

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

Department of Enforcement,

Complainant,

v.

Cantone Research Inc. (CRD No. 26314),
Anthony J. Cantone (CRD No. 1066139),
and
Raymond J. DeRobbio (CRD No. 1092310)

Respondents.

Disciplinary Proceeding
No. 2017055886402

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Respondents Cantone Research Inc. (CRI), CRI President and majority owner Anthony J. Cantone, and CRI representative Raymond J. DeRobbio made numerous fraudulent and negligent misrepresentations and omissions of material fact in connection with two municipal bond offerings. CRI was the sole underwriter for both offerings. CRI, acting through Cantone, DeRobbio, and another CRI representative, VP, who has since been barred from associating with any FINRA member firm, then recommended and sold the municipal bonds to more than 150 CRI customers. Both bonds defaulted. As a result, approximately 150 CRI customers lost more than \$6,225,000.

Quad Cities Municipal Bond Offering

2. In 2013, Respondents made negligent misrepresentations and omissions of material fact in connection with the underwriting and sale of \$2,200,000 worth of municipal

revenue bonds in an offering for the Quad Cities Regional Economic Development Authority First Mortgage Revenue Bonds (Quad Cities Bonds). The Quad Cities Bonds were issued to fund the purchase and rehabilitation of a dormitory at Sauk Valley Community College (the College), a two-year community college in Illinois.

3. The Quad Cities Bonds were conduit bonds, meaning that only net revenue generated by the dormitory (after payment of operating expenses) would be available to make principal and interest payments to investors—the bonds were not backed by the faith and credit of any state or municipality. Therefore, if the dormitory failed to generate revenue in excess of its operating expenses, then investors faced losses.

4. Although CRI was the sole underwriter of the Quad Cities Bond offering, it rushed through the due diligence process. Indeed, CRI, Cantone, DeRobbio, and VP were recommending that CRI customers buy Quad Cities Bonds a mere three weeks after first learning about the offering; the offering closed within days of those recommendations. Respondents failed to reasonably investigate material facts about the issuer and the 48-unit dormitory (the Dormitory) at the College. As a result, Respondents made the following negligent misrepresentations and omissions of material fact about Quad Cities Bonds in the Official Statement (OS) and in other communications with prospective investors:

- a) Respondents provided investors with optimistic financial projections but failed to disclose material information calling those projections into question. Specifically: (i) the Dormitory's historic revenue was significantly below projected revenue levels (for one recent year, by approximately 50%); (ii) the Dormitory had never in its history housed the number of rent-paying residents necessary to generate the projected revenue levels; and (iii) Cantone altered the projected management fees that the Dormitory would pay, understating this expense by more than \$500,000 over the life of the projections.
- b) Respondents misrepresented that the relationship between the Dormitory management company and the College was "excellent" when, in fact, the College—the sole source of residents for the Dormitory—had recently threatened to terminate its relationship with the Dormitory. This

misrepresentation was made more material by the fact that the Dormitory was entirely dependent on the College for water and sewer services, another fact omitted from the offering materials.

5. From November 2013 through December 2014, CRI continued to sell the Quad Cities Bonds in secondary market transactions. Prior to those sales, Respondents again failed to disclose to customers the material information alleged in the preceding paragraph.

6. Therefore, with respect to the Quad Cities Bond offering, CRI, Cantone, and DeRobbio:

- a) Willfully violated Municipal Securities Rulemaking Board (MSRB) Rule G-19 by failing to conduct adequate due diligence and recommending that their customers purchase Quad Cities Bonds, both in the primary offering and in secondary market transactions, without having a reasonable basis to believe that they could be suitable for any customer (**First Cause of Action**);
- b) Willfully violated MSRB Rule G-17, both independently and by virtue of violating Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 (Securities Act), by making negligent misrepresentations and omissions of material fact in connection with the underwriting and sale of Quad Cities Bonds (**Second Cause of Action**); and
- c) Willfully violated MSRB Rule G-17 and G-47 for failing to disclose material information to customers at or before the time of trade, both in the primary offering and in secondary market transactions (**Fifth Cause of Action**).

Montgomery 2015 Municipal Bond Offering

7. In 2015, Respondents made fraudulent misrepresentations and omissions of material fact in connection with the underwriting and sale of \$6,025,000 worth of municipal revenue bonds in an offering for The Medical Clinic Board of the City of Montgomery-1976 East (Montgomery 2015 Bonds or Montgomery 2015). CRI was the sole underwriter for Montgomery 2015, which was issued to fund the purchase and rehabilitation of the Cedars, an assisted living facility in Alabama.

8. Similar to the Quad Cities Bonds, the Montgomery 2015 Bonds were conduit bonds, payable only from net revenue generated by the Cedars (after payment of operating

expenses) and were not supported by the faith and credit of any state or municipality. Investors faced losses should the Cedars fail to generate sufficient revenue.

9. Respondents had a long history with the Cedars. Respondents knew of material derogatory information about the Cedars and its new owner, but made the following fraudulent misstatements and omissions of material fact in the Montgomery 2015 OS and in other communications with prospective investors:

- a) Respondents failed to disclose that CRI was involved in two prior failed offerings for the Cedars in 2004 and 2011.
- b) Respondents failed to disclose that following the 2011 offering, Cantone—attempting to stave off default—personally loaned money to entities associated with the issuer in the 2011 offering. This allowed the issuer to make certain payments to investors when the Cedars failed to generate sufficient revenue to do so.
- c) Respondents falsely stated that “before [the Cedars’] closure [in 2013], the Facility ... was generating monthly net income of approximately \$20,000.” In fact, in the 18 months prior to its closure, the Cedars’ average net income was negative \$11,731.
- d) Respondents failed to disclose that the Cedars lost more than \$115,000 in 2012 and \$95,000 in the first half of 2013 before it was closed. In total, the Cedars lost more than \$659,000 between 2008 and June 30, 2013, a fact never disclosed to investors.
- e) Respondents failed to disclose that the new owner of the Cedars (DE) had a prior criminal conviction for misusing patient funds while managing another assisted living facility.
- f) Respondents failed to disclose that as a result of his conviction, DE was barred for 15 years from participating in Medicare and Medicaid programs and surrendered his license to operate assisted living facilities.
- g) Respondents also failed to disclose that DE lacked a license to operate an assisted living facility in Alabama. Instead, in the Montgomery 2015 OS, Respondents touted that DE had “over 35 years of experience in the assisted living business.”

10. From June 2015 through December 2017, CRI continued to sell the Montgomery 2015 Bonds in secondary market transactions. Prior to those sales, Respondents again failed to

disclose to customers the material information alleged in the preceding paragraph that was omitted from the Montgomery 2015 OS and failed to correct the misstatements in the OS.

11. Therefore, with respect to the Montgomery 2015 Bond offering, CRI, Cantone, and DeRobbio:

- a) Willfully violated MSRB Rule G-17, both independently and by virtue of violating Section 17(a)(1) of the Securities Act, by making fraudulent misrepresentations and omissions of material fact in connection with the underwriting and sale of Montgomery 2015 Bonds (**Third Cause of Action**);
- b) In the alternative to the Third Cause of Action, willfully violated MSRB Rule G-17, both independently and by virtue of violating Sections 17(a)(2) and 17(a)(3) of the Securities Act, by making negligent misrepresentations and omissions of material fact in connection with the underwriting and sale of Montgomery 2015 Bonds (**Fourth Cause of Action**); and
- c) Willfully violated MSRB Rule G-47 by failing to disclose material information to customers prior to the time of trade, both in the primary offering and in secondary market transactions (**Fifth Cause of Action**).

RESPONDENTS AND JURISDICTION

Cantone Research Inc.

12. CRI has been a member of FINRA and the MSRB since 1990. The firm maintains one office in Eatontown, New Jersey. It has eight registered persons and conducts a general securities business.

13. In approximately 2003, CRI entered the business of underwriting municipal revenue bond offerings and selling those bonds to its retail customers in the primary and secondary markets.

14. FINRA possesses jurisdiction over CRI because the firm is a FINRA member.

Anthony J. Cantone

15. Cantone first became registered with FINRA as a General Securities Representative through an association with a former member firm in 1982. In 1995, Cantone

became registered as a General Securities Representative and General Securities Principal through an association with CRI. While at CRI, he subsequently became registered as a Research Analyst in 2004, a Research Principal in 2005, an Investment Banking Representative in 2010, and an Investment Banking Principal in 2018. Cantone remains registered with FINRA in the six above-referenced capacities through his association with CRI.

16. At all times relevant to this Complaint, Cantone was CRI's President and majority owner.

17. FINRA possesses jurisdiction over Cantone because he currently is registered with FINRA through an association with a FINRA member firm.

Raymond J. DeRobbio

18. DeRobbio first became registered with FINRA as a General Securities Representative through an association with a former member firm in 1983. From June 2013 to the present, DeRobbio has been registered with FINRA as a General Securities Representative, Investment Banking Representative, Municipal Securities Representative, and Municipal Securities Principal through an association with CRI.

19. FINRA possesses jurisdiction over DeRobbio because he currently is registered with FINRA through an association with a FINRA member firm.

FACTS

I. Municipal Revenue Bonds.

20. Municipal revenue bonds are bonds backed by revenues from a specific project. The proceeds of the bond issuance typically are used to purchase, construct, or renovate the project. Municipal authorities serve as the issuers in municipal bond offerings but issue the

securities on behalf of the conduit borrower. The conduit borrower typically agrees to make payments of interest and principal solely from the revenue generated by the underlying project.

21. The municipal authorities that issue revenue bonds are not obligated to make debt service payments on the bonds in the event the conduit borrowers fail to make the debt service payments. Accordingly, the creditworthiness of the conduit borrowers is of critical importance, and information that the conduit borrowers may be unable to pay their operating expenses or debt service obligations would be material to prospective purchasers of the bonds.

22. Likewise, because conduit borrowers typically agree to make payments of interest and principal solely from the revenue generated by the underlying project, the underlying project's ability to generate revenue also would be material to prospective investors.

23. Disclosures concerning municipal revenue bonds are made to investors in an offering document called an Official Statement (the OS) and sometimes also in a Preliminary Official Statement (the Preliminary OS) before the OS is finalized. OSs and Preliminary OSs identify the issuer, the underwriter, and the trustee. They also describe the project or facility benefitting from the fundraising, as well as the risks of the investment.

24. While the OS is formally prepared by the issuer, the underwriter typically assists in the development of the OS and other municipal bond documents.

25. An underwriter that participates in a municipal bond offering makes an implied recommendation about the securities. "This recommendation implies that the underwriter has a reasonable basis for belief in the truthfulness and completeness of the key representations made in any disclosure documents used in the offerings."¹ Underwriters form a reasonable basis in the accuracy of disclosure documents, including OSs, through a process called due diligence.

¹ Rule 15c2-12 Proposed Rulemaking, Rel. No. 34-26100; 53 FR 188, pg. 37787 (Sept. 28, 1988).

26. Codifying the requirement to perform due diligence, Exchange Act Rule 15c2-12 requires broker-dealers and municipal securities dealers, prior to agreeing to act as an underwriter in any primary offering of municipal securities, to “obtain and review an official statement that an issuer of such securities deems final as of its date.”² The SEC has further explained that the “extent of review necessary for the underwriter to attain a reasonable basis for its belief in the accuracy and completeness of key representations in the final official statement will depend upon all the circumstances.”³

27. Following its due diligence, the underwriter is required to circulate the OS to investors. The underwriter is also required to post the OS on the MSRB’s Electronic Municipal Market Access (EMMA) website.

28. The issuer or borrower in a municipal revenue bond offering will designate a financial institution, such as a commercial bank, to act as trustee for the offering. The trustee acts pursuant to an indenture, which is a contract between the issuer and the trustee that establishes the rights, duties, responsibilities, and remedies of the issuer and trustee, and which sets forth the security for the bonds. The trustee acts in a fiduciary role for the benefit of bondholders by enforcing the terms of the indenture, transmitting principal and interest payments from the issuer to the bondholders, and representing the interest of the bondholders in the event of default.

II. Quad Cities Municipal Bond Offering.

29. The Quad Cities Bond offering was a \$2,200,000 municipal revenue bond offering, the proceeds of which were to be used to refinance the recent purchase of, and to rehabilitate, the Dormitory.

² 17 CFR § 240.15c2-12(b)(1).

³ Rule 15c2-12 Final Rule, Rel. No. 34-26985; 54 FR 130, pg. 28811 (June 28, 1989).

30. CRI was the sole underwriter for the Quad Cities Bond offering.

31. The Quad Cities Bonds were conduit bonds. The issuer of the Quad Cities Bonds was the Quad Cities Regional Economic Development Authority. However, neither the issuer, nor the State of Illinois, nor any municipality was obligated to make payments to bondholders. Further, neither the taxing power nor the faith and credit of the Quad Cities Regional Economic Development Authority, the State of Illinois, or any municipality was pledged to support the Quad Cities Bonds.

32. As conduit bonds, the Quad Cities Bonds were payable only from funds specifically pledged for repayment, meaning revenue generated by the Dormitory. Therefore, should the Dormitory fail to generate enough revenue to pay the facility's expenses and make all scheduled principal and interest payments, investors faced losses.

A. Background.

i. Prior Failed Offering.

33. In August 2004, Sauk Valley Student Housing, LLC was formed for the purpose of constructing a student dormitory next to the College.

34. In 2004, the Illinois Finance Authority issued \$7,120,000 of Variable Rate Demand Revenue Bonds (Sauk Valley Community College Project) (the 2004 College Bonds). The proceeds from the 2004 College Bonds were loaned to Sauk Valley Student Housing, LLC's parent company for the purpose of constructing the 48-unit Dormitory next to the College. The Dormitory was completed in 2005.

35. In February 2011, Sauk Valley Student Housing, LLC filed for Chapter 7 bankruptcy because the Dormitory failed to generate enough revenue to make principal and interest payments to investors in the 2004 College Bonds, a fact disclosed in the Quad Cities Bonds OS. Thereafter, the 2004 College Bonds went into default.

36. From 2011 to 2013, the Dormitory remained opened, but with limited occupancy, in part due to mold contamination.

ii. Origin of the 2013 Quad Cities Offering.

37. In March 2013, EF, through his entity Sugar Valley Capital Partners, LLC, acquired complete, indirect ownership of Sauk Valley Student Housing, LLC, and acquired the existing mortgage on the Dormitory.

38. In or about Spring 2013, EF contacted a registered representative of another broker-dealer (the Original Underwriter) to serve as underwriter for a new municipal bond offering that would repay Sauk Valley Student Housing, LLC for its purchase of the existing mortgage on the Dormitory, and fund rehabilitation of the Dormitory. The Original Underwriter began due diligence.

39. EF and his attorney (Attorney BM), in consultation with the Original Underwriter, prepared a Preliminary OS for the Quad Cities Bond offering.

40. As part of its due diligence process, the Original Underwriter, along with Attorney BM, participated in the creation of a number of due diligence documents.

41. In or around September 2013, the Original Underwriter determined that it could not serve as underwriter for the Quad Cities Bond offering and that it could not recommend the Quad Cities Bonds to retail investors due to suitability concerns. In or around October 2013, the Original Underwriter withdrew as underwriter but agreed to continue to serve as the “advisor/structuring agent” on the offering.

42. As a result, on or about October 3, 2013, Attorney BM approached DeRobbio about CRI acting as underwriter.

43. On October 3, 2013, DeRobbio received the Quad Cities Bonds Preliminary OS and due diligence documents from the Original Underwriter. On the same day, DeRobbio emailed Cantone and VP, and stated: “When you get time peruse this deal. It is mine if I want it....”

44. CRI agreed to serve as underwriter for the Quad Cities Bond offering on or about October 20, 2013.

45. As the sole underwriter, CRI—acting through Cantone, DeRobbio, and VP—was responsible for conducting due diligence on the Quad Cities Bond offering.

46. By October 24, 2013—16 business days from when they first heard about the offering—CRI’s representatives, including Cantone, DeRobbio, and VP, began recommending Quad Cities Bonds to their customers. Cantone, DeRobbio, and VP solicited their customers primarily through telephone calls.

iii. The Original Underwriter’s Withdrawal as “Advisor/Structuring Agent.”

47. On or about October 28, 2013, after developing additional concerns about the accuracy of certain information in the Quad Cities Bonds offering documents, the Original Underwriter withdrew from its role as “advisor/structuring agent.”

48. When it stepped down as “advisor/structuring agent,” the Original Underwriter was due a fee of 1% of the offering proceeds for its prior work on the deal.

49. After stepping down, however, the Original Underwriter refused to accept any fee from the proceeds of the offering and demanded that its name be removed from the offering documents.

50. DeRobbio made only perfunctory attempts to contact the Original Underwriter after it withdrew as “advisor/structuring agent.” Respondents never learned the Original Underwriter’s reasons for stepping down as “advisor/structuring agent.”

51. On November 7, 2013—just over a month from the date when Respondents first learned of the offering—the Quad Cities Bonds offering closed after it was fully subscribed by customers of CRI with the purchase of \$2,200,000 in bonds.

B. Respondents Failed to Conduct Adequate Due Diligence of the Quad Cities Bond Offering.

i. CRI’s Written Supervisory Procedures.

52. CRI’s written supervisory procedures (WSPs) required it to perform due diligence when acting as the underwriter in a municipal bond offering. The firm’s WSPs defined due diligence by underwriters as being “able to make a representation that it has reasonable belief in the truthfulness and completeness of the key representations made in any disclosure documents used in the offering.”

53. In addition, when acting as underwriter and performing due diligence, the firm’s WSPs required CRI to “document its review in the underwriting file.”

54. CRI’s WSPs indicated that the SEC has identified factors that “would be relevant in reasonably assessing the truthfulness of key representations in the final statement,” including “the extent to which the underwriter relied on municipal officials and other persons whose duties have given them knowledge of particular facts....”

55. CRI’s WSPs also provided that, when acting as underwriter, CRI was required to “review the official statement for the issuer’s securities in accordance with, and as part of, its responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of the transaction.”

ii. Respondents' Inadequate Due Diligence.

56. During the first three weeks of October 2013, Respondents primarily relied on the due diligence conducted by the Original Underwriter, the Dormitory owner, and Attorney BM.

57. No one from CRI ever visited the College or the Dormitory.

58. No one from CRI ever spoke with the on-site Dormitory manager.

59. While DeRobbio and Cantone participated in short telephone conversations with the president of the Dormitory's third-party management company (the Management Company) and with administrators from the College, they did not independently verify critical facts in the Preliminary OS and appendices regarding, among other things, the financial projections for the Dormitory that were included in the Preliminary OS and the relationship between the College and the Management Company.

C. Respondents Made Negligent Misrepresentations and Omissions of Material Fact to Investors.

60. As a result of their failure to conduct reasonable due diligence on the Quad Cities Bond offering, Respondents negligently misrepresented and omitted material facts from the Quad Cities Bonds OS and its appendices. Likewise, during oral discussions with customers, Cantone and DeRobbio made negligent misrepresentations and omissions of material fact similar to those contained in the Quad Cities Bonds OS and its appendices.

61. Both Cantone and DeRobbio provided input and suggested revisions during the drafting and editing of the Quad Cities Bonds OS and certain of its appendices.

i. Misstatements and Omissions Concerning the Financial Projections for the Dormitory.

62. The OS and the attached Market Study appendix relied on optimistic financial projections for the Dormitory. The Market Study projected total "effective income" (including

both rent and fees) of \$593,931 in 2015 and \$605,810 in 2016, and projected comparable year-over-year increases each subsequent year.

63. The OS and Market Study, however, misstated or omitted multiple categories of material information that called into question whether the Dormitory ever would reach the projected income levels.

64. **First**, in the 2011 bankruptcy proceeding, Sauk Valley Student Housing, LLC's February 11, 2011 Voluntary Petition for bankruptcy stated that the Dormitory's gross income from "rental and fees revenue" was: \$409,578 for 2007-2008; \$369,751 for 2008-2009; and \$307,805 for 2009-2010 (*i.e.*, approximately 50% of the gross income that the 2013 Market Study projected for 2016). And since 2010 and the date of the Market Study, enrollment at the College had declined by more than 18% and the Dormitory had experienced additional problems including mold contamination.

65. Neither the OS nor the Market Study contained any information concerning the Dormitory's historic income, including for 2007 through 2010.

66. Respondents failed to obtain publicly available documents from the 2011 bankruptcy proceeding. Respondents did not review the Voluntary Petition in their due diligence.

67. **Second**, the Financial Projections in the Market Study, while not expressly stating the occupancy rates required to achieve the projected level of income, assumed that the Dormitory would earn in excess of 70% of its "Gross Rental Potential" every year. To achieve that result, the Dormitory would need to have residents occupying in excess of 70% of the beds in the building, all of whom were paying the full rental rate.

68. The Dormitory, however, had never attained a 70% "paid" occupancy rate at any point in its history.

69. The OS and Market Study omitted this fact, which should have been disclosed to investors in the Quad City Bonds.

70. Moreover, the OS stated: “The Market Study contains standard monthly lease rates for students. Rents are assigned on a per-bed basis and include all utilities except electricity and the lease agreement requires all residents to be ‘full time’ students. Discounts ranging from a low of 2.0% to as high as 12.0% can be obtained based on certain lease terms and/or prepayment arrangements.”

71. But the OS and other offering materials omitted the facts that, historically, student athletes—the primary source of residents for the Dormitory—sometimes received discounted rents and that coaches sometimes paid no rent at all.

72. Prior to selling the Quad Cities Bonds, Respondents did not know that the Management Company had a practice of granting reduced rent to student-athletes and rent waivers to coaches because they failed to conduct adequate due diligence.

73. The Management Company’s past practice of granting rent reductions to student-athletes and rent waivers to coaches should have been disclosed to investors in the Quad Cities Bonds.

74. **Third**, the financial projections for the Dormitory set forth in the OS and relevant appendices were misleading because they understated the management fees the Dormitory was contractually obligated to pay after the closing.

75. The Dormitory regularly paid a management fee to the Management Company.

76. On or about October 28, 2013, prior to closing the Quad Cities Bond offering, CRI filed on EMMA a Property Management Agreement between Sauk Valley Student Housing,

LLC and the Management Company (the Management Agreement). When aggregated over 30 years, the management fees set forth in the Management Agreement totaled \$1,436,491.

77. However, Cantone edited the financial projections contained in the Market Study appendix to reflect that the Dormitory would pay management fees which, aggregated over 30 years, totaled \$936,525.

78. Thus, the Management Agreement required the Dormitory to pay nearly \$500,000 more in management fees than what was set forth in the Market Study appendix.

79. The financial projections contained in the OS, which were based on understated management fees, were materially misleading.

80. By relying on inflated paid occupancy rates and understated management fees, and by ignoring past financial performance, the financial projections contained in the OS made it appear as if the issuer would have more revenue to make interest and principal payments to bondholders than what was actually the case.

ii. Disputes Between the College and the Dormitory's Management Company.

81. The Quad Cities Bonds OS contained material misstatements and omitted material facts about the relationship between the College, the owner of the Dormitory, and the Management Company.

82. The success of the Dormitory was contingent upon a strong relationship between the College and the Management Company because the College was the sole referral source for occupants of the Dormitory.

83. As explained in the OS: "The success of the Project will be in large part due to the cooperation of the College and its efforts pursuant to the Affiliation Agreement. To the extent that the Borrower and the Project lose the support of the College and the Borrower's marketing

efforts do not receive the support of the College, the financial performance of the Project would certainly be adversely impacted.”

84. The Market Study appendix to the OS stated: “Today ... new ownership and current management have developed a strong relationship with [the College] administration, and both parties are committed to improving and promoting [the Dormitory] as it represents the only designated student housing alternative for non-commuter students.” It further stated: “On-site property management, at this time, is *excellent*.” (Emphasis in original.)

85. However, in truth, the College and the Management Company were engaged in serious disputes, which began prior to and continued after the closing of the Quad Cities Bond offering.

86. Indeed, in or about October 2013—just one month prior to the offering’s closing—the College threatened to terminate the Affiliation Agreement between the College and Sauk Valley Student Housing, LLC, the owner of the Dormitory, because of the disputes with the Management Company.

87. Respondents were not aware of these disputes prior to the offering’s closing because they failed to conduct reasonable due diligence of the offering.

88. The statement in the Market Study appendix to the OS that the owner of the Dormitory and the Management Company had a “strong relationship” with the College was a material misstatement.

89. The failure to disclose that the College had threatened to terminate the Affiliation Agreement was a material omission.

90. These disputes were material for the additional reason that the Dormitory was dependent on the College for the provision of all water and sewer services.

91. Therefore, if the College terminated the Affiliation Agreement, the Dormitory would not have a source of water or sewer services.

92. The OS and its appendices failed to disclose the Dormitory's dependence on the College for water and sewer services or the risks associated with this arrangement.

93. Respondents should have known about the Dormitory's dependence on the College for water and sewer services but they did not because they failed to conduct reasonable due diligence of the offering.

94. Indeed, the Voluntary Petition in the 2011 bankruptcy proceeding noted that the Dormitory owed more than \$60,000 to the College for "2005 - 2011 water and sewer services." Moreover, the Affiliation Agreement—which the Original Underwriter had given to DeRobbio in October 2013—required the Dormitory's owner to pay water and sewage fees to the College.

95. Respondents' failures to disclose the disputes between the Management Company and the College and the Dormitory's dependence on the College for the provision of water and sewer services were material omissions.

D. Respondents Lacked a Reasonable Basis to Recommend the Purchase of Quad Cities Bonds.

96. On November 7, 2013, the Quad Cities Bond offering closed.

97. CRI received a total of \$318,200 in underwriting fees and sales revenue in connection with Quad Cities Bonds. CRI's fees and revenues consisted of: (a) CRI's underwriting discount of \$18,200; and (b) CRI's underwriter fee of \$300,000. Sales credits distributed to firm sales representatives from the firm's fees and sales revenues totaled at least \$36,250 (distributed to Cantone; DeRobbio; VP; and others).

98. Approximately 60 CRI customers purchased \$2,200,000 of the Quad Cities Bonds. Every customer who participated in the Quad Cities Bond primary offering was a CRI customer solicited by CRI representatives, including Cantone, DeRobbio, and VP.

99. Cantone and DeRobbio both recommended that CRI customers purchase the Quad Cities Bonds, including during telephone calls.

100. Because Cantone and DeRobbio failed to reasonably investigate the Quad Cities Bonds, Cantone and DeRobbio were not aware of material information omitted from the OS alleged above, and therefore did not disclose that information to customers during those telephone calls or at any other time.

101. At the time of their recommendations, Respondents did not know that:

- a) The reasons for the Original Underwriter's sudden and last-minute withdrawal from the offering, rejection of a fee, and demand that all references to the Original Underwriter be removed from the offering documents included its concerns about the suitability of the Quad Cities Bonds for retail investors;
- b) The Dormitory's historic gross revenue was well below that projected in the Market Study;
- c) The Management Company had a practice of granting reduced rent and rent waivers to student-athletes and coaches, respectively;
- d) The relationship between the College and the Management Company was so turbulent that the College threatened to terminate the Affiliation Agreement; and
- e) The Dormitory was entirely dependent on the College for water and sewer services.

102. Nevertheless, Respondents recommended and sold the Quad Cities Bonds to their customers as follows:

- a) Cantone recommended and sold Quad Cities Bonds to 17 customers for a total of approximately \$625,000;
- b) DeRobbio recommended and sold Quad Cities Bonds to 10 customers for a total of approximately \$705,000; and

- c) VP recommended and sold Quad Cities Bonds to 17 customers for a total of approximately \$460,000.

103. In November 2013 and through December 2014, following the closing of the Quad Cities Bond offering, CRI made approximately 10 additional sales of Quad Cities Bonds in secondary market transactions. At or prior to the time of those secondary market trades, Respondents failed to disclose material information to customers, including the material information omitted from the Quad Cities Bonds OS alleged above in paragraphs 60-95.

E. The Quad Cities Bonds Defaulted, Resulting in CRI Customers Suffering Losses.

104. On November 10, 2015, the trustee of the Quad Cities Bond offering filed a Notice of Default on EMMA.

105. The CRI customers who purchased Quad Cities Bonds sustained losses of approximately \$1,598,450.

III. Montgomery 2015 Bond Offering.

106. Montgomery 2015 was a \$6,025,000 municipal revenue bond offering, the proceeds of which were to be used to acquire and rehabilitate the Cedars, a 61-unit assisted living facility in Montgomery, Alabama. At the time of the offering in May 2015, the Cedars had been closed for years.

107. CRI was the sole underwriter for the Montgomery 2015 Bond offering.

108. The Montgomery 2015 Bonds were conduit bonds. The issuer of the bonds was the Medical Clinic Board of the City of Montgomery—1976 East. However, neither the issuer, nor the State of Alabama, nor any municipality was obligated to make payments to the bondholders. Nor did any entity pledge its taxing power or faith and credit in support of the bonds.

109. As conduit bonds, only net revenue generated by the Cedars was pledged to make principal and interest payments to investors. Therefore, if Cedars—which at the time of the Montgomery 2015 Bond offering was not operational—failed to generate enough revenue to pay the facility’s expenses and make all scheduled principal and interest payments, then investors would face losses.

A. CRI Was Extensively Involved in Two Prior Failed Offerings for the Cedars.

110. Before the Montgomery 2015 Bond offering, CRI was involved in two prior failed offerings related to the Cedars. One was a municipal bond offering in 2004 (Montgomery 2004) and the second was a private placement in 2011 (Montgomery 2011).

111. CRI acted as the underwriter for the Montgomery 2004 municipal bond offering and the placement agent for the Montgomery 2011 private placement. The issuer in Montgomery 2011 was an entity controlled by Cantone.

112. The purpose of the Montgomery 2004 offering was to finance the costs for the borrower to acquire the Cedars, and to make certain repairs and improvements to the facility. The borrower was an entity controlled by CB.

113. In or about July 2004, Cantone, DeRobbio, and VP sold a total of \$1,725,000 of the Montgomery 2004 bonds to 36 CRI customers.

114. By August 2011, the borrower had sustained losses in its operation of the Cedars, and CB contacted Cantone about raising additional funds for the Cedars.

115. On or about August 19, 2011, CRI and Cantone received financial information from the same entity controlled by CB (the intended borrower in the Montgomery 2011 private placement), revealing that the Cedars had lost more than \$469,000 between 2008 and 2010.

116. By the end of August 2011, CRI had raised approximately \$550,000 from 24 investors in the Montgomery 2011 private placement, including at least 22 CRI customers.

117. From August 2011 to December 2012, residents occupied the Cedars. During this period, CB's entities made interest payments to the Montgomery 2004 bondholders and to investors in the Montgomery 2011 private placement.

118. After December 2012, one of CB's entities was unable to pay investors in the Montgomery 2011 private placement (although, at this time, interest payments to the Montgomery 2004 bondholders continued).

119. Between December 2012 and September 2013, Cantone loaned approximately \$40,625 to a CB-controlled entity, which was used to make scheduled interest payments to investors in the Montgomery 2011 private placement in order to stave off default.

120. In June 2013, the State of Alabama closed the Cedars.

121. As a result of the closure, one of CB's entities stopped making interest payments to the Montgomery 2004 bondholders, and the Montgomery 2004 bonds defaulted.

122. The trustee of the Montgomery 2004 offering, however, failed to file a notice of default on EMMA to alert investors.

123. From September 2013 to May 2014, CB's entity failed to make interest payments to investors in the Montgomery 2011 private placement.

124. On May 20, 2014, the Cantone-controlled entity that was the issuer of the Montgomery 2011 private placement sent a notice of default to CB regarding the offering.

B. CRI Agreed to Act as Underwriter for the Montgomery 2015 Bond Offering.

125. In or about early 2015, Attorney BM—who also had referred the Quad Cities Bond offering to DeRobbio—introduced DeRobbio to DE. DE intended to and ultimately did

purchase the Cedars from CB. DE planned to raise funds for his purchase of the Cedars through additional fundraising—that led to the issuance of the Montgomery 2015 Bonds.

126. In or about May 2015, CRI agreed to be the sole underwriter for Montgomery 2015, a new municipal bond offering involving the Cedars.

127. According to the OS for the 2015 Montgomery bond offering, DE intended to lease the Cedars to another entity he controlled, Montgomery ALF, LLC.

C. Respondents Made Fraudulent Misstatements and Omissions of Material Fact About the Cedars.

128. Both Cantone and DeRobbio provided input and suggested revisions during the drafting and editing of the Montgomery 2015 OS and certain of its appendices.

129. Both Cantone and DeRobbio solicited their customers to invest in Montgomery 2015 primarily during telephone calls.

130. Respondents made fraudulent misstatements and omissions of material fact in the Montgomery 2015 OS, and in their oral communications with prospective investors, about: the Cedars' prior failed offerings; the Cedars' historic inability to generate revenue to pay investors; and the use of proceeds from the Montgomery 2015 Bond offering to pay back past investors.

i. The Cedars' Prior Failed Offerings.

131. The OS failed to disclose the Montgomery 2004 and Montgomery 2011 offerings, and the fact that the Cedars had not generated enough revenue to pay scheduled principal and interest payments to investors in the 2004 and 2011 offerings.

132. The OS failed to disclose that Cantone himself loaned money to entities associated with the issuer in the 2011 offering in an attempt to stave off default when the Cedars' cash flow ran short.

133. Respondents failed to otherwise disclose this information to investors.

ii. The Use of Proceeds to Repay Prior Investors.

134. The OS told investors that their funds would be used for “financing the costs of acquiring and renovating a 61-unit assisted living facility,” and for costs associated with the offering.

135. However, the OS failed to disclose that a portion of the funds generated from the Montgomery 2015 Bond offering would be used to pay back the Montgomery 2004 bondholders and the investors in the Montgomery 2011 private placement.

136. Respondents failed to otherwise disclose this information to investors.

iii. Misleading Information Concerning the Cedars’ Historic Income.

137. The Montgomery 2015 OS contained material misstatements and omitted material facts about the Cedars’ historic income.

138. The Montgomery 2015 OS stated:

Based upon information supplied by the present owner of the Facility, which the Lessee believes to be substantially correct, before its closure, the Facility was approximately 90% occupied, and was generating monthly net income of approximately \$20,000.

139. The Cedars’ net income for 2012—its last full year of operation—was negative \$115,226.

140. In the first six months of 2013 (before it was closed), the Cedars had a net income of negative \$95,932.

141. From 2008 through June 30, 2013, the Cedars lost more than \$659,000.

142. Respondents knew or were reckless in not knowing the negative net income of the Cedars from 2008 through 2013 due to their receipt of relevant financial statements forwarded by CB and DE, and from public filings on EMMA concerning the 2004 municipal securities transaction concerning the Cedars.

143. However, Respondents failed to disclose this information to investors.

D. Respondents Made Fraudulent Misstatements and Omissions of Material Fact Concerning DE, the Cedars' New Owner.

144. Respondents also made fraudulent misstatements and omissions of material fact about DE in the Montgomery 2015 OS, as well as in other communications with prospective investors.

i. DE's Criminal and Disciplinary History.

145. As Respondents knew, DE had pleaded guilty to a crime for stealing money from an assisted living facility he managed. Specifically, in March 1996, DE pleaded guilty in state court in South Carolina to the crime of "Remove, Transfer or Encumbering Patient Funds." The conduct underlying this criminal conviction related to DE's management of an assisted living facility. The court sentenced DE to a period of probation and ordered that he pay a fine.

146. In 1997, following his criminal conviction, the federal government and the State of South Carolina both barred DE from participating as a provider of Medicare and Medicaid programs. DE surrendered his license to operate assisted living facilities. DE remained barred for the next 15 years.

147. In 2004, DE received a Certificate of Pardon from the South Carolina Department of Probation, Parole and Pardon Services concerning his 1996 criminal conviction.

148. In or about April 2012, the federal government and the State of South Carolina terminated DE's bar from participating as a provider of Medicare and Medicaid programs after DE submitted requests for reinstatement.

149. In or about June 2014, while conducting due diligence on an unrelated municipal bond offering involving DE, CRI learned of DE's prior criminal conviction and his prior bar from participating as a provider of Medicare and Medicaid programs. At that time, DE provided

to Respondents a written statement, the Certificate of Pardon, and the letters of reinstatement from the federal government and the State of South Carolina.

150. The Montgomery 2015 OS did not disclose DE's criminal conviction or bar from participating as a provider of Medicare and Medicaid programs.

151. Respondents failed to otherwise disclose this information to investors.

152. Instead, the OS—written just three years after DE's 15-year Medicare and Medicaid bar was completed—touted DE's alleged experience with assisted living facilities, stating:

[DE] is the Lessee's manager. [DE] has over 35 years of experience in the assisted living business. [DE] was graduated from the University of South Carolina, with a Bachelor of Science degree in business management. Since then, he has owned or administered numerous assisted living and skilled nursing facilities in the Carolinas, Georgia, and Florida, including, at various times, as many as twelve of such facilities, with over 800 employees and annual revenues exceeding \$30 million. In such capacities, [DE] performed all business functions as they relate to these facilities, including primary responsibility for accounts receivable and payable, reimbursement policy and procedure, quality assurance, and all accounting functions.

153. The OS failed to disclose that for 15 of those 35 years, DE had been barred from participating as a provider of Medicare and Medicaid programs following his criminal conviction for misappropriating patient funds.

ii. DE Did Not Have a License to Operate an Assisted Living Facility in the State of Alabama.

154. As of the date of the Montgomery 2015 Bond offering, the State of Alabama had not granted DE a license to operate an assisted living facility in the State. Respondents knew this fact.

155. The Montgomery 2015 OS failed to disclose that DE did not have a license from the State of Alabama to operate an assisted living facility.

156. Respondents failed to otherwise disclose this information to investors.

E. Respondents Recommended the Purchase of Montgomery 2015 Bonds.

157. Cantone and DeRobbio both recommended that CRI customers purchase the Montgomery 2015 Bonds, including during telephone calls.

158. Cantone and DeRobbio both failed to disclose to customers the material information omitted from the OS and failed to correct the materially inaccurate information alleged above, during those telephone calls or at any other time.

159. Approximately 90 CRI customers purchased \$6,025,000 of the bonds. Every customer who participated in the Montgomery 2015 primary offering was a CRI customer solicited by CRI representatives including Cantone, DeRobbio, and VP.

160. Specifically, Respondents recommended and sold the Montgomery 2015 Bonds to their customers as follows:

- a) Cantone recommended and sold Montgomery 2015 Bonds to 40 customers for a total of approximately \$1,485,000;
- b) DeRobbio recommended and sold Montgomery 2015 Bonds to 22 customers for a total of approximately \$2,995,000; and
- c) VP recommended and sold Montgomery 2015 Bonds to 28 customers for a total of approximately \$660,000.

161. On May 29, 2015, the Montgomery 2015 Bond offering closed.

162. CRI received a total of \$361,501 in underwriting fees and sales revenues in connection with Montgomery 2015. CRI's fees and revenues consisted of: (a) CRI's underwriting discount of \$116,283; and, (b) CRI's marketing fee of \$245,218. Sales credits

distributed to firm sales representatives from the firm's fees and sales revenues totaled at least \$183,600 (distributed to Cantone; DeRobbio; VP; and others).

163. After the Montgomery 2015 Bond offering closed, CRI used proceeds from the Montgomery 2015 Bond offering CRI to make outstanding principal payments to the Montgomery 2004 bondholders and the Montgomery 2011 private placement investors.

164. Following the closing of the Montgomery 2015 Bond offering and through 2017, CRI made approximately 13 additional sales of Montgomery 2015 Bonds in secondary market transactions. At or prior to the time of those secondary market trades, Respondents failed to disclose material information to customers, including the material information omitted from the Montgomery 2015 OS, and failed to correct any of the material misstatements in the Montgomery 2015 OS, alleged above in paragraphs 128 – 156.

F. The Montgomery 2015 Bonds Defaulted, Resulting in CRI Customers Suffering Losses.

165. Following the Montgomery 2015 Bond offering, the Cedars never reopened.

166. Also following the Montgomery 2015 Bond offering, the State of Alabama denied DE's application for a license to operate an assisted living facility in the State.

167. On August 1, 2016, the trustee of the Montgomery 2015 Bond offering, UMB, filed a Notice of Events of Default and Other Event-Based Disclosure on EMMA. The notice disclosed to investors that:

- a) The entity to which the Cedars was leased, Montgomery ALF, LLC was named as a defendant in a lawsuit in which the general contractor for the Cedars alleged nonpayment of rehabilitation costs;
- b) Montgomery ALF, LLC failed to make principal and interest payments to the Montgomery 2015 bondholders; and
- c) Montgomery ALF, LLC failed to provide the trustee with annual audits and certain other required financial information.

168. The CRI customers who purchased Montgomery 2015 Bonds sustained losses of approximately \$4,630,332.

FIRST CAUSE OF ACTION

Unsuitable Recommendations/Reasonable Basis Suitability – Quad Cities Bonds (Willful Violation of MSRB Rule G-19 by CRI, Cantone, and DeRobbio)

169. Enforcement realleges and incorporates by reference all preceding paragraphs.

170. MSRB Rule G-19 requires broker-dealers or municipal securities dealers to have a reasonable basis to believe that a recommended municipal securities transaction is suitable for at least some customers.

171. FINRA has jurisdiction to enforce the MSRB rules pursuant to Section 15A(b)(2) of the Securities Exchange Act of 1934.

172. The Quad Cities Bonds are municipal securities under the MSRB rules.

173. As discussed above in paragraphs 52 - 101, CRI, Cantone, and DeRobbio failed to conduct due diligence sufficient for them to attain a reasonable basis to believe in the accuracy and completeness of key representations in the final official statement for the Quad Cities Bond offering.

174. CRI, Cantone, and DeRobbio recommended the purchase of Quad Cities Bonds to approximately 60 CRI customers in the primary offering and 10 CRI customers in secondary market transactions.

175. At the time of their recommendations, CRI, Cantone, and DeRobbio did not know that:

- a) The reasons for the Original Underwriter's sudden and last-minute withdrawal from the offering, rejection of a fee, and demand that all references to the Original Underwriter be removed from the offering documents included its concerns about the suitability of the Quad Cities Bonds for retail investors;

- b) The Dormitory's historic gross revenue was well below that projected in the Market Study;
- c) The Management Company had a practice of granting reduced rent and rent waivers to student-athletes and coaches, respectively;
- d) The relationship between the College and the Management Company was so turbulent that the College threatened to terminate the Affiliation Agreement; and
- e) The Dormitory was entirely dependent on the College for water and sewer services.

176. CRI, Cantone, and DeRobbio therefore lacked a reasonable basis to believe that Quad Cities Bonds were suitable for any investor.

177. As a result of the foregoing misconduct, CRI, Cantone, and DeRobbio each willfully violated MSRB Rule G-19.

SECOND CAUSE OF ACTION
Negligent Misrepresentations and Omissions of Material Fact – Quad Cities Bonds
(Willful Violation of MSRB Rule G-17, Both Independently and
by Virtue of Violating Sections 17(a)(2) and 17(a)(3) of the Securities Act
by CRI, Cantone, and DeRobbio)

178. Enforcement realleges and incorporates by reference all preceding paragraphs.

179. MSRB Rule G-17 provides that “[i]n the conduct of its municipal securities or municipal advisory activities, each broker, dealer, municipal securities dealer, and municipal advisor shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice.”

180. Making a negligent misrepresentation or omission of material fact in connection with municipal securities business violates MSRB Rule G-17.

181. Section 17(a)(2) of the Securities Act prohibits, in the offer or sale of any securities using interstate commerce, obtaining “money or property by means of any untrue

statement of a material fact or any omission 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.”

182. Section 17(a)(3) of the Securities Act prohibits, in the offer or sale of any securities using interstate commerce, engaging “in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.”

183. A violation of Section 17(a)(2) or 17(a)(3) of the Securities Act in connection with municipal securities business also is a violation of MSRB Rule G-17.

184. Quad Cities Bonds are securities under the Securities Act and municipal securities under the MSRB Rules.

185. CRI, Cantone, and DeRobbio offered and sold Quad Cities Bonds using the means and instrumentalities of interstate commerce (including telephone, U.S. mail, and email).

186. From October 2013 through November 2013, in connection with the offer and sale of Quad Cities Bonds, CRI, Cantone, and DeRobbio failed to conduct due diligence sufficient for them to attain a reasonable basis for their belief in the accuracy and completeness of key representations in the final official statement, alleged more fully above in paragraphs 52 – 103.

187. From October 2013 through November 2013, in connection with the offer and sale of Quad Cities Bonds, CRI, Cantone, and DeRobbio made numerous negligent misrepresentations and omissions of material facts. These misrepresentations and omissions are alleged more fully above in paragraphs 60 – 101.

188. From November 2013 through December 2014, in connection with the sale of Quad Cities Bonds in secondary market transactions, CRI, Cantone, and DeRobbio made

numerous negligent misrepresentations and omissions of material facts. These misrepresentations and omissions are alleged more fully above in paragraphs 60 – 103.

189. CRI, Cantone, and DeRobbio also distributed offering materials for the Quad Cities Bonds that contained numerous misrepresentations and omissions of material fact. These misrepresentations and omissions are alleged more fully above in paragraphs 60 – 101.

190. Each of the misrepresentations and omissions alleged above was material.

191. By reason of the foregoing misconduct, in connection with the offer and sale of Quad Cities Bonds, and by the means and instrumentalities of interstate commerce (including telephone, U.S. mail, and email), CRI, Cantone, and DeRobbio: (a) obtained money and property by means of making false and misleading statements of material facts and omitting to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and (b) engaged in transactions, practices, and a course of business which operated as a fraud or deceit on the CRI customers who purchased Quad Cities Bonds in the primary market and secondary market. By reason of the foregoing misconduct, CRI, Cantone, and DeRobbio each engaged in deceptive, dishonest, or unfair practices and failed to deal fairly with all persons, in violation of MSRB Rule G-17.

192. By reason of the foregoing misconduct, CRI, Cantone, and DeRobbio each violated Sections 17(a)(2) and 17(a)(3) of the Securities Act.

193. As a result of the foregoing misconduct, CRI, Cantone, and DeRobbio each willfully violated MSRB Rule G-17, both independently and by virtue of violating Sections 17(a)(2) and 17(a)(3) of the Securities Act.

THIRD CAUSE OF ACTION
Securities Fraud – Montgomery 2015 Bonds
(Willful Violation of MSRB Rule G-17, Both Independently and
by Virtue of Violating Section 17(a)(1) of the Securities Act
by CRI, Cantone, and DeRobbio)

194. Enforcement realleges and incorporates by reference all preceding paragraphs.

195. Making a false statement or omission of material fact in connection with municipal securities business violates MSRB Rule G-17.

196. Section 17(a)(1) of the Securities Act makes it “unlawful for any person in the offer or sale of any securities ... by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly ... to employ any device, scheme or artifice to defraud[.]”

197. A violation of Section 17(a)(1) of the Securities Act also is a violation of MSRB Rule G-17.

198. The Montgomery 2015 Bonds are securities under the Securities Act and also are municipal securities under the MSRB rules.

199. CRI, Cantone, and DeRobbio offered and sold the Montgomery 2015 Bonds using the means and instrumentalities of interstate commerce (including telephone, U.S. mail, and email).

200. From May 2015 through June 2015, in connection with the offer and sale of Montgomery 2015 Bonds, CRI, Cantone, and DeRobbio made numerous misrepresentations and omissions of material fact. These misrepresentations and omissions are alleged more fully above in paragraphs 128 – 156.

201. From June 2015 through December 2017, in connection with the sale of Montgomery 2015 Bonds in secondary market transactions, CRI, Cantone, and DeRobbio made

numerous misrepresentations and omissions of material fact. These misrepresentations and omissions are alleged more fully above in paragraphs 128 – 164.

202. CRI, Cantone, and DeRobbio also distributed offering materials for Montgomery 2015 that they knew contained numerous misrepresentations and omissions of material fact. These misrepresentations and omissions are alleged more fully above in paragraphs 128 – 156.

203. Each of the misrepresentations and omissions alleged above was material.

204. By reason of the foregoing allegations, in connection with the offer and sale of Montgomery 2015 Bonds, and by the means and instrumentalities of interstate commerce (including telephone, U.S. mail, and email), CRI, Cantone, and DeRobbio employed a device, scheme, or artifice to defraud investors.

205. CRI, Cantone, and DeRobbio, acting with scienter, knew that the above-alleged misrepresentations and omissions of material fact made to CRI customers in connection with the offering and sale of the Montgomery 2015 Bonds were false and misleading, or, at a minimum, CRI, Cantone, and DeRobbio were reckless in selling the Montgomery 2015 Bonds based upon the false and misleading communications alleged above.

206. By reason of the foregoing misconduct, CRI, Cantone, and DeRobbio each engaged in deceptive, dishonest, or unfair practices and failed to deal fairly with all persons, in violation of MSRB Rule G-17.

207. By reason of the foregoing misconduct, CRI, Cantone, and DeRobbio each violated Section 17(a)(1) of the Securities Act.

208. As a result of the foregoing misconduct, CRI, Cantone, and DeRobbio each willfully violated MSRB Rule G-17, both independently and by virtue of violating Section 17(a)(1) of the Securities Act.

FOURTH CAUSE OF ACTION
Negligent Misrepresentations and Omissions of Material Fact – Montgomery 2015 Bonds
(Alternative to the Third Cause of Action)
(Willful Violation of MSRB Rule G-17, Both Independently and
By Virtue of Violating Sections 17(a)(2) and 17(a)(3) of the Securities Act
by CRI, Cantone, and DeRobbio)

209. Enforcement realleges and incorporates by reference paragraphs 1 – 204 and 206 – 208.

210. From May 2015 through June 2015, in connection with the offer and sale of Montgomery 2015 Bonds, CRI, Cantone, and DeRobbio made numerous negligent misrepresentations and omissions of material facts. These misrepresentations and omissions are alleged more fully above in paragraphs 128 – 156.

211. From June 2015 through December 2017, in connection with the sale of Montgomery 2015 Bonds in secondary market transactions, CRI, Cantone, and DeRobbio made numerous negligent misrepresentations and omissions of material facts. These misrepresentations and omissions are alleged more fully above in paragraphs 128 – 164.

212. CRI, Cantone, and DeRobbio also were negligent in distributing offering materials for Montgomery 2015 that contained numerous misrepresentations and omissions of material fact. These misrepresentations and omissions are alleged more fully above in paragraphs 128 – 156.

213. Each of the misrepresentations and omissions alleged above was material.

214. By reason of the foregoing misconduct, CRI, Cantone, and DeRobbio each engaged in deceptive, dishonest, or unfair practices and failed to deal fairly with all persons, in violation of MSRB Rule G-17.

215. By reason of the foregoing misconduct, CRI, Cantone, and DeRobbio each violated Sections 17(a)(2) and 17(a)(3) of the Securities Act.

216. As a result of the foregoing misconduct, CRI, Cantone, and DeRobbio each willfully violated MSRB Rule G-17, both independently and by virtue of violating Sections 17(a)(2) and 17(a)(3) of the Securities Act.

FIFTH CAUSE OF ACTION
Failure to Make Time of Trade Disclosures – Quad Cities Bonds
and Montgomery 2015 Bonds
(Willful Violations of MSRB Rules G-17 and G-47 by CRI, Cantone, and DeRobbio)

217. Enforcement realleges and incorporates by reference paragraphs 1 – 204 and 206 – 216.

218. MSRB Rule G-17 requires a dealer, in connection with a municipal securities transaction, to disclose to its customer, at or prior to the time of trade, all material information about the transaction known by the dealer, as well as material information about the security that is reasonably accessible to the market.⁴

219. MSRB Rule G-47, which came into effect on July 5, 2014, codified existing SEC and MSRB guidance regarding time of trade disclosures. MSRB Rule G-47(a) provides that: “No broker, dealer, or municipal securities dealer shall sell a municipal security to a customer, or purchase a municipal security from a customer, whether unsolicited or recommended, and whether in a primary offering or secondary market transaction, without disclosing to the customer, orally or in writing, at or prior to the time of trade, all material information known about the transaction, as well as material information about the security that is reasonably accessible to the market.”

⁴ SEC, *Notice of Filing of a Proposed Rule Change Consisting of Proposed MSRB Rule G-47, on Time of Trade Disclosure Obligations*, Rel. No. 34-70593 (Oct. 1, 2013).

220. MSRB Rule G-47(b)(ii) defines “material information” as follows: “Information is considered to be material if there is a substantial likelihood that the information would be considered important or significant by a reasonable investor in making an investment decision.”

221. The Supplemental Material to MSRB Rule G-47, MSRB Rule G-47.01(a), explains that the disclosure obligation includes an obligation to disclose “facts that are material to assessing the potential risks of the investment.”

222. MSRB Rule G-47.01(b) further explains that: “The public availability of material information through EMMA, or other established industry sources, does not relieve brokers, dealers, and municipal securities dealers of their obligation to make the required time of trade disclosures to a customer.”

223. Prior to selling the Quad Cities Bonds to their customers in the November 2013 primary offering and in secondary market transactions from November 2013 through December 2014, CRI, Cantone, and DeRobbio failed to disclose to customers material information about the transaction known by Respondents, as well as material information about the security that was reasonably accessible to the market, which was omitted from the Quad Cities Bonds OS. These omissions are alleged more fully above in paragraphs 60 – 103.

224. Prior to selling the Montgomery 2015 Bonds to their customers in the May 2015 primary offering and in secondary market transactions from June 2015 through December 2017, CRI, Cantone, and DeRobbio failed to disclose to customers the falsity of the misrepresentations contained in the Montgomery 2015 OS or the material information omitted from the Montgomery 2015 OS, all of which was material information. These misrepresentations and omissions are alleged more fully above in paragraphs 128 – 164.

225. As a result of the foregoing misconduct, CRI, Cantone, and DeRobbio willfully violated MSRB Rule G-17 (for conduct prior to July 5, 2014) and MSRB Rule G-47 (for conduct on or after July 5, 2014).

RELIEF REQUESTED

WHEREFORE, the Department of Enforcement respectfully requests that the Panel:

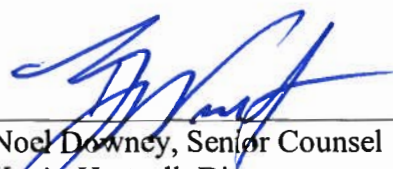
- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondents be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- C. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330;
- D. make specific findings that Respondents CRI, Cantone, and DeRobbio willfully violated MSRB Rule G-19, as alleged in the First Cause of Action;
- E. make specific findings that Respondents CRI, Cantone, and DeRobbio willfully violated MSRB Rule G-17, both independently and by virtue of violating Sections 17(a)(2) and 17(a)(3) of the Securities Act, as alleged in the Second Cause of Action;
- F. make specific findings that Respondents CRI, Cantone, and DeRobbio willfully violated MSRB Rule G-17, both independently and by virtue of violating Section 17(a)(1) of the Securities Act, as alleged in the Third Cause of Action;
- G. in the alternative to the Third Cause of Action, make specific findings that Respondents CRI, Cantone, and DeRobbio willfully violated MSRB Rule G-17,

both independently and by virtue of violating Sections 17(a)(2) and 17(a)(3) of the Securities Act, as alleged in the Fourth Cause of Action; and

- H. make specific findings that Respondents CRI, Cantone, and DeRobbio willfully violated MSRB Rules G-17 and G-47, as alleged in the Fifth Cause of Action.

FINRA DEPARTMENT OF ENFORCEMENT

Date: Oct. 26, 2021



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