

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

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

SPARTAN SECURITIES GROUP, LTD.
(CRD No. 104478),

Respondent.

Disciplinary Proceeding
No. 2013036389101

Hearing Officer: CC

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: July 11, 2017

INTRODUCTION

Disciplinary Proceeding No. 2013036389101 was filed on September 12, 2016, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Spartan Securities Group, Ltd. (Spartan) submitted an Offer of Settlement (Offer) to Complainant dated June 23, 2017. 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 (as amended by the Offer of Settlement), 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 (as amended by the Offer of Settlement), 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

Spartan Securities Group, Ltd., CRD No. 104478, has been a FINRA member since July 2001. Spartan's primary business is market making and proprietary trading in OTC equity securities. Spartan currently has three branch offices, including its main office, and about 9 registered representatives.

FINDINGS AND CONCLUSIONS

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

SUMMARY

1. Between April 2010 and May 2012 (the "Relevant Period"), Spartan Securities Group, Ltd. ("Spartan" or the "Firm") failed to establish and implement an appropriate anti-money laundering program related to its business of accepting low-priced securities for deposit and liquidation.
2. The Firm did not have a system to collectively analyze over time account opening documents, securities deposits, account transactions, and public information in order to detect potentially suspicious patterns of activity.
3. Consequently, the Firm failed to appropriately detect, investigate, and report, where appropriate, eight instances of suspicious activity. As a result of the foregoing, Spartan violated FINRA Rules 3310(a) and 2010.

RESPONDENT AND JURISDICTION

4. Spartan has been a FINRA member since July 2001. During the Relevant Period, Spartan engaged in market making and proprietary trading in OTC equity securities, among other things, and maintained its principal place of business in Clearwater, Florida. Approximately 11 to 14 registered persons were associated with the Firm at any one point in time during the Relevant Period. At all times relevant to this Complaint, Spartan was a member of FINRA and as a current member remains subject to the jurisdiction of FINRA under Article IV of FINRA's By-Laws.

CAUSE OF ACTION Inadequate Anti-Money Laundering Compliance Program (FINRA Rules 3310(a) and 2010)

5. FINRA Rule 3310(a) 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. 5318(g) and the implementing regulations thereunder."

6. 31 U.S.C. 5318(g) provides that the Secretary of the Treasury may require any financial institution, and any director, officer, employee, or agent of any financial institution, to report any suspicious transaction relevant to a possible violation of law or regulation.

7. Since 2002, pursuant to the USA PATRIOT Act of 2001 (the "Patriot Act"), 31 U.S.C. § 5311, *et seq.*, as amended, which amended the Bank Secrecy Act of 1970 ("BSA"), the United States Department of the Treasury has required broker-dealers to report suspicious transactions.

8. The implementing regulation, 31 C.F.R. section 1023.320(a)(1) (formerly section 103.19(a)(1)), which was in effect during the Relevant Period, 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.” FinCEN is the Financial Crimes Enforcement Network of the United States Department of the Treasury.

9. 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 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.

10. In 2002, in its release adopting the final rule, 67 FR 44048 (July 1, 2002) at 44051, FinCEN clarified that “if a broker-dealer determines that a series of transactions that would not

independently trigger the suspicion of the broker-dealer, but that taken together, form a suspicious pattern of activity, the broker-dealer must file a suspicious transaction report.”

11. In 2002, FINRA’s predecessor, NASD, 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” (“SAR”) for certain suspicious transactions.

12. FINRA Rule 2010 requires members, in the conduct of their business, to “observe high standards of commercial honor and just and equitable principles of trade.” A violation of Rule 3310(a) constitutes a violation of Rule 2010.

13. Spartan’s own written anti-money laundering compliance procedures (“AMLCP”) identified the following red flags for money laundering:

- a. “The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect;”
- b. “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;”
- c. “The customer’s account has wire transfers that have no apparent business purpose to or from a country identified as a money laundering risk or a bank secrecy haven;”
- d. “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' (Reg 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.);"

e. "The customer's account has inflows and outflows of funds or other assets well beyond the known income or resources of the customer;" and

f. "The customer exhibits a lack of concern regarding risks, commissions, or other transaction costs."

14. Although Spartan's customers and their activities triggered the AML red flags above, as well as others, Spartan failed to appropriately identify and follow up on the red flags.

The Firm Failed to Detect, Investigate, and Report, Where Appropriate, Customer IC's Suspicious Deposits and Liquidations of Subaye, Inc. ("SBAY")

15. On or about May 13, 2010, IC opened an account at Spartan. TH, IC's Director and a Canadian citizen, signed the New Account Documents ("NAD") on behalf of the customer. The NAD reflected that IC had a mailing address in Ontario, Canada and was incorporated in the Republic of Seychelles.

16. During the Relevant Period, the Republic of Seychelles offered financial services to non-residents which made it vulnerable to money laundering, as noted in the relevant International Narcotics Control Strategy Report ("INCSR"), which listed Seychelles as a Jurisdiction of Concern.

17. Furthermore, during the Relevant Period, the Republic of Seychelles was a known tax haven.

18. On June 7, 2010, IC deposited 30,000 unregistered shares of SBAY by Deposit/Withdrawal at Custodian ("DWAC") transfer.

19. About seven months prior, on or about October 23, 2009, MyStarU.com, Inc. (Symbol MYST) changed its name to Subaye, Inc. and completed a reverse stock split of one share for every one hundred shares.

20. On May 10, 2010, IC represented in writing to Spartan that the 30,000 shares of SBAY were fully paid for and held for at least six months since they were acquired from the issuer.

21. Other documents in the Firm's possession indicated that this representation was false.

22. First, the stock certificate, bearing a restrictive legend, was dated May 19, 2010, a date only a few weeks before the deposit of the stock at Spartan and nine days *after* the representation that the shares had been held for six months since they were acquired from the issuer.

23. Second, the consulting services to be provided by IC to SBAY in exchange for the SBAY shares had not been completed by June 2010, when the shares were deposited and started to be liquidated.

24. Pursuant to two consulting agreements in the Firm's files, IC was to provide the following consulting services to SBAY from November 9, 2009 through November 9, 2011, and January 9, 2010 through January 9, 2012:

... assisting and advising [SBAY] with its NASDAQ application (the "Application") for the Company; assisting the Company with respect to Corporate Governance, and assist management of the Company in complying with all securities and exchange regulations in regards to the filing of the Application and additional securities filings. Consultant shall be available, as

needed, during each business week of the Consulting Period for the proper performance of his duties hereunder.

25. In exchange for these services, SBAY would compensate IC with 30,000 shares of unregistered SBAY stock.

26. Further, the signature pages for the two consulting agreements were not signed. The lone standalone signature page submitted by IC for both agreements was undated.

27. The Firm failed to identify and investigate the contradiction between IC's May 10, 2010 representation that the SBAY shares were fully paid for and had been held for six months on the one hand, and the documentation collected by the Firm that showed otherwise, on the other.

28. Between June 7, 2010 and July 15, 2010, Spartan sold IC's 30,000 unregistered SBAY shares for proceeds of about \$315,876, for which Spartan earned about \$2,890 in commissions.

29. On October 27, 2010, IC deposited an additional 285,000 shares of SBAY via DWAC transfer.

30. IC provided the Firm with documents evidencing that the 285,000 shares originated with a consulting agreement between TH and SBAY that commenced January 2, 2008 and ended December 31, 2009. Pursuant to the consulting agreement, TH received 450,000 shares of SBAY. However, pursuant to a settlement agreement, the 450,000 shares were redistributed, from which a 310,000 share certificate was distributed with 285,000 shares going to IC and 25,000 shares going to Spartan's parent, Endeavour Cooperative Partners, LLC ("Endeavour"), a conflict of interest.

31. A registration statement was filed with the SEC for the 450,000 shares on April 4, 2008, but it was withdrawn on August 10, 2009. Accordingly the 450,000 shares, and

consequently the 285,000 shares, were not registered when deposited at Spartan.

32. Between October 28, 2010 and November 8, 2010, Spartan sold Endeavour's 25,000 SBAY shares for about \$252,280 and Spartan earned about \$120 in commissions on the sale.

33. Between November 1, 2010 and January 12, 2011, Spartan sold 207,750 of IC's additional 285,000 shares of SBAY for about \$2,030,944 and earned about \$1,713 in commissions on the sales.

34. The total value of the SBAY shares sold by Spartan for IC, including the 30,000 shares sold between June 2010 and July 2010, was about \$2,346,821, which grossly exceeded the liquid net worth and net worth of \$25,000 to \$39,000 that IC disclosed in its new account form.

35. Between August 2010 and January 2011, IC wired the proceeds from its SBAY liquidations to its bank account in Malta, a known tax haven.

36. On February 1, 2007, the SEC accepted an offer of settlement submitted by a broker dealer from Turks and Caicos and a Canadian attorney who had sold \$4 million in unregistered shares in violation of Section 5 on behalf of TH and his associate, SC.

37. Spartan was not aware of the 2007 offer of settlement related to TH at the time it opened the account for IC or when it sold shares of SBAY. However, it should have been aware of the offer.

38. AML red flags triggered by IC and its deposits and liquidations of SBAY shares were:

- a. Customer IC was incorporated in a known tax haven with money laundering risk;
- b. Publicly available information indicated that TH, IC's Director, a person

publically associated with the customer IC, had a questionable background or was the subject of news indicating possible criminal, civil, or regulatory violations;

c. IC's proceeds from the sales of SBAY vastly exceeded its stated liquid net worth and net worth;

d. Proceeds from the liquidation of the shares were immediately transferred to a foreign bank account;

e. IC's director resided in a different country (Canada) than where IC was incorporated (Seychelles, a known tax haven and money laundering Jurisdiction of Concern), and sent its money to a third country (Malta, also a known tax haven);

f. IC engaged in transactions in penny stocks for no apparent reason or in conjunction with other red flags;

g. While IC was engaged as a consultant for SBAY, the company changed its name and underwent a reverse stock split;

h. IC provided Spartan with two consulting agreements for exactly the same services, whose Consulting Periods overlapped. The signature pages of those consulting agreements bore no signatures. A separate signature page for the two consulting agreements was undated;

i. The customer deposited a certificate that was issued immediately before the deposit;

j. Spartan's parent company also received shares of the same stock in a related transaction, which presented a conflict of interest for the Firm; and

k. IC represented that the shares it had deposited for liquidation one month

later had been fully paid for and held for at least six months, when the Firm had in its file evidence to the contrary.

39. Despite several red flags, Spartan failed to detect, investigate, and report, where appropriate, IC's suspicious activity in SBAY.

***The Firm Failed to Detect, Investigate, and Report, Where Appropriate,
Customer FC's Suspicious Deposits and Liquidations of Electric Car Company Inc.
("ELCR")***

40. On or about April 5, 2010, FC, opened an account at Spartan and deposited unregistered shares of ELCR into its account.

41. According to the NAD, FC was a company engaged in the decorating business and owned by AS. AS's son was the President of ELCR.

42. FC's Deposit Securities Request Form (the "Form") did not disclose to the Firm FC's relationship to the issuer, ELCR. Specifically, FC indicated, on the Form, that it did not have family that works for the issuer.

43. Spartan, however, was aware of the relationship, but did not consider it a red flag that the customer's relationship to the issuer was not disclosed on the Form.

44. ELCR changed its name from Classic Costume Company, Inc. in 2009 when AS began loaning money to the company in exchange for promissory notes.

45. Between April 16, 2010 and June 11, 2010, FC converted part of its \$208,000 convertible note into 71,936,398 shares of ELCR that FC deposited into its account at Spartan via DWAC transfer.

46. FC obtained the convertible note when it purchased six promissory notes dated August 2009 through January 2010 from AS. However, according to Spartan's records, all of the approximately 72 million shares sold through Spartan were from the convertible note dated

August 2009 for which AS originally paid \$40,000.

47. AS's son, GS, the President of ELCR, was required to authorize the removal of restrictive legends from FC's certificates in order for FC to sell the shares, which presents a conflict of interest.

48. ELCR's Form 10-Q filed on May 24, 2010 (for the period ending March 31, 2010) stated that it had nearly 483 million shares outstanding as of May 14, 2010.

49. By June 11, 2010, FC had deposited and liquidated through Spartan, in aggregate, about 15% of the outstanding float of ELCR shares, which presented a red flag that FC was trying to evade disclosure requirements by depositing and liquidating small percentages of ELCR shares. However, the Firm failed to identify and review FC's large holding because it did not add up the total shares deposited by FC, but rather considered the insider percentage holding at each point of sale. Generally, the shares were sold as they were deposited and before the next deposit was made.

50. Between February 1, 2010 and March 31, 2010, ELCR's daily volume ranged from 224,000 to 61,676,460 shares, with an average daily volume of 4,760,972 shares. However, in April 2010, around the time that FC began depositing its shares of ELCR at Spartan, the daily trading volume of ELCR increased dramatically. Between April 1, 2010 and April 16, 2010, ELCR's average daily trading volume was 44,578,978 shares.

51. Between April 19, 2010 and June 15, 2010, FC sold all of its ELCR shares that were deposited at Spartan for gross proceeds of about \$178,849 and for which Spartan earned about \$2,206 in commissions.

52. While FC sold its ELCR shares, ELCR's daily trading volume remained high with volumes ranging from 8,897,227 to 377,381,772, and an average daily volume of 48,080,871.

53. Between April 26, 2010 and June 23, 2010, FC effected five outgoing wire transfers totaling \$178,300.

54. Between December 2009 (around the issuance of the convertible notes) and August 6, 2010, (a few months after FC's deposit and sale of its ELCR shares) ELCR increased its issued and outstanding shares from 114 million to over 2 billion. Over 1.1 million of the new shares were attributed to conversions of note obligations totaling approximately \$699,000.

55. Although ELCR publicly disclosed that it had outstanding shareholder notes, its disclosures were inconsistent with the information obtained by Spartan regarding FC's and AS's ELCR notes. Some of the public filings did not identify FC or AS as the holder of the notes. Where the public filings disclosed the outstanding amount of the notes owned by FC and/or AS, the disclosures were inconsistent with the information obtained by Spartan regarding FC's notes, conversion, and liquidation of ELCR shares.

56. The Firm did not review SEC filings for ELCR and therefore did not compare the information received from its customer to the available public information.

57. AML red flags triggered by FC's deposits and liquidations of ELCR are:

- a. FC, through AS, did not disclose in the Form the family relationship to the issuer of the restricted penny stock deposited for liquidation;
- b. Conflicts of interest existed between ELCR, its president, and AS/FC;
- c. Public filings were inconsistent with information the Firm collected;
- d. FC engaged in transactions in penny stocks for no apparent reason or in conjunction with other red flags;
- e. The issuer underwent a name change at or about the time that AS acquired her shares (i.e., the date she lent money to the company in 2009);

f. The significant increase in issued and outstanding shares coupled with the spike in daily trading volume was indicative of a possible unregistered distribution of shares; and

g. FC sold about 15% of the outstanding float without disclosure.

58. Despite several red flags, Spartan failed to detect, investigate, and report, where appropriate, FC's suspicious activity in ELCR.

***The Firm Failed to Detect, Investigate, and Report, Where Appropriate,
Several Customers' Suspicious Deposits and Liquidations of Kentucky Energy, Inc.
("QMIN")***

59. On or about July 22, 2010, CMA opened an account with Spartan. Between August 9, 2010 and December 7, 2010, CMA deposited a total of 83 million shares of unregistered QMIN stock via DWAC transfer.

60. About one month before CMA opened the account at Spartan, effective on or about June 16, 2010, Quest Minerals & Mining Corp. changed its name to Kentucky Energy, Inc.

61. Effective June 16, 2010, QMIN underwent a 1 for 20 reverse split.

62. CMA disclosed to Spartan that it was a consulting company that provided accounting and limited financial reporting services. CMA further disclosed that it had a liquid net worth between \$0 and \$25,000 and income between \$65,000 and \$124,999.

63. EC, CMA's Managing Director and sole member, was authorized to give orders for CMA. EC was QMIN's president's son.

64. In QMIN's November 23, 2009 Form 10-Q filing, it disclosed that the SEC recommended filing an enforcement action against the company for fraudulently filing inaccurate financial statements with the SEC for the period 2004 and thereafter.

65. Despite the publicly available information, CMA's disclosure that it provided

accounting and limited financial reporting services, CMA's disclosure of the familial relationship to QMIN's president, and CMA's deposit for liquidation shares of QMIN, Spartan did not inquire about the specifics of the SEC's proposed enforcement action.

66. In fact, CMA and QMIN were parties to a consulting agreement dated June 6, 2006, pursuant to which CMA provided bookkeeping and records maintenance services. The inaccurate financial statements at issue in the SEC's proposed enforcement action were prepared by CMA.

67. In April 2011, the SEC accepted an offer of settlement from QMIN, CMA and EC in connection with the inaccurate financial statements prepared by CMA and EC for QMIN in 2005.

68. Between August 23, 2010 and December 21, 2010, Spartan sold 65 of CMA's 83 million pre-split shares of QMIN for proceeds totaling about \$18,700. Spartan earned about \$720 in commissions. The Firm reflected the transactions on its trade blotter as pre-split shares even though the reverse split was effective months earlier.

69. The shares were generally sold as they were deposited and before the next deposit was made.

70. CMA withdrew proceeds totaling \$18,370 between September 8, 2010 and December 30, 2010 in six outgoing wire transfers and one check.

71. In connection with CMA's QMIN deposits, Spartan collected certain documents including a legal opinion created by a law Firm, ICPC, which represented QMIN.

72. GC, an attorney with ICPC, owned a consulting Firm, GVI, which also became one of Spartan's customers and deposited shares of QMIN.

73. Between September 30, 2010 and November 16, 2010, GVI deposited 58 million QMIN shares via DWAC transfer.

74. Between September 30, 2010 and December 23, 2010, GVI sold its 58 million pre-split QMIN shares for proceeds of about \$14,804. Spartan earned about \$544 in commissions for these sales. The shares were generally sold as they were deposited and before the next deposit was made.

75. GVI withdrew the money in two checks totaling \$14,600 between December 10, 2010 and December 29, 2010.

76. MI, another attorney at ICPC, also deposited and liquidated shares of QMIN between September 2010 and January 2011.

77. AML red flags triggered by Spartan's customers activity in QMIN were:

a. Publicly available information indicated that QMIN had a questionable background or was the subject of news indicating possible criminal, civil, or regulatory violations;

b. CMA and GVI engaged in transactions involving penny stocks for no apparent reason or in conjunction with other red flags;

c. Shortly before Spartan's customers liquidated their shares of QMIN, the company underwent a reverse split and name change; and

d. The attorneys who provided the legal opinions also received shares of QMIN that they deposited into accounts at Spartan, and that they liquidated at or about the same time as each other and at least one other customer.

78. Despite several red flags, Spartan failed to detect, investigate, and report, where appropriate, CMA, GVI and MI's suspicious activity in QMIN.

***The Firm Failed to Detect, Investigate, and Report, Where Appropriate,
Customer SE's Suspicious Deposits and Liquidations of Lithium Exploration Group
("LEXG")***

79. On or about January 12, 2011, SE opened a new account at Spartan. According to the NAD, SE was a self-employed entrepreneur/investor and music producer. He had four years of experience investing in stocks and was introduced to the Firm through the internet.

80. SE maintained a bank account in the Republic of Seychelles and intended to wire the proceeds from his Spartan account to his account in Seychelles. However, SE did not reside in the Republic of Seychelles, he lived in Buenos Aires, Argentina.

81. Although the NAD stated that SE's net worth was between \$500,000 and \$1 million, SE proposed funding his account with \$2,125,000.

82. On February 22, 2011, SE deposited one stock certificate for 2,125,000 shares of LEXG in his account at Spartan.

83. SE's Form, dated February 17, 2011, stated that SE obtained 2,125,000 shares of LEXG on or about December 8, 2010 from a prior owner, the issuer, MPOA.

84. On November 30, 2010, about one week before SE obtained his shares, Mariposa Resources, Ltd. changed its name to Lithium Exploration Group, and the symbol changed from MPOA to LEXG.

85. However, the Firm's file reflected that SE did not obtain his shares from the issuer, but rather that SE's shares were previously owned by five individuals who purchased their shares for a total of \$8,500 (\$0.04 per pre-split share) in October 2006 in a registered private offering.

86. The Firm failed to collect documents evidencing how and for how much SE purchased the LEXG shares and were therefore unable to verify that the shares were available for resale. The conflicting information regarding the source of SE's shares (from the issuer or from

the five prior shareholders) was a red flag that the shares were being sold without registration or an exemption from registration or that SE was acting on behalf of an undisclosed third party.

87. Further, on April 30, 2009, about seven months before SE obtained the LEXG shares, the stock underwent a ten for one forward stock split. However, the five prior shareholders did not have their stock certificates reissued after the stock split.

88. Instead, when SE purchased the shares, Island Stock Transfer ("Island"), Spartan's affiliate, reissued the 212,500 shares in one stock certificate for 2,125,000 LEXG shares in SE's name.

89. Between March 24, 2011 and May 4, 2011, SE sold the 2,125,000 shares of LEXG for about \$4,079,558. Spartan earned about \$110,902 in commissions and markups from the sales.

90. Prior to SE's February 22, 2011 deposit of LEXG shares, the last trade(s) took place on January 31, 2011, with a total daily volume of 20,000 shares. The next LEXG trades did not occur until March 18, 2011, just six days before SE began selling his shares.

91. Between January 2011, when SE opened his account with Spartan, and March 18, 2011, right before SE began selling shares of LEXG, the issuer had little or no trading volume and the price of LEXG ranged from \$0.07 to \$0.12 per share.

92. In late April 2011, websites published online articles calling LEXG a scam and alleging that it was the subject of stock promotion and/or pump and dump.

93. When SE liquidated his shares of LEXG, the daily trading volume ranged from 412,000 to 23.8 million shares and the daily price per share ranged from \$1 to \$10.68 despite the issuer having had no revenue in 2010 and through June 30, 2011.

94. Although the NAD stated that SE was an entrepreneur/investor and music producer

with only four years of experience investing in stocks, he communicated with Spartan's traders, at least in part, through instant messages about his LEXG orders. The instant messages from SE indicated that he had access to quotation information (i.e., Level 2 access, which allows the user to view market maker quotations and is generally not used by retail customers).

95. Between March 29, 2011 and May 9, 2011, SE withdrew the proceeds from the LEXG sales in five outgoing wire transfers to a bank account in the Seychelles.

96. In and around November 2012, Spartan investigated SE's (and RD's) suspicious activity in Santo Mining Corp. ("SANP") through the Firm. The Firm concluded that the dollar amount of the activity in a market that was newly developed appeared to be a red flag. However, the Firm failed to investigate RD and SE's prior activity in LEXG which similarly involved large profits in a newly developed market by the same two firm customers.

97. AML red flags triggered by SE and his account activity are:

- a. SE maintained a bank account in a known tax haven with money laundering risk where he did not reside;
- b. SE proposed funding his account with securities that exceeded his stated net worth;
- c. The proceeds from SE's sales of LEXG grossly exceeded his stated liquid net worth and net worth;
- d. The Firm did not collect and SE did not provide evidence establishing how (and for how much) he acquired his LEXG shares, which presents a red flag that SE did not in fact own the shares, but instead was acting on behalf of an undisclosed third party;
- e. SE provided conflicting information about how he obtained the LEXG

shares, including a representation that he obtained them from the issuer, which is a red flag that he sold unregistered shares without an exemption from registration in violation of Section 5;

f. SE's sophistication and access to Level 2 securities transaction information is inconsistent with his stated occupation and experience;

g. SE engaged in transactions involving penny stocks for no apparent reason or in conjunction with other red flags;

h. SE opened an account and delivered a physical certificate representing a large block of a thinly traded or low-priced security;

i. LEXG underwent a name change shortly before SE acquired his shares of the stock;

j. The timing of SE's deposits and liquidations of LEXG coincide with the dramatic increase in the issuer's price and volume;

k. SE's deposits and liquidations of LEXG coincide with websites' publications calling LEXG a scam and claiming that it was the subject of a stock promotion and/or pump and dump;

l. SE deposited and sold his LEXG securities at or about the same time another Spartan customer, RD, deposited and sold the same security under similarly suspicious circumstances (as discussed below);

m. LEXG had no revenues or other market to support the price and volume at which SE sold his stock.; and

n. About a year and a half later, the Firm investigated RD's and SE's suspicious activity in another security that both customers deposited and

liquidated at or about the same time when, similarly, the dollar amount of the activity was not consistent with a market that was newly developed.

98. Despite several red flags, Spartan failed to detect, investigate, and report, where appropriate, SE's suspicious activity in LEXG.

The Firm Failed to Detect, Investigate, and Report, Where Appropriate, Customer RD's Suspicious Deposits and Liquidations of LEXG

99. On or about December 3, 2010, RD opened a new account at Spartan.

100. According to the NAD, RD was a self-employed graphic artist. He had four years of experience investing in stocks and was introduced to the Firm through Google.

101. RD maintained a bank account in Belize and intended to send proceeds from his account at the Firm to his account in Belize; however, he did not reside in Belize, he lived in Buenos Aires, Argentina.

102. In 2010, Belize offered financial services to non-residents which made it vulnerable to money laundering, as noted in INSCR, which listed Belize as a Jurisdiction of Primary Concern, a "major money laundering country."

103. Furthermore, Belize was a known tax haven.

104. On January 3, 2011, RD deposited into RD's account at Spartan one stock certificate for 2,125,000 LEXG shares, the same amount of shares deposited by SE, the other firm customer who engaged in suspicious conduct described above, just one week after SE deposited LEXG shares into his account at Spartan.

105. RD's Form, dated on or about January 3, 2011, states that RD obtained 2,125,000 LEXG shares on or about December 15, 2010 (one week after SE obtained his LEXG shares) from a prior owner, the issuer, MPOA. MPOA was also the source for SE's LEXG shares.

106. The Firm's file also reflected that RD's shares were previously owned by six

individuals in October 2006 who obtained their shares in a registered private offering, like the original shareholders of SE's LEXG shares.

107. The Firm failed to collect documents evidencing how and for how much RD purchased the LEXG shares and were therefore unable to verify that the shares were available for resale. The conflicting information regarding the source of RD's shares (from the issuer or from the six prior shareholders) was a red flag that the shares were being sold without registration or an exemption from registration or that RD was acting on behalf of an undisclosed third party.

108. Although the NAD stated that RD was a graphic artist with only four years of experience investing in stocks, he communicated with Spartan's traders, at least in part, like SE, through instant messages about his LEXG orders. The instant messages from RD indicated that he had access to quotation information (i.e., Level 2 access).

109. Between March 22, 2011 and April 12, 2011, RD sold 2,125,000 shares of LEXG for gross proceeds of about \$929,277 for which Spartan earned about \$25,912 in commissions.

110. Between December 2010, when RD opened his account with Spartan, and March 21, 2011, right before RD began selling shares of LEXG, the issuer had little or no trading volume and the price of LEXG ranged from \$0.07 to \$0.12 per share.

111. When RD liquidated his shares of LEXG, the daily trading volume ranged from 152,000 to 9,112,000 shares and the daily price per share ranged from \$0.12 to \$2.52.

112. Between April 4, 2011 and April 20, 2011, RD withdrew the proceeds from his LEXG sales in four outgoing wire transfers and deposited the proceeds in an account in Belize.

113. RD communicated with Spartan's traders about his orders to sell LEXG, at least in part, through instant messages.

114. In and around November 2012, as described above, Spartan investigated RD's (and

SE's) suspicious activity in SANP through the Firm. However, the Firm failed to detect and investigate RD's and SE's prior similar activity in LEXG.

115. AML red flags triggered by RD and his account activity are:

- a. RD maintained a bank account in a known tax haven with money laundering risk where he did not reside;**
- b. RD's sophistication and access to Level 2 securities transaction information is inconsistent with his stated occupation and experience;**
- c. RD engaged in transactions involving penny stocks for no apparent reason or in conjunction with other red flags;**
- d. LEXG underwent a name change shortly before RD acquired his shares of the stock;**
- e. RD opened an account and delivered a physical certificate representing a large block of a thinly traded or low-priced security;**
- f. The Firm did not collect and RD did not provide evidence establishing how (and for how much) he acquired his LEXG shares, which presents a red flag that RD did not in fact own the shares, but instead was acting on behalf of an undisclosed third party;**
- g. RD provided conflicting information about how he obtained the LEXG shares, including a representation that he obtained them from the issuer, which is a red flag that he sold unregistered shares without an exemption from registration in violation of Section 5;**
- h. The timing of RD's deposits and liquidations of LEXG coincide with the dramatic increase in the issuer's price and volume;**

i. RD's deposits and liquidations of LEXG also coincide with websites' publications calling LEXG a scam and claiming that it was the subject of a stock promotion and/or pump and dump;

j. RD deposited and sold his LEXG securities at or about the same time another Spartan customer, SE, deposited and sold the same security under similarly suspicious conditions (as discussed above);

k. LEXG had no revenues or other market to support the price and volume at which RD sold his stock (as discussed above for SE); and

l. About a year and a half later, the Firm investigated RD's and SE's suspicious activity in another security that both customers deposited and liquidated at or about the same time when, similarly, the dollar amount of the activity was not consistent with a market that was newly developed.

116. Despite several red flags, Spartan failed to detect, investigate, and report, where appropriate, RD's suspicious activity in LEXG.

The Firm Failed to Detect, Investigate, and Report, Where Appropriate, Customer LA's Suspicious Deposits and Liquidations of SEFE, Inc. ("SEFE")

117. On or about May 18, 2011, LA opened an account at Spartan. According to the NAD, LA was a photo producer and was introduced to the Firm through Google.

118. LA maintained a bank account in Cyprus. LA did not reside in Cyprus; he lived in Buenos Aires, Argentina.

119. In 2010, Cyprus was a major financial center with a "preferential tax regime." Cyprus was vulnerable to money laundering and illicit finance activities, including tax evasion, as noted in INCSR, which listed Cyprus as a Country of Primary Concern, and a "major money laundering country."

120. LA communicated with Spartan's traders, at least in part, through instant messages. The instant messages from LA indicated that he had access to quotation information (i.e., Level 2 access).

121. LA also instant messaged a Spartan trader to find out about volume limits when selling. Ultimately LA stated that "if they limit how many shares I can sell per day ... i'll have to find another clearing... i don't mind paying a penalty but been limited to sell i'll not go with it...but we can sell above 20% it's just that I will get extra fees."[sic]

122. Ultimately, LA continued to place orders with Spartan.

123. In September 2011, about five months earlier, LA deposited shares of RAYS and then liquidated those shares in the two months following. By November 4, 2011, the Firm had detected and investigated LA's suspicious activity in RAYS.

124. On or about March 2, 2012, about four months after the Firm detected and investigated LA's suspicious activity in RAYS, LA deposited one certificate for 1,372,881 shares of SEFE into his account at Spartan. Yet Spartan did not specially review LA's activity in SEFE for AML red flags, which were equally abundant.

125. The SEFE certificate was dated February 24, 2012 and contained a legend stating that the shares had not been registered.

126. On February 27, 2012, SE sent a letter to the issuer stating that he sought to remove all restrictive legends on the stock certificate and stop transfer instructions. The stock certificate was reissued without the restrictive legend on or about March 20, 2012.

127. Nearly two years earlier, on July 20, 2010, Midnight Candle Company was renamed SEFE.

128. As of December 31, 2011, the company's operations were in the development stage

and had generated losses of \$1,681,476 since inception. Furthermore, SEFE did not generate any revenue in the 2010 or 2011 calendar years.

129. LA provided the Firm with an Irrevocable Stock Power dated January 19, 2012, for his deposit of a SEFE stock certificate dated nearly one month later (February 2012).

130. According to the Firm's documents, LA originally obtained the 1.3 million SEFE shares from a portion of a convertible note that was issued to LC (another Spartan customer that also deposited and liquidated shares of SEFE at or about the same time as LA under equally suspicious circumstances) on or about June 25, 2010 (right before the company's name change) for \$145,000.

131. Specifically, LA obtained from LC on or about December 24, 2011, a portion of LC's Bridge Loan Agreement 10% Debenture for SEFE. LA received \$45,000 of the Debenture, which he then converted on or about February 15, 2012 into 1,372,881 shares.

132. Once again, the Firm failed to collect evidence of how its customer (LA in this instance) purchased or obtained the 10% Debenture from LC or what consideration, if any was paid. Spartan was therefore unable to determine whether LA was acting on behalf of a third party when he later sold the SEFE shares.

133. On March 23, 2012, less than one month later, LA deposited a second stock certificate for 900,000 shares of SEFE. According to the Stock Purchase Agreement dated February 23, 2012, which the Firm collected, LA purchased the shares from BB for \$81,000 (\$0.09 per share).

134. The February 23, 2012, Stock Purchase Agreement was entered into by SK, on behalf of BB, and LA. SK and MQ (the husband of LC's owner) had been charged on January 30, 2012 (just two months prior to LA's deposit of 900,000 SEFE shares) with defrauding the

IRS in connection with the sale(s) of shares of publicly traded companies for which they provided consulting or business development services.

135. Again, the Firm obtained an Irrevocable Stock Power Form for the 900,000 SEFE share deposit that was dated January 19, 2012, more than two months prior, and more than a month prior to the Stock Purchase Agreement when LA obtained the shares. The Firm was aware that LA intended to deposit more than one stock certificate when it collected multiple stock powers with the same date that were ultimately used to deposit LA's SEFE shares.

136. Although 300,000 of the 900,000 shares were transferred directly from BB to LA, the remaining 600,000 shares were transferred by the Firm's affiliated transfer agent from two other shareholders (whose names appear on a November 2005 SEC registration statement) to LA. However, the Firm did not collect evidence regarding how BB owned the shares and how it was authorized to transfer shares from two other shareholders to LA.

137. Between March 28, 2012 and April 23, 2012, LA sold 2,272,881 shares of SEFE for about \$4,036,625 for which Spartan earned about \$104,721 in commissions.

138. Between May 2011, when LA opened his account with Spartan, and March 1, 2012, right before LA deposited shares of SEFE, the issuer had little or no trading volume (i.e., seven days of trading with daily volumes between 300 and 20,200 shares) and the price of SEFE ranged from \$0.32 to \$1.25 per share.

139. The average daily trading volume of SEFE between December 12, 2011 and March 27, 2012 was 206,767.56. However, when LA liquidated his shares of SEFE, the daily trading volume ranged from 937,701 to 16,073,099 shares and the daily price per share ranged from \$0.87 to \$2.30 despite the issuer having had no revenue in 2010 and 2011.

140. Between April 24, 2012 and May 1, 2012, LA withdrew the proceeds of his SEFE

liquidations in two outgoing wire transfers totaling \$4,030,887.40 and deposited the proceeds in a bank account in the Seychelles.

141. AML red flags triggered by LA and his account activity are:

- a. LA maintained a bank account in a known tax haven with money laundering risk where he did not reside;
- b. LA's sophistication and access to Level 2 securities transaction information is inconsistent with his stated occupation and experience;
- c. Four months prior, the Firm detected and investigated LA's suspicious activity in RAYS, which similarly involved a stock with no known revenue, an increase in price and volume at and around the time of deposit and liquidation, and more than \$4 million profit to LA after holding the securities for just three months;
- d. Simultaneously, DR, another Spartan customer, deposited and liquidated shares of SEFE and on April 23, 2012, the Firm detected and investigated DR's suspicious activity in SEFE that was nearly identical to LA's suspicious activity in SEFE (discussed in more detail below);
- e. The Firm did not collect documents to evidence that LA was acting on his own behalf when he sold the shares, rather than for a third party, when it failed to collect evidence of how LA obtained the shares from LC, another Spartan customer;
- f. The Firm failed to collect evidence that BB had authority to transfer SEFE shares from two other shareholders to LA;
- g. LA was selling the securities and wiring the money out to a known tax and

money laundering haven;

h. LA engaged in transactions in penny stocks for no apparent reason or in conjunction with other red flags;

i. SEFE underwent a name change shortly before LA acquired his shares of the stock, similar to RAYS, which also underwent a name change shortly before LA's acquisition of RAYS stock;

j. LA opened an account and delivered physical certificates representing large blocks of thinly traded or low-priced securities;

k. There were sudden spikes in investor demand for, coupled with rising prices in, a thinly traded or low-priced security; and

l. SEFE had no revenue to support the increased stock price.

142. Despite several red flags, Spartan failed to detect, investigate, and report, where appropriate, LA's suspicious activity in SEFE.

The Firm Failed to Detect, Investigate, and Report, Where Appropriate, Customer LC's Suspicious Deposits and Liquidations of SEFE

143. LC is a U.S. corporation beneficially owned by VQ. According to NADs, LC was formed to engage in consulting. LC provided Spartan with further detail of its consulting including "consulting in real estate" and "consulting on corp[orate] formation." VQ also wrote that the primary purpose of the company was to serve as "an S-Corp[oration] for tax purposes."

144. LC had a business relationship with LAC, a company beneficially owned by MQ, VQ's husband. LC and LAC shared a physical address.

145. Between October 7, 2011 and March 5, 2012, LC deposited 1,140,000 shares of SEFE into its account at Spartan. LC's deposits included one certificate for 540,000 shares and two certificates for 300,000 shares each. All 1,140,000 shares were registered to other

shareholders pursuant to the registration statement dated November 29, 2005.

146. On January 30, 2012, MQ and several other individuals, including SK, were charged by the United States Department of Justice ("USDOJ") with conspiracy to defraud the IRS by concealing millions of dollars in assets in numerous Swiss bank accounts and filing false tax returns.

147. USDOJ alleged that MQ obtained shares of publicly traded domestic companies to which he was providing consulting or business development services and that he subsequently sold the shares and concealed the proceeds in the Swiss accounts.

148. On or about March 2, 2010, while LC was depositing shares of SEFE, DR also deposited shares that he received when he converted a \$60,000 note he obtained from LC and SC, SK's company in December 2011. On or about February 15, 2012, DR converted the \$60,000 note into 1,830,508 SEFE shares. He sold the shares in his account at Spartan on April 23, 2012, and wired the proceeds out of his Spartan account on May 4, 2012. The Firm detected and investigated DR's suspicious SEFE activity on April 25, 2012, but failed to detect, investigate, or report, where appropriate, LC's similarly suspicious and contemporaneous SEFE activity.

149. LC obtained its shares of SEFE from related parties, namely from LAC, a company owned by VQ's husband, MQ. Specifically, LC's 1,140,000 shares originated as follows:

- a. LC's 540,000 share deposit was transferred directly at the transfer agent from two prior shareholders (who purchased the shares in a registered offering) to LC; however, the Firm also collected documents that evidenced that the shares were sold to LC by LAC, MQ's company, in 2008 for \$2,000 (\$0.10 per pre-split share). Nevertheless, the Firm did not collect any documents showing how LAC

obtained the shares from the two prior shareholders or for how much or even that LAC had the authority to transfer the shares directly from those shareholders to LC.

b. LC's first 300,000 share SEFE deposit was also obtained from LAC (in September 2010) for \$2,000 (i.e., \$0.006 per share). Nevertheless, the Firm did not collect any documents showing how LAC obtained the shares from a prior shareholder, for how much, or even that LAC had the authority to transfer the shares directly from that shareholder to LC, as reflected on the Firm's affiliated transfer agent's records.

c. Finally, LC's second 300,000 share SEFE deposit was purchased from LAC on February 23, 2012 for \$96,000 (i.e., \$0.32 per share), also originated with a purchase agreement (on February 23, 2012) between LC and LAC. LAC apparently purchased the shares for \$4,000 from MB, an attorney who wrote the opinion letter regarding two of LC's SEFE deposits.

150. MB's opinion letters dated October 11, 2010 and January 9, 2012 for the 540,000 and 300,000 share certificates, respectively, both referenced the same source of shares, 600,000 shares from SH1 and SH2, which conflicts with other documents and information contained in the Firm's file. MB also wrote the opinion letter, dated February 23, 2012, regarding LC's 300,000 share deposit that, according to the Firm's file, was obtained by LC, from LAC who obtained the shares from MB himself. That same opinion letter misstated that the prior stock certificate belonged to shareholders who appeared on the SB-2 registration statement.

151. Between April 5, 2011 and July 12, 2011, LC sold 29,850 shares of SEFE for proceeds of about \$35,618 and Spartan earned about \$1,418 in commissions.

152. Between March 1, 2012 and June 18, 2012, LC sold 1,109,273 of the 1,140,000 shares of SEFE for gross proceeds of about \$888,359 and for which Spartan earned about \$35,481 in commissions.

153. Between April 18, 2011 and May 21, 2012, LC withdrew approximately \$740,000 of the SEFE sales proceeds from its account in 13 outgoing transfers.

154. AML red flags triggered by LC and its account activity include:

a. Publicly available information indicated that MQ and SK, both of whom were connected to SEFE and the transfer of SEFE shares to Spartan's customer, had questionable backgrounds or were the subject of news indicating possible criminal, civil, or regulatory violations;

b. While LC was depositing and liquidating shares of SEFE, another Spartan customer, DR, was also depositing and liquidating shares of SEFE obtained from LC, and the Firm detected and investigated DR's suspicious SEFE activity;

c. Simultaneously, the Firm had another customer, LA (discussed above) who also deposited and liquidated SEFE shares obtained from LC and for whom the Firm had detected and investigated for suspicious activity in RAYS, another low-priced security;

d. LC was selling the securities and wiring the money out;

e. LC engaged in transactions in penny stocks for no apparent reason or in conjunction with other red flags;

f. Opinion letters contained conflicting and erroneous information regarding the source of the shares;

g. The attorney who drafted the opinion letters was a party in the string of

transactions that led to LC's acquisition of SEFE shares sold through Spartan;

h. SEFE underwent a name change shortly before LC acquired its shares of the stock;

i. LC opened an account and delivered physical certificates representing large blocks of thinly traded or low-priced securities;

j. There were sudden spikes in investor demand for, coupled with rising prices in, a thinly traded or low-priced security; and

k. SEFE had no revenue to support the increased stock price.

155. Despite several red flags, Spartan failed to detect, investigate, and report, where appropriate, LC's suspicious activity in SEFE.

***The Firm Failed to Detect, Investigate, and Report, Where Appropriate
Customer DR's Suspicious Deposits and Liquidations of RAYS***

156. On or about May 18, 2011, DR opened an account at Spartan. The NAD stated that DR was a production manager for an agricultural machinery company, and was introduced to the Firm through Google. DR maintained a bank account in Cyprus, but resided in Germany.

157. DR communicated with Spartan's traders, at least in part, through instant messages. The instant messages from DR indicated that he had access to quotation information (i.e., Level 2 access).

158. On September 22, 2011, DR deposited one RAYS certificate for 2,497,500 shares that he originally obtained on or about July 28, 2011. DR deposited his RAYS shares just six days after LA deposited shares of RAYS that he obtained on the same date as DR.

159. About one month later, on August 22, 2011, Interdom, Inc. changed its name to Raystream, Inc. and effected a 37 for 1 forward stock split.

160. As of April 30, 2011, RAYS had earned \$200 in revenue and had accumulated losses of \$24,218 since its inception in December 2009.

161. DR originally obtained 67,500 pre-split RAYS shares (i.e., 2,497,500 post-split shares) from three prior shareholders for \$10,800 (\$0.16 per pre-split share). Those three shareholders purchased their RAYS shares in January 2011 through a November 2010 registered offering. Island cancelled those prior shareholders' certificates and reissued one RAYS certificate to DR for 2,497,500 shares.

162. Like LA, between October 31, 2011 and January 18, 2012, DR sold his 2,497,500 shares of RAYS for about \$4,892,032 (an approximate profit of \$4,881,232) and the Firm earned about \$124,679 in commissions and/or markups from the sales.

163. On July 28, 2011 RAYS traded at \$0.15 per share (5,000 shares daily trading volume). The price increased dramatically to \$1 per share on September 6, 2011, when the volume was still very low (2,500 shares).

164. When DR began liquidating his shares of RAYS, the daily trading volume ranged from 475,364 to 11,826,163 shares and the daily price per share ranged from \$0.90 to \$2.51 despite the issuer having had \$200 of revenue since inception.

165. Between November 8, 2011 and January 25, 2012, DR withdrew the proceeds of his RAYS liquidations in five outgoing wire transfers and deposited the proceeds in a bank account in Cyprus.

166. AML red flags triggered by DR and his account activity are:

- a. DR maintained a bank account in a known tax haven with money laundering risk;
- b. DR's sophistication and access to Level 2 securities transaction

information is inconsistent with his stated occupation and experience;

c. DR opened an account and delivered physical certificates representing large blocks of thinly traded or low-priced securities;

d. The value of the shares and the position increased significantly in the short period of time DR owned them;

e. DR was selling the securities and wiring the money out to his bank account in a known tax haven with money laundering risk;

f. DR engaged in transactions in penny stocks for no apparent reason or in conjunction with other red flags;

g. RAYS underwent a name change shortly after DR or the preceding owner acquired the RAYS shares;

h. In September 2011, LA deposited shares of RAYS and while LA was liquidating those shares, in November 2011, the Firm detected and investigated LA's suspicious RAYS activity that was nearly identical to DR's RAYS activity;

i. There were sudden spikes in investor demand for, coupled with rising prices in, thinly traded or low-priced securities; and

j. RAYS had no revenue to support the increased stock price.

167. Despite several red flags, Spartan failed to detect, investigate, and report, where appropriate, DR's suspicious activity in RAYS.

The Firm failed to establish and implement an appropriate AML program

168. Despite its obligation as a "covered financial institution," during the Relevant Period, Spartan failed to establish and implement policies and procedures that could be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C.

section 5318(g), and failed to establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the BSA and the implementing regulations thereunder.

169. Spartan failed to implement its existing AMLCP with respect to its securities deposit and liquidation business. Specifically, it failed to have a system to detect and then investigate the red flags outlined in the Firm's AMLCP.

170. Spartan unreasonably looked at customers' activity in silos. The Firm reviewed the new account forms at the time that the accounts were opened and later reviewed securities deposits. However, when the customers later liquidated their shares, the Firm's reviews were focused on the liquidations themselves without consideration of the relationship of the liquidations to the deposits and the new account information.

171. The Firm did not have a system to look across different types of activity and sources of information to detect and investigate potentially suspicious activity or patterns of activity. Therefore, when a customer or his activity triggered one red flag, Spartan did not look across various sources to determine whether other red flags were also triggered by the customer and/or his activity in order to determine whether the Firm should file a SAR.

172. Further, the Firm did not adequately research public information that was available regarding the securities, the customers, and other parties connected to the transaction. Therefore Spartan was not able to detect red flags related to the trading.

173. The Firm also ignored or failed to identify inconsistencies in the documentation collected, conflicts of interests, and, in certain instances, failed to collect certain information

regarding the source of the shares (i.e., evidence of how and for how much the shares were obtained).

174. In addition to reviewing activity at the Firm in silos, the Firm's reviews were typically on the individual person. Spartan did not have a system to expand its review when it detected and investigated one customer's suspicious activity in a particular security to other customers selling the same security. Similarly, the Firm did not have a system to expand its review when it detected and investigated one customer's suspicious activity in a particular security, to additional suspicious activity by that same customer in other securities.

175. The Firm reviewed all of Spartan's customer and proprietary trades at one time and in .pdf format, which made it difficult, if not impossible, to identify patterns of activity.

176. When the Firm conducted its trade reviews, it looked for specific trading activity red flags such as "painting the tape" and "front running;" however the Firm failed to aggregate the various conduct that triggered AML red flags to detect patterns of suspicious or potentially suspicious activity.

177. By failing to adequately detect, investigate, and report, where appropriate, suspicious activity related to the deposit and liquidation of low priced securities, Spartan violated FINRA Rules 3310(a) and 2010.

Based on the foregoing, Respondent failed to establish and implement a system to collectively analyze over time account opening documents, securities deposits, account transactions, and public information in order to detect potentially suspicious patterns of activity related to the firm's business of accepting low-priced securities for deposit and liquidation. As a result, the firm failed to appropriately detect, investigate, and report, where appropriate, eight instances of suspicious activity. As a result, Spartan violated FINRA Rules 3310(a) 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 Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

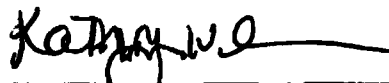
It is ordered that Respondent be censured and fined \$100,000.

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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