

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018058892501**

TO: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)

RE: Garden State Securities, Inc. (Respondent)
Member Firm
CRD No. 10083

Pursuant to FINRA Rule 9216, Respondent Garden State Securities, Inc. submits this Letter of Acceptance, Waiver, and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Garden State Securities, Inc. has been a FINRA member since 1981. The firm engages in multiple lines of business, including selling private placements and acting as a distribution participant in such offerings. Garden State has approximately 54 registered representatives and 11 branch offices.¹

OVERVIEW

In August and September 2017, Garden State acted as the exclusive placement agent for the distribution of securities that were subject to a restricted period pursuant to Rule 101 of SEC Regulation M of the Securities Exchange Act of 1934. During the restricted period, a Garden State registered representative solicited two customer purchases of these securities in violation of Rule 101 and FINRA Rule 2010. During the same period, Garden State failed to establish, maintain, and enforce a supervisory system reasonably designed to achieve compliance with Rule 101, in violation of FINRA Rules 3110 and 2010.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a FINRA examination of Garden State.

Garden State Solicited the Purchase of a Security in Violation of Rule 101

Regulation M is an anti-manipulation provision of the federal securities laws and applies to distributions of securities. Rule 101 provides, in relevant part, that “[i]n connection with a distribution of securities, it shall be unlawful for a distribution participant ... directly or indirectly, to bid for, purchase, or attempt to induce any person to bid for or purchase, a covered security during the applicable restricted period[.]”² As defined in Rule 100(b) of Regulation M, the restricted period generally begins one or five business days prior to the determination of an offering price and ends upon the completion of the distribution.³ Thus, attempts by distribution participants to solicit or otherwise induce customers to make additional purchases of the covered security after trading begins are prohibited until the distribution is complete. Such solicitations can undermine the integrity of the market by artificially stimulating demand and supporting the pricing of the offering. A violation of an Exchange Act rule, such as Rule 101, also is a violation of FINRA Rule 2010, which requires member firms to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

Garden State acted as the exclusive placement agent for an offering of securities in August and September 2017. The Rule 101 restricted period for that offering began on August 25, 2017, and continued until Garden State’s distribution of the security completed on September 14, 2017. Garden State provided a private placement memorandum to prospective customers in connection with that offering on August 30, 2017, and informed such customers that they were restricted from trading in the issuer’s securities in their Garden State accounts. Garden State also placed the issuer on the firm’s restricted list, which prohibited the firm’s registered representatives from soliciting purchases of the issuer’s publicly traded shares.

Garden State conducted two closings of the offering, on August 31, 2017 and September 7, 2017. After the second closing, the firm removed the issuer from the firm’s restricted list. On September 11 and 12, 2017, a Garden State registered representative solicited a firm customer to purchase the issuer’s stock in the open market. That customer purchased 5,000 shares of the issuer’s stock on September 11, 2017, and an additional 5,000 shares on September 12, 2017, which were within the restricted period.

On September 14, 2017, Garden State conducted a final closing of the private placement, which completed its participation in the distribution of the issuer’s securities.

² Rule 100(b) of Regulation M defines a covered security as “any security that is the subject of a distribution ...,” and defines a distribution participant as “an underwriter, prospective underwriter, broker, dealer, or other person who has agreed to participate or is participating in a distribution.” 17 CFR § 242.100.

³See 17 CFR § 242.100.

As a result of the foregoing, Garden State violated Rule 101 and FINRA Rule 2010.

Garden State Failed to Maintain a Reasonable Supervisory System for Distribution of a Covered Security

FINRA Rule 3110 requires a member firm to establish and maintain a supervisory system and establish, maintain, and enforce Written Supervisory Procedures (WSPs) reasonably designed to achieve compliance with applicable securities laws and regulations, and with FINRA rules. A violation of FINRA Rule 3110 also is a violation of FINRA Rule 2010.

Garden State's WSPs specified that a restricted period lasted until the firm's "completion of participation in [a] distribution," and the firm maintained a restricted list of securities for which the firm's registered representatives were prohibited from soliciting purchases during restricted periods. However, Garden State did not have a system for tracking when a restricted period ended for offerings in which the firm participated. The firm also did not have a system for verifying whether it was appropriate to remove a security from the firm's restricted list.

As a result of the foregoing, Garden State violated FINRA Rules 3110 and 2010.

B. Respondent also consents to the imposition of the following sanctions:

- a censure; and
- a \$20,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

A. To have a complaint issued specifying the allegations against it;

- B. To be notified of the complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

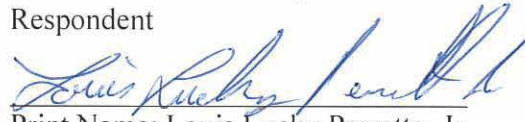
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and

4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this statement. This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

Date: September 14, 2022

Garden State Securities, Inc.
Respondent


Print Name: Louis Lucky Perrotto, Jr.

Title: C.E.O.

Reviewed by:


Robert I. Rabinowitz, Esq.
Counsel for Respondent
Becker & Poliakoff
331 Newman Springs Rd., Suite 225
Red Bank, N.J. 07701

Accepted by FINRA:

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

09/27/2022

Date



Stuart P. Feldman
Senior Counsel
FINRA
Department of Enforcement
99 High Street, Suite 900
Boston, MA 02110