MP II and MP III defaulted on payments to investors. Through all six of its subsidiaries' offerings, Med. Cap. raised more than \$1.7 billion from investors.

13. On July 16, 2009, the U. S. Securities and Exchange Commission (SEC) sued Med. Cap., MP VI, and an affiliated operating company known as Medical Capital Corporation (MCC) that administered Med. Cap.'s businesses, as well as two individuals, the chief executive officer and the president of each of the Med. Cap. companies. The SEC alleged that the defendants committed fraud in the offer and sale of MP VI securities. In particular, the SEC alleged that the defendants misappropriated MP VI offering proceeds to pay administrative fees to MCC, in contravention of MP VI's PPM, and misrepresented in the MP VI PPM that MP VI's affiliates had never defaulted on payment obligations or been late in making interest payments. Since then, the U.S. District Court for the Central District of California has granted the SEC's motion for a temporary restraining order to halt the MP VI offering and has placed the defendant Med. Cap. entities in Receivership.

THE FIRM'S SALE OF MP I – MP VI SECURITIES

14. The Firm's registered representatives, including Guyette, first recommended and sold securities offered by MP I in 2003, and participated in each subsequent offering of notes by Med. Cap.'s subsidiaries. The Firm's representatives sold approximately \$13 million of securities offered in each of MP I, MP II, and MP III, approximately \$18 million of MP IV notes, and approximately \$19 million of MP V securities.

15. Between August 2008 and November 2008, the Firm's registered representatives sold approximately \$6.88 million of MP VI securities. The Firm generated gross commissions of approximately \$322,785 from its registered representatives' sales of MP VI.

LANDI'S AND GUYETTE'S DUE DILIGENCE OF MP I – MP VI

16. The Firm maintained a Due Diligence Committee that reviewed investment products for sale by the Firm's registered representatives. The Due Diligence Committee was chaired by Landi, who was responsible for the supervision of the Firm's direct participation programs, including the Med. Cap. offerings.

17. The Due Diligence Committee established written by-laws and guidelines.

According to its written procedures, "The fundamental goal of the Committee shall be to ensure that the right questions are asked during the review period." The Committee's guidelines provided, "we will attempt to ask and answer in full" certain questions "before a new product is offered for sale," which questions included:

- "What assumptions underlie the product, and how sound are they? What market or performance factors determine the investor's return?";
- "What are the risks for investors? If the product was designed mainly to generate yield, does the yield justify the risks to principal?"; and
- "What is the complexity of the product in structure, function, and description? Does such complexity impair understanding and transparency of the product? Does such complexity impact suitability considerations and/or the training requirements associated with the product?"

18. In January 2005, the Due Diligence Committee reviewed MP I and MP II. The Due Diligence Committee's review comprised primarily a review of the PPMs and the preparation of a two-page report. That report identified "risks" associated with the

offerings, and noted that "Purchase of the notes involves a high degree of risk and is suitable only for persons having substantial financial resources" and who understood "the risk factors associated with such a purchase," including "risks related to the business operations of" MP I and MP II. Similarly, the Due Diligence Committee reviewed the MP IV offering in October 2006 and concluded that "an investment in the Notes involves a high risk of loss and lack of liquidity that make it suitable only for those persons who have a continuing high annual income and/or substantial net worth, who can afford to bear such a risk, and who have no need for liquidity or current income from the investment and can afford loss of the entire investment."

19. In a report dated July 31, 2008, Landi and another member of the Firm's Due Diligence Committee reviewed the MP VI offering. They stated, "We continue to consider the Medical Capital notes a somewhat 'high risk' investment, as is any private offering, and will rely on experienced representatives to offer only to investors that meet the 'accredited investor' status and have the wherewithal to handle the risk associated with an investment in the Notes." The Due Diligence Committee, however, did not distribute its report on MP VI, or any of its prior reports on the Med. Cap. offerings, to the Firm's registered representatives.

20. Some of the Firm's registered representatives, including Guyette, had recommended and sold MP I and MP II securities to their customers beginning in the fall of 2003, more than a year before the Due Diligence Committee reviewed those investment products. Guyette attempted to conduct his own due diligence on Med. Cap. in October 2003, when he traveled to Med. Cap.'s offices and met with Med. Cap.'s executive officers and its sales team, and prepared a memorandum about his due

diligence visit. Although Guyette was identified in the Firm's written supervisory procedures as the principal in charge of the Firm's Direct Participation Program, Guyette did not perform those supervisory duties and did not believe that he was a member of the Firm's Due Diligence Committee. Guyette did not share his due diligence information about Med. Cap. with the Firm's Due Diligence Committee or even know that the Due Diligence Committee reviewed Med. Cap.'s offerings.

21. Neither Landi nor Guyette performed adequate due diligence on the MP offerings.

The Due Diligence Committee, for example, never obtained or reviewed any financial statements of any of the MP offerings. Guyette, too, failed to obtain financial statements from Med. Cap. after 2003, when he received financial statements that provided only an "overview" of the company.

22. Neither Landi nor Guyette researched background information on Med. Cap.'s officers. Had they done so, they might have learned that the State of California had charged Med. Cap.'s chief executive officer with fraud, and barred him from the insurance industry.

23. Neither Landi nor Guyette knew that Med. Cap. hired independent research providers to review the MP offerings, and that those independent research providers provided due diligence reports to broker-dealers. The independent research reports identified "material risks" of the latter MP offerings. Those material risks included Med. Cap.'s ability to use an increasing percentage of investor funds for ventures that were unrelated to Med. Cap.'s medical receivables business, and changes to the relationship between Med. Cap. and the trustees of its MP offerings.

24. Both Landi and Guyette misunderstood the role of the trustee in each of the MP offerings. Specifically, both Landi and Guyette accepted without reservation Med. Cap.'s representations that the trustee to each MP offering, a large commercial bank, was responsible for holding investor funds, verifying the offering's assets, and reviewing Med. Cap.'s or its affiliated companies' actions, such as the use of investors' funds.
25. Med. Cap., however, provided a fundamentally different description of the trustee's function in the PPMs to the MP offerings, which limited the trustee's role to collecting and disbursing funds at the request of Med. Cap. or its affiliates, and which made clear that the trustee was not responsible for verifying Med. Cap.'s or its affiliates' actions. For example, the MP VI PPM stated that the trustee will not "have any obligation to monitor, supervise or verify our actions or omissions, or those of our affiliates," or "otherwise make any inquiry or investigation or have any responsibility as to whether we are in default or have breached any obligation."

RED FLAGS REGARDING THE MP VI OFFERING

26. By July 30, 2008, MP III failed to make scheduled payments of principal to its note holders. Landi learned about the missed payments on or about July 30, 2008 from the Firm's chief compliance officer, who told Landi that two of the Firm's customers had contacted the Firm about the missed payments.
27. On the next day, July 31, 2008, Skaltsounis executed a Selling Agreement between the Firm and MP VI.

28. On or about the following day, August 1, 2008, Landi informed Skaltsounis that MP VI's affiliate, MP III, had failed to make scheduled payments to the Firm's customers.
29. On August 4, 2008, MP VI's affiliate, MP II, failed to make scheduled payments of principal to its note holders.
30. On or before August 5, 2008, Guyette also knew that MP II and/or MP III had failed to make scheduled payments. Guyette learned about the missed payments from a customer immediately after MP VI's affiliate failed to make payments.
31. In a letter dated August 5, 2008, Med. Cap.'s chief executive officer wrote to the Firm and other broker-dealers, informing them that "Your client's recent note principal has not been repaid on time." Med. Cap.'s chief executive officer stated, "We believe that this situation is temporary and should not exceed 30 days from the maturity date."
32. On August 5, 2008, MP VI published its PPM. Under the heading, "Summary of Private Placement Memorandum" and the subheading, "Our Affiliates," the PPM stated:

While Medical Provider Funding Corporation VI is a new business with no operating history, we do have several experienced affiliates that have completed offerings of debt securities backed by accounts receivable. Our affiliates have, since 1994, financed accounts receivable having an aggregate face amount of over \$5 billion. Our affiliates have never defaulted in the payment of their obligations on those debt securities, and all payments on those securities were made when due.

(Emphasis added.)

33. Shortly after learning about MP II's and MP III's missed payments, and during the months that followed, Landi monitored whether those companies repaid the Firm's customers. During that time, Med. Cap.'s officers continually assured Landi that MP II and MP III would soon satisfy their payment obligations and offered new reasons for delays in making principal payments. Landi, however, did not ensure that the Firm or its registered representatives notified investors and prospective investors in the MP VI offering about the missed payments.

MP VI's AFFILIATES DEFAULT ON THEIR OBLIGATIONS

34. MP II's PPM identified circumstances that constituted "events of default." The first such "event of default" identified in MP II's PPM was its "failure to pay interest or principal on any note for a period of 15 days after it becomes due and payable." Consequently, MP II defaulted on its payment obligations on August 19, 2008, which was 15 days after it failed to make a payment of principal to note holders that was due on August 4, 2008.
35. Similarly, MP III's PPM provided that its failure to pay interest or principal on any note for a period of 30 days after that payment became due and payable was an "event of default." Therefore, MP III defaulted on or about August 29, 2008, which was 30 days after it failed to make payments to note holders that were due on or about July 30, 2008.
36. The Firm, acting through Skaltsounis and Landi, knew or should have known that MP II and MP III defaulted on their payment obligations to note holders, including the

Firm's customers. Neither Skaltsounis nor Landi, however, notified customers or the Firm's registered representatives about those defaults.

37. On November 10, 2008, the trustee to the MP III offering declared an "Event of Default" because MP III's principal repayments were overdue by at least 30 days. On November 28, 2008, the trustee to MP II declared an event of default because MP II failed to make principal repayments that were due on August 4, 2008.

38. On November 18, 2008, after the Firm's registered representatives sold more than \$6.8 million of MP VI securities, Landi notified the Firm's registered representatives that the Firm would no longer permit any "new business" in MP VI securities and recommended that customers with "existing maturing investments not be renewed or rolled" into MP VI notes.

GUYETTE'S MISREPRESENTATIONS AND OMISSIONS

39. Despite knowing that MP II and/or MP III had failed to satisfy their payment obligations, Guyette, from August through November 2008, recommended and sold approximately \$2 million of MP VI securities to his customers. Guyette told his customers that MP VI was a "relatively safe" investment that was backed by "very secure" assets. Guyette also told customers that MP VI had "safeguards" to protect investors' funds, including a trustee who would verify Med. Cap.'s assets before releasing investor monies. Guyette told customer JY, for example, that the "bank trustee protect[s]" all monies, and that the trustee requires a deposit on hand of collateral equal to 105% of MP VI's liabilities before disbursing funds. Guyette's representations to his customers and prospective customers were not true.

40. Guyette did not tell his customers that MP VI's affiliates, MP II and MP III, had failed to meet their payment obligations and thereafter defaulted on those obligations. To the contrary, Guyette told customer JR that the MP VI notes were "guaranteed" and there was "no possibility of failure" because of that guarantee.
41. Guyette's customers were conservative investors who were sixty or seventy years of age, or older. As Guyette knew, his customers sought income-producing investment products, not high-risk securities. As Guyette knew, his customers relied on his representations about the securities that he recommended.

First Cause of Action

Misrepresentations/Omissions (Skaltsounis and Landi) NASD Conduct Rule 2110

42. The Department realleges and incorporates by reference paragraphs 1-41 above.
43. By August 5, 2008, Skaltsounis and Landi knew that MP III had failed to make scheduled payments to the Firm's customers, which were due on or about July 30, 2008. By August 29, 2008, Skaltsounis and Landi knew or reasonably should have known that MP II and MP III had defaulted on their payment obligations.
44. Despite knowing that MP II and MP III had failed to meet their payment obligations, Skaltsounis and Landi approved the MP VI offering for sale by the Firm's registered representatives without ensuring that the Firm's registered representatives disclosed to the Firm's customers and prospective customers that MP VI's affiliates had failed to make scheduled payments to note holders, including the Firm's customers. Skaltsounis and Landi knew that the Firm's registered representatives would utilize the MP VI PPM, dated August 5, 2008, that represented that MP VI's affiliates had never defaulted in the payment of their obligations, and by August 29, 2008,

Skaltsounis and Landi knew, or reasonably should have known, that the MP VI PPM was materially false. From August to November 2008, the Firm, acting through Skaltsounis and Landi, sold MP VI but failed to inform customers and prospective customers that the MP VI PPM contained material, misleading information, or disclose to customers and prospective customers that MP VI's affiliates had failed to make scheduled payments to their note holders.

45. By permitting the Firm's registered representatives to recommend and sell MP VI securities to customers without disclosing material facts, and by permitting the Firm's registered representatives to utilize MP VI's PPM, which Skaltsounis and Landi knew or should have known contained material misstatements of fact, Skaltsounis and Landi violated NASD Conduct Rule 2110.

Second Cause of Action

Offering Fraud: Misrepresentations/Omissions (Guyette) Willful Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Violations of NASD Conduct Rules 2120 and 2110 and IM-2310-2

46. The Department realleges and incorporates by reference paragraphs 1-45 above.
47. Guyette knew by August 5, 2008, that MP VI's affiliate had failed to make scheduled payments of principal that were owed to his customers. From August to November 2008, however, Guyette made recommendations and sales of MP VI securities to customers without disclosing that material fact.
48. Guyette also knowingly or recklessly mischaracterized material facts about the MP VI offering to customers and prospective customers. Guyette represented that MP VI securities were "relatively safe," "low risk," and backed by assets that were "very secure." For example, Guyette told customer JR, who invested \$100,000 in MP VI

notes on August 15, 2008, that the notes were "guaranteed." Guyette misstated to other customers, like JY who invested \$200,000 in MP VI notes on September 5, 2008, that the trustee to the offering would "verify" MP VI's assets before authorizing MP VI to disburse investors' funds. Guyette knew that his customers would rely on his representations about MP VI securities in making investment decisions.

49. Between August and November, 2008, Guyette sold approximately \$2 million of MP VI securities to his customers, and benefitted by at least \$71,415 in net commissions from the sale of those securities.

50. As part of the course of conduct described in paragraphs 46-49 above, Guyette, in connection with the purchase or sale of the MP VI securities, directly or indirectly, by the use of the means or instrumentalities of interstate commerce, or of the mails, or of any facility of any national securities exchange, knowingly or recklessly: employed devices, schemes or artifices defraud; made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person; or effected transactions in, or induced the purchase or sale of, MP VI securities by means of any manipulative, deceptive or other fraudulent device or contrivance.

51. By misrepresenting and omitting material facts, Guyette willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and violated NASD Conduct Rules 2110 and 2120 and IM-2310-2.

Third Cause of Action

Unsuitable Investment Recommendations (Guyette) NASD Conduct Rules 2310 and 2110 and IM-2310-2

52. The Department realleges and incorporates by reference paragraphs 1-51 above.
53. From August to November 2008, Guyette recommended and sold MP VI to his customers, including JY, TS and JR, as a “safe” investment backed by “very secure” assets. Guyette misrepresented the risks attendant to an investment in MP VI. For example, Guyette told investors that their investment was “handled by the trustee, the banks,” which Guyette characterized as the “number 1 safeguard” protecting customers’ investments.
54. Contrary to Guyette’s representations, MP VI was a high-risk investment. Moreover, when he recommended MP VI to his customers, Guyette knew that MP VI’s affiliate, MP III, had missed scheduled payments of principal to note holders, including Guyette’s customers, which raised doubts about MP VI’s ability to meet its future payment obligations. Guyette, however, did not inform his customers, including JY, TS and JR, that MP II and/or MP III had failed to make scheduled payments of principal to note holders. Guyette expected that these three customers would rely on his representations about MP VI.
55. Guyette’s customers JY, TS and JR, who purchased MP VI securities, sought conservative, income-producing investment products. Guyette knew that JY, TS and JR, who were each over 60 years old, were conservative investors and were not seeking high-risk investments.

56. Customer TS told Guyette that he wanted an investment that was “structured so that there are no problems.” In response, Guyette recommended MP VI notes, which Guyette characterized as having “very small risk” because the trustee controlled MP VI’s access to investors’ monies and “the amount to be held by [the] trust department would always be more than 100% due on [the] notes.” On August 26, 2008, TS invested \$50,000 in MP VI.
57. Customer JR was retired from the workplace and approximately 75 years of age when he invested \$100,000 in MP VI notes on August 15, 2008. Guyette told JR that the notes were suited to JR’s financial needs because they offered the “best return on a guaranteed investment.” Guyette characterized the MP VI offering as a “great investment with no possibility of failure.”
58. Customer JY invested \$200,000 in MP VI notes on September 5, 2008. JY sold investments from his retirement account to purchase MP VI securities. JY was a conservative investor who had retired from the workplace but maintained a part-time job. Guyette assured JY that MP VI offered “secure notes,” and that the trustee would “protect all monies” by requiring MP VI to maintain collateral with a value greater than MP VI’s liabilities.
59. Therefore, Guyette recommended MP VI securities to customers JY, TS, and JR without having a reasonable basis for believing that such recommendations were suitable based on his customers’ age, investment objectives, risk tolerance, and needs.

60. By recommending an unsuitable securities product to JY, TS and JR, Guyette violated NASD Conduct Rules 2310 and 2110 and IM-2310-2.

Fourth Cause of Action

Supervisory Violations (Landi) NASD Conduct Rules 3010 and 2110

61. The Department realleges and incorporates by reference paragraphs 1-60 above.
62. From 2003 through 2008, the Firm generated a substantial amount of revenues from its sale of private placements, particularly the Med. Cap. offerings. Indeed, the minutes of the Firm's June 22, 2006 meeting of the Due Diligence Committee reflect that "the group discussed the high concentration of revenue for the firm from the Medical Capital products." During each of 2006 and 2007, private placement commissions constituted about 40% of the Firm's revenues.
63. During the period 2003 through 2008, the Firm, acting through Landi, failed to establish and maintain a supervisory system, and failed to establish, maintain and enforce written supervisory procedures, that were reasonably designed to achieve compliance with the applicable securities laws and regulations and FINRA rules applicable to private securities offerings and related suitability, disclosure and other sales practice-related issues.
64. Landi was the chairman of the Firm's Due Diligence Committee. Landi reviewed the MP offerings and determined that they posed a "high risk of loss." Landi, however, failed to ensure that the Firm established a reasonable supervisory system to educate the Firm's registered representatives on the risks attendant to the MP offerings or to

instruct the Firm's registered representatives on the statements they could make to customers and prospective customers regarding those offerings.

65. The Firm, acting through Landi, also failed to provide its Due Diligence Committee reports on the MP offerings to the Firm's registered representatives. Those reports reflected Landi's assessment that the MP offerings were "high risk." Because he failed to establish or implement reasonable procedures to distribute the Firm's product reviews to its sales force, however, the Firm's registered representatives, including Guyette, mischaracterized the MP offerings as "safe." Moreover, although Landi knew that some of the Firm's registered representatives had conducted their own due diligence on Med. Cap., he failed to gather information from those registered representatives about their understanding of the Med. Cap. offerings.

66. The Firm, acting through Landi, also failed to establish, maintain and enforce reasonable written supervisory procedures regarding the Firm's review of private placements. Indeed, Landi failed to enforce the Firm's own Due Diligence Committee guidelines, which required the Firm to investigate and understand the product that it intended to sell, including the product's risks. For example, the Firm, acting through Landi, failed to understand the function of the trustee banks in each MP offering. Landi's misunderstanding of the relationship between Med. Cap. and the trustee banks stemmed from the Firm's failure to conduct adequate due diligence and its wholesale acceptance of Med. Cap.'s representations to the Firm as true.

67. Landi also disregarded "red flags" about MP VI's ability to meet its future payment obligations. Landi knew that MP VI's affiliates had failed to make scheduled payments to the Firm's customers and, indeed, tracked those missed payments on a

spreadsheet he crafted. Moreover, Landi knew, or reasonably should have known, that MP VI's affiliates defaulted on their obligations in late August 2008. In spite of the obvious risks to investors in MP VI, Landi failed to take reasonable steps to ensure that the Firm's registered representatives disclosed those missed payments to investors and prospective investors in MP VI, or otherwise to ensure that the Firm's registered representatives informed investors and prospective investors about material misstatements in MP VI's PPM.

68. By failing to establish, maintain and/or enforce a supervisory system and written supervisory procedures that were reasonably designed to achieve compliance with all applicable regulatory requirements with respect to the note offerings, Landi violated NASD Conduct Rules 3010 and 2110.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including monetary sanctions against Respondents Nicholas D. Skaltsounis, Richard Landi, and John B. Guyette, and that Respondent Guyette be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- B. order that the Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and

C. make specific findings that Respondent Guyette willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

FINRA DEPARTMENT OF ENFORCEMENT

Dated: August 20, 2010


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