

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

CAPITAL PATH SECURITIES, INC.
(CRD No. 104363),

AND

WILLIAM JOHN DAVIS (CRD No. 1247007),

RESPONDENTS.

DISCIPLINARY PROCEEDING
No. 2011025869201

Hearing Officer - DRS

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: May 8, 2014

INTRODUCTION

Disciplinary Proceeding No. 2011025869201 was filed on January 28, 2014, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondents Capital Path Securities, Inc. and William John Davis submitted an Offer of Settlement (Offer) to Complainant dated April 16, 2014. 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, Respondent has consented, without admitting or denying the allegations of the 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 Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Capital Path has been a member of FINRA since August 14, 2001. The firm is located in Middle Island, New York and conducts a general securities business including retail, corporate, over-the-counter equities trading, market making, corporate debt securities, options, private placements and proprietary trading. From June 2008 through September 2011, the firm was a market maker in several penny stocks including several in which customers engaged in potentially suspicious activity in their Capital Path accounts. Capital Path employs approximately six registered persons.

Davis is the primary owner and control person for Capital Path. Since July 2006, Davis has been the President, Chief Compliance Officer (CCO), Registered Options Principal (ROP) and AMLCO for Capital Path. He first became registered as a General Securities Representative (GSR) on or about April 18, 1984 while employed with a FINRA member firm.

On or about August 29, 2012, Capital Path entered into a Letter of Acceptance, Waiver and Consent with FINRA regarding violations of FINRA Rules 2010, 7450 and NASD Conduct Rule 3010 for improperly reporting execution or combined order/execution reports to the Order Audit Trail System (OATS). The supervision violation related to the firm's supervisory system not providing reasonable supervision to achieve compliance with rules and regulations

surrounding OATS reporting. In connection with the settlement, the firm was fined \$15,000, censured and required to revise its written supervisory procedures for OATS reporting.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

1. Between approximately June 2008 and February 2013, Capital Path Securities, Inc. (“Capital Path”), through William John Davis (“Davis”), the firm’s Anti-Money Laundering Compliance Officer (AMLCO) and President, demonstrated an ongoing pattern of noncompliance with the anti-money laundering rules. Among other things, Capital Path and Davis allowed multiple customers, some with ties to each other or to issuers of penny stocks to liquidate blocks of stocks without properly monitoring these accounts for suspicious trading and wire activity based on the risks posed by these customers. The customers engaged in a pattern of suspicious trading, wire transfers or other activity which were red flags that Capital Path and Davis failed to act upon.

2. Capital Path and Davis failed to establish and implement an adequate AML supervisory system, reasonably designed to ensure compliance with the Bank Secrecy Act (31 U.S.C. 5311, *et seq.*) and the implementing regulations promulgated thereunder. Specifically, Capital Path and Davis failed to monitor, detect, and investigate suspicious transactions in the face of multiple red flags of potentially suspicious activity.

FIRST CAUSE OF ACTION

FAILURE TO DEVELOP AND IMPLEMENT A REASONABLE AML PROGRAM (NASD Conduct Rules 3011(a) and (b) and 2110; FINRA Rules 3310(a) and (b) and 2010)

3. NASD Conduct Rule 3011(a) requires firms to establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of suspicious

activity or transactions, as required by 31 U.S.C. §5318(g) and the implementing regulations thereunder.¹

4. NASD Conduct Rule 3011(b) requires firms to establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder.

5. Davis created Capital Path's AML procedures and set up the firm's supervisory system.

6. Capital Path's written supervisory procedures required Davis, the firm's AMLCO, to: (1) monitor for potentially suspicious activity, (2) investigate potentially suspicious activity and (3) file suspicious activity reports (SARs), as appropriate.

7. During the relevant period, Capital Path utilized two sets of written supervisory procedures. Between 2006 and June 2010, the Firm operated under the same written supervisory procedures, which included the Firm's AML policies, procedures and internal controls ("2006 AML procedures"). The Firm's written supervisory procedures were revised in July 2010 with no substantive changes to the section devoted to AML policies, procedures and internal controls.

8. Capital Path's written AML procedures set forth its monitoring processes in general terms. The AML procedures include a number of "red flags" indicating typologies that could lead to potentially suspicious activity. The AML procedures also identify how such activity would be monitored and reported. Examples of "red flags" signaling potentially suspicious activity included:

¹ NASD Conduct Rule 3011 was renumbered FINRA Rule 3310 on January 1, 2010.

- The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business or investment strategy;
- The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations;
- For no apparent reason, the customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers;
- The customer is from, or has accounts in, a country identified as a non-cooperative country or territory by the Financial Action Task Force ("FATF");
- The customer's account has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity;
- The customer's account has wire transfers that have no apparent business purpose to or from a country identified as potential money laundering risk or a bank secrecy haven;
- The customer, for no apparent reason or in conjunction with other red flags, engages in transactions involving certain types of securities, such as penny stocks, Regulation S stocks, and bearer bonds, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity.);
- The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent purpose.

9. The AML procedures state that when a firm employee detects any "red flag," he or she will investigate further, including gathering additional information, contacting the government, freezing the account or filing a SAR, under the direction of the AMLCO. However, when faced with many of the "red flags" identified in the Firm's AML procedures, neither Davis nor anyone else at Capital Path took steps to investigate further or gather information to determine whether the transactions had legitimate purposes.

10. Capital Path, acting through Davis, failed to enforce its written AML program to ensure compliance with the Bank Secrecy Act. Davis failed to identify multiple transactions in customer accounts which triggered many of the red flags identified in the Firm's AML procedures. Among other things, these customers maintained multiple accounts, had securities-related disciplinary histories, engaged in suspicious penny stock trades and conducted questionable third-party wire activity.

11. The AML procedures state that the Firm will manually review a sufficient amount of account activity to monitor for unusual size, volume, pattern or type of transactions, geographic factors and any of the red flags listed in the procedures. According to the AML procedures, that monitoring would include a review of both trading and wire transfers and would utilize exception reports which identified transaction size, location, type, number and the nature of the activity.

12. Contrary to its AML procedures, Capital Path did not use the exception reports offered by its clearing firm, which included reports that could have been used to monitor wire activity. The firm also did not implement any of its own reports for the review of trading activity.

13. In its monitoring for suspicious activity, Capital Path, through Davis, relied mainly on a daily review of customer trades. A review of the daily trading alone is inadequate as it does not allow the Firm to identify suspicious patterns of trading activity or other AML issues.

14. Davis primarily monitored the accounts to ensure that they contained sufficient funds to cover whatever transaction was being conducted. This primary focus was insufficient to detect and investigate suspicious activity relating to penny stock transactions. As described more

fully below, neither Davis nor any other Firm employee took steps to inquire about any of these transactions to determine whether they constituted suspicious activity.

15. In or around early 2009, Capital Path began using an incoming penny stock questionnaire, provided by its clearing firm. The questionnaire was intended to document the source of the shares and confirm that the shares were registered. Even when the questionnaire contained information warranting further inquiry, the Firm failed to conduct the necessary follow up.

16. Capital Path, through its AMLCO Davis, failed to implement procedures reasonably designed to detect and cause the reporting of suspicious transactions and failed to implement or enforce its own AML program in contravention of NASD Conduct Rules 3011(a) and FINRA Rule 3310(a).

17. Capital Path, acting through Davis, also failed to develop and implement other components of a reasonably designed AMLCP in breach of NASD Rule 3011(b) and FINRA Rule 3310(b), including failing to properly respond to requests under Section 314(a) of the USA PATRIOT Act of 2001, which authorizes law enforcement to communicate with broker-dealers to request information regarding persons or entities of interest to an investigation so that any accounts or transactions involving these individuals or entities can be promptly located. On November 4, 2002, FinCEN began issuing information requests under this new authority. The Firm's AML procedures set out the process by which Capital Path will respond to FinCEN's 314(a) requests by reviewing its customers and certain other individuals and entities. However, Capital Path did not implement a system to respond to FinCEN 314(a) requests and has not shown that such reviews were even conducted.

18. By failing to establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act, Capital Path and Davis violated NASD Conduct Rules 3011(a), 3011(b) and 2110; FINRA Rules 3310(a), 3310(b) and 2010.2

SECOND CAUSE OF ACTION

FAILURE TO DETECT, INVESTIGATE OR REPORT SUSPICIOUS ACTIVITY (NASD Conduct Rules 3011(a) and 2110; FINRA Rules 3310(a) and 2010)

19. Capital Path, acting through its AMLCO Davis, failed to follow the Firm's AML procedures and did not identify, investigate and report suspicious activity in multiple instances.

20. A review of customer transactions during the period from June 2008 through February 2013 revealed red flags of potentially suspicious transactions that should have prompted the Firm to perform additional investigation to determine whether the transactions represented suspicious activity that needed to be reported. The Firm failed to investigate the following "red flags": (a) high volume trading of low-priced securities; (b) wire activity associated with the liquidation of low-priced securities transactions; (c) customer accounts associated with individuals who have securities related disciplinary history; and (d) accounts either domiciled off-shore or maintaining bank accounts offshore.

21. Capital Path and Davis permitted these suspicious activities to occur without conducting an adequate investigation into the activities and reporting the activities, as appropriate.

HFL Account

² NASD Conduct Rule 2110 was renumbered FINRA Rule 2010 on December 15, 2008.

22. From at least June 2008 through October 2009, there were multiple red flags associated with the HFL account that were not detected or investigated by Capital Path, acting through Davis. The account engaged in significant trading and wire activity related to penny stocks, the individuals associated with the account were based in multiple jurisdictions around the world, for no apparent reason, and the funds were being transferred to an account in Barbados, where the underlying beneficial owner had no known connections.

23. The sole officer of HFL is an Indian citizen, DB, who resides in the Philippines. HFL's registered agent is located in Samoa but the individual with trading authority over the account, PW, has a listed address in Panama City and conducts business from Canada.

24. From June 2008 through October 2009, the account engaged in significant trading and journaling activity related to 51 different stocks, of which 50 were penny stocks. During that period, the HFL account deposited over 46 million shares of penny stocks and liquidated over 31 million shares of penny stocks. Between April 8, 2009 and October 14, 2009, the HFL account wired out over \$12.5 million through approximately 19 wires to an HFL bank account located in Barbados, a jurisdiction where the client has no known personal connections based on its profile.

25. Four securities, in particular, exemplify the type of suspicious trading activity seen in the HFL account:

- a. On March 19, 2009, the HFL account received a certificate for 175,000 shares of Treasure Explorations Inc. (TEEX). In March 2009, the TEEX position was worth \$.05 per share for a total value of \$8,750. On April 1, 2009, TEEX went through a name and symbol change, converting HFL's TEEX shares to 2.625 million shares of Verify Smart Corp. (VSMR). That same day, HFL began

liquidating its shares of VSMR. By the end of October 2009, HFL had sold 2.616 million shares of VSMR for total proceeds of over \$3.73 million.

- b. The HFL account received two security deposits, in the form of certificates, on or about February 27, 2009 and June 22, 2009, for a total of 3.06 million shares of Neohydro Technologies (NHYT). On March 31, 2009, NHYT reported only \$57 in total assets. Between April 29, 2009 and September 29, 2009, the account liquidated all 3.06 million shares of NHYT for total proceeds of \$787,550.
- c. The HFL account received a security deposit, in the form of a certificate, on March 18, 2009, for 360,000 shares of Alto Group Holdings Inc. (ALTO). Between May 6, 2009 and May 22, 2009, the account liquidated the entire 360,000 shares of ALTO for total proceeds of approximately \$404,804.
- d. The HFL account received a security deposit, in the form of a certificate, on October 3, 2008, for 350,000 shares of Tidewater Resources (TIWR). On HFL's monthly account statement for October 2008, the TIWR position was worth \$1.50 per share for a total value of \$525,000. On January 14, 2009, TIWR went through a name and symbol change, converting the TIWR shares in the account to 4.2 million shares of Precision Petroleum Corp. (PPTO). On January 29, 2009, HFL began liquidating its PPTO shares and, by October 9, 2009, had sold approximately 3.15 million shares of PPTO for total proceeds of over \$2.03 million.

FPI Account

26. FPI is a Panamanian licensed brokerage firm located in Panama. FPI opened an account in May 2009 at Capital Path.

27. From August 2009 through October 2009, the volume of penny stock transactions and wires executed through the FPI account triggered red flags that Capital Path, acting through Davis, should have identified and investigated. Capital Path, acting through Davis, failed to detect or investigate these transactions.

28. From August 2009 through October 2009, the FPI account had approximately 22 in-bound stock transfers of over 19 million shares and three out-bound stock transfers of approximately 799,250 shares. During that same period, the account also purchased over 2 million shares and sold 7.65 million shares of approximately twenty-five different penny stocks. Between October 23, 2009 and November 19, 2009, the account wired out a total of approximately \$6 million.

29. Among these transactions, between September 30, 2009 and October 5, 2009, the account received in approximately 3.63 million shares of NHYT. Between October 5, 2009 and October 20, 2009, the account sold all of the NHYT shares for proceeds of over \$800,000.

Accounts Trading in Legal Access Technologies Inc. (LGAL) Stock

30. Between June 2008 and November 2009, Capital Path, acting through Davis, failed to detect or investigate activity across at least nine accounts at Capital Path in a low-priced security called Legal Access Technologies Inc. (LGAL) that triggered red flags under the Firm's AML procedures.

31. The nine accounts were all serviced by the same registered representative at Capital Path, RF. Three of the nine accounts were associated with RF and his family. One of the nine customers was affiliated with LGAL:

- a. The account for customer BG liquidated approximately 2.53 million shares of LGAL in two transactions on April 24, 2009 and April 28, 2009, resulting in proceeds of approximately \$8,246 which BG immediately wired out. Those were the only transactions in that account. BG was affiliated with the issuer in a public relations capacity and was listed at the bottom of press releases issued on behalf of LGAL between November 2008 and August 2009.
- b. AG, TG, VI, YM and MH, five other customer accounts, made purchases of LGAL between September 2008 and July 2009 totaling 990,000 shares.
- c. There were three accounts associated with RF that also engaged in potentially suspicious activity in LGAL. Two of the accounts were in the names of his children and the third was a corporate account opened by his wife (the “RF Accounts”).
- d. RF and his family originally held their accounts at a former FINRA member firm, but when that firm filed a broker-dealer withdrawal form (BDW), over approximately 3.46 million shares of LGAL were transferred to accounts for RF and his family at Capital Path. Between June 2008 and November 2009, the RF Accounts purchased an additional approximately 2 million shares of LGAL and sold approximately 2.9 million shares of LGAL.

Accounts Trading in Bergamo Acquisition Corp. (BGMO) Stock

32. Capital Path, acting through Davis, failed to detect or investigate activity across at least nine accounts at Capital Path in a low-priced security called Bergamo Acquisition Corp. (BGMO) that triggered red flags under the Firm’s AML procedures.

33. Capital Path was a market maker for BGMO and the nine accounts at issue were all handled by the same registered representative at Capital Path, DPB.

- a. One of the accounts was in the name of SJB who, from June 1, 2009 through December 31, 2009, was also registered as a GSR through Capital Path.³ SJB is the father of DPB. On March 26, 2008, Capital Path was alerted by its clearing firm of an SEC action that had been brought against SJB in October 1993 for violations of registration and antifraud provisions related to a scheme to sell over 3 million shares of worthless securities through shell companies.
- b. SJB's account purchased 20,000 shares of BGMO on or about September 11, 2008; September 12, 2008 and June 1, 2009 at prices ranging from \$.03 to \$.09 per share. The shares were sold on July 21, 2009 for \$.25 per share.
- c. In or around June 2008, Customer GW was 82 years old and retired. At that time, GW's account held only 9,600 shares of BGMO. On July 21, 2008, the account received in 403,000 restricted shares of BGMO and, on July 16, 2009, it received in an additional 1.1 million restricted shares. Between August 28, 2008 and July 7, 2009, the only activity in the account was the liquidation of 412,600 BGMO shares, resulting in proceeds of approximately \$36,262.
- d. In or around April 2008, customer HH opened an account at Capital Path. On his new account form, HH notes that he is BGMO's president. On June 23, 2008 and July 21, 2008, the account received 238,385 shares of BGMO. The only transactions in the account were the liquidations of 165,000 shares of BGMO

³ SJB is not currently registered with a FINRA member firm.

between October 31, 2008 and January 16, 2009, resulting in proceeds of approximately \$14,924.

- e. On or around November 13, 2008, customer RH opened an account at Capital Path and, on November 18, 2008, received in about 1.68 million shares of BGMO. The account purchased 5,000 shares of BGMO on September 10, 2009. The account's only holdings were BGMO. Between June 11, 2009 and October 9, 2009, the account sold over 1 million shares of BGMO, resulting in proceeds of approximately \$423,157 which were wired out soon after.
- f. On or about February 3, 2009, customer SP opened an account at Capital Path and, on March 31, 2009, received in approximately 286,635 shares of BGMO. Between April 27, 2009 and July 24, 2009, the account liquidated 150,550 shares of BGMO, resulting in proceeds of approximately \$25,523. On his new account form, SP notes that he was a consultant for BGMO while the BGMO website lists him as Senior Executive Vice President and Director of BGMO since 1997.
- g. In or about July 2008, customer PG maintained an account at Capital Path. From July 2008 through July 2009, the only transactions in the account were the sales of 100,000 shares of BGMO. In or around February 2009, PG had been named, as one of three individuals, in an SEC complaint filed in the United States District Court for the Southern District of New York for defrauding investors and collecting about \$800,000 in unlawful profits by fraudulently procuring shares of a stock and then selling them after making misrepresentations and omissions about the company in order to artificially increase demand for the stock. In an alert, dated June 7, 2010, the clearing firm informed Davis of the SEC judgment

in this action, entered in May 2010. The judgment ordered PG to disgorge profits totaling \$782,046, assessed a civil penalty of \$130,000 and barred him from participating in the sale of any penny stocks.

PK Account

34. On or about August 11, 2007, customer PK opened an account at Capital Path. On the new account form, PK listed that he was a consultant for Halody Consulting. Davis was the registered representative for the account.

35. Capital Path, acting through Davis, failed to detect and investigate activity in PK's account that triggered red flags under the Firm's AML procedures.

36. In two transactions, in July 2008 and January 2009, PK sold 200,000 shares of CX2 Technologies (CXTO), which were the only shares in the account, for proceeds of approximately \$5,595.

37. On May 13, 2009, the PK account received in 300,000 shares of CXTO and, between May 18 and May 21, 2009, the account sold all 300,000 shares of CXTO for proceeds of approximately \$1,741.

38. After liquidating the shares, the account immediately wired out the proceeds.

39. In an agreement, dated June 2, 2008, and attached to CXTO's Form 8-K, filed with the SEC, CXTO reveals that Halody, through its owner PK, provided funding to CXTO. In exchange for that funding, according to the agreement, Halody received convertible debentures from CXTO that were partially converted into 5.28 million shares of CXTO. The agreement also represents that PK separately owned 750,000 shares of CXTO.

40. In August 2006, PK had been barred by the SEC in connection with the fraudulent sales of prematurely issued stock dividend shares.

41. In September 2009, the PK account deposited 100,000 shares of American Diversified Holdings (ADHC). Between September 24, 2009 and November 19, 2009, the account sold 91,545 shares of ADHC and wired out approximately \$21,124.

TP Accounts

42. On January 18, 2009, UTC opened an account with Capital Path. Five days later, on January 23, 2009, an account was opened in the name of CPI. Both accounts shared the same address in Malibu, California. The registered representative for both accounts was JH.

43. Capital Path, acting through Davis, failed to detect and investigate activity in the UTC and CPI accounts that triggered red flags under the Firm's AML procedures including their apparent affiliation with each other and with TP, an individual with a securities-related disciplinary history.

44. The CPI account was opened by TP. The UTC account was opened by KR. KR has no disclosed authority on the CPI account but nonetheless was copied on a wire instruction for CPI.

45. In September 2008, the SEC filed a complaint against TP for allegedly engaging in a fraudulent scheme to inflate the stock price of a former shell company and sell its stock to the public without the required registration. The SEC's complaint also referenced TP's issuance of false press releases and unregistered activity as a broker.

46. On February 13, 2009, Capital Path's clearing firm sent Davis an email notifying him of the SEC action against TP. Capital Path, acting through Davis, failed to act upon receiving the email.

47. Both the CPI and UTC accounts engaged in potentially suspicious trading in the low-priced securities of Copysynch, Inc. (COYN) even after the Firm's clearing firm alerted Capital Path of TP's disciplinary history related to penny stock fraud:

- a. On January 27, 2009, the CPI account received in 2 million shares of COYN. Between February 9, 2009 and March 12, 2009, the CPI account sold 371,175 shares of COYN and wired out the proceeds of approximately \$89,283.
- b. Also, on January 27, 2009, the UTC account received 2 million shares of COYN. On February 9, 2009, the UTC account sold 300,000 shares of COYN. Between February 2009 and October 2009, the account purchased 606,000 shares, sold 977,860 shares and transferred out another 1.5 million shares of COYN. In total, as a result of these liquidations, the UTC account wired out approximately \$216,350 in proceeds.

48. In an email, dated April 3, 2009, Capital Path's clearing firm informed Davis that it would be closing the CPI account immediately due to "significant AML risk."

49. On or about June 30, 2009, the CPI account transferred out of Capital Path. At that time, the account held approximately 1,648,825 shares of COYN and 300,000 shares of Placer Gold Corp. (PGCR).

50. The UTC account was closed in or about February 2011.

TR/LK and IK Accounts

TR Account

51. On or about August 12, 2008, TR had opened an account at Capital Path. In or around November 1993, TR was given a suspended two-year prison term in England for recklessly and fraudulently soliciting approximately £90 million from investors. On the new account form, TR disclosed that he was an insider of Dematco Inc. (DMAT), a publicly-traded company.

52. Capital Path, acting through Davis, failed to detect and investigate activity in TR's account that triggered red flags under the Firm's AML procedures.

53. From October 2008 through December 2009, the TR account purchased approximately 1.145 million shares of DMAT.

54. On July 14, 2009 and July 15, 2009, the account received 640,000 shares of First Corporation Colorado (FSTC). Between July 20, 2009 and December 8, 2009, the account purchased an additional 245,810 shares of FSTC, sold all 885,810 FSTC shares and wired out the proceeds of the sales totaling approximately \$268,000.

55. A press release, dated July 10, 2009, noted that Dematco Group Corporation, a subsidiary of DMAT, received one million shares of FSTC as compensation for DMAT's work on behalf of Acquma Holdings Limited in arranging a share exchange between Acquma and FSTC.

56. TR completed an Incoming Penny Stock Questionnaire on which he indicated that the FSTC shares were acquired through a private transaction and not for consulting services. The questionnaire also represented that TR had no relationship to FSTC and that he owned less than three percent of all outstanding shares.

LK and IK Accounts

57. On or about February 6, 2008, IK opened an account at Capital Path. On or about August 13, 2009, an account in the name of SAN was opened by IK's husband, LK. Both accounts were handled by the same registered representative at the firm, DPB.

58. Capital Path introduced LK to TR and in return received between 45,000 and 70,000 shares of FSTC from the SAN account as compensation into its proprietary accounts. A portion of the shares were allocated to registered representatives at the Firm.

59. After making this introduction, Capital Path, acting through Davis, failed to detect and investigate the following activity that triggered red flags under the Firm's AML procedures:

- a. On March 10, 2009, the IK account received 250,000 shares of FSTC;
- b. On August 17, 2009, Davis received an alert for SAN which noted that its owner maintains multiple brokerage accounts and that there is conflicting information associated with the entity including international domain names and addresses. The alert also noted that LK pled guilty to soliciting and making illegal distributions of securities in Canada and Idaho in 1987;
- c. In August 2009, Capital Path closed the SAN account but still allowed the IK account to remain open.

MM Accounts

60. On July 16, 2009, an account was opened in the name of MHPM by MM. Eight days later, on July 24, 2009, an account was opened in the name of SRI by MM. Then on July 28, 2009, an account was opened in the name of BII by MYM. MM maintained trading authorization over all three accounts.

61. Capital Path, acting through Davis, failed to detect and investigate activity in MM's accounts that triggered red flags under the Firm's AML procedures including an individual who quickly established multiple accounts for no apparent business purpose.

62. The new account form for SRI listed the same Reno, Nevada address for SRI and MM. The same Tortolo, British Virgin Islands address is listed on the new account forms for BII, MHPM, MYM and MM.

63. On July 27, 2009, Davis received an alert regarding the SRI account from the Firm's clearing firm, noting that the account holder "maintains multiple accounts/account owner has a history of penny stock activity." A second email, sent that same day, also noted that MM was a former associated person of a broker-dealer and had failed to cooperate in an investigation involving his conduct at the firm regarding unauthorized trading allegations.

64. There were also unusual deposits and withdrawals of a penny stock named Newron Sport (NSPT) associated with these accounts that went undetected:

- a. Between July 30, 2009 and August 18, 2009, the BII account deposited 300 million shares of NSPT into the account. Other than this transaction, there was no other activity in the account;
- b. On July 30, 2009 and August 10, 2009, the SRI account received 200 million shares of NSPT. By August 12, 2009, the account had transferred the shares out of Capital Path. Other than those transactions, there was no other activity in that account;
- c. On July 30, 2009 and August 10, 2009, the MHPM account received 400 million shares of NSPT. By August 12, 2009, the account had transferred the shares out

of Capital Path. Other than those transactions, there was no other activity in that account.

JPA/JSS Accounts

65. On December 16, 2008, Capital Path opened an account in the name of JPA. Three weeks later, on January 5, 2009, JSS opened an account at Capital Path. JA was listed as the Chief Executive Officer (CEO) for both firms. Both accounts listed the same Garden City, New York address.

66. Capital Path, acting through Davis, failed to detect and investigate activity in the JPA and JSS accounts that triggered red flags under the Firm's AML procedures including the opening of multiple accounts by one individual over a short period of time for no apparent business purpose.

67. There were multiple red flags of potentially suspicious activity related to the JPA and JSS accounts including the fact that JA had opened the accounts within a short period of one another for no apparent reason.

68. On January 27, 2009, the clearing firm issued an alert to Davis regarding the JPA account, noting that the "client maintains multiple accounts/excessive history of penny stock activity." Davis assured the clearing firm that he would watch the activity and not allow anything improper.

69. There were additional red flags concerning potentially suspicious trading activity associated with the JPA and JSS accounts' activity in NSPT that Davis failed to respond to:

- a. On March 2, 2009, both accounts each received in approximately 50 million shares of NSPT;

- b. Between March 2, 2009 and October 12, 2009, the JPA account received 145 million shares of NSPT in total. From April 1, 2009 through May 20, 2009, the account liquidated over 70 million shares of NSPT, resulting in proceeds of approximately \$74,730, most of which was wired out by May 26, 2009. The remaining 75 million shares were delivered out on October 29, 2009;
- c. Between May 11, 2009 and May 14, 2009, the JSS account liquidated 50 million shares of NSPT resulting in proceeds of \$43,241, of which \$30,000 was wired out on June 29, 2009;

70. On or about February 4, 2010, JA opened a third account at Capital Path named NCM. On February 5, 2010, Davis received another alert from its clearing firm regarding the opening of the NCM account. The alert stated that the account owner maintains multiple business accounts at the same address and has a history of penny stock activity.

71. Capital Path, acting through Davis, failed to detect and investigate the following potentially suspicious trading of shares in a company called Trycera Financial (TRYF) by a stock promoter, JPA, which was simultaneously touting the stock in press releases:

- a. On March 12, 2010, the JPA account transferred in 15 million shares of TRYF;
- b. From October 4, 2010 through April 14, 2011, the JPA account sold approximately 13.9 million shares of TRYF, in about 67 trades. The transactions resulted in proceeds of approximately \$536,112. During that period, the account had twelve outgoing wires totaling \$540,000;
- c. TRYF was originally incorporated in Nevada in May 2000 under the name “Whitelight Technologies, Inc.” In June 2004, the articles of incorporation were amended to change the entity’s name to TRYF. In its May 16, 2011 Form 10Q,

filed with the SEC, TRYF reported revenues of \$112 and an overall net loss of \$526,700.

- d. On October 5, 2010, JPA issued a press release through marketwire.com that TRYF had presented a “financial empowerment and wealth-building workshop.” In the press release, JPA is listed as the “Investor Relations/Media Contact”. On October 4, 2010, the day before the press release, the average daily share volume was 14,967 for TRYF. On the day of the press release, October 5, 2010, the volume soared to 650,308. Also, on that date, the JPA account sold 252,400 shares of TRYF, for proceeds of approximately \$31,928.
- e. An online research report by stocksgonewild.com, dated October 6, 2010, states that it was compensated \$10,000 by JPA on behalf of TRYF for a one day awareness program. The report itself includes the following excerpt: “[t]he risk reward on this trade is colossal. With price sitting EXACTLY on this support area, it’s practically a free trade.” The JPA account sold an additional 100,000 shares of TRYF on October 6, 2010.
- f. On November 17, 2010, JPA issued a press release through marketwire.com that TRYF had teamed up with GlobeWired to partner on strategic marketing campaigns. Again, JPA is listed as the “Investor/Press/Media Contact” on the press release. On that day, the trading volume in TRYF exceeded nine million shares. For the period of October 7, 2010 to November 16, 2010, the average daily volume was 34,283. On November 17, 2010, the date of the press release, JPA liquidated over 2.37 million shares of TRYF for proceeds of approximately \$156,130.

- g. On November 18, 2010, JPA issued a press release through marketwire.com that TRYF had a presentation about “alternative credit reporting” and discussed the “equal credit opportunity act.” Again, JPA was listed as the “Investor/Press/Media Contact” on the press release. The JPA account sold 261,770 shares of TRYF for proceeds of approximately \$11,590. The volume of trading in TRYF that day was over 1.5 million shares.
- h. Another online research report, posted on StockTwitter.com, dated November 18, 2010, states that it was compensated \$20,000 in cash by JPA for the “further dissemination of publicly available information, opinions & ongoing investors relations coverage for Trycera”. The report itself contains statements touting TRYF as a great investment opportunity: “[i]ncreased volume levels combined with historical volatility, and strong support levels make TRYF the perfect candidate for a short-term rally....we believe TRYF is capable of producing gains of over 80%!”.
- i. On February 22, 2011, JPA issued a press release through marketwire.com that TRYF filed a provisional patent on user controlled alternative credit reporting method. JPA was listed as the “Investor/Press/Media Contact” on the press release. The account sold 235,000 shares of TRYF that same day for proceeds of \$6,345. The volume of trading in TRYF that day was 276,000 shares.

QCM Account

72. On or about November 3, 2009, Capital Path opened an account in the name of QCM, which was beneficially owned by an individual named FF.

73. Capital Path, acting through Davis, failed to detect and investigate the following activity in QCM's account that triggered red flags under the Firm's AML procedures:

- a. From November 24, 2009 through October 28, 2010, the account deposited approximately 41.38 million shares of Blast Applications Inc. ("BLAP"). Prior to a name change in July 2009, BLAP had previously been known as Medivisor Inc. Between April 8, 2010 and March 21, 2011, the account liquidated over 34.6 million shares of BLAP and wired out proceeds of approximately \$194,116.
- b. JPA also served as the investor relations contact for BLAP evidenced by four press releases that were paid for by JPA. The first release, dated February 23, 2010, stated that "Hototc.com has been compensated by a third party [JPA] ninety five thousand dollars for a one week BLAP Advertising services contract." The second release, dated March 22, 2010, similarly stated that Hototc had been compensated \$95,000 for one week of BLAP advertising services. A third release, also dated March 22, 2010, indicated that Stockrich.com had been compensated by JPA \$95,000 for one week of BLAP advertising services. The fourth release was dated March 23, 2010, and stated that Stockegg.com had been compensated \$95,000 for one week of BLAP advertising.
- c. QCM also held debt issued by TRYF. A Form 10Q for TRYF, dated November 15, 2010 contained disclosures that TRYF borrowed \$10,500 from QCM on May 25, 2010 and that, on June 15, 2010, TRYF entered into a contract for services with JPA. In both situations, TRYF provided a note payable.

CCS Account

74. On or around May 5, 2009, Capital Path opened an account in the name of CCS. On January 22, 2010, an updated new account form was completed for the account which now included CCS's corporate resolutions, a copy of the joint owner's driver's license, and an MIS report for the joint owner. At that time, CCS was a registered broker-dealer with FINRA. On September 27, 2011, CCS filed a Broker Dealer Withdrawal (BDW).

75. Capital Path, acting through Davis, failed to detect and investigate the following activity in CCS's account that triggered red flags under the Firm's AML procedures:

- a. The sole security traded in the account was a penny stock called Miller Petroleum ("MILL").
- b. On January 21, 2010, the account received 327,586 shares of MILL which it immediately began liquidating. Between January 2010 and September 2010, the account sold 113,750 shares of MILL for total proceeds of approximately \$509,640.
- c. On January 22, 2010, MILL issued a press release stating they closed a \$6 million equity investment. On March 15, 2010, another MILL press release stated that MILL's assets had increased to \$492 million.
- d. The price per share for MILL increased from \$1.89 per share on January 31, 2010 to \$6.60 per share by March 31, 2010.
- e. A review of Reuters revealed that MILL's Chief Executive Officer, since August 2008, was SB. Prior to that, from October 2006 through June 2008, SB was a registered representative at CCS.

EAA Account

76. On or around September 4, 2009, an account was opened in the name of EAA by MX. EAA and MX shared the same Melville, New York address.

77. Capital Path, acting through Davis, failed to detect and investigate activity in EAA's account that triggered red flags under the Firm's AML procedures.

78. MX was named in an SEC action, dated September 1, 2009, for engaging in the unregistered distribution and sale of over 21 billion shares of a stock and raising approximately \$34 million from its sales to public investors. In two separate emails, Capital Path's clearing firm notified Davis of the SEC action against MX. The first email is dated June 10, 2010. A second email was sent to Davis on June 24, 2010 and specifically noted that Davis had failed to respond to the June 10, 2010 email.

79. Prior to receiving the emails from its clearing firm, Davis had already become aware of the SEC action in or around January 2010 when he viewed the complaint on the SEC website.

80. On September 14, 2009, the EAA account received in over 30 million shares of Eternal Image, Inc. (ETNL). On June 15, 2010, the account purchased over 1.16 million shares of ETNL and, on July 14, 2010, the account purchased 415,000 shares of ETNL. On July 19, 2010, when the account was closed, EAA transferred out over 31 million shares of ETNL.

81. In a Form 10Q filed with the SEC, for the quarter ending September 30, 2009, ETNL reported outstanding shares of approximately 85 million, of which EAA held approximately 36% of the outstanding float.

82. A Form 8K filed with the SEC and dated December 1, 2009, stated that ETNL would be borrowing \$200,000 from EAA. A subsequent Form 10Q, for the quarter ending

March 31, 2010, indicated that the loan had been extended and referenced an additional \$37,000 loan made by EAA to ETNL that was also extended.

83. There were other red flags of potentially suspicious activity associated with the EAA account activity:

- a. On September 21, 2009, the account received 500,000 shares of Full Motion Beverage (FMBV). Between September 21, 2009 and February 22, 2010, the account sold 320,000 shares of FMBV.
- b. On October 1, 2009, the account received 18.5 million shares of Spongetech Delivery Systems (SPNGQ) which were then delivered back out the same day. On May 5, 2010, the SEC filed a civil injunctive action against SPNGQ, its officer, attorneys and a stock promoter for a massive pump and dump scheme. On that same day, the United States Attorney's Office for the Eastern District of New York arrested the CEO and CFO for SPNGQ for conspiracy to commit securities fraud and obstruction of justice.
- c. On October 8, 2009, the account received 14 million shares of Tytan Holdings (TYTN). On November 12, 2009, the account received an additional 14 million shares of TYTN which were then delivered out the same day.

AH Accounts

84. AH opened two accounts at Capital Path. The first account was opened in the name of SCC on May 29, 2009. This account lists a Carson City, Nevada address for SCC and a Montreal, Quebec address for AH. The second account was opened on October 14, 2010 as an individual account in AH's name. The address for this account is in Montreal, Quebec.

85. Capital Path, acting through Davis, failed to detect and investigate activity in AH's accounts that triggered red flags under the Firm's AML procedures.

AH Individual Account

86. On October 15, 2010, the AH account transferred in one million shares of Spencer Pharmaceutical, Inc. (SPPH). From October 18, 2010 through November 9, 2010, the account sold 137,871 shares of SPPH for proceeds of approximately \$40,869 which were wired out immediately after.

87. On or about November 12, 2010, Davis was informed by its clearing firm that the one million shares of SPPH deposited into the AH account on October 15, 2010 were restricted and the legend needed to be re-applied. On December 23, 2010, the account transferred out the remaining balance of SPPH without re-applying the restricted legend.

SCC Account

88. The SCC account was initially funded with 150,000 shares of Bio Solutions Corp. (BISU). On September 2, 2009 and October 30, 2009, a total of 235,000 restricted BISU shares were deposited in the account. As soon as the restriction was lifted on November 10, 2009, the account began selling out of the position.

89. On June 11, 2010, the account transferred out the last of its BISU shares and another penny stock, Portlogic Systems (PGSY). The account re-deposited those BISU and PGSY shares on July 2, 2010.

90. On October 28, 2010, the SCC account wired \$15,000 out to an unknown Canadian account. The address listed for AH on the wiring instructions differs from the one on his new account form.

91. On December 22, 2010, the account deposited 4 million restricted shares of Kurrant Mobile Catering Inc. (KRMC). On January 6, 2011, the restriction was lifted and by February 9, 2011, the account began selling off KRMC. By March 3, 2011, the account had sold 2 million shares and transferred out the remaining 2 million shares of KRMC.

92. In its Form 10-Q, filed with the SEC on January 19, 2011, KRMC reported that on June 2, 2010, it entered into a three month consulting agreement with SCC and issued 5 million shares of KRMC to SCC. The Form 10-Q also revealed that the company, on August 1, 2010, entered into a separate three month consulting agreement with AH for which it issued 1.5 million shares of stock to him.

GRUPO

93. On or around November 2, 2010, an account was opened in the name of GRUPO by VZ. GRUPO and VZ are both located in Panama.

94. Capital Path, acting through Davis, failed to detect and investigate activity in GRUPO's account that triggered red flags under the Firm's AML procedures.

95. Within days of opening, the account transferred in over 1.48 million shares of Monster Offers (MONT). Between November 11, 2010 and November 29, 2010, the account sold all of the MONT shares and wired out the proceeds of approximately \$1.75 million to a Swiss bank account. This was the only activity in the account between November 2010 and September 2011.

TB Account

96. On or around August 18, 2009, Capital Path established a joint account for TB and the BF Trust. On the new account form, TB listed his employer as NeoStem of the Palm

Beaches, a stem-cell collection business. TB also indicated that he was not affiliated with any publicly traded company.

97. Capital Path, acting through Davis, failed to detect and investigate the following activity in TB's account that triggered red flags under the Firm's AML procedures:

- a. In May 1994, the SEC filed a complaint against TB and his company, Comcoa, Ltd. for offering and selling unregistered investment contracts via fifty "boiler room" locations and through 275 sales representatives nationwide.
- b. In 2001, TB was convicted of conspiracy to commit wire and mail fraud for operating a "boiler room" fraud, but fled after conviction. He was located in 2003 and sentenced to 76 months in prison;
- c. On August 25, 2009, the account transferred in 2.5 million shares of Stem Cell Assurance, Inc. (SCLZ);
- d. SCLZ's mailing and business addresses match the address listed on the new account form for the BF Trust;
- e. TB is listed as the grantor and trustee for the BF Trust on the Certificate of Trust documents. Another trustee listed for the BF Trust is GM who is also the president and director of SCLZ;
- f. Between September 2, 2009 and September 18, 2009, the account liquidated 392,000 shares of SCLZ and wired out \$118,000 via two wires, on September 8, 2009 and September 24, 2009;

- g. Between May 10, 2010 and May 13, 2010, the account liquidated 477,800 shares of SCLZ and wired out \$10,300 in two wires, on May 14, 2010 and May 18, 2010;
- h. Between August 18, 2010 and August 24, 2010, the account liquidated 212,500 shares of SCLZ and wired out \$3,600 on August 23, 2010;
- i. Between December 14, 2010 and December 22, 2010, the account liquidated over 1.73 million shares of SCLZ and wired out \$18,047.

DV Accounts

98. On September 15, 2011, DV opened two accounts at Capital Path. One was opened in the name of DV and the second was opened in the name of the entity PALA. DV is listed as the joint owner on the PALA account and both accounts share the same address.

99. Between December 2011 and February 2013, Capital Path, acting through Davis, failed to detect and investigate the following activity in DV's accounts that triggered red flags under the Firm's AML procedures:

- a. On December 27 and 29, 2011, the DV Account bought a total of 165,000 shares of North Springs Resources Corporation (NSRS), which is a low-priced security. On January 5, 2012 and January 23, 2012, the DV Account liquidated its entire position of 165,000 shares in NSRS.
- b. Also, on December 27 and 29, 2011, the PALA Account purchased 285,000 shares of NSRS and, on February 8, 2012, purchased an additional 20,000 shares of NSRS. Between January 5, 2012 and February 13, 2012, the PALA Account sold all of its 305,000 NSRS shares.

- c. On or about December 23, 2011, NSRS began issuing a series of press releases discussing its operations and highlighting its recent acquisitions of multiple gold mining properties. In January 2012, NSRS was being promoted by a number of stock promotion websites. However, on December 19, 2011, the issuer made a Form 10-Q filing with the United States Securities and Exchange Commission reporting cash reserves of \$16, total assets of \$60,589 and total liabilities of \$108,770.
- d. In February 2012, the DV Account purchased 175,000 shares of penny stock Independence Energy Corp. (INDG) at prices ranging from \$.50 to \$.80 per share, for a total cost of \$125,000. Between May 7, 2012 and June 19, 2012, all 175,000 shares were sold, at prices ranging from \$2.22 to \$4.53 per share, resulting in proceeds of approximately \$571,600. On June 11, 2012, the DV Account wired out \$175,000.
- e. In March 2012, the PALA Account also purchased 40,000 shares of INDG at prices ranging from \$1.01 to \$1.20 per share, for a total cost of \$44,135. Between May 7, 2012 and June 19, 2012, all 40,000 shares were sold, at prices ranging from \$2.22 to \$4.56 per share, resulting in proceeds of approximately \$146,800. On June 25, 2012, the PALA Account wired out \$170,000.
- f. In May and June 2012, INDG was actively promoted on a number of stock promotion websites. Around the same time, IDNG was issuing press releases announcing corporate actions including a \$1 million drawdown financing agreement.

- g. On December 17, 2012, the DV Account purchased 100,000 shares of Green Innovations Ltd. (GNIN), which is a low-priced security. Between January 25, 2013 and February 19, 2013, the DV Account liquidated its GNIN position for profits of over \$95,000.
- h. In or about December 2012, GNIN began issuing press releases touting its upswing in business and in February 2013, GNIN was actively promoted on at least five different websites.

100. Davis is Capital Path's AML Officer and has managed the day-to-day operations of the firm as its President, Chief Compliance Officer, and Registered Options Principal since 2006. He was responsible for the creation and failed implementation of the policies that led to the AML violations by the firm.

101. Davis received alerts from the clearing firm regarding individuals and entities with securities-related disciplinary histories. He was also aware of the trading in customer accounts at Capital Path. In the face of these alerts and trading reviews, as well as the numerous red flags of suspicious activity, as described above, Capital Path and Davis took no effective steps to monitor such trading, or curb potentially manipulative trading. Capital Path, acting through its AMLCO Davis, failed to adequately identify, investigate and respond to the suspicious trading activity related to these customer accounts.

102. By failing to detect, investigate or report suspicious activity, Capital Path and Davis violated NASD Conduct Rule 3011(a) and 2110 and FINRA Rules 3310(a) and 2010.

Based on the foregoing, Respondents violated NASD Conduct Rules 3011(a) and (b) and 2110 and FINRA Rules 3310(a) and (b) and 2010.

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 Respondent Capital Path be assessed a fine of \$175,000, of which \$25,000 is joint and several with Davis; that a three-month suspension be imposed against Davis from association with any FINRA member firm in a principal capacity; and, that Capital Path be censured.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

FINRA

Signed on behalf of the
Director of ODA, by delegated authority



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FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

V.

CAPITAL PATH SECURITIES, INC.
(CRD No. 104363),

AND

WILLIAM JOHN DAVIS (CRD No. 1247007),

RESPONDENTS.

DISCIPLINARY PROCEEDING
No. 2011025869201

Hearing Officer - DRS

OFFER OF SETTLEMENT

I.

Respondents Capital Path Securities, Inc. ("Capital Path") and William John Davis ("Davis") (collectively, the "Respondents") make this Offer of Settlement (Offer) to the Financial Industry Regulatory Authority (FINRA), with respect to the matters alleged by FINRA in Disciplinary Proceeding No. 2011025869201 filed on January 28, 2014 (Complaint).

This Offer is submitted to resolve this proceeding and is made without admitting or denying the allegations of the Complaint. It is also submitted upon the condition that FINRA shall not institute or entertain, at any time, any further proceeding as to Respondents based on the allegations of the Complaint, and upon further condition that it will not be used in this proceeding, in any other proceeding, or otherwise, unless it is accepted by the National Adjudicatory Council (NAC) Review Subcommittee, pursuant to FINRA Rule 9270.

II.

ORIGIN OF DISCIPLINARY ACTION

This disciplinary action arose from the routine examinations of Capital Path.

III.

ALLEGED ACTS OR PRACTICES AND VIOLATIONS BY RESPONDENT

As alleged in the Complaint, Respondents engaged in the following acts, or failed to act as follows:

SUMMARY

Between approximately June 2008 and February 2013, Capital Path Securities, Inc. ("Capital Path"), through William John Davis ("Davis"), the firm's Anti-Money Laundering Compliance Officer (AMLCO) and President, demonstrated an ongoing pattern of noncompliance with the anti-money laundering rules. Among other things, Capital Path and Davis allowed multiple customers, some with ties to each other or to issuers of penny stocks to liquidate blocks of stocks without properly monitoring these accounts for suspicious trading and wire activity based on the risks posed by these customers. The customers engaged in a pattern of suspicious trading, wire transfers or other activity which were red flags that Capital Path and Davis failed to act upon.

Capital Path and Davis failed to establish and implement an adequate AML supervisory system, reasonably designed to ensure compliance with the Bank Secrecy Act (31 U.S.C. 5311, *et seq.*) and the implementing regulations promulgated thereunder. Specifically, Capital Path and Davis failed to monitor, detect, and investigate suspicious transactions in the face of multiple red flags of potentially suspicious activity.

RESPONDENTS AND JURISDICTION

Capital Path has been a member of FINRA since August 14, 2001. The firm is located in Middle Island, New York and conducts a general securities business including retail, corporate, over-the-counter equities trading, market making, corporate debt securities, options, private placements and proprietary trading. From June 2008 through September 2011, the firm was a market maker in several penny stocks including several in which customers engaged in potentially suspicious activity in their Capital Path accounts. Capital Path employs approximately six registered persons.

Davis is the primary owner and control person for Capital Path. Since July 2006, Davis has been the President, Chief Compliance Officer (CCO), Registered Options Principal (ROP) and AMLCO for Capital Path. He first became registered as a General Securities Representative (GSR) on or about April 18, 1984 while employed with a FINRA member firm.

FIRST CAUSE OF ACTION

FAILURE TO DEVELOP AND IMPLEMENT A REASONABLE AML PROGRAM (NASD Conduct Rules 3011(a) and (b) and 2110; FINRA Rules 3310(a) and (b) and 2010)

NASD Conduct Rule 3011(a) requires firms to establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of suspicious activity or transactions, as required by 31 U.S.C. §5318(g) and the implementing regulations thereunder.¹

NASD Conduct Rule 3011(b) requires firms to establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder.

¹ NASD Conduct Rule 3011 was renumbered FINRA Rule 3310 on January 1, 2010.

Davis created Capital Path's AML procedures and set up the firm's supervisory system.

Capital Path's written supervisory procedures required Davis, the firm's AMLCO, to: (1) monitor for potentially suspicious activity, (2) investigate potentially suspicious activity and (3) file suspicious activity reports (SARs), as appropriate.

During the relevant period, Capital Path utilized two sets of written supervisory procedures. Between 2006 and June 2010, the Firm operated under the same written supervisory procedures, which included the Firm's AML policies, procedures and internal controls ("2006 AML procedures"). The Firm's written supervisory procedures were revised in July 2010 with no substantive changes to the section devoted to AML policies, procedures and internal controls.

Capital Path's written AML procedures set forth its monitoring processes in general terms. The AML procedures include a number of "red flags" indicating typologies that could lead to potentially suspicious activity. The AML procedures also identify how such activity would be monitored and reported. Examples of "red flags" signaling potentially suspicious activity included:

- The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business or investment strategy;
- The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations;
- For no apparent reason, the customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers;
- The customer is from, or has accounts in, a country identified as a non-cooperative country or territory by the Financial Action Task Force ("FATF");

- The customer's account has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity;
- The customer's account has wire transfers that have no apparent business purpose to or from a country identified as potential money laundering risk or a bank secrecy haven;
- The customer, for no apparent reason or in conjunction with other red flags, engages in transactions involving certain types of securities, such as penny stocks, Regulation S stocks, and bearer bonds, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity.);
- The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent purpose.

The AML procedures state that when a firm employee detects any "red flag," he or she will investigate further, including gathering additional information, contacting the government, freezing the account or filing a SAR, under the direction of the AMLCO. However, when faced with many of the "red flags" identified in the Firm's AML procedures, neither Davis nor anyone else at Capital Path took steps to investigate further or gather information to determine whether the transactions had legitimate purposes.

Capital Path, acting through Davis, failed to enforce its written AML program to ensure compliance with the Bank Secrecy Act. Davis failed to identify multiple transactions in customer accounts which triggered many of the red flags identified in the Firm's AML procedures. Among other things, these customers maintained multiple accounts, had securities-related disciplinary histories, engaged in suspicious penny stock trades and conducted questionable third-party wire activity.

The AML procedures state that the Firm will manually review a sufficient amount of account activity to monitor for unusual size, volume, pattern or type of transactions, geographic

factors and any of the red flags listed in the procedures. According to the AML procedures, that monitoring would include a review of both trading and wire transfers and would utilize exception reports which identified transaction size, location, type, number and the nature of the activity.

Contrary to its AML procedures, Capital Path did not use the exception reports offered by its clearing firm, which included reports that could have been used to monitor wire activity. The firm also did not implement any of its own reports for the review of trading activity.

In its monitoring for suspicious activity, Capital Path, through Davis, relied mainly on a daily review of customer trades. A review of the daily trading alone is inadequate as it does not allow the Firm to identify suspicious patterns of trading activity or other AML issues.

Davis primarily monitored the accounts to ensure that they contained sufficient funds to cover whatever transaction was being conducted. This primary focus was insufficient to detect and investigate suspicious activity relating to penny stock transactions. As described more fully below, neither Davis nor any other Firm employee took steps to inquire about any of these transactions to determine whether they constituted suspicious activity.

In or around early 2009, Capital Path began using an incoming penny stock questionnaire, provided by its clearing firm. The questionnaire was intended to document the source of the shares and confirm that the shares were registered. Even when the questionnaire contained information warranting further inquiry, the Firm failed to conduct the necessary follow up.

Capital Path, through its AMLCO Davis, failed to implement procedures reasonably designed to detect and cause the reporting of suspicious transactions and failed to implement or

enforce its own AML program in contravention of NASD Conduct Rules 3011(a) and FINRA Rule 3310(a).

Capital Path, acting through Davis, also failed to develop and implement other components of a reasonably designed AMLCP in breach of NASD Rule 3011(b) and FINRA Rule 3310(b), including failing to properly respond to requests under Section 314(a) of the USA PATRIOT Act of 2001, which authorizes law enforcement to communicate with broker-dealers to request information regarding persons or entities of interest to an investigation so that any accounts or transactions involving these individuals or entities can be promptly located. On November 4, 2002, FinCEN began issuing information requests under this new authority. The Firm's AML procedures set out the process by which Capital Path will respond to FinCEN's 314(a) requests by reviewing its customers and certain other individuals and entities. However, Capital Path did not implement a system to respond to FinCEN 314(a) requests and has not shown that such reviews were even conducted.

By failing to establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act, Capital Path and Davis violated NASD Conduct Rules 3011(a), 3011(b) and 2110; FINRA Rules 3310(a), 3310(b) and 2010.²

SECOND CAUSE OF ACTION

FAILURE TO DETECT, INVESTIGATE OR REPORT SUSPICIOUS ACTIVITY (NASD Conduct Rules 3011(a) and 2110; FINRA Rules 3310(a) and 2010)

Capital Path, acting through its AMLCO Davis, failed to follow the Firm's AML procedures and did not identify, investigate and report suspicious activity in multiple instances.

² NASD Conduct Rule 2110 was renumbered FINRA Rule 2010 on December 15, 2008.

A review of customer transactions during the period from June 2008 through February 2013 revealed red flags of potentially suspicious transactions that should have prompted the Firm to perform additional investigation to determine whether the transactions represented suspicious activity that needed to be reported. The Firm failed to investigate the following “red flags”: (a) high volume trading of low-priced securities; (b) wire activity associated with the liquidation of low-priced securities transactions; (c) customer accounts associated with individuals who have securities related disciplinary history; and (d) accounts either domiciled off-shore or maintaining bank accounts offshore.

Capital Path and Davis permitted these suspicious activities to occur without conducting an adequate investigation into the activities and reporting the activities, as appropriate.

HFL Account

From at least June 2008 through October 2009, there were multiple red flags associated with the HFL account that were not detected or investigated by Capital Path, acting through Davis. The account engaged in significant trading and wire activity related to penny stocks, the individuals associated with the account were based in multiple jurisdictions around the world, for no apparent reason, and the funds were being transferred to an account in Barbados, where the underlying beneficial owner had no known connections.

The sole officer of HFL is an Indian citizen, DB, who resides in the Philippines. HFL's registered agent is located in Samoa but the individual with trading authority over the account, PW, has a listed address in Panama City and conducts business from Canada.

From June 2008 through October 2009, the account engaged in significant trading and journaling activity related to 51 different stocks, of which 50 were penny stocks. During that period, the HFL account deposited over 46 million shares of penny stocks and liquidated over 31

million shares of penny stocks. Between April 8, 2009 and October 14, 2009, the HFL account wired out over \$12.5 million through approximately 19 wires to an HFL bank account located in Barbados, a jurisdiction where the client has no known personal connections based on its profile.

Four securities, in particular, exemplify the type of suspicious trading activity seen in the HFL account:

- a. On March 19, 2009, the HFL account received a certificate for 175,000 shares of Treasure Explorations Inc. (TEEX). In March 2009, the TEEX position was worth \$.05 per share for a total value of \$8,750. On April 1, 2009, TEEX went through a name and symbol change, converting HFL's TEEX shares to 2.625 million shares of Verify Smart Corp. (VSMR). That same day, HFL began liquidating its shares of VSMR. By the end of October 2009, HFL had sold 2.616 million shares of VSMR for total proceeds of over \$3.73 million.
- b. The HFL account received two security deposits, in the form of certificates, on or about February 27, 2009 and June 22, 2009, for a total of 3.06 million shares of Neohydro Technologies (NHYT). On March 31, 2009, NHYT reported only \$57 in total assets. Between April 29, 2009 and September 29, 2009, the account liquidated all 3.06 million shares of NHYT for total proceeds of \$787,550.
- c. The HFL account received a security deposit, in the form of a certificate, on March 18, 2009, for 360,000 shares of Alto Group Holdings Inc. (ALTO). Between May 6, 2009 and May 22, 2009, the account liquidated the entire 360,000 shares of ALTO for total proceeds of approximately \$404,804.
- d. The HFL account received a security deposit, in the form of a certificate, on October 3, 2008, for 350,000 shares of Tidewater Resources (TIWR). On HFL's

monthly account statement for October 2008, the TIWR position was worth \$1.50 per share for a total value of \$525,000. On January 14, 2009, TIWR went through a name and symbol change, converting the TIWR shares in the account to 4.2 million shares of Precision Petroleum Corp. (PPTO). On January 29, 2009, HFL began liquidating its PPTO shares and, by October 9, 2009, had sold approximately 3.15 million shares of PPTO for total proceeds of over \$2.03 million.

FPI Account

FPI is a Panamanian licensed brokerage firm located in Panama. FPI opened an account in May 2009 at Capital Path.

From August 2009 through October 2009, the volume of penny stock transactions and wires executed through the FPI account triggered red flags that Capital Path, acting through Davis, should have identified and investigated. Capital Path, acting through Davis, failed to detect or investigate these transactions.

From August 2009 through October 2009, the FPI account had approximately 22 in-bound stock transfers of over 19 million shares and three out-bound stock transfers of approximately 799,250 shares. During that same period, the account also purchased over 2 million shares and sold 7.65 million shares of approximately twenty-five different penny stocks. Between October 23, 2009 and November 19, 2009, the account wired out a total of approximately \$6 million.

Among these transactions, between September 30, 2009 and October 5, 2009, the account received in approximately 3.63 million shares of NYHT. Between October 5, 2009 and October 20, 2009, the account sold all of the NYHT shares for proceeds of over \$800,000.

Accounts Trading in Legal Access Technologies Inc. (LGAL) Stock

Between June 2008 and November 2009, Capital Path, acting through Davis, failed to detect or investigate activity across at least nine accounts at Capital Path in a low-priced security called Legal Access Technologies Inc. (LGAL) that triggered red flags under the Firm's AML procedures.

The nine accounts were all serviced by the same registered representative at Capital Path, RF. Three of the nine accounts were associated with RF and his family. One of the nine customers was affiliated with LGAL:

- a. The account for customer BG liquidated approximately 2.53 million shares of LGAL in two transactions on April 24, 2009 and April 28, 2009, resulting in proceeds of approximately \$8,246 which BG immediately wired out. Those were the only transactions in that account. BG was affiliated with the issuer in a public relations capacity and was listed at the bottom of press releases issued on behalf of LGAL between November 2008 and August 2009.
- b. AG, TG, VI, YM and MH, five other customer accounts, made purchases of LGAL between September 2008 and July 2009 totaling 990,000 shares.
- c. There were three accounts associated with RF that also engaged in potentially suspicious activity in LGAL. Two of the accounts were in the names of his children and the third was a corporate account opened by his wife (the "RF Accounts").

- d. RF and his family originally held their accounts at a former FINRA member firm, but when that firm filed a broker-dealer withdrawal form (BDW), over approximately 3.46 million shares of LGAL were transferred to accounts for RF and his family at Capital Path. Between June 2008 and November 2009, the RF Accounts purchased an additional approximately 2 million shares of LGAL and sold approximately 2.9 million shares of LGAL.

Accounts Trading in Bergamo Acquisition Corp. (BGMO) Stock

Capital Path, acting through Davis, failed to detect or investigate activity across at least nine accounts at Capital Path in a low-priced security called Bergamo Acquisition Corp. (BGMO) that triggered red flags under the Firm's AML procedures.

Capital Path was a market maker for BGMO and the nine accounts at issue were all handled by the same registered representative at Capital Path, DPB.

- a. One of the accounts was in the name of SJB who, from June 1, 2009 through December 31, 2009, was also registered as a GSR through Capital Path.³ SJB is the father of DPB. On March 26, 2008, Capital Path was alerted by its clearing firm of an SEC action that had been brought against SJB in October 1993 for violations of registration and antifraud provisions related to a scheme to sell over 3 million shares of worthless securities through shell companies.
- b. SJB's account purchased 20,000 shares of BGMO on or about September 11, 2008; September 12, 2008 and June 1, 2009 at prices ranging from \$.03 to \$.09 per share. The shares were sold on July 21, 2009 for \$.25 per share.

³ SJB is not currently registered with a FINRA member firm.

- c. In or around June 2008, Customer GW was 82 years old and retired. At that time, GW's account held only 9,600 shares of BGMO. On July 21, 2008, the account received in 403,000 restricted shares of BGMO and, on July 16, 2009, it received in an additional 1.1 million restricted shares. Between August 28, 2008 and July 7, 2009, the only activity in the account was the liquidation of 412,600 BGMO shares, resulting in proceeds of approximately \$36,262.
- d. In or around April 2008, customer HH opened an account at Capital Path. On his new account form, HH notes that he is BGMO's president. On June 23, 2008 and July 21, 2008, the account received 238,385 shares of BGMO. The only transactions in the account were the liquidations of 165,000 shares of BGMO between October 31, 2008 and January 16, 2009, resulting in proceeds of approximately \$14,924.
- e. On or around November 13, 2008, customer RH opened an account at Capital Path and, on November 18, 2008, received in about 1.68 million shares of BGMO. The account purchased 5,000 shares of BGMO on September 10, 2009. The account's only holdings were BGMO. Between June 11, 2009 and October 9, 2009, the account sold over 1 million shares of BGMO, resulting in proceeds of approximately \$423,157 which were wired out soon after.
- f. On or about February 3, 2009, customer SP opened an account at Capital Path and, on March 31, 2009, received in approximately 286,635 shares of BGMO. Between April 27, 2009 and July 24, 2009, the account liquidated 150,550 shares of BGMO, resulting in proceeds of approximately \$25,523. On his new account

form, SP notes that he was a consultant for BGMO while the BGMO website lists him as Senior Executive Vice President and Director of BGMO since 1997.

- g. In or about July 2008, customer PG maintained an account at Capital Path. From July 2008 through July 2009, the only transactions in the account were the sales of 100,000 shares of BGMO. In or around February 2009, PG had been named, as one of three individuals, in an SEC complaint filed in the United States District Court for the Southern District of New York for defrauding investors and collecting about \$800,000 in unlawful profits by fraudulently procuring shares of a stock and then selling them after making misrepresentations and omissions about the company in order to artificially increase demand for the stock. In an alert, dated June 7, 2010, the clearing firm informed Davis of the SEC judgment in this action, entered in May 2010. The judgment ordered PG to disgorge profits totaling \$782,046, assessed a civil penalty of \$130,000 and barred him from participating in the sale of any penny stocks.

PK Account

On or about August 11, 2007, customer PK opened an account at Capital Path. On the new account form, PK listed that he was a consultant for Halody Consulting. Davis was the registered representative for the account.

Capital Path, acting through Davis, failed to detect and investigate activity in PK's account that triggered red flags under the Firm's AML procedures.

In two transactions, in July 2008 and January 2009, PK sold 200,000 shares of CX2 Technologies (CXTO), which were the only shares in the account, for proceeds of approximately \$5,595.

On May 13, 2009, the PK account received in 300,000 shares of CXTO and, between May 18 and May 21, 2009, the account sold all 300,000 shares of CXTO for proceeds of approximately \$1,741.

After liquidating the shares, the account immediately wired out the proceeds.

In an agreement, dated June 2, 2008, and attached to CXTO's Form 8-K, filed with the SEC, CXTO reveals that Halody, through its owner PK, provided funding to CXTO. In exchange for that funding, according to the agreement, Halody received convertible debentures from CXTO that were partially converted into 5.28 million shares of CXTO. The agreement also represents that PK separately owned 750,000 shares of CXTO.

In August 2006, PK had been barred by the SEC in connection with the fraudulent sales of prematurely issued stock dividend shares.

In September 2009, the PK account deposited 100,000 shares of American Diversified Holdings (ADHC). Between September 24, 2009 and November 19, 2009, the account sold 91,545 shares of ADHC and wired out approximately \$21,124.

TP Accounts

On January 18, 2009, UTC opened an account with Capital Path. Five days later, on January 23, 2009, an account was opened in the name of CPI. Both accounts shared the same address in Malibu, California. The registered representative for both accounts was JH.

Capital Path, acting through Davis, failed to detect and investigate activity in the UTC and CPI accounts that triggered red flags under the Firm's AML procedures including their apparent affiliation with each other and with TP, an individual with a securities-related disciplinary history.

The CPI account was opened by TP. The UTC account was opened by KR. KR has no disclosed authority on the CPI account but nonetheless was copied on a wire instruction for CPI.

In September 2008, the SEC filed a complaint against TP for allegedly engaging in a fraudulent scheme to inflate the stock price of a former shell company and sell its stock to the public without the required registration. The SEC's complaint also referenced TP's issuance of false press releases and unregistered activity as a broker.

On February 13, 2009, Capital Path's clearing firm sent Davis an email notifying him of the SEC action against TP. Capital Path, acting through Davis, failed to act upon receiving the email.

Both the CPI and UTC accounts engaged in potentially suspicious trading in the low-priced securities of Copysynch, Inc. (COYN) even after the Firm's clearing firm alerted Capital Path of TP's disciplinary history related to penny stock fraud:

- a. On January 27, 2009, the CPI account received in 2 million shares of COYN.
Between February 9, 2009 and March 12, 2009, the CPI account sold 371,175 shares of COYN and wired out the proceeds of approximately \$89,283.
- b. Also, on January 27, 2009, the UTC account received 2 million shares of COYN.
On February 9, 2009, the UTC account sold 300,000 shares of COYN. Between February 2009 and October 2009, the account purchased 606,000 shares, sold 977,860 shares and transferred out another 1.5 million shares of COYN. In total, as a result of these liquidations, the UTC account wired out approximately \$216,350 in proceeds.

In an email, dated April 3, 2009, Capital Path's clearing firm informed Davis that it would be closing the CPI account immediately due to "significant AML risk."

On or about June 30, 2009, the CPI account transferred out of Capital Path. At that time, the account held approximately 1,648,825 shares of COYN and 300,000 shares of Placer Gold Corp. (PGCR).

The UTC account was closed in or about February 2011.

TR/LK and IK Accounts

TR Account

On or about August 12, 2008, TR had opened an account at Capital Path. In or around November 1993, TR was given a suspended two-year prison term in England for recklessly and fraudulently soliciting approximately £90 million from investors. On the new account form, TR disclosed that he was an insider of Dematco Inc. (DMAT), a publicly-traded company.

Capital Path, acting through Davis, failed to detect and investigate activity in TR's account that triggered red flags under the Firm's AML procedures.

From October 2008 through December 2009, the TR account purchased approximately 1.145 million shares of DMAT.

On July 14, 2009 and July 15, 2009, the account received 640,000 shares of First Corporation Colorado (FSTC). Between July 20, 2009 and December 8, 2009, the account purchased an additional 245,810 shares of FSTC, sold all 885,810 FSTC shares and wired out the proceeds of the sales totaling approximately \$268,000.

A press release, dated July 10, 2009, noted that Dematco Group Corporation, a subsidiary of DMAT, received one million shares of FSTC as compensation for DMAT's work on behalf of Acquma Holdings Limited in arranging a share exchange between Acquma and FSTC.

TR completed an Incoming Penny Stock Questionnaire on which he indicated that the FSTC shares were acquired through a private transaction and not for consulting services. The questionnaire also represented that TR had no relationship to FSTC and that he owned less than three percent of all outstanding shares.

LK and IK Accounts

On or about February 6, 2008, IK opened an account at Capital Path. On or about August 13, 2009, an account in the name of SAN was opened by IK's husband, LK. Both accounts were handled by the same registered representative at the firm, DPB.

Capital Path introduced LK to TR and in return received between 45,000 and 70,000 shares of FSTC from the SAN account as compensation into its proprietary accounts. A portion of the shares were allocated to registered representatives at the Firm.

After making this introduction, Capital Path, acting through Davis, failed to detect and investigate the following activity that triggered red flags under the Firm's AML procedures:

- a. On March 10, 2009, the IK account received 250,000 shares of FSTC;
- b. On August 17, 2009, Davis received an alert for SAN which noted that its owner maintains multiple brokerage accounts and that there is conflicting information associated with the entity including international domain names and addresses. The alert also noted that LK pled guilty to soliciting and making illegal distributions of securities in Canada and Idaho in 1987;

- c. In August 2009, Capital Path closed the SAN account but still allowed the IK account to remain open.

MM Accounts

On July 16, 2009, an account was opened in the name of MHPM by MM. Eight days later, on July 24, 2009, an account was opened in the name of SRI by MM. Then on July 28, 2009, an account was opened in the name of BII by MYM. MM maintained trading authorization over all three accounts.

Capital Path, acting through Davis, failed to detect and investigate activity in MM's accounts that triggered red flags under the Firm's AML procedures including an individual who quickly established multiple accounts for no apparent business purpose.

The new account form for SRI listed the same Reno, Nevada address for SRI and MM. The same Tortolo, British Virgin Islands address is listed on the new account forms for BII, MHPM, MYM and MM.

On July 27, 2009, Davis received an alert regarding the SRI account from the Firm's clearing firm, noting that the account holder "maintains multiple accounts/account owner has a history of penny stock activity." A second email, sent that same day, also noted that MM was a former associated person of a broker-dealer and had failed to cooperate in an investigation involving his conduct at the firm regarding unauthorized trading allegations.

There were also unusual deposits and withdrawals of a penny stock named Newron Sport (NSPT) associated with these accounts that went undetected:

- a. Between July 30, 2009 and August 18, 2009, the BII account deposited 300 million shares of NSPT into the account. Other than this transaction, there was no other activity in the account;
- b. On July 30, 2009 and August 10, 2009, the SRI account received 200 million shares of NSPT. By August 12, 2009, the account had transferred the shares out of Capital Path. Other than those transactions, there was no other activity in that account;
- c. On July 30, 2009 and August 10, 2009, the MHPM account received 400 million shares of NSPT. By August 12, 2009, the account had transferred the shares out of Capital Path. Other than those transactions, there was no other activity in that account.

JPA/JSS Accounts

On December 16, 2008, Capital Path opened an account in the name of JPA. Three weeks later, on January 5, 2009, JSS opened an account at Capital Path. JA was listed as the Chief Executive Officer (CEO) for both firms. Both accounts listed the same Garden City, New York address.

Capital Path, acting through Davis, failed to detect and investigate activity in the JPA and JSS accounts that triggered red flags under the Firm's AML procedures including the opening of multiple accounts by one individual over a short period of time for no apparent business purpose.

There were multiple red flags of potentially suspicious activity related to the JPA and JSS accounts including the fact that JA had opened the accounts within a short period of one another for no apparent reason.

On January 27, 2009, the clearing firm issued an alert to Davis regarding the JPA account, noting that the "client maintains multiple accounts/excessive history of penny stock activity." Davis assured the clearing firm that he would watch the activity and not allow anything improper.

There were additional red flags concerning potentially suspicious trading activity associated with the JPA and JSS accounts' activity in NSPT that Davis failed to respond to:

- a. On March 2, 2009, both accounts each received in approximately 50 million shares of NSPT;
- b. Between March 2, 2009 and October 12, 2009, the JPA account received 145 million shares of NSPT in total. From April 1, 2009 through May 20, 2009, the account liquidated over 70 million shares of NSPT, resulting in proceeds of approximately \$74,730, most of which was wired out by May 26, 2009. The remaining 75 million shares were delivered out on October 29, 2009;
- c. Between May 11, 2009 and May 14, 2009, the JSS account liquidated 50 million shares of NSPT resulting in proceeds of \$43,241, of which \$30,000 was wired out on June 29, 2009;

On or about February 4, 2010, JA opened a third account at Capital Path named NCM. On February 5, 2010, Davis received another alert from its clearing firm regarding the opening of the NCM account. The alert stated that the account owner maintains multiple business accounts at the same address and has a history of penny stock activity.

Capital Path, acting through Davis, failed to detect and investigate the following potentially suspicious trading of shares in a company called Trycera Financial (TRYF) by a stock promoter, JPA, which was simultaneously touting the stock in press releases:

- a. On March 12, 2010, the JPA account transferred in 15 million shares of TRYF;
- b. From October 4, 2010 through April 14, 2011, the JPA account sold approximately 13.9 million shares of TRYF, in about 67 trades. The transactions resulted in proceeds of approximately \$536,112. During that period, the account had twelve outgoing wires totaling \$540,000;
- c. TRYF was originally incorporated in Nevada in May 2000 under the name "Whitelight Technologies, Inc." In June 2004, the articles of incorporation were amended to change the entity's name to TRYF. In its May 16, 2011 Form 10Q, filed with the SEC, TRYF reported revenues of \$112 and an overall net loss of \$526,700.
- d. On October 5, 2010, JPA issued a press release through marketwire.com that TRYF had presented a "financial empowerment and wealth-building workshop." In the press release, JPA is listed as the "Investor Relations/Media Contact". On October 4, 2010, the day before the press release, the average daily share volume was 14,967 for TRYF. On the day of the press release, October 5, 2010, the volume soared to 650,308. Also, on that date, the JPA account sold 252,400 shares of TRYF, for proceeds of approximately \$31,928.
- e. An online research report by stocksgonewild.com, dated October 6, 2010, states that it was compensated \$10,000 by JPA on behalf of TRYF for a one day awareness program. The report itself includes the following excerpt: "[t]he risk reward on this trade is colossal. With price sitting EXACTLY on this support area, it's practically a free trade." The JPA account sold an additional 100,000 shares of TRYF on October 6, 2010.

- f. On November 17, 2010, JPA issued a press release through marketwire.com that TRYF had teamed up with GlobeWired to partner on strategic marketing campaigns. Again, JPA is listed as the “Investor/Press/Media Contact” on the press release. On that day, the trading volume in TRYF exceeded nine million shares. For the period of October 7, 2010 to November 16, 2010, the average daily volume was 34,283. On November 17, 2010, the date of the press release, JPA liquidated over 2.37 million shares of TRYF for proceeds of approximately \$156,130.
- g. On November 18, 2010, JPA issued a press release through marketwire.com that TRYF had a presentation about “alternative credit reporting” and discussed the “equal credit opportunity act.” Again, JPA was listed as the “Investor/Press/Media Contact” on the press release. The JPA account sold 261,770 shares of TRYF for proceeds of approximately \$11,590. The volume of trading in TRYF that day was over 1.5 million shares.
- h. Another online research report, posted on StockTwitter.com, dated November 18, 2010, states that it was compensated \$20,000 in cash by JPA for the “further dissemination of publicly available information, opinions & ongoing investors relations coverage for Trycera”. The report itself contains statements touting TRYF as a great investment opportunity: “[i]ncreased volume levels combined with historical volatility, and strong support levels make TRYF the perfect candidate for a short-term rally....we believe TRYF is capable of producing gains of over 80%! ”.

- i. On February 22, 2011, JPA issued a press release through marketwire.com that TRYF filed a provisional patent on user controlled alternative credit reporting method. JPA was listed as the "Investor/Press/Media Contact" on the press release. The account sold 235,000 shares of TRYF that same day for proceeds of \$6,345. The volume of trading in TRYF that day was 276,000 shares.

QCM Account

On or about November 3, 2009, Capital Path opened an account in the name of QCM, which was beneficially owned by an individual named FF.

Capital Path, acting through Davis, failed to detect and investigate the following activity in QCM's account that triggered red flags under the Firm's AML procedures:

- a. From November 24, 2009 through October 28, 2010, the account deposited approximately 41.38 million shares of Blast Applications Inc. ("BLAP"). Prior to a name change in July 2009, BLAP had previously been known as Medivisor Inc. Between April 8, 2010 and March 21, 2011, the account liquidated over 34.6 million shares of BLAP and wired out proceeds of approximately \$194,116.
- b. JPA also served as the investor relations contact for BLAP evidenced by four press releases that were paid for by JPA. The first release, dated February 23, 2010, stated that "Hototc.com has been compensated by a third party [JPA] ninety five thousand dollars for a one week BLAP Advertising services contract." The second release, dated March 22, 2010, similarly stated that Hototc had been compensated \$95,000 for one week of BLAP advertising services. A third release, also dated March 22, 2010, indicated that Stockrich.com had been compensated by JPA \$95,000 for one week of BLAP advertising services. The

fourth release was dated March 23, 2010, and stated that Stockegg.com had been compensated \$95,000 for one week of BLAP advertising.

- c. QCM also held debt issued by TRYF. A Form 10Q for TRYF, dated November 15, 2010 contained disclosures that TRYF borrowed \$10,500 from QCM on May 25, 2010 and that, on June 15, 2010, TRYF entered into a contract for services with JPA. In both situations, TRYF provided a note payable.

CCS Account

On or around May 5, 2009, Capital Path opened an account in the name of CCS. On January 22, 2010, an updated new account form was completed for the account which now included CCS's corporate resolutions, a copy of the joint owner's driver's license, and an MIS report for the joint owner. At that time, CCS was a registered broker-dealer with FINRA. On September 27, 2011, CCS filed a Broker Dealer Withdrawal (BDW).

Capital Path, acting through Davis, failed to detect and investigate the following activity in CCS's account that triggered red flags under the Firm's AML procedures:

- a. The sole security traded in the account was a penny stock called Miller Petroleum ("MILL").
- b. On January 21, 2010, the account received 327,586 shares of MILL which it immediately began liquidating. Between January 2010 and September 2010, the account sold 113,750 shares of MILL for total proceeds of approximately \$509,640.

- c. On January 22, 2010, MILL issued a press release stating they closed a \$6 million equity investment. On March 15, 2010, another MILL press release stated that MILL's assets had increased to \$492 million.
- d. The price per share for MILL increased from \$1.89 per share on January 31, 2010 to \$6.60 per share by March 31, 2010.
- e. A review of Reuters revealed that MILL's Chief Executive Officer, since August 2008, was SB. Prior to that, from October 2006 through June 2008, SB was a registered representative at CCS.

EAA Account

On or around September 4, 2009, an account was opened in the name of EAA by MX. EAA and MX shared the same Melville, New York address.

Capital Path, acting through Davis, failed to detect and investigate activity in EAA's account that triggered red flags under the Firm's AML procedures.

MX was named in an SEC action, dated September 1, 2009, for engaging in the unregistered distribution and sale of over 21 billion shares of a stock and raising approximately \$34 million from its sales to public investors. In two separate emails, Capital Path's clearing firm notified Davis of the SEC action against MX. The first email is dated June 10, 2010. A second email was sent to Davis on June 24, 2010 and specifically noted that Davis had failed to respond to the June 10, 2010 email.

Prior to receiving the emails from its clearing firm, Davis had already become aware of the SEC action in or around January 2010 when he viewed the complaint on the SEC website.

On September 14, 2009, the EAA account received in over 30 million shares of Eternal Image, Inc. (ETNL). On June 15, 2010, the account purchased over 1.16 million shares of ETNL and, on July 14, 2010, the account purchased 415,000 shares of ETNL. On July 19, 2010, when the account was closed, EAA transferred out over 31 million shares of ETNL.

In a Form 10Q filed with the SEC, for the quarter ending September 30, 2009, ETNL reported outstanding shares of approximately 85 million, of which EAA held approximately 36% of the outstanding float.

A Form 8K filed with the SEC and dated December 1, 2009, stated that ETNL would be borrowing \$200,000 from EAA. A subsequent Form 10Q, for the quarter ending March 31, 2010, indicated that the loan had been extended and referenced an additional \$37,000 loan made by EAA to ETNL that was also extended.

There were other red flags of potentially suspicious activity associated with the EAA account activity:

- a. On September 21, 2009, the account received 500,000 shares of Full Motion Beverage (FMBV). Between September 21, 2009 and February 22, 2010, the account sold 320,000 shares of FMBV.
- b. On October 1, 2009, the account received 18.5 million shares of Spongetech Delivery Systems (SPNGQ) which were then delivered back out the same day. On May 5, 2010, the SEC filed a civil injunctive action against SPNGQ, its officer, attorneys and a stock promoter for a massive pump and dump scheme. On that same day, the United States Attorney's Office for the Eastern District of New York arrested the CEO and CFO for SPNGQ for conspiracy to commit securities fraud and obstruction of justice.

- c. On October 8, 2009, the account received 14 million shares of Tytan Holdings (TYTN). On November 12, 2009, the account received an additional 14 million shares of TYTN which were then delivered out the same day.

AH Accounts

AH opened two accounts at Capital Path. The first account was opened in the name of SCC on May 29, 2009. This account lists a Carson City, Nevada address for SCC and a Montreal, Quebec address for AH. The second account was opened on October 14, 2010 as an individual account in AH's name. The address for this account is in Montreal, Quebec.

Capital Path, acting through Davis, failed to detect and investigate activity in AH's accounts that triggered red flags under the Firm's AML procedures.

AH Individual Account

On October 15, 2010, the AH account transferred in one million shares of Spencer Pharmaceutical, Inc. (SPPH). From October 18, 2010 through November 9, 2010, the account sold 137,871 shares of SPPH for proceeds of approximately \$40,869 which were wired out immediately after.

On or about November 12, 2010, Davis was informed by its clearing firm that the one million shares of SPPH deposited into the AH account on October 15, 2010 were restricted and the legend needed to be re-applied. On December 23, 2010, the account transferred out the remaining balance of SPPH without re-applying the restricted legend.

SCC Account

The SCC account was initially funded with 150,000 shares of Bio Solutions Corp. (BISU). On September 2, 2009 and October 30, 2009, a total of 235,000 restricted BISU shares were deposited in the

account. As soon as the restriction was lifted on November 10, 2009, the account began selling out of the position.

On June 11, 2010, the account transferred out the last of its BISU shares and another penny stock, Portlogic Systems (PGSY). The account re-deposited those BISU and PGSY shares on July 2, 2010.

On October 28, 2010, the SCC account wired \$15,000 out to an unknown Canadian account. The address listed for AH on the wiring instructions differs from the one on his new account form.

On December 22, 2010, the account deposited 4 million restricted shares of Kurrant Mobile Catering Inc. (KRMC). On January 6, 2011, the restriction was lifted and by February 9, 2011, the account began selling off KRMC. By March 3, 2011, the account had sold 2 million shares and transferred out the remaining 2 million shares of KRMC.

In its Form 10-Q, filed with the SEC on January 19, 2011, KRMC reported that on June 2, 2010, it entered into a three month consulting agreement with SCC and issued 5 million shares of KRMC to SCC. The Form 10-Q also revealed that the company, on August 1, 2010, entered into a separate three month consulting agreement with AH for which it issued 1.5 million shares of stock to him.

GRUPO

On or around November 2, 2010, an account was opened in the name of GRUPO by VZ. GRUPO and VZ are both located in Panama.

Capital Path, acting through Davis, failed to detect and investigate activity in GRUPO's account that triggered red flags under the Firm's AML procedures.

Within days of opening, the account transferred in over 1.48 million shares of Monster Offers (MONT). Between November 11, 2010 and November 29, 2010, the account sold all of the MONT shares and wired out the proceeds of approximately \$1.75 million to a Swiss bank account. This was the only activity in the account between November 2010 and September 2011.

TB Account

On or around August 18, 2009, Capital Path established a joint account for TB and the BF Trust. On the new account form, TB listed his employer as NeoStem of the Palm Beaches, a stem-cell collection business. TB also indicated that he was not affiliated with any publicly traded company.

Capital Path, acting through Davis, failed to detect and investigate the following activity in TB's account that triggered red flags under the Firm's AML procedures:

- a. In May 1994, the SEC filed a complaint against TB and his company, Comcoa, Ltd. for offering and selling unregistered investment contracts via fifty "boiler room" locations and through 275 sales representatives nationwide.
- b. In 2001, TB was convicted of conspiracy to commit wire and mail fraud for operating a "boiler room" fraud, but fled after conviction. He was located in 2003 and sentenced to 76 months in prison;
- c. On August 25, 2009, the account transferred in 2.5 million shares of Stem Cell Assurance, Inc. (SCLZ);
- d. SCLZ's mailing and business addresses match the address listed on the new account form for the BF Trust;

- e. TB is listed as the grantor and trustee for the BF Trust on the Certificate of Trust documents. Another trustee listed for the BF Trust is GM who is also the president and director of SCLZ;
- f. Between September 2, 2009 and September 18, 2009, the account liquidated 392,000 shares of SCLZ and wired out \$118,000 via two wires, on September 8, 2009 and September 24, 2009;
- g. Between May 10, 2010 and May 13, 2010, the account liquidated 477,800 shares of SCLZ and wired out \$10,300 in two wires, on May 14, 2010 and May 18, 2010;
- h. Between August 18, 2010 and August 24, 2010, the account liquidated 212,500 shares of SCLZ and wired out \$3,600 on August 23, 2010;
- i. Between December 14, 2010 and December 22, 2010, the account liquidated over 1.73 million shares of SCLZ and wired out \$18,047.

DV Accounts

On September 15, 2011, DV opened two accounts at Capital Path. One was opened in the name of DV and the second was opened in the name of the entity PALA. DV is listed as the joint owner on the PALA account and both accounts share the same address.

Between December 2011 and February 2013, Capital Path, acting through Davis, failed to detect and investigate the following activity in DV's accounts that triggered red flags under the Firm's AML procedures:

- a. On December 27 and 29, 2011, the DV Account bought a total of 165,000 shares of North Springs Resources Corporation (NSRS), which is a low-priced security.

On January 5, 2012 and January 23, 2012, the DV Account liquidated its entire position of 165,000 shares in NSRS.

- b. Also, on December 27 and 29, 2011, the PALA Account purchased 285,000 shares of NSRS and, on February 8, 2012, purchased an additional 20,000 shares of NSRS. Between January 5, 2012 and February 13, 2012, the PALA Account sold all of its 305,000 NSRS shares.
- c. On or about December 23, 2011, NSRS began issuing a series of press releases discussing its operations and highlighting its recent acquisitions of multiple gold mining properties. In January 2012, NSRS was being promoted by a number of stock promotion websites. However, on December 19, 2011, the issuer made a Form 10-Q filing with the United States Securities and Exchange Commission reporting cash reserves of \$16, total assets of \$60,589 and total liabilities of \$108,770.
- d. In February 2012, the DV Account purchased 175,000 shares of penny stock Independence Energy Corp. (INDG) at prices ranging from \$.50 to \$.80 per share, for a total cost of \$125,000. Between May 7, 2012 and June 19, 2012, all 175,000 shares were sold, at prices ranging from \$2.22 to \$4.53 per share, resulting in proceeds of approximately \$571,600. On June 11, 2012, the DV Account wired out \$175,000.
- e. In March 2012, the PALA Account also purchased 40,000 shares of INDG at prices ranging from \$1.01 to \$1.20 per share, for a total cost of \$44,135. Between May 7, 2012 and June 19, 2012, all 40,000 shares were sold, at prices ranging

from \$2.22 to \$4.56 per share, resulting in proceeds of approximately \$146,800.

On June 25, 2012, the PALA Account wired out \$170,000.

- f. In May and June 2012, INDG was actively promoted on a number of stock promotion websites. Around the same time, IDNG was issuing press releases announcing corporate actions including a \$1 million drawdown financing agreement.
- g. On December 17, 2012, the DV Account purchased 100,000 shares of Green Innovations Ltd. (GNIN), which is a low-priced security. Between January 25, 2013 and February 19, 2013, the DV Account liquidated its GNIN position for profits of over \$95,000.
- h. In or about December 2012, GNIN began issuing press releases touting its upswing in business and in February 2013, GNIN was actively promoted on at least five different websites.

Davis is Capital Path's AML Officer and has managed the day-to-day operations of the firm as its President, Chief Compliance Officer, and Registered Options Principal since 2006. He was responsible for the creation and failed implementation of the policies that led to the AML violations by the firm.

Davis received alerts from the clearing firm regarding individuals and entities with securities-related disciplinary histories. He was also aware of the trading in customer accounts at Capital Path. In the face of these alerts and trading reviews, as well as the numerous red flags of suspicious activity, as described above, Capital Path and Davis took no effective steps to monitor such trading, or curb potentially manipulative trading. Capital Path, acting through its AMLCO

Davis, failed to adequately identify, investigate and respond to the suspicious trading activity related to these customer accounts.

By failing to detect, investigate or report suspicious activity, Capital Path and Davis violated NASD Conduct Rule 3011(a) and 2110 and FINRA Rules 3310(a) and 2010.

IV.

Pursuant to the conditions set forth herein, Respondent consents to the issuance of an Order Accepting Offer of Settlement (Order) and disposing of this proceeding in the following manner:

A. Without admitting or denying the allegations, 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 of facts and violations by Respondent as set forth above in Section III; and,

B. Imposing sanctions of

- A fine of \$175,000 against Capital Path, of which \$25,000 is joint and several with Davis;
- A three-month suspension against Davis from association with any FINRA member firm in a principal capacity; and,
- A censure against Capital Path.

Respondents agree to pay the monetary sanction upon notice that this Offer has been accepted and that such payments are due and payable. Respondents have submitted an Election of Payment form showing the method by which they propose to pay the fine imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

Davis understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, he may not be associated with any FINRA member in a principal capacity, during the period of the bar or suspension (*see* FINRA Rules 8310 and 8311). Furthermore, because Davis is subject to a statutory disqualification during the suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

The sanctions herein shall be effective on a date set by FINRA staff.

V.

In connection with the submission of this Offer, and subject to the provisions herein, Respondents specifically waive the following rights provided by FINRA's Code of Procedure:

A. any right to a hearing before an Adjudicator (as defined in FINRA Rule 9120(a)), and any right of appeal to the NAC, the U.S. Securities and Exchange Commission, or the U.S. Court of Appeals, or any right otherwise to challenge or contest the validity of the Order issued, if the Offer and the Order are accepted;

B. any right to claim bias or prejudgment by the Chief Hearing Officer, Hearing Officer, a hearing panel or, if applicable, an extended hearing panel, a panelist on a hearing panel, or, if applicable, an extended hearing panel, the General Counsel, the NAC, or any member of the NAC; and

C. any right to claim a violation by any person or body of the *ex parte* prohibitions of FINRA Rule 9143, or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and

conditions of the Offer and the Order or other consideration of the Offer and Order, including acceptance or rejection of such Offer and Order.

VI.

Respondents understand that:

A. the Order will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by FINRA or any other regulator against Respondents;

B. the Order will be made available through FINRA's public disclosure program in response to public inquiries about Respondents' disciplinary record;

C. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

D. Respondents may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any allegation in the Complaint or create the impression that the Complaint is without factual basis. Respondents may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any allegation in the Complaint. Nothing in this provision affects Respondents': (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

Respondent Davis certifies that he has read and understands all of the provisions of this Offer and has been given a full opportunity to ask questions about it and, as the undersigned, on behalf of the Firm, certifies that he is the person duly authorized to act on its behalf; that Respondents agreed to its provisions voluntarily; and that no offer, threat, inducement or promise

of any kind or nature, other than the terms set forth herein, has been made to induce Respondents to submit it.

4-16-14
Date (mm/dd/yyyy)

[Signature]
Respondent William John Davis

Capital Path Securities, Inc.

By: [Signature]
William John Davis
President

[Signature]
Marc J. Ross, Esq.
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Counsel for Respondents