

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Jeffrey S. Geraci
(CRD No. 1839469),

Respondent.

DISCIPLINARY PROCEEDING
No. 2010023044101

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Respondent, Jeffrey S. Geraci, recommended to a customer, who was not an accredited investor and did not otherwise have substantial net worth, that she purchase a high-risk, illiquid security without having reasonable grounds to believe the security was suitable for her. This conduct violated NASD Conduct Rule 2310, NASD IM-2310-2 and FINRA Rule 2010.

RESPONDENT AND JURISDICTION

2. Geraci first became registered with FINRA in June 1988 as an Investment Company and Variable Contracts Products Representative. From October 21, 2008 to about May 5, 2010, he was registered with FINRA through former member firm MICG Investment Management, LLC (Firm) as a General Securities Representative and in other capacities. Since May 4, 2010, Geraci has been registered with FINRA through

another member firm as a General Securities Representative and a General Securities Principal. Accordingly, FINRA's jurisdiction over him is ongoing.

CAUSE OF ACTION

Unsuitable Recommendation (NASD Conduct Rule 2310, NASD IM-2310-2 and FINRA Rule 2010)

3. The Department realleges and incorporates by reference paragraphs 1 and 2 above.
4. In about December 2009, Geraci recommended to his customer MGS that she purchase a security consisting of a Series A 9% Convertible Note (Note) issued by MICG Wealth Management, LLC (MICG Wealth). MICG Wealth owned over 99% of the Firm and derived all of its income from the Firm.
5. The Notes were offered pursuant to a Confidential Private Placement Memorandum (PPM) which stated that the Notes had not been and would not be registered under the Securities Act of 1933.¹
6. The PPM disclosed that MICG Wealth's only asset constituted its 99.8% ownership interest in the Firm. The PPM also stated that the Notes involved a high degree of risk and that the Notes were suitable only for persons of substantial net worth who had the ability to purchase a high-risk illiquid investment and could "bear the risk of a complete loss of their investment."
7. When Geraci recommended the purchase of a Note to MGS, the customer was about 64 years old and a widow. MGS had recently sold her home and had moved into the home of her daughter and son-in-law, paying them rent. She was not an accredited investor. At the time, MGS received a monthly gross income of approximately

¹ According to the PPM, the securities that MICG Wealth offered constituted Units, each of which comprised a Note in the amount of \$50,000.

\$5,200 and had a net worth of approximately \$550,000, which included the proceeds from the sale of her home. Her principal investment objectives were to generate income to pay her monthly expenses and to have funds available if she were to need long-term care. Her risk profile was conservative.

8. In February 2010, Geraci met again with MGS and she told him that, having considered his recommendation, she had decided to invest \$50,000 in a Note. Accordingly, Geraci assisted her in completing the necessary forms to effect the purchase. On about February 10, 2010, a total of \$50,000 were transferred out of MGS's securities account at the Firm and used to purchase a Note. The Note purchase was reflected on MGS's February 2010 account statement from the Firm.
9. In May 2010, the Firm ceased conducting a business and it filed a Form BDW with FINRA. As a result, MICG Wealth defaulted on the Notes, which are now effectively worthless. Thus, MGS sustained a complete loss of her \$50,000 investment.
10. In recommending to MGS that she purchase a Note, and in causing the Note purchase to be effected on her behalf, Geraci did not have reasonable grounds to believe that a Note was suitable for MGS based on facts and information known to him. The Note was not suitable for MGS because she was not an accredited investor and did not otherwise have substantial net worth, and because the risk characteristics of the Note were not compatible with her investment objectives or with her financial needs and circumstances.

11. By recommending a Note to MGS without having reasonable grounds to believe the recommendation was suitable, Geraci violated NASD Conduct Rule 2310, NASD IM-2310-2 and FINRA Rule 2010.

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 that the Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest; and
- B. order that the Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: November 9, 2011


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