FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

Department of Enforcement, Complainant, v. HALCYON CABOT PARTNERS, LTD. (CRD NO. 32664), MICHAEL TRENT MORRIS (CRD NO. 843281), AND RONALD MARK HEINEMAN (CRD NO. 241924), Respondents.	Disciplinary Proceeding No. 2012033877802 Hearing Officer: MC **ORDER ACCEPTING OFFER OF SETTLEMENT** Date: October 6, 2015

INTRODUCTION

Disciplinary Proceeding No. 2012033877802 was filed on July 28, 2015, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondents Halcyon Cabot Partners, LTD., Michael Trent Morris and Ronald Mark Heineman submitted an Offer of Settlement (Offer) to Complainant dated October 2, 2015. 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, the Respondents have 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 understand that this Order will become part of the Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Halcyon Cabot Partners, Ltd. (CRD No. 32664) has been a registered broker-dealer with FINRA since 2007. It is a full-service introducing firm and operates from its sole office in New York City. By the end of the Relevant Period, the Firm employed approximately 30 registered representatives. In or about June 2010, Halcyon Partners Group, LLC, which is co-owned by the spouses of Morris and Heineman, purchased the Firm. However, Morris and Heineman performed almost all of the management functions at the Firm during the Relevant Period, and continue to do so. Halcyon is currently registered with FINRA, and is therefore subject to FINRA's jurisdiction.

Michael Trent Morris (CRD No. 843281) entered the securities industry in 1977 as a registered representative with a FINRA member firm. He currently holds Series 3, 7, 24, and 63 licenses. He was associated with approximately a dozen FINRA member firms before joining Halcyon in July 2010 as a General Securities Principal, General Securities Representative, and Investment Banking Representative, and has served in a supervisory role at the Firm since then.

He also served as the Firm's Chief Compliance Officer ("CCO") from in or about September 2010 to in or about September 2012, and as AMLCO from in or about September 2010 to in or about November 2013. Morris is currently associated with Halcyon and registered with FINRA and is therefore subject to FINRA's jurisdiction.

Ronald Mark Heineman (CRD No. 241924) entered the securities industry in 1970 with a FINRA member firm. He currently holds Series 00, 1, 4, 5, and 63 licenses. He was associated with approximately 18 FINRA member firms before joining Halcyon on August 16, 2010, as a General Securities Principal, General Securities Representative, Limited Representative Investment Banking, Registered Options Principal, Operations Professional, Financial and Operations Principal, and Municipals Principal, and he has served in a supervisory role at the Firm since then. In or about September 2012 and in or about November 2013, Heineman replaced Morris as the Firm's CCO and AMLCO, respectively. Heineman is currently associated with Halcyon and registered with FINRA, and is therefore subject to FINRA's jurisdiction.

FINDINGS AND CONCLUSIONS

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

SUMMARY

1. Between December 2010 and May 2013 (the "Relevant Period"), Halcyon Cabot Partners, Ltd. ("Halcyon" or the "Firm") and its principals, Michael Trent Morris and Ronald Mark Heineman, engaged in serious and widespread violations of FINRA rules and federal securities laws. One or more of the Respondents engaged in a scheme to defraud investors by causing the Firm to serve as a bogus placement agent to conceal a kickback of a private placement fee; caused the Firm to serve as a false sales agent so a now-expelled broker-dealer

could charge commissions to both buyers and sellers in certain private sales of securities; falsified the Firm's books and records to conceal a now-barred registered representative's sales of securities in states where he was not registered; and engaged in unauthorized and excessive trading (churning) in customer accounts. All of these violations were enabled by the Firm's culture of non-compliance, which manifested itself in numerous supervisory violations and an inoperable anti-money laundering ("AML") program.

2. In May 2012, Halcyon, Morris, Heineman, and a now-barred Halcyon registered representative, Craig L. Josephberg (CRD No. 2709288), agreed that Halcyon would help conceal the discount provided to a venture capital firm, Socius Capital Group, LLC ("Socius"), when it purchased a private placement in Cell Therapeutics, Inc., a cancer drug development company. To effect the scheme, the Firm entered into a sham placement agent agreement with Cell Therapeutics designating Halcyon as placement agent, despite the fact that Halcyon did not perform any duties typically associated with being a placement agent. Cell Therapeutics included the sham placement agent agreement as an exhibit in a Form 8-K filing with the U.S. Securities and Exchange Commission ("SEC"), indicating that the Firm would earn a five percent fee (approximately $1 million in each tranche of the $40 million offering). However, the Firm also entered into separate, undisclosed, sham consulting agreements with an affiliate of Socius, through which Halcyon funneled back nearly its entire five percent fee to Socius. As a result, Halcyon, Morris, and Heineman violated Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rules 10b-5(a) and (c) thereunder, and FINRA Rule 2010 (First Cause of Action).

3. Between December 2010 and February 2012, Halcyon, through Morris, improperly facilitated efforts by a now-expelled FINRA firm, Felix Investments, LLC ("Felix"),

to collect commissions from both buyers and sellers — which created a conflict of interest — in certain private securities transactions. Halcyon allowed a Felix broker to dually register with both firms so that Felix could charge buyer commissions and Halcyon could charge seller commissions. Although Halcyon purported to represent the sellers in the transactions and receive a commission, Halcyon provided no services to the sellers and secretly channeled most of the sellers' commission payments to Felix under a commission-sharing agreement. Halcyon also failed to disclose to the sellers, whom it purported to represent, that it was *de facto* acting as Felix's agent. As a result, Halcyon and Morris violated FINRA Rule 2010 (Second Cause of Action).

4. From February 2011 to March 2013, Morris and others at Halcyon covered up Josephberg's sales of securities in states where he was not registered, by intentionally falsifying the Firm's books and records. As a result, Halcyon and Morris violated NASD Rule 3110 (for conduct prior to December 5, 2011) and FINRA Rules 4511 (for conduct on or after December 5, 2011) and 2010 (Third Cause of Action).

5. Between June 2011 and March 2013, Halcyon, through Josephberg, engaged in churning and excessive trading in the accounts of customers RV and GL. As a result, Halcyon violated Rule 10b-5 of the Exchange Act, NASD Rule 2310 and FINRA Rules 2020, 2111 and 2010 (Fourth Cause of Action).

6. During the Relevant Period, Halcyon and Morris failed to establish and implement an adequate AML compliance program ("AMLCP") reasonably designed to cause the detection and reporting of suspicious activity. As a result, Halcyon and Morris violated FINRA Rules 3310(a) and 2010 (Fifth Cause of Action).

7. During the Relevant Period, the Firm designated Morris to serve as the AML Compliance Officer ("AMLCO") even though he did not have the requisite knowledge and training to serve as the AMLCO. As a result, Halcyon and Morris failed to properly designate an AMLCO in violation of FINRA Rules 3310(d) and 2010 (Sixth Cause of Action).

8. Last, during the Relevant Period, Halcyon, Morris and Heineman failed to establish and implement an adequate supervisory system and written supervisory procedures ("WSPs") to supervise Firm employees and activities. The Firm failed to have adequate supervisory policies and procedures, and failed to reasonably supervise churning and excessive trading, unauthorized trading, Firm email review, and registered persons subject to heightened supervision. As a result, Halcyon, Morris and Heineman violated NASD Rule 3010 and FINRA Rule 2010 (Seventh Cause of Action).

FACTS

I. MORRIS AND HEINEMAN ACQUIRED A SMALL NYSE TRADING FIRM, HIRED JOSEPHBERG, AND TRANSFORMED IT INTO A FULL-SERVICE BROKERAGE

9. In or about mid-2010, Morris and Heineman purchased B&B Securities, Inc., a NYSE trading firm registered with FINRA in 2007, which they renamed Halcyon Cabot Partners, Ltd.. Morris and Heineman set up a holding company, Halcyon Partners Group LLP, to own Halcyon.

10. Although the Firm had a President, it was managed and controlled by Morris and Heineman during the Relevant Period. Morris served initially as the CCO and AMLCO in 2010, and Heineman took over as CCO in September 2012 and as AMLCO in November 2013.

11. Shortly after Morris and Heineman acquired Halcyon, they transitioned it into an introducing firm that primarily engages in retail brokerage services, penny stock liquidations, investment banking and private placements.

12. One of Halcyon's early recruits was Josephberg, who had a history of regulatory disciplinary action, settled customer complaints, felony charges, and Internal Revenue Service ("IRS") tax liens. Josephberg was placed on "heightened supervision" at Halcyon.[1]

II. HALCYON SERVED AS A FAKE PLACEMENT AGENT ON TWO PRIVATE PLACEMENTS TO ENABLE THE ISSUER TO KICK BACK A PORTION OF THE INVESTMENT TO THE INVESTOR AND DISGUISE THE DISCOUNTED PURCHASE PRICE

13. In May 2012, Cell Therapeutics, a biopharmaceutical company, sought to raise capital by selling $40 million worth of shares and warrants in two $20 million tranches in May 2012 and July 2012. The offering documents stated that the price per share for the May 2012 tranche would be $1 per share and the price per share for the July 2012 tranche would be contingent upon the current market price.

14. On May 28, 2012, the day before the first tranche was issued, Halcyon agreed to serve as placement agent for these private placements. Prior to announcing the sale, and prior to engaging Halcyon, Cell Therapeutics arranged for an existing investor, Socius, to purchase the entire issuance. The deal was coordinated by Michael Wachs, a partner at Socius, who is a convicted felon and who was barred by FINRA in 1998 for stealing approximately $20,800,000 from a FINRA member firm. One of Socius's commissioned sales persons was Richard Josephberg, a convicted felon (tax evasion) who is Craig Josephberg's father.

15. On May 28, 2012, the day before the first tranche was issued, Socius engaged Halcyon to serve as the placement agent for these private placements. Halcyon agreed to serve as the placement agent knowing that it would not need to raise any money or complete any work on the transaction because Socius had already agreed to purchase the entire private placement up to $40 million in two separate purchases. At the same time, Halcyon entered into a sham

[1] On June 22, 2015, pursuant to an Acceptance, Waiver, and Consent, FINRA barred Josephberg from the securities industry for his role in the violations alleged herein.

consulting agreement with Optimus Capital Partners, LLC ("Optimus"), a Socius affiliate, through which Halcyon would remit nearly its entire placement agent fee back to the investor. This arrangement allowed (1) the investor, Socius, to conceal the kickback of the placement fee; (2) the issuer, Cell Therapeutics, to sell discounted shares without disclosing the price discount to the public; and (3) Halcyon, the purported placement agent, to make a modest fee for doing no work and to increase its industry profile.

16. As a result of this scheme between Halcyon, Socius, Optimus, and Cell Therapeutics, Socius paid approximately 95 cents per share for the May 2012 placement, which included warrants to purchase shares of common stock. Cell Therapeutics, however, was able to represent in public filings that Socius paid $1 per share — a substantial premium to the contemporaneous market price of approximately 91 cents per share. Likewise, for the July 2012 placement, Socius paid approximately 56.6 cents per share after Halcyon's kickback, but Cell Therapeutics was able to represent in public filings that Socius paid 59.5 cents per share (plus warrants) — a substantial premium to the contemporaneous market price of approximately 51 cents per share.

A. Craig Josephberg's Father Referred a Portfolio Company, Socius, to Halcyon to Serve as a Fake Placement Agent to Disguise a Kickback

17. Prior to May 28, 2012, Socius and Cell Therapeutics negotiated a Securities Purchase Agreement ("SPA") in which Socius agreed to purchase up to $40 million of convertible preferred stock and warrants to purchase common stock of Cell Therapeutics. Cell Therapeutics claimed, in a Form 8-K filing issued shortly after the first $20 million tranche was completed, that the conversion price under the SPA was $1 per share and that Socius had paid that price.

18. On May 28, 2012, the same day Socius and Cell Therapeutics executed the SPA, Wachs sent an email on "short notice" to Richard Josephberg (the "Short Notice email"), which noted that the deal would close before midnight, inquired whether he knew of any "broker dealer that would want to act as placement agent to pickup [sic] a fee for $35k?," and suggested "Perhaps Craig;s [sic] firm?"

19. The Short Notice email explained that Socius needed a broker-dealer to serve as the placement agent because, "We can't take the fee directly or it would be a discounted issuance. . . . Otherwise, we will need to figure out another way to get the fee."

20. That same day, May 28, 2012, Richard Josephberg forwarded the Short Notice email to his son, Craig Josephberg, at Halcyon.[2]

B. Halcyon Executed a Sham Engagement Letter Agreeing to Serve as the Placement Agent to Make it Appear that the Cell Therapeutics Share Discount Was a *Bona Fide* Private Placement Fee

21. On May 28, 2012, Josephberg, Morris and Heineman discussed the Cell Therapeutics private placement and, that same day, Halcyon executed a 17-page "Engagement Letter" with Cell Therapeutics. Halcyon, through Morris and Heineman, agreed to serve as "the exclusive placement agent for the Company, on a 'reasonable best efforts' basis, in connection with the proposed placement" of $40 million of Cell Therapeutics securities. The Engagement Letter did not disclose that Halcyon was contacted that same day by Socius, or that the financing had already been secured through one investor, Socius. Heineman executed the Engagement Letter for Halcyon.

22. Pursuant to the Engagement Letter, Halcyon would receive a placement fee of five percent of the capital raised. With respect to the first $20 million tranche, Halcyon's five

[2] References to "Josephberg" herein are to Craig Josephberg unless otherwise specified.

percent fee would be $1 million. However, Halcyon never retained more than $35,000, which Wachs offered in the Short Notice email earlier that day, because the Firm simultaneously entered into a sham consulting agreement with Optimus, an affiliate of Socius, through which Halcyon kicked back the remaining $965,000 to Socius.

23. Because Socius had committed to purchasing both tranches of Cell Therapeutics securities, nobody from Halcyon made any effort to raise any capital for Cell Therapeutics or to otherwise perform any duties of a typical placement agent.

C. Halcyon and Optimus Entered Into Sham Consulting Agreements to Disguise the Kickback of the Placement Agent Fees

24. To kick back the remaining $965,000 of its private placement fee related to the first tranche, Halcyon, through Morris and Heineman, agreed to and executed a sham consulting agreement with Optimus on May 28, 2012 ("First Optimus Agreement"), the same day it executed the Engagement Letter. Morris considered the First Optimus Agreement to be a package deal with Halcyon's agreement to serve as placement agent.

25. At all relevant times, Optimus was an affiliate of Socius, and the two companies shared the same management team, including Wachs.

26. On May 29, 2012, Halcyon received a $1 million payment from Cell Therapeutics in connection with the first tranche of the Cell Therapeutics private placement. On May 30, 2012, Halcyon paid Optimus $965,000. In return, Optimus provided only nominal consulting services that were not commensurate with the consulting fee.

27. In or about late July 2012, in connection with the financing of the second $20 million tranche of the Cell Therapeutics private placement, Socius only invested $15 million. Although Halcyon was also the purported placement agent on this deal, it made no

effort to place the remaining $5 million of the second tranche and merely accepted $750,000 (its five percent payment) on the $15 million transaction.

28. On July 30, 2012, in order to funnel the same percentage (96.5 percent) of the placement agent fee on the second tranche back to Socius, Halcyon and Optimus entered into another consulting agreement (the "Second Optimus Agreement"), with Halcyon agreeing to pay Optimus $723,750 — or 96.5 percent of the placement fee — for Optimus's purported consulting services. Although the First Optimus Agreement was purportedly still in effect for another four months, Halcyon contracted with Optimus for another six-month term for consulting services, but received no services.

29. On August 8, 2012, Socius, not Cell Therapeutics, wired $750,000 to Halcyon. On August 9, 2012, Halcyon wired $723,750 to Optimus, leaving Halcyon with only $26,250 from the placement agent fee.

30. Heineman executed both of the Optimus consulting agreements on behalf of Halcyon.

31. As the registered representative who brought the first and second tranches of the Cell Therapeutics deal to Halcyon, Josephberg was entitled to a commission. Rather than being paid a commission based upon the fees of $1 million and $750,000 that Halcyon received pursuant to the Engagement Letter, Josephberg was paid a commission on the portion retained by the Firm after it funneled 96.5 percent of the placement agent fees to Optimus.

D. Cell Therapeutics Attached the Sham Engagement Letter to its Public Filings and Did Not Disclose that the Arrangement was a Ruse to Funnel Nearly Five Percent of the $35 Million Investment Back to the Investor

32. Cell Therapeutics attached the sham Engagement Letter that identified Halcyon as its placement agent to its public filings, and represented that the price paid was $1 per share for the first tranche and 59 cents per share for the second tranche.

33. Halcyon, Heineman, and Morris knew that Halcyon's sham agreement to serve as placement agent allowed Cell Therapeutics and Socius to disguise the kickback through sham consulting agreements and ultimately misrepresent the price paid for the shares.

III. HALCYON SERVED AS A FAKE SALES AGENT TO ALLOW ANOTHER BROKER-DEALER TO CHARGE COMMISSIONS TO BOTH BUYERS AND SELLERS OF SHARES IN POOLED INVESTMENT FUNDS

A. FINRA Member Firm Felix Investments, LLC, Created Special Purpose Vehicles to Pool Investment Funds to Acquire Shares of Companies Such as Facebook and Twitter

34. Starting in mid-2009, a robust secondary marketplace emerged for securities of popular technology companies that had not yet conducted an initial public offering ("IPO") and began to attract investors who previously had limited ability to purchase pre-IPO securities. In response, several investment funds were established to pool investor money and purchase shares of pre-IPO companies, usually from a company's former employees and early investors. In most cases, each fund was created to acquire securities in a single pre-IPO company.

35. FINRA member firm Felix, one of its owners, Frank Mazzola, and its affiliate investment advisors created, marketed, managed, and raised money for a number of special purpose vehicles ("SPVs") designed to pool investors' funds to invest in certain pre-IPO companies, including Facebook, Inc., and Twitter, Inc.

36. Felix served as the exclusive placement agent for each of the SPVs, and solicited investors through its own registered representatives.

37. Felix created affiliate investment advisors to manage the SPVs. The investment advisors determined whether, when, and on what terms to invest, reinvest, and dispose of the targeted company's securities. Mazzola and a partner managed some or all of the investment advisors.

38. In November 2009, Felix and Mazzola formed two SPVs, Facie Libre Associates I, LLC, and Facie Libre Associates II, LLC (collectively the "Facie Libre Funds"), which were engaged primarily in the business of investing in pre-IPO Facebook securities. Felix's affiliated investment advisor, Facie Libre Management Associates, LLC ("Facie Libre"), served as investment advisor to the Facie Libre Funds, which began buying pre-IPO Facebook shares in early 2010. As exclusive placement agent for the Facie Libre Funds, Felix charged investors an upfront fee of five percent of the amount invested, although some investors negotiated a lower fee.

39. In February 2010, Felix and Mazzola formed two SPVs to invest in Twitter: Pipio Associates I, LLC, and Pipio Associates II, LLC. They also formed Pipio Management Associates, LLC, which served as investment advisor to the funds.

B. Halcyon Agreed to Serve as a Fake Sellers' Agent in Felix's Scheme to Increase Commissions on Lateral Transfers of SPV Shares

40. In the fall of 2010, Felix began to broker "lateral transfers" of interests in the Facie Libre Funds. In a lateral transfer, an existing member of an SPV sells all or a portion of his interest in the funds to a Felix affiliate or a new investor. For the initial 35 lateral transfers, Felix was the only broker-dealer involved in the transaction and the only broker-dealer that charged a commission, in this case to the buyer as a placement fee.

41. In late 2010, Felix sought a mechanism to increase its revenues from lateral transfers by charging commissions to both the buyers and the sellers. However, Felix determined that it would create a conflict of interest if it charged commissions to both the buyer and seller.

42. To enable Felix secretly to collect commissions from both the lateral transfer buyers and sellers, Halcyon agreed to serve as the broker ostensibly representing the sellers and to remit nearly all of the seller sales commissions back to Felix.

43. To effect the scheme, in late November 2010 Felix and Halcyon entered into a commission-sharing "Referral Agreement," and in December 2010 amended that agreement specifically to cover lateral transfers. Morris executed both agreements on behalf of Halcyon.

44. The Referral Agreement and the December 2010 amendment provided that Halcyon would remit back to Felix 85.5 percent of the commissions generated from transactions, including lateral transfers, effected in accounts opened at Halcyon by customers referred by Felix.

45. Halcyon and Felix also signed a Dual Employment Agreement so that one of Felix's representatives, PM, would become dually registered as a Halcyon representative. In addition to the 85.5 percent to be remitted by Halcyon to Felix on lateral transfers for referred clients, Halcyon was to pay PM a percentage of the remaining sales commissions generated by these lateral transfers.

46. As reflected in Schedule A attached to the Complaint, from December 30, 2010, through February 24, 2012, Halcyon and Felix participated in 60 lateral transfers of interests in the Facie Libre Funds and Pipio Associates I, LLC, valued in total at $14,031,551. On each of the lateral transfers to third parties, Felix charged the buyer a commission of approximately five

percent. Most of the commissions charged by Halcyon were over five percent and were charged to the seller and disbursed to Halcyon. Halcyon, however, retained an average of only six percent of the commission it charged, and, without the seller's knowledge, disbursed the remainder to Felix and PM.

47. Lateral transfer sellers paid Halcyon approximately $1,037,056 in total commissions in connection with the 60 lateral transfers. Halcyon, in turn, kicked back approximately $868,613 of those commissions to Felix and approximately $109,058 to PM. Halcyon retained only approximately $59,386, or six percent.

48. Halcyon performed no substantive role in the lateral transfers. Even though the Referral Agreement, by its terms, applied only to transactions that occurred in a Halcyon account, none of the lateral transfer transactions went through a Halcyon account. Halcyon did not communicate with the sellers, if at all, until after an agreement had been reached between the SPV fund manager and the seller, and Halcyon did not even receive completed lateral transfer transaction paperwork until after the transactions had been executed. Halcyon merely served as a conduit to secretly channel nearly all of the lateral transfer sellers' commission payments to Felix. As such, Halcyon acted as Felix's agent in the lateral transfers.

49. Halcyon never disclosed to the lateral transfer sellers, whom it purported to represent, that it was contractually obligated to remit to Felix nearly all of the commission the seller paid. This omission prevented the lateral transfer sellers from knowing that Halcyon was, in effect, Felix's agent and thus had a conflict of interest in also purporting to represent the lateral transfer seller. The omission also prevented lateral transfer sellers from learning that Felix was receiving nearly all of the lateral transfer seller transaction fees.

50. On March 14, 2012, the SEC filed a complaint against Mazzola, Felix, and Facie Libre Management Associates, Inc., regarding sales and lateral transfers of SPVs. According to the SEC's complaint, Mazzola and Felix arranged to be paid secret commissions from Halcyon in connection with their funds' acquisition of Facebook stock and on the sales of fund interests to new investors. The SEC complaint also alleged that the defendants sold interests in the pre-IPO funds, including through lateral transfers, despite knowing the funds did not own all of the Facebook shares as represented to investors. The SEC complaint further alleged that Mazzola and Felix misrepresented the financial condition of Twitter, and misled investors about their attempt to acquire shares of another stock.

51. On March 20, 2014, the SEC issued an Order accepting settlement offers from Mazzola and Felix. They agreed to pay a total of $500,000 in disgorgement, prejudgment interest, and civil monetary penalties, and Mazzola agreed to be barred from the securities industry.

52. In August 2014, pursuant to a settlement, FINRA sanctioned Felix for advertising, supervision, AML, and other violations, and barred Mazzola. FINRA subsequently canceled Felix's membership for failure to pay the fine imposed as part of that settlement.

IV. MORRIS FALSIFIED THE FIRM'S BOOKS AND RECORDS TO CONCEAL JOSEPHBERG'S SALES OF SECURITIES IN STATES WHERE HE WAS NOT REGISTERED

A. Josephberg Was Not Registered in All States Where He Sought to Sell Securities

53. Every state has its own securities laws — commonly known as "Blue Sky Laws" — that are designed to protect investors against fraudulent sales practices and activities. Generally, registered representatives and firms must be registered in each state in which they sell or offer securities to customers of that state.

54. Josephberg was only registered to conduct securities or investment banking business in eight states. Josephberg was not registered in the following states where, as further alleged below, he sold securities to retail customers: Florida, Ohio, Illinois, Texas, Tennessee, Colorado, and Missouri. Josephberg was unable to register in certain states such as Ohio, Illinois and Florida due in part to his criminal and regulatory history and his failure to adequately respond to state inquiries for information about reportable disclosures.

B. Josephberg, With Assistance from his Supervisor, Morris, Sold Securities in States Where he Was Not Registered

55. As Halcyon's sales supervisor and CCO, Morris was responsible for, among other things, approving new account documents, reviewing trade activity and approving payroll.

56. Because of Josephberg's disciplinary history, Halcyon put him on heightened supervision and assigned Morris to, among other things, sit within 20 feet of Josephberg in the office and review and approve all order tickets prior to execution.

57. Despite being registered to transact securities and conduct banking business in only eight states, Josephberg, with assistance from the Firm, Morris and other associated and non-registered persons, effected hundreds of securities transactions on behalf of the following customers in states in which he was not registered: GF and JP in Florida, RM in Colorado, RV in Ohio, TQ in Illinois, OC in Missouri, AW in Tennessee and DR in Texas (collectively, the "Blue Sky customers").

58. Josephberg opened accounts and effected securities transactions for the Blue Sky customers using the identification numbers of Halcyon registered representatives who were registered in those states, including Morris, EF, AT and JS. Josephberg was the *de facto* registered representative for the customers, yet the other registered representatives appeared as

the registered representative of record for the purposes of the Firm's books and records, including new account forms, account statements, and confirmations.

59. Morris approved the account opening documents for the Blue Sky customers and was responsible for reviewing transactions in their accounts. Morris not only failed to prevent Josephberg from evading Blue Sky laws, but also permitted Josephberg to use Morris's registered representative code on certain of these transactions and aided Josephberg in processing transactions that violated Blue Sky provisions.

60. Morris and the Firm, through EF, AT and JV, improperly reconciled the commissions so that Josephberg would get compensated for transactions in the Blue Sky customers' accounts despite not being licensed in those states and not being the registered representative of record. Morris used spreadsheets prepared by JV listing the commissions earned by the assigned registered representative to determine the portion of the commissions that was due to Josephberg for transactions occurring in states where he was not registered.

V. HALCYON, THROUGH JOSEPHBERG, ENGAGED IN CHURNING AND EXCESSIVE AND UNAUTHORIZED TRADING IN ACCOUNTS OF CUSTOMERS RV AND GL

Customer RV

61. In November 2010, Customer RV opened two accounts at Halcyon: an individual retirement account ("IRA") on November 8, 2010, and a brokerage account on November 24, 2010. Although Josephberg serviced the accounts, EF and other Firm registered representatives served as registered representative of record at various times because, as alleged above, RV lives in Ohio and Josephberg was not licensed to sell securities there.

62. RV is 77 years old and retired. As Halcyon, through Josephberg, was or should have been aware, RV had no intention of returning to the workforce and his securities accounts were meant to sustain him during his retirement. In the "Investment Profile" section of his re-

executed brokerage account application dated August 24, 2011, RV indicated that his annual income is "$25,000 to $50,000," and that his liquid and estimated net worth are both "$100,000 to $500,000."

63. Halcyon, through Josephberg, effectively controlled the trading in RV's brokerage account. In fact, Josephberg did not even discuss all trades with RV before placing them and engaged in unauthorized trading in RV's account.

64. Halcyon, through Josephberg, traded RV's brokerage account very aggressively. Between June 2011 and March 2013, Josephberg, while exercising effective control over RV's account, effected 239 transactions in RV's account. To increase the buying power of the account, Josephberg traded utilizing margin against RV's instructions.

65. On June 30, 2011, RV's brokerage account had a value of $68,206. By March 31, 2013, based in part upon the volume of trading and the commissions charged to the account, RV's brokerage account declined to $5,189.

66. From June 2011 to March 2013, the turnover ratio for RV's brokerage account was 137.10 with an annualized turnover ratio of 74.78. An annualized turnover ratio of six indicates excessive trading, and the trading in RV's brokerage account was almost 12 times the excessive trading benchmark.

67. From June 2011 to March 2013, the cost-to-equity ratio for RV's brokerage account was 131.51 percent with an annualized ratio of 71.74 percent. An annualized cost-to-equity ratio in excess of 20 percent indicates excessive trading, and Josephberg's trading in RV's brokerage account was more than three and a half times that benchmark.

68. During this period, Halcyon, through Josephberg, generated gross commissions of $13,538 and $4,535 in margin interest for RV's brokerage account.

Customer GL

69. On December 8, 2010, Customer GL opened two accounts at Halcyon: a living trust account and a brokerage account. Josephberg was the registered representative of record for both accounts.

70. GL is 52 years old and a high school math and computer science teacher. In the "Investment Profile" section of his re-executed living trust account application dated July 7, 2011, GL indicated that his annual income is "$50,000 to $100,000," that his liquid net worth is "$50,000 to $100,000" and that his estimated net worth is "$100,000 to $500,000."

71. Halcyon, through Josephberg, effectively controlled the trading in GL's living trust account. In fact, Josephberg did not even discuss all trades with GL before placing them and engaged in unauthorized trading in GL's living trust account.

72. Halcyon, through Josephberg, traded GL's living trust account very aggressively. Between June 2011 and March 2013, Josephberg, while exercising effective control over GL's living trust account, effected 153 transactions in GL's account. To increase the buying power of the account, Josephberg traded utilizing margin.

73. On June 30, 2011, GL's living trust account had a value of $42,121. By March 31, 2013, based in part upon the volume of trading and the commissions charged to the account, GL's living trust account declined to $133.

74. From June 2011 to March 2013 the turnover ratio for GL's living trust account was 122.3 with an annualized turnover ratio of 66.71. An annualized turnover ratio of six indicates excessive trading and the trading in GL's living trust account was 11 times the excessive trading benchmark.

75. From June 2011 to March 2013, the cost-to-equity ratio for GL's living trust account was 130.37 percent with an annualized ratio of 71.11 percent. An annualized cost-to-equity ratio in excess of 20 percent indicates excessive trading, and Josephberg's trading in GL's living trust account was more than three-and-a-half times the 20 percent benchmark.

76. During this period, Halcyon, through Josephberg, generated gross commissions of $11,148 and $1,516 in margin interest for GL's living trust account.

IX. HALCYON AND MORRIS FAILED TO ESTABLISH AND IMPLEMENT AN ADEQUATE AMLCP

A. AML Rules and Regulations Require Broker-Dealers to Establish and Implement a Reasonably Designed AMLCP

77. Since 2002, pursuant to the USA PATRIOT Act of 2001 (the "Patriot Act"), which amended the Bank Secrecy Act of 1970 ("BSA"), the United States Department of the Treasury has required suspicious transaction reporting by broker-dealers.[3] The implementing regulation, 31 C.F.R. section 103.19(a)(1), which was in effect during the relevant period,[4] requires that "[e]very broker or dealer in securities within the United States . . . file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation."[5]

78. Section (a)(2) of the implementing regulation further clarifies which financial transactions should be deemed suspicious for reporting purposes:

> A transaction requires reporting . . . if it is conducted or attempted by, at, or through a broker-dealer, it involves or aggregates funds or other assets of at least $5,000, and the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):
>
> (i) Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from

[3] 31 U.S.C. § 5311, *et seq.*, as amended.

[4] The implementing regulations at 31 C.F.R. section 103.19, were transferred and reorganized in a new chapter, 31.C.F.R. section 1023.320, effective March 1, 2011.

[5] FinCEN is the Financial Crimes Enforcement Network of the United States Department of the Treasury.

illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;

(ii) Is designed, whether through structuring or other means, to evade any requirements of this part or any other regulations promulgated under the Bank Secrecy Act . . . ;

(iii) Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction; or

(iv) Involves use of the broker-dealer to facilitate criminal activity.

79. In 2002, FINRA's predecessor, NASD, adopted amendments to Conduct Rule 3011[6] to require, among other things, members to develop and implement an AMLCP and designate persons responsible for AML compliance. NASD also issued detailed guidance to the industry regarding broker-dealer monitoring and reporting requirements. In Notice to Members ("NTM") 02-21, NASD emphasized that each broker-dealer has a duty to detect red flags that may indicate money laundering or other violative activity and, where detected, "to perform additional due diligence before proceeding with the transaction." In NTM 02-47 and subsequent guidance, NASD further advised broker-dealers of their duty to file a "Suspicious Activity Report" for certain suspicious transactions.

80. FINRA has long advised, as reflected in NTM 02-21, that broker-dealers' AMLCP must "fit their business models and needs," and "consider factors such as its size, location, business activities, the types of accounts it maintains, and the types of transactions in which its customers engage."

[6] On January 1, 2010, NASD Conduct Rule 3011 was superseded by FINRA Rule 3310.

81. FINRA Rule 3310(a) specifically requires that each member shall "[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. section 5318(g) and the implementing regulations thereunder."

82. FINRA Rule 3310(d) requires member firms to designate and identify to FINRA an "individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls" of the firm's AML program. NTM 02-21 requires every broker-dealer to designate an AMLCO to administer the Firm's AML efforts. NTM 02-21 further specified that the AMLCO should have the "authority, knowledge, and training to carry out the duties and responsibilities" of the AMLCO.

B. Halcyon Failed to Establish and Implement an Effective AMLCP to Detect and Report Suspicious Activity (FINRA Rule 3310(a))

1. Halcyon Adopted Inadequate AML Written Supervisory Procedures

83. The Firm established AML Written Supervisory Procedures ("AML WSPs"); however, the AML WSPs were inadequate and were not reasonably designed to cause the Firm to detect, investigate and report, where appropriate, potentially suspicious activity.

84. The Firm used an outside consultant to draft its AML WSPs. The Firm adopted the AML WSPs without ensuring that the policies and procedures accurately reflected the risks posed by the Firm's business model and the controls necessary to mitigate those risks. The Firm, acting through its AMLCO Morris, did not modify the AML WSPs to address the risks posed by the Firm's business model, including the deposit and liquidation of penny stocks.

85. The Firm's AML WSPs were not tailored to Halcyon's business and were not designed to detect and cause the reporting of suspicious activity in two fundamental ways.

86. First, the AML WSPs in effect during the entire relevant period contained no procedures regarding the monitoring of potentially suspicious activity related to the deposit and liquidation of penny stocks or low-priced securities because, as the WSPs declared: "At present, the firm will not engage in penny stocks." The Firm lacked controls to mitigate the risks associated with this business, and this statement continued in the AML WSPs through the Relevant Period.

87. Halcyon's claimed basis for failing to have procedures related to penny stocks, that it "will not engage in penny stocks," was false. The Firm's registered representatives regularly engaged in penny stock transactions on behalf of customers from the time Morris and Heineman purchased the Firm in mid-2010 through the end of the Relevant Period.

88. The Firm was actively engaged in accepting deposits of penny stocks and liquidating them, and received over 113 million shares in certificate form from customers during the Relevant Period. The Firm repeatedly received deposits of low-priced securities in physical certificate form and through the free receipt of securities from the previous custodian (*i.e.*, DWAC). Based upon the Firm's business model, the Firm was required to have tailored procedures within its WSPs to address and mitigate the risks posed by this business model. Instead, the Firm's procedures falsely asserted that "the firm does not receive . . . securities from any of its customers . . . ." As a result, the Firm's AML WSPs had inadequate procedures related to the risks associated with the penny stock deposits, including shares deposited in certificate form and did not specify how the Firm would conduct on-going monitoring for potentially suspicious trades made through client accounts after the shares were deposited.

89. Second, Halcyon's AML WSPs improperly placed responsibility for AML detection and reporting upon its clearing firm. For example, the Firm's AML WSPs during the

Relevant Period stated: "For business introduced to a clearing firm, the Firm will rely upon the clearing firm to make filings on its behalf and provide copies to the Firm." Halcyon is not permitted to rely solely upon others, including its clearing firm, to carry out its responsibility to detect and investigate potentially suspicious activity. Moreover, Halcyon's clearing agreements in effect during the Relevant Period expressly provided that Halcyon is responsible for its own compliance with the BSA and its implementing regulations.

2. The Firm, Through Morris, Failed to Implement the AMLCP During the Relevant Period

90. During the Relevant Period, Morris was designated as the Firm's AMLCO. The Firm, acting through Morris, failed to implement a reasonably designed AMLCP to cause the Firm to detect, investigate and report, where appropriate, potentially suspicious activity. Morris performed substantially none of the AML functions assigned to him in the WSPs in effect throughout the Relevant Period related to the detection and reporting of suspicious activity.

91. Halcyon's WSPs provide that the AMLCO will detect potentially suspicious activity through ongoing trading reviews. Nevertheless, Morris performed almost no monitoring of customer or other activity at Halcyon beyond a monthly review of the Firm's trade blotter. With respect to those reviews, he was generally unaware of the Firm's procedures for monitoring for potentially suspicious activity and did not use any particular criteria or standard for identifying potentially suspicious activity.

92. Halcyon's WSPs assert that the Firm uses, among other "tools" for identifying potential suspicious activity, "Information or reports provided by the clearing firm for business introduced to a clearing firm." Morris was unaware of the information or reports provided by the Firm's clearing firms during the Relevant Period and did not utilize the exception reports provided by the clearing firms as provided for in the Firm's AML WSPs

3. The Firm Failed to Detect and Investigate Red Flags Related to Potentially Suspicious Securities Transactions

93. The Firm, in the AML WSPs, lists many of the red flags contained in NTM 02-21 as "risk indicators" that may suggest potential suspicious activity. However, the Firm failed to detect, investigate and report, where appropriate, potentially suspicious activity when confronted with the following red flags found in the AML WSPs: (1) the customer has a questionable background or is the subject of news reports indicating possible criminal, civil or regulatory violations; (2) the customer engages in numerous transactions where large blocks of low-priced securities of companies with higher risk operating and financial histories are transferred into the account, sold and the proceeds wired; (3) customer wishes to engage in transactions that lack business sense or apparent investment strategy; and (4) the customer, in conjunction with other red flags, engages in penny stock transactions.

a. VHGI Red Flags

94. Due to Halcyon's and Morris's failure to establish and implement a reasonable AML supervisory system, the Firm and Morris failed to make the most basic inquiries or conduct any due diligence, in response to the potentially suspicious trading activity occurring through its customers' or Morris' own accounts. As a result, Halcyon failed to detect, investigate, and report, where appropriate, potentially suspicious activity related to VHGI, an Over-the-Counter Bulletin Board ("OTCBB") stock. During this period, VHGI shares were trading under $1 with a limited market, and the issuer was in financial distress.

Morris' Suspicious Trading in VHGI Went Undetected and Unreported by the Firm

95. Between May 11, 2012 and June 4, 2012, the Firm failed to detect potentially suspicious activity in the account of its principal, Michael Morris, who engaged in a pattern of

potentially suspicious trading in shares of VHGI, an issuer in financial distress that ultimately failed when its principals were arrested for securities fraud.

96. On or around May 10, 2012, Morris met with two officers of VHGI, Scott Haire and Douglas Martin. Haire and Martin sought bridge financing for VHGI. Halcyon did not provide the requested financing; rather, Morris personally lent $150,000 to MLH, a VHGI shareholder, for use by VHGI. Morris and MLH executed a promissory note ("Note") on May 10, 2012, providing that Morris's loan was payable in 21 days. In return for the loan, Morris would receive a 20 percent interest payment and 15,000 shares of VHGI.

97. The Note stated that the loan would be collateralized by 931,000 of MLH's VHGI shares. MLH transferred 931,000 VHGI shares to Morris. That same day, Morris agreed to buy 125,000 of those shares for $25,000, although their market value was approximately $43,750.

98. As a result, Morris outright owned 140,000 VHGI shares in his account – 125,000 shares purchased at a discount, and 15,000 acquired pursuant to the Note. The remaining 791,000 shares in his account, worth approximately $276,850, were purportedly collateral on a $150,000 loan. However, the purported collateral was transferred outright to Morris, not held in escrow. This transaction made no economic sense.

99. The next day, Morris began selling shares of VHGI. By May 17, 2012, Morris had sold all of the 125,000 shares of VHGI that he had purchased at a discount, as well as the 15,000 shares he received pursuant to the Note. On that same date, Morris sold an additional 28,000 shares of VHGI that were purportedly provided to Morris as collateral, even though MLH had not defaulted on the loan. During this period, Morris sold VHGI at prices ranging from 28 cents to 37 cents for total proceeds of approximately $52,995.

100. In sum, Morris had deposited and then quickly liquidated low-priced VHGI securities, many of which were provided to him with no apparent business reason and in which he had no legitimate ownership interest.

101. On May 31, 2012, MLH defaulted on the Note. Several days later, on June 4, 2012, the U.S. Department of Justice and the SEC charged Haire with engaging in a scheme to manipulate the stock price of another issuer by the use of an undisclosed kickback and bribe. Shortly thereafter VHGI's stock price rapidly decreased.

102. On September 20, 2012, the Department of Justice charged both Haire and Martin with fraud in connection with the sale of VHGI. On January 18, 2013, and April 15, 2013, Martin and Haire, respectively, pled guilty to conspiracy to commit securities fraud in the sale of VHGI in violation of Title 18, United States Code, Section 371. As part of their guilty pleas, Haire and Martin both admitted to conspiring with each other to inflate and manipulate the price of VHGI.

103. The terms of the Note and the subsequent trading activity in VHGI through Morris's account raised "red flags" indicative of potentially suspicious activity including: (1) the loan was made to a third party purportedly for the benefit of VHGI as issuer; (2) Morris deposited a large number of VHGI shares to his account in a transaction that did not make economic sense; and (3) Morris liquidated purported collateral in advance of any default (and also in advance of law enforcement activity that drove down the share price). Nobody at Halcyon questioned why Morris received excess shares, why he liquidated shares that were purportedly collateral for a loan that had not defaulted, or any aspects of the underlying loan to MLH.

Halcyon Failed to Conduct Due Diligence Related to JP's Deposit of VHGI in Certificate Form

104. The Firm maintains customer accounts for, and conducts business with, several individuals with questionable backgrounds, including customers with regulatory and criminal history, which is also noted as a red flag in the Firm's WSPs. One of those customers, JP, deposited shares of VHGI in certificate form at Halcyon.

105. On June 7, 2012, Halcyon opened an account for JP, who had an extensive regulatory and criminal history related to securities fraud. JP was sentenced to nearly six years in prison for conspiracy to commit securities fraud, wire fraud, and commercial bribery.

106. The Firm was aware of JP's criminal history at on-boarding but failed to develop an appropriate risk-based approach to monitor JP's account activity. Instead, the Firm merely obtained a signed attestation from JP asserting he would abide by the securities laws.

107. JP was referred to the Firm by Douglas Martin, the former president of VHGI, for the purpose of depositing stock certificates of VHGI. The Firm conducted no additional due diligence despite the fact that (a) JP deposited a VHGI certificate at account opening; (b) the Firm was aware of VHGI's financial difficulties; and (c) the Firm, through Josephberg, was aware that Scott Haire, VHGI's majority shareholder, CFO and Chairman, was arrested for securities fraud three days before JP's account was established.

b. The Firm Failed to Detect and Investigate Red Flags Related to Certain Penny Stock Liquidations

108. The Firm also failed to detect and investigate red flags associated with multiple liquidations of low-priced securities in other customer accounts.

Vela Tel Global Communications, Inc.

109. On October 6, 2011, Customer JE&C, a Taiwanese engineering company (whose President, SC, was a joint accountholder), opened an account at Halcyon and deposited

7,382,253 shares of Vela Tel Global Communications, Inc. (ticker symbol: VELA). On account opening documents, Morris was designated as the registered representative on the account and also approved the account opening as a supervisor. Even though Morris was designated as the registered representative of record and approved the opening of the account, Morris did not have any relationship with the customer, service the account, or know if the Firm took any steps to verify new account documents for JE&C.

110. Between October 21, 2011, and January 27, 2012, JE&C deposited an additional 44,737,164 shares of VELA in certificate form.

111. In addition, JE&C purchased an additional 225,000 shares of VELA on November 30, 2011. JE&C purchased these shares within the same period it began liquidating VELA. Such trading on opposite sides of the market by the same client at the same time could represent an attempt to create the false appearance of demand in the market.

112. The account sold a total of approximately 52,344,417 shares of VELA between October 24, 2011, and February 22, 2012, resulting in proceeds of $3,863,247. VELA was the only stock traded in this account during this period, and $3,852,030 in proceeds were transferred out of the account through 13 wire transfers during the period of November 4, 2011, through February 27, 2012. VELA was a low-priced security that sold for less than $1.00.

113. Halcyon did not adequately investigate any of the trading in this account, including the stock involved, the customer, the trading activity (contemporaneous buying and selling), and wiring out of proceeds. The inadequate review of the activity implicated the following "red flags," which are indicative of potentially suspicious activity contained in Halcyon's WSPs:

a. The customer engages in numerous transactions where large blocks of low priced securities are transferred into the account, sold, and the proceeds are wired out.

b. The customer in conjunction with other red flags engages in transactions involving penny stocks which may have been used in connection with fraudulent schemes and money laundering.

c. The customer engages in transactions that lack business sense such as the contemporaneous buying and selling of penny stocks and the wiring of the proceeds out of the account.

Energy Edge Technologies Corporation (EEDG)

114. In July 2012, Customer MG, a doctor, opened an account at Halcyon and deposited 500,000 shares of Energy Edge Technologies Corporation (ticker symbol: EEDG). Josephberg served as the registered representative for the account. The 500,000 EEDG shares were deposited in certificate form.

115. MG received his 500,000 shares pursuant to a purported consulting agreement with EEDG. The 500,000 shares were issued pursuant to a Form S-8 Registration statement dated October 21, 2011. Some issuers and promoters have misused Form S-8 as a means to distribute free-trading securities under sham consulting arrangements to allow trading to occur immediately without a holding period. Form S-8 stock cannot be used as consideration for others to raise funds for the company. The consulting agreement was executed on July 20, 2012, with the share certificate dated July 24, 2012. On July 20, 2012, EEDG closed at 12 cents.

116. On August 2, 2012, Josephberg executed a "Deposit Securities Request for Bulletin Board, Pink Sheet and Unregistered Securities Form" that was approved by Heineman

on which they asserted that they had "carefully reviewed" the request by MG to deposit the 500,000 shares with the Firm's clearing firm and the 500,000 shares were deposited.

117. From August 8, 2012, through August 21, 2012, MG liquidated 215,874 shares for total proceeds of $18,758.28. On August 24, 2012, three days after the last sale, MG withdrew $15,000 from his securities account. On October 24, 2012, MG withdrew another $3,618.49 from his securities account.

118. On December 10, 2012, MG sold 100,000 shares of EEDG for total proceeds of $4,011.50. On December 19, 2012, MG purchased 100,000 shares of EEDG for $2,267.40. On December 20, 2012, MG sold 100,000 shares of EEDG for $4,057.50.

119. Between December 28, 2012, and January 24, 2013, MG sold 184,126 shares of EEDG from the account for $14,689.28 in total proceeds.

120. The above-referenced liquidations of EEDG shares comprised the vast majority of trading activity in MG's account.

121. JP, who, as alleged above, had an extensive regulatory and criminal history, was the only other firm customer who bought and sold EEDG. JP bought 71,500 shares of EEDG on June 21, 2012, for $5,027.90 and sold 71,500 shares on June 25, 2012, for $7,487.42. Between April 1, 2012, and May 29, 2012, EEDG was the subject of a publicity campaign emanating from its own press releases and a promotional entity touting the purported investment merits of EEDG shares. The dissemination of press releases and promotion appears to have coincided with an increase in the market activity of EEDG's shares.

122. Halcyon and Morris did not adequately investigate the trading in MG's account, including the manner in which the customer obtained the shares via a consulting agreement with Form S-8 common stock, the trading activity (contemporaneous buying and selling), and

withdrawal of proceeds. The inadequate AML review implicated the following red flags contained in Halcyon's AMLCP:

a. The customer engages in numerous transactions where large blocks of low priced securities are transferred into the account, sold, and the proceeds are transferred out.

b. The customer in conjunction with other red flags engages in transactions involving penny stocks which may have been used in connection with fraudulent schemes such as market manipulation and money laundering. The spikes in prices are indicative of potential manipulative trading.

c. The customer engages in transactions that lack business sense such as the contemporaneous buying and selling of penny stocks and the transfer of the proceeds out of the account.

C. Halcyon Did Not Have a Qualified AMLCO

123. FINRA Rule 3310(d) requires member firms to designate and identify to FINRA an "individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls" of the firm's AML program. NTM 02-21 requires every broker-dealer to designate an AMLCO to administer the Firm's AML efforts. NTM 02-21 further specified that the AMLCO should have the "authority, knowledge, and training to carry out the duties and responsibilities" of the AMLCO. While Morris was designated as the Firm's AMLCO, he was not trained nor possessed the requisite knowledge to serve as the AMLCO which was tantamount to the Firm's not having an AMLCO as required.

124. Morris failed to have even the most basic knowledge of his duties and was unqualified to serve as the Firm's AMLCO. For example, during the Relevant Period, Morris:

a. did not know what the BSA was or his or the Firm's duties and responsibilities under the BSA;

b. had no prior experience in AML compliance and had not undergone any AML-related training.

c. did not utilize any exception reports including exception reports provided by the clearing firm despite the fact that the AML WSPs specified that this was one tool that would be used;

d. could not describe how the Firm reviewed for the red flags, which are indicative of potentially suspicious activity, contained in the WSPs; and

VI. HALCYON, THROUGH MORRIS AND HEINEMAN, FAILED TO ADOPT AND IMPLEMENT A REASONABLE SYSTEM OF SUPERVISION

A. Halcyon, Morris and Heineman Failed to Establish and Implement WSPs Tailored to its Business

125. The Firm's WSPs were both deficient and inadequately implemented. As alleged below, Halcyon's WSPs were not tailored to its business and failed to give supervisory personnel the required guidance concerning the Firm's compliance with its supervisory responsibilities.

126. During the Relevant Period, Morris was designated as the CCO from September 2010 to September 2012. Heineman was designated the Firm's CCO in September 2012 and continues to act in that role. The Firm, through Morris and Heineman, failed to implement and enforce the Firm's WSPs or take any other actions that would cause the Firm to have an effective supervisory system or compliant WSPs.

127. As alleged above, the Firm falsely stated in its WSPs that it did not engage in any "penny stock" business. However, during the Relevant Period the Firm and its registered and associated persons regularly received penny stock certificates into the Firm and liquidated the

positions at the direction of its customers. The WSPs did not provide any guidance on the process required for engaging in a penny stock certificate liquidation business, such as conducting due diligence on the stock certificate, issuer and the ostensible owner, and clearing the stock certificate for sale. The WSPs did not contain procedures for providing customers effecting transactions in penny stocks with a risk disclosure document that describes the risks of investing in penny stocks, information regarding market quotations, and information on the compensation of the broker/dealer and salesperson involved in the penny stock transaction.

128. Halcyon's WSPs contain a section titled "*POLICIES NOT INCLUDED,*" which stated that numerous "Policies and procedures are **not** included in this manual for the following activities because the Firm does not deal with public customers" (emphasis in original). The premise for this wholesale exclusion was false. When they acquired Halcyon in mid-2010, Morris and Heineman transformed the Firm from a NYSE floor brokerage firm into a full service retail brokerage firm with approximately 30 registered representatives. The Firm engaged in the sale of equity securities to retail customers, the private placement of securities, investment banking services and the sale of options and municipal securities. As further alleged below, the list of excluded policies and procedures, which included such fundamentally important topics as "handling customer securities," was applicable to this business.

129. Furthermore, Halcyon's WSPs failed to adequately address other key areas related to its business. As alleged below, the WSPs failed to address heightened supervision (applicable, most notably, to Josephberg); failed to provide guidance on how the firm would monitor for excessive trading and churning; failed to provide guidance on monitoring for unauthorized transactions; and failed to provide a process for monitoring Firm emails.

130. Heightened supervision: The Firm's WSPs did not include procedures related to the heightened supervision of the activities of individuals with patterns of investor complaints or other sales practice problems. Specifically, the WSPs have no criteria for identifying candidates for heightened supervision, how such supervision plans will be implemented, and who will conduct such supervision. While the Firm placed Josephberg on heightened supervision and developed a heightened supervision plan, the Firm never amended its WSPs to discuss how Josephberg or any other registered representative should be monitored during the time he or she was on heightened supervision.

131. Churning and excessive trading: The Firm's WSPs failed adequately to define churning or excessive trading. The WSPs generally addressed quantitative suitability and stated that factors such as "turnover rate, cost-equity ratio and use of in-and-out trading in a customer's account may provide a basis for finding that the activity at issue was excessive." However, the WSPs did not define or provide any methodology to determine the turnover rate, cost-equity ratio or "in-and-out trading." Moreover, the WSPs did not identify any available exception reports issued by the clearing firm that could have assisted the Firm in detecting churning or excessive trading.

132. Unauthorized trading: The WSPs did not define or provide any guidance for monitoring for unauthorized trading. While the WSPs mentioned unauthorized trading under a "Trade Review" section, the Firm did not define unauthorized trading or discuss how any Firm supervisor would monitor for unauthorized trading or use any clearing firm exception reports to review for unauthorized trading.

133. Email review: The WSPs failed to provide guidance on monitoring Firm emails. The WSPs provide that the Firm retains a third party to assist in monitoring the Firm's email and

identifies the third party firm. The WSPs do not address how the third party vendor would assist the Firm in monitoring emails. The WSPs do not identify any methodology to be used by Firm supervisors to monitor emails, any key words that need to be searched, the frequency for email review, the Firm associated persons authorized to use the third party vendor software to monitor Firm email, and the designated principals responsible for email review.

B. The Firm, Through Morris and Heineman, Failed to Implement the WSPs and Other Compliance Procedures During the Relevant Period

1. The Firm, Morris and Heineman Failed To Review Activity in Customer Accounts for Churning, Excessive Trading, or Unauthorized Transactions

134. The Firm, through Morris and Heineman, did not implement an adequate or reasonable supervisory system to review customer trades for churning, excessive trading or unauthorized transactions.

135. Both Heineman and Morris were responsible for reviewing trading in customer accounts managed by Josephberg and other registered representatives at the Firm.

136. According to the Firm's WSPs, Firm supervisors were required to monitor for churning and excessive trading by considering "turnover rate, cost-equity ratio and use of in-and-out trading in a customer's account[, which] may provide a basis for finding that the activity at issue was excessive."

137. Heineman and Morris did not conduct any targeted review for excessive trading in customer accounts by the utilization of turnover rates, cost-equity ratios or any in-and-out trading in customer accounts. Heineman and Morris took no steps to monitor for excessive trading or churning, other than to review the trading blotter, usually monthly, for Josephberg and the other registered representatives at the Firm. Morris primarily conducted a suitability review at account opening but rarely reviewed account activity for suitability purposes. His review of account

activity consisted largely of reviewing the trade blotter for order entry mistakes, and he did not seek or obtain any exception reports from the clearing firm for suitability review or any other purpose.

138. The Firm also did no review to detect whether Josephberg was churning accounts or engaging in excessive trading. As alleged above, RV and GL had violative turnover rates and cost to equity ratios as a result of Josephberg's churning their accounts that greatly exceeded industry benchmarks of six percent (turnover rate) and 20 percent (cost-to-equity ratio).

139. The Firm, Morris and Heineman failed to supervise Josephberg, who placed unauthorized trades in the accounts of Halcyon customers. The Firm did not have an adequate supervisory system in place to review for unauthorized trading, and Morris and Heineman only reviewed the trade blotter and did not review the Firm's email for unauthorized trading activity.

2. The Firm, Morris and Heineman Failed to Review Firm Emails

140. As alleged above, the Firm's WSPs failed to provide adequate guidance on the review of Firm emails or explain how the third party email review system could be used to review emails.

141. The Firm utilized an email review system provided by a third party vendor. The Firm's email review system, if utilized, relied upon a key word search to collect potentially violative emails for review.

142. Morris and Heineman were required to conduct email reviews, but failed to do so until FINRA requested evidence of their reviews after the Relevant Period. On June 26, 2013, the Firm, through Heineman, provided Compliance Flagging Reports evidencing the Firm's email review from September 1, 2010, to November 30, 2012, which were initialed by Heineman and Morris ostensibly signifying their review of Firm emails during this period. However, all the

Compliance Flagging Reports were dated June 26, 2013, the date of the Firm's response, and Heineman and Morris did not timely review the Firm's emails. Morris and Heineman only generated Compliance Flagging Reports for review on the date they were submitted to FINRA.

3. The Firm, Morris and Heineman Failed to Supervise Josephberg During his Heightened Supervision

143. As alleged above, the WSPs lacked any policies and procedures for placing registered representatives on heightened supervision.

144. On August 1, 2011, based upon his numerous and serious regulatory disclosures, the Firm created a heightened supervision plan for Josephberg. The Firm designated Morris to supervise Josephberg while he was under heightened supervision, and Heineman would serve as Josephberg's supervisor when Morris was absent.

145. Morris and, in his absence, Heineman, were required to approve all order tickets prior to execution to ensure "completeness and accuracy." The heightened supervision plan did not require, or provide standards or guidance regarding, reviews for churning, excessive trading, or unauthorized trading. As alleged above, Josephberg engaged in these violative practices in several customer accounts during the Relevant Period.

146. Morris was required to sit within 20 feet of Josephberg in order to observe Josephberg's work and monitor Josephberg's communications. Notwithstanding this required scrutiny, Morris not only failed to properly supervise Josephberg, he assisted Josephberg in selling securities in states where he was not registered.

147. Furthermore, Morris failed to supervise Josephberg's sales of VHGI, a microcap stock that Morris knew intimately. As described above, Morris was personally engaged in suspicious VHGI activity in May 2012.

148. Josephberg effected unauthorized purchases of VHGI in two customer accounts:

a. On May 17, 2012, Josephberg bought 31,000 shares of VHGI for $0.26 in RV's individual retirement account at Halcyon. Josephberg did not have discretionary authority over this account. RV was unaware of this purchase, which generated $200 in commissions for Josephberg.

b. On May 24, 2012, Josephberg bought 10,000 shares of VHGI for $0.29 in GL's trust account at Halcyon. Josephberg did not have discretionary authority over this account. GL was unaware of this purchase, which generated $100 in commissions for Josephberg.

149. At the time of these transactions, Morris knew of VHGI's financial distress – VHGI had directly asked him to provide bridge financing. In fact, Morris had personally purchased VHGI at deep discounts to the market only weeks before these transactions. Accordingly, these transactions should have raised red flags, particularly due to Josephberg's status on heightened supervision. However, Morris took no steps to review the sales or discuss them with Josephberg or the customers.

FIRST CAUSE OF ACTION
Scheme to Defraud in the Sale of Cell Therapeutics
(Section 10b of the Securities Exchange Act, Rules 10b-5(a) and (c) thereunder, and FINRA Rule 2010)
(Halcyon, Morris, and Heineman)

150. Halcyon, through Morris, and Heineman, entered into a fraudulent scheme with Socius and Cell Therapeutics to secretly kick back nearly five percent of Socius's $35 million investment in Cell Therapeutics to Socius and thereby misrepresent the price paid for the shares.

151. To effect the scheme, on May 28, 2012, Halcyon, through Morris and Heineman, agreed to receive unearned placement agent fees in connection with the investment and forward nearly all of the fees to Socius through two simultaneous steps. First, Halcyon executed the

Engagement Letter and agreed to serve as a fake placement agent for an issuance of up to $40 million of Cell Therapeutics securities to Socius and receive a fee of five percent of Socius's investment.

152. Second, Halcyon, through Morris and Heineman, simultaneously agreed with principals of Socius to kick back 96.5 percent of Halcyon's placement agent fee to Socius through sham consulting agreements with Optimus, an affiliate of Socius. Halcyon received little to no consulting services under the consulting agreements, and the parties entered the agreements for the sole purpose of kicking back nearly all of the placement agent fee to Socius.

153. The SPA and the Engagement Letter, which disclosed Halcyon's purported role as placement agent on the Socius investments, were attached to a May 30, 2012, Form 8-K filing by Cell Therapeutics announcing the investment. Cell Therapeutics did not disclose in its securities filings or otherwise that Halcyon simultaneously entered, as a "package deal," a consulting agreement to funnel nearly all of the placement agent fee to the investor, Socius.

154. The fraudulent arrangement allowed (1) the investor, Socius, to conceal the kickback of the placement fee; (2) the issuer, Cell Therapeutics, to sell discounted shares without disclosing the price discount to the public; and (3) Halcyon, the purported placement agent, to make a modest fee for doing no work and to increase its industry profile.

155. Halcyon, Morris and Heineman were aware that the Engagement Letter was false and contained misrepresentations and omissions. Through their participation in Halcyon's execution of the false Engagement Letter and the sham consulting agreements with Optimus, Halcyon, Morris and Heineman engaged in a scheme to defraud the investing public by disguising a kickback from the issuer to the investor. The Engagement Letter contained material

misrepresentations and omissions to Cell Therapeutics shareholders and the investing public in several respects.

156. First, the Engagement Letter misrepresented to Cell Therapeutics shareholders and the investing public that Halcyon would receive five percent of any money raised in the financing transaction and that Socius was paying $1 per share. This was false. Halcyon, as per its agreement with Socius and Optimus, was required to forward almost its entire five percent placement fee back to the investor, and it did so.

157. Second, the Firm, in the Engagement Letter, omitted the disclosure of the sham consulting agreements with Optimus and the remittance or kickback of the private placement fee to Socius through Optimus.

158. Third, the Engagement Letter required Halcyon to use "reasonable best efforts" in connection with the private placement of registered securities of Cell Therapeutics to a "potential investor." This was false because there was no prospect that Halcyon would take action to secure financing for Cell Therapeutics because Socius had already agreed to invest the entire $40 million.

159. Halcyon, Morris and Heineman were aware that the First Optimus Agreement and Second Optimus Agreement were false and contained material misrepresentations and omissions. The sole, undisclosed purpose of the consulting agreements with Optimus was to enable Cell Therapeutics to kick back nearly five percent of Socius's investment.

160. In the course of this fraudulent scheme, the Respondents made use of means or instrumentalities of interstate commerce, or use of the facilities of a national securities exchange.

161. As a result of the foregoing conduct, Respondents Halcyon, Morris and Heineman engaged in a fraudulent scheme to defraud Cell Therapeutic shareholders and the investing

public, and the Respondents engaged in deceptive practices which operated as a fraud on Cell Therapeutic shareholders and the investing public, which violated Section 10b-5 of the Exchange Act, Rule 10b-5(a) and (c) thereunder, and FINRA Rule 2010.

SECOND CAUSE OF ACTION
Participating in Deceptive Scheme to Charge Additional Commissions
(FINRA Rule 2010)
(Halcyon and Morris)

162. Halcyon, through Morris, executed a Referral Agreement and amendment thereto with Felix, which provided that Felix would refer customers to Halcyon to open accounts and Halcyon would remit most of commissions back to Felix.

163. Pursuant to the Referral Agreement, Halcyon received commissions by purportedly representing sellers in lateral transfer transactions involving Felix.

164. Halcyon retained a small portion of those commissions and paid the rest to Felix and its employee, PM.

165. Halcyon did no substantive work on the lateral transfer transactions.

166. Halcyon did not disclose to its clients, the sellers of the lateral transfers, that Halcyon did not perform any substantive work, and had a secret agreement to pay almost all its commission to Felix and employee, PM.

167. Halcyon and Morris failed to observe high standards of commercial honor and just and equitable principles of trade by facilitating Felix's concealment of its receipt of additional transaction fees from lateral transfer sellers, and by not disclosing its commission-sharing agreement with Felix to the lateral transfer sellers.

168. By virtue of the foregoing, Halcyon and Morris violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
Falsification of Member Firm Books and Records
(NASD Rule 3110(a) and FINRA Rules 4511 and 2010)
(Halcyon and Morris)

169. FINRA Rule 4511 requires members to make and preserve books and records as required under FINRA rules, the Exchange Act and the applicable Exchange Act rules.[7]

170. The Firm and Morris covered up Josephberg's violation of various state Blue Sky Laws by intentionally causing the falsification of the Firm's books and records, including customer account statements, new account documents, trade confirmations and commission runs, to inaccurately reflect that another registered representative at the Firm, in some instances Morris, was the representative of record for customer transactions initiated by Josephberg.

171. Morris was not only aware of Josephberg's falsification of the Firm's books and records, he assisted with the falsifications.

172. By causing the falsification of new account documents, trade confirmations and account statements, the Firm and Morris caused the Firm to create and maintain false books and records, which violated NASD Rule 3110(a) and FINRA Rules 4511 and 2010.

FOURTH CAUSE OF ACTION
Churning and Excessive Trading
(Section 10b of the Securities Exchange Act and Rule 10b-5 thereunder,
NASD Rule 2310 and FINRA Rules 2111, 2020 and 2010)
(Halcyon)

173. FINRA Rule 2111, which contains substantially the same requirements as NASD Rule 2310, provides in pertinent part that "A member or an associated person must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the

[7] FINRA Rule 4511 replaced NASD Rule 3110(a) on December 15, 2011.

reasonable diligence of the member or associated person to ascertain the customer's investment profile."[8]

174. As alleged above, Halcyon, through Josephberg, engaged in churning and excessive trading in the accounts of RV and GL. These customers did not authorize many of the individual trades Josephberg placed in their accounts, and Josephberg effectively controlled the trading in these accounts.

175. RV and GL did not derive any benefit from the excessive trading in their accounts, and Josephberg and the Firm reaped unwarranted commissions to the detriment of the customers.

176. In the course of excessively trading in the accounts of RV and GL, Halcyon, through Josephberg, made use of means or instrumentalities of interstate commerce, or use of the facilities of a national securities exchange.

177. As a result, Halcyon, through Josephberg, directly or indirectly, by use of the means or instruments of interstate commerce, or of the mails, or of a facility of a national securities exchange: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of securities.

178. By virtue of the foregoing, Halcyon violated Section 10(b) of the Exchange Act, Rule 10b-5 thereunder, NASD Rule 2310, and FINRA Rules 2020, 2111 and 2010.

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[8] FINRA Rule 2111 replaced NASD Rule 2310, the NASD suitability rule, on July 9, 2012.

FIFTH CAUSE OF ACTION
Failure to Establish and Implement Adequate Anti-Money Laundering Program (FINRA Rules 3310(a)and 2010) (Halcyon and Morris)

179. During the Relevant Period, the Firm failed to establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under the Bank Secrecy Act, 31 U.S.C. section 5318(g), and its implementing regulations thereunder in contravention of FINRA Rule 3310(a).

180. The Firm had an AML program in name only and failed to implement an effective and compliant program as provided for in FINRA Rules 3310(a). The Firm eliminated or ignored basic and fundamental AML policies and procedures by falsely claiming in its WSPs that its business was limited to serving as a placement agent, that it did no penny stock business, that it had no dealings with public customers, and that it was entitled to rely upon its clearing firm to fulfill its AML responsibilities. The Firm's AML program as evidenced by its AML WSPs was wholly inadequate and not tailored to its actual business.

181. The Firm also failed to monitor customer account activity and follow up on AML red flags regarding its penny stock liquidation business and abdicated some of its responsibility to the clearing firm. The Firm engaged in high-risk transactions in VHGI and other issuers without conducting additional due diligence in response to clear red flags indicative of potentially suspicious activity.

182. The Firm and Morris did not utilize clearing firm exception reports that could have been utilized to ensure robust AML procedures.

183. By reason of the foregoing conduct, Halcyon and Morris violated FINRA Rules 3310(a) and 2010.

SIXTH CAUSE OF ACTION
Failure to Designate Qualified AMLCO
(FINRA Rules 3310(d) and 2010)
(Halcyon and Morris)

184. FINRA Rule 3310(d) requires each member to designate and identify to FINRA an individual responsible for implementing and monitoring the day-to-day operations of the AML program.

185. During the Relevant Period, Morris was the Firm's AMLCO and responsible for ensuring that the Firm established and implemented an adequate AMLCP. While designated as the Firm's AMLCO, Morris did not have the requisite knowledge, training and experience to adequately discharge his duties as AMLCO. As a result, the Firm failed to designate a qualified AMLCO.

186. By reason of the foregoing conduct, Halcyon and Morris violated FINRA Rules 3310(d) and 2010.

SEVENTH CAUSE OF ACTION
Failure to Establish, Maintain, and Enforce a System and Written Procedures to Supervise Its Business and Associated Persons
(NASD Rule 3010 and FINRA Rule 2010)
(Halcyon, Morris and Heineman)

187. NASD Rule 3010(a) requires that FINRA members "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations and with [FINRA] Rules."

188. NASD Rule 3010(b) requires firms to "establish, maintain, and enforce written procedures" that supervise its business and the activities of its associated persons, in order to achieve compliance with applicable securities laws and FINRA rules.

189. Morris and Heineman were the main principals at Halcyon. Pursuant to the Firm's WSPs and in practice, Morris and Heineman were primarily responsible for the supervision of the Firm and its personnel as well as directing the activities of the Firm.

190. Despite having some written supervisory procedures, the Firm, Morris and Heineman failed to reasonably supervise the activities at the Firm. Instead, the Firm, Morris and Heineman fostered a culture of non-compliance that resulted in widespread supervisory failures and violations of federal securities laws and FINRA Rules.

191. These deficiencies arose based upon their failure to establish an adequate supervisory system tailored to the Firm's business and the failure to establish and implement reasonable supervisory procedures to supervise the Firm's business.

192. Halcyon failed to establish and implement WSPs tailored to its business for its "penny stock" business. The Firm falsely stated that the it did not engage in the "penny stock" business in its WSPs. In fact, the Firm regularly accepted low-priced securities, liquidated the securities based upon the customer's instructions and wired the proceeds from the sale to the customer's bank account. Heineman and Morris took little to no supervisory action to monitor this business.

193. Halcyon also had inadequate WSPs, not tailored to its business, which failed to provide guidance regarding heightened supervision of registered representatives with regulatory issues; detecting excessive trading, churning and unauthorized trading; and email review.

194. Halcyon also failed to reasonably supervise, monitor and detect excessive trading, churning and unauthorized trading; failed to review emails; and failed to adequately supervise Josephberg after he was placed on heightened supervision.

195. During the Relevant Period, the Firm, Morris and Heineman failed to reasonably supervise the activities of registered representatives, registered principals, and other associated persons in a manner reasonably designed to achieve compliance with federal securities laws and FINRA Rules and to prevent and detect misconduct.

196. Based upon the foregoing, the Firm, Morris and Heineman violated NASD Rule 3010(a) and (b) and FINRA Rule 2010.

Based on the foregoing, Respondents Halcyon Cabot Partners, Ltd., Michael Trent Morris and Ronald Mark Heineman willfully violated Section 10(b) of the Exchange Act and Rule 10b-5(a) and (c) thereunder and NASD Rule 3010 and FINRA Rule 2010. Respondents Halcyon Cabot Partners, Ltd. and Michael Trent Morris violated NASD Rule 3110(a) and FINRA Rules 4511, 3310(a) and 3310(d). In addition, Halcyon Cabot Partners Ltd. willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, NASD Rule 2310 and FINRA Rules 2111 and 2020.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent 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 Halcyon Cabot Partners, Ltd. be expelled from FINRA membership and Respondents Michael Trent Morris and Ronald Mark Heineman be barred from association with any FINRA member in any capacity.

The sanctions imposed herein shall be effective on a date set by FINRA staff. A bar or expulsion shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA

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

Michael S. Choi
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FINRA Department of Enforcement
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