

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

Department of Enforcement,

Complainant,

v.

Spartan Capital Securities LLC
(CRD No. 146251),

John Dennis Lowry
(CRD No. 4336146), and

Kim Marie Monchik
(CRD No. 2528972).

Respondents.

Disciplinary Proceeding
No. 2021071714201

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. From April through July 2021 (the Relevant Period), Respondents Spartan Capital Securities LLC (Spartan), its Chief Executive Officer (CEO) John Dennis Lowry (Lowry), and its then-Chief Compliance Officer (CCO) Kim Marie Monchik (Monchik), engaged in a scheme to defraud firm customers who owned restricted shares of a pharmaceutical issuer that they wished to sell shortly after the company's initial public offering (IPO) underwritten by Spartan.

2. Specifically, in 2017 and 2019, Spartan served as placement agent for private offerings of a company involved in developing Alzheimer's treatments, through which Spartan received millions of shares of the issuer, some of which it distributed to its employees, including Monchik.

3. The pre-IPO shareholders—including Spartan, some of its employees, and many of Spartan’s customers—were eager to sell their shares soon after the IPO. However, all the pre-IPO shares were restricted from resale. Spartan, through Monchik, informed its customers that they would need to complete a cumbersome and time-consuming process, involving Spartan, the issuer, an outside lawyer, the issuer’s transfer agent, and Spartan’s clearing firm, to have the share restrictions lifted and be able to sell in the public markets.

4. Spartan, Lowry, and Monchik, however, were aware of a process by which holders of restricted shares could sell their stock immediately by selling their shares short, “deemed owned,” which gave the seller an extended 35-day settlement period to complete the process of delivering unrestricted shares.

5. Spartan reserved the sold short, “deemed owned” process for itself and select employees, who began selling their own holdings at the outset of the IPO while only offering their customers the far slower process for removing their share restrictions. Through this scheme, Spartan, Lowry (through his ownership of Spartan), Monchik, and other Spartan employees sold at far higher prices than Spartan’s customers, who had to undergo the slower process and wait six weeks or more to sell their shares. Spartan never informed its customers of the “deemed owned” process or that Spartan or its employees were availing themselves of this quicker process.

6. By the time any of Spartan’s customers were able to sell pre-IPO shares, the issuer’s sale price had fallen dramatically, and Spartan and its employees had made over \$50 million in profits from their sales of pre-IPO shares.

7. By engaging in a scheme to defraud its shareholders, Spartan, Lowry and Monchik violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5(a) and

(c) thereunder; FINRA Rule 2010 by contravening Section 17(a)(3) of the Securities Act of 1933; and FINRA Rules 2020 and 2010 (First Cause of Action).

8. By omitting material information, namely the availability of the deemed owned process and the use of this process by Spartan and its employees, in communications with Spartan customers, Spartan, through Monchik, violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5(b) thereunder; FINRA Rule 2010 by contravening Section 17(a)(2) of the Securities Act of 1933; and FINRA Rules 2020 and 2010 (Second Cause of Action).

9. In connection with the IPO, Spartan also violated multiple provisions of FINRA's Corporate Financing Rule (FINRA Rule 5110). As underwriter of the IPO, Spartan was required to make certain filings with FINRA's Corporate Financing Department, which determines whether underwriting terms and conditions, including underwriting compensation, are fair and reasonable. Spartan failed, when disclosing the underwriting compensation to FINRA and in public filings, to include \$475,000 and 500,000 shares that the issuer paid Spartan to help prepare for the IPO and associated uplisting to a national exchange. When added to the consideration that Spartan did disclose, that undisclosed compensation rendered Spartan's total underwriting compensation unreasonable. That failure, and Spartan's failure to disclose it, while participating in the IPO, violated FINRA Rules 5110 and 2010 (Third and Fourth Causes of Action).

10. In addition, Spartan failed to establish and maintain a reasonable supervisory system. Spartan and its employees who held pre-IPO shares had an obvious conflict of interest in selling their shares short, "deemed owned" while the firm's customers waited for the lengthy process of removing their share restrictions before selling. The firm failed to mitigate this conflict but instead allowed Lowry and other firm employees who owned pre-IPO shares to

supervise the sales of those shares and the firm's communications with customers who owned shares. The firm also had no supervisory system, including written procedures, to supervise for compliance with the Corporate Financing Rule. By failing to supervise, Spartan violated FINRA Rules 3110(a) and (b) and 2010 (Fifth Cause of Action).

RESPONDENTS AND JURISDICTION

11. Spartan has been a FINRA member since 2008. The firm is a full-service broker-dealer headquartered in New York, New York that employs approximately 75 registered persons in three branch offices in the New York City metropolitan area. The firm services approximately 5,000 retail customer accounts and has an investment banking business involving, among other things, private placements sold pursuant to Regulation D of the Securities Act and initial public offerings.

12. Lowry is Spartan's co-founder, CEO, and owner through a holding company. He entered the securities industry in September 2000 and became registered as a General Securities Representative (GSR) in January 2001 and a General Securities Principal (GSP) in April 2005 through an association with a FINRA member. Lowry has been associated with Spartan since February 2008, when he co-founded the firm, and he became registered as a GSR and GSP through an association with Spartan in July 2008. Through an association with Spartan, Lowry also became registered as an Investment Banking Representative (IB) in February 2010, an Operations Professional (OS) in October 2011, and an Investment Banking Principal (BP) in October 2018. Between 2007 and 2014, Lowry was co-CEO of Spartan and, since 2014, CEO. FINRA has jurisdiction over Lowry given his current association with Spartan.

13. Monchik is Spartan's Chief Administrative Officer and, during the relevant period, was the firm's CCO. She entered the securities industry in 1994 and became registered as

a GSR in April 2000 and a GSP in August 2000 through an association with a FINRA member. Monchik has been associated with Spartan since July 2008, when she became registered as a GSR, GSP, and an Equity Trader Limited Representative (ET) through an association with the firm. Through an association with Spartan, Monchik also became registered as an IB in April 2010, an OS in October 2011, a Securities Trader in January 2016, and a BP in October 2018. FINRA has jurisdiction over Monchik given her current association with Spartan.

FACTS

I. SPARTAN SERVES AS PLACEMENT AGENT FOR PRIVATE PLACEMENTS OF ALZAMEND NEURO, INC. (ALZN) IN 2017 AND 2019 AND PROVIDES CONSULTING SERVICES TO PREPARE THE COMPANY FOR AN IPO

14. Alzamend Neuro, Inc. (ALZN) was founded in 2016 for the purpose of acquiring and commercializing intellectual property related to technologies aimed at preventing and treating Alzheimer's disease.

15. Spartan was introduced to ALZN through Registered Rep A, an investment banker who owned millions of ALZN shares when he joined Spartan in March 2017 and throughout the Relevant Period.

A. In 2017, Spartan Serves as Placement Agent for a Private Offering of ALZN and Enters into a Consulting Agreement Through Which it Obtains Restricted ALZN Shares

16. Spartan acted as the placement agent for an unregistered private offering of shares by ALZN in 2017 (the 2017 Private Placement).

17. On June 28, 2017, in connection with the 2017 Private Placement, Spartan entered into three agreements with ALZN or its affiliate, ALZN Affiliate:

- a. A Placement Agent Agreement with ALZN, pursuant to which Spartan would be paid 10 percent of the gross proceeds of the offering.

- b. A consulting agreement with ALZN under which Spartan agreed to provide ALZN with general corporate consulting services in exchange for \$1.4 million in monthly installments over the five-year term of the agreement.
- c. A consulting agreement with ALZN Affiliate on “general corporate and other matters” related to ALZN (2017 ALZN Affiliate Consulting Agreement), pursuant to which ALZN Affiliate agreed to transfer 20 million shares of ALZN common stock to Spartan if ALZN received at least \$2.5 million in proceeds from the offering.

18. In connection with the 2017 Private Placement, from June to December 2017, Spartan sold units of ALZN priced at \$10,000 each. Each unit was comprised of 40,000 shares of ALZN common stock priced at \$0.25 per share.

19. Spartan raised \$4.195 million in the 2017 Private Placement and was paid \$419,450 in placement agent fees.

20. Pursuant to the 2017 ALZN Affiliate Consulting Agreement, Spartan received 20 million shares of ALZN common stock in January 2018, which became five million shares after ALZN effected a 1:4 reverse split in June 2018.

21. Of the split-adjusted five million ALZN shares from ALZN Affiliate, Lowry retained for Spartan 4,050,000 shares and distributed 950,000 shares to 22 Spartan employees in January 2018.

22. Lowry distributed 46 percent of the split-adjusted 950,000 ALZN shares from ALZN Affiliate to three Spartan principals:

- a. Monchik received 368,750 shares;

- b. Office Manager, the manager of Spartan's main office in New York, received 62,500 shares; and
- c. Operations Manager, the head of the firm's Operations Department, received 31,250 shares.

23. Lowry allocated the remaining ALZN shares from ALZN Affiliate to 19 other Spartan registered representatives and sales assistants, including his family member, Registered Rep B, in split-adjusted amounts ranging from 1,250 to 125,000 shares.

B. In 2019, Spartan Obtains ALZN Shares, Warrants and Other Compensation Pursuant to an "Uplisting Agreement" and as the Placement Agent for ALZN's "Bridge Offering" to an Eventual IPO

24. Spartan acted as the placement agent for ALZN's private offering in 2019, which was intended as a "Bridge Offering" to support an anticipated IPO and listing on a major U.S. exchange.

25. On June 10, 2019, Spartan and ALZN entered into a placement agent agreement (2019 Placement Agent Agreement), under which Spartan agreed to serve as the exclusive agent to sell units priced at \$1.50 each, comprised of one share of ALZN common stock and one warrant to purchase 0.5 shares of common stock at \$3.00 per share exercisable over five years.

26. Under the 2019 Placement Agent Agreement, ALZN agreed to pay Spartan the following cash and stock compensation: a \$25,000 retainer fee; cash equal to ten percent of the gross proceeds of the 2019 private offering and an expense allowance equal to five percent of the gross proceeds (equaling \$363,023 in total cash); 500,000 shares of ALZN's common stock; 161,342 warrants (equal to ten percent of the units sold in the offering); and other potential compensation based on the fulfillment of certain conditions in the agreement.

27. Spartan raised \$2.42 million for ALZN in the Bridge Offering.

28. On June 10, 2019, contemporaneously with the Bridge Offering, Spartan and ALZN entered into an Uplisting Agreement, under which Spartan agreed to provide ALZN with consulting services “related to developing and implementing strategies to conduct an underwritten offering of common stock registered on Form S-1, with a view toward obtaining listing of the [ALZN’s] securities on the Nasdaq Capital Market or NYSE American.”

29. Under the Uplisting Agreement, ALZN agreed to pay Spartan \$475,000 and 500,000 shares of ALZN common stock, contingent upon the Bridge Offering raising at least \$1 million in gross proceeds.

30. ALZN made the payments of \$475,000 and 500,000 shares of ALZN common stock due under the Uplisting Agreement to Spartan in July 2019.

II. IN CONNECTION WITH ALZN’S JUNE 2021 IPO, SPARTAN, LOWRY AND MONCHIK DEVISE A SCHEME TO ALLOW THEMSELVES AND CERTAIN SPARTAN REPRESENTATIVES TO SELL RESTRICTED SHARES OF ALZN BEFORE THE FIRM’S CUSTOMERS

31. In June 2021, Spartan acted as the lead underwriter and sole book-running manager for an IPO of ALZN shares at \$5 per share.

32. The IPO was effective June 15, 2021 and raised \$14,375,000 in gross proceeds.

A. The ALZN Shares Issued in the 2017 and 2019 Private Offerings Were Restricted From Resale When ALZN Conducted the IPO

33. Prior to the IPO, there was no public market for ALZN stock.

34. At the time of the IPO, 125 Spartan customers held approximately 5.9 million ALZN shares purchased in the 2017 and 2019 private offerings.

35. At the time of the IPO, in addition to the shares owned individually by Spartan employees, Spartan owned over 5.3 million ALZN shares, over which Lowry had sole investment and voting power.

36. At the time of the IPO, the ALZN shares acquired by Spartan, its employees, and its customers through the 2017 and 2019 private placements or otherwise (collectively, the pre-IPO shares), were restricted securities not eligible for resale. Accordingly, those shares could not be publicly sold unless and until a registration statement had been filed or the sale of those shares qualified for a registration exemption under the Securities Act of 1933 (Securities Act) and the restrictions were removed by ALZN's transfer agent.

37. Section 4(a)(1) of the Securities Act provides an exemption from the registration requirements for "transactions by any person other than an issuer, underwriter, or dealer." Rule 144 of the Securities Act provides that the exemption in Section 4(a)(1) is available for sales by an affiliate of a public company subject to meeting, among other things, certain holding and volume limitation requirements.

38. Although Spartan, its employees, and its customers had satisfied the safe harbor requirements of Securities Act Rule 144 by ALZN's IPO date, the transfer agent had to remove the resale restrictions from the securities before the pre-IPO shares could be publicly resold into the secondary market.

39. Spartan's public-facing website at all relevant times included a section titled "Restricted Stock Services," which read:

Spartan Capital can handle your restricted stock services from start to finish. We will assist with the completion of all required documentation, legal counsel approval and physical clearance of your shares through the transfer agent. If you have stock certificates with restrictive legends, please contact your Financial Advisor to learn more about our restricted stock services.

40. Monchik supervised the firm's role in assisting customers to remove resale restrictions from privately acquired shares.

B. Before and During the IPO, Lowry and Monchik Arranged for Spartan and Certain Employees to Sell their ALZN Shares Prior to Removal of Resale Restrictions

41. On May 10, 2021, approximately five weeks before the ALZN IPO, Spartan filed a Form S-1 registration statement with the SEC announcing the proposed terms of ALZN's IPO.

42. On that day, Monchik emailed ALZN's then-transfer agent, Transfer Agent A, to inquire about the logistics of removing resale restrictions from pre-IPO shares.

43. On May 26, 2021, ALZN informed Monchik that ALZN intended to change transfer agents once the company went public and that resale restrictions could not be removed until after the IPO.

44. After ALZN announced its intentions to change transfer agents, Lowry and Monchik developed a plan for Spartan, themselves, and certain other firm employees to sell their ALZN shares once the company went public, prior to the removal of resale restrictions.

45. Lowry and Monchik effectuated this plan by availing themselves of an exception under Regulation SHO of the Securities Exchange Act of 1934 (Exchange Act), which governs short sales of securities, known as the "deemed owned" or "deemed to own" exception.

46. The "deemed owned" exception permits restricted shares to be sold short, prior to removal of resale restrictions, with an extended settlement date of T+35, giving the selling shareholder 35 days after the trade to complete the restriction removal process and deliver the shares.

47. Approximately two weeks before the IPO, Monchik began arranging for Spartan and its employees to sell their ALZN shares short pursuant to the "deemed owned" exception.

48. On June 1, 2021, Monchik notified Clearing Firm, Spartan's clearing firm, by email that Spartan "anticipate[s] some selling" of pre-IPO shares after the IPO, and that

unspecified shareholders “may want to sell short ‘deemed owned’, given the time that it may take to” remove resale restrictions on pre-IPO shares through the transfer agent. Monchik’s email requested that Clearing Firm “advise on the process.” On June 2, 2021, Clearing Firm responded to Monchik with a description of the mechanics for selling short under the “deemed owned” exception, including the paperwork that would be required to obtain the T+35 extension.

49. Prior to and contemporaneous with the IPO, some of Spartan’s customers informed their registered representatives at the firm that they wanted to sell their ALZN shares once the IPO became effective. Despite some customers’ expressed interest in liquidating their ALZN shares once the IPO became effective, Spartan never informed any customers about the option to sell their shares short, “deemed owned” prior to removing their resale restrictions. Instead, as alleged further below, Spartan informed its customers that they would need to undergo a lengthy process to remove their resale restrictions before selling their pre-IPO shares.

C. Spartan and Certain of its Employees Generated More than \$50 Million in Profits By Liquidating pre-IPO ALZN Shares Before the Firm’s Customers

50. On June 14, 2021, ALZN announced the pricing of its IPO of 2.5 million shares of common stock at \$5.00 per share. That same day, Monchik instructed Operations Manager to assemble documents required to process the removal of resale restrictions from ALZN shares. Operations Manager provided Monchik with one of those documents, the seller’s representation letter for the 5,050,000 shares held by the Spartan proprietary account, the same day.

51. ALZN began publicly trading on June 15, 2021 and raised \$14,375,000 through the IPO.

52. On the first day of trading, ALZN opened at a price of \$29.00 per share and reached as high as \$33.54 per share, before closing at \$13.50 per share.

53. As set forth on Exhibits A and B hereto, between June 15 and 16, 2021, Spartan’s proprietary account and accounts held by five Spartan employees—Monchik, Registered Rep A, Registered Rep B, Operations Manager, and Office Manager—sold their ALZN shares through the “deemed owned” process.

- a. On June 15, 2021, Spartan, Registered Rep A, Office Manager, and Registered Rep B collectively sold 194,423 ALZN shares at \$16.29 per share. These sales accounted for 3.79 percent of the total market volume in ALZN.
- b. On June 16, 2021, Spartan, Registered Rep A, and Monchik each sold 20,417 ALZN shares at \$10.86 per share, while Office Manager sold 31,250 shares at the same price and Operations Manager sold 19,000 at prices ranging from \$10 to \$11.41 per share. These sales accounted for 8.98 percent of the total market volume in ALZN.
- c. On June 17, 2021, Monchik sold 16,339 ALZN shares and Spartan and Registered Rep A sold 16,338 ALZN shares at \$10.70 per share, while Operations Manager sold 12,250 shares at prices ranging from \$10.11 to \$11.69 per share. These sales accounted for 11.57 percent of the total market volume in ALZN.

54. On June 17, 2021, Lowry and Monchik, in collaboration with ALZN, agreed to limit the daily liquidations by Spartan’s proprietary account, which held the largest portion of all pre-IPO shares owned by Spartan personnel, to maintain ALZN’s share price while they liquidated their stock. Spartan set forth the terms of this leak-out agreement in a side letter to ALZN dated June 17, 2021. In the leak-out agreement, which Lowry signed on Spartan’s behalf, Spartan agreed not to sell ALZN shares from its proprietary account in an amount representing

more than five percent of the composite trading volume on each trading day for the first 90 days following the IPO, except on days when the ALZN's common stock traded at 300 percent of the IPO price of \$5 per share.

55. In total, from June 15 through July 26, 2021, while Spartan customers were waiting to have their resale restrictions removed, Spartan and its employees liquidated more than 5.7 million ALZN shares, primarily through selling their shares short, "deemed-owned," which generated more than \$50 million in proceeds for Spartan and its employees, as set forth on Exhibit A hereto.

56. The number of shares liquidated by Spartan and its employees from June 15 through July 26, 2021, was roughly equivalent to the number of ALZN shares owned by Spartan customers who invested in the 2017 and 2019 offerings, collectively, and represented approximately eight percent of the approximately 70 million ALZN shares outstanding after the IPO.

57. By contrast, the first Spartan customer sold restricted ALZN shares, after having resale restrictions removed, on July 29, 2021, nearly six weeks after the firm and its employees began selling their shares.

58. All profits generated by the ALZN liquidations from Spartan's proprietary account flowed directly to Lowry, as the firm's owner.

D. Monchik Arranged for Spartan and its Employees to Receive Preferential Treatment in the Resale Restriction Removal Process, Which Further Delayed its Customers' Ability to Sell Their Pre-IPO Shares

59. In addition to arranging the ability to sell the shares short, Monchik arranged for Spartan and its employees to receive preferential treatment in the process for removing resale restrictions as the short sales took place.

60. Prior to the IPO, Spartan arranged for Law Firm A to provide legal opinion letters to ALZN pre-IPO shareholders, including Spartan and its employees. Law Firm A was recommended to Spartan by ALZN and served as issuer's counsel with respect to certain issues related to the offering. The legal opinion letter, which addressed whether the selling shareholder met the safe harbor requirements of Rule 144, was one of the documents required by the transfer agent to remove the resale restrictions from the pre-IPO shares.

61. On June 3, 2021, over a week before the IPO, Law Firm A informed Spartan that it was willing to provide an omnibus legal opinion one week after the IPO became effective to all pre-IPO shareholders who provided Law Firm A with seller's representation letters.

62. On June 8, 2021, at Registered Rep A's request, Law Firm A further agreed to issue a separate legal opinion to Spartan on an expedited basis one day after the closing of the IPO.

63. Instead of Law Firm A, however, Spartan engaged Law Firm B, which had served as outside counsel for Spartan in connection with the ALZN IPO and other matters, to provide a legal opinion letter for Spartan's shares on the first day of the IPO. As a result, on June 15, 2021, immediately after the close of trading on the IPO date, Monchik sent its clearing firm a set of restriction removal documents for the ALZN shares sold by the Spartan proprietary account that day, including copies of the relevant share certificates and a legal opinion from Law Firm B. Between June 17 and 21, 2021, Monchik submitted restriction removal paperwork to Spartan's clearing firm for herself, Registered Rep A, Office Manager, Operations Manager, and Registered Rep B, all of which included supporting legal opinions from Law Firm B.

64. Law Firm B ultimately provided separate legal opinions to Spartan, its employees, and the Spartan customers who sold their pre-IPO ALZN shares after the IPO.

65. In contrast to the treatment received by Spartan and its employees, Spartan's last-minute change of counsel delayed the removal of resale restrictions for its customers, as alleged further below.

66. After submitting paperwork to have the resale restrictions removed, Monchik repeatedly pressured ALZN and Transfer Agent B in July 2021 to expedite the removal of resale restrictions for the shares sold short by Spartan and certain of its employees.

67. As set forth on Exhibit A hereto, because Spartan's early request for removal of resale restrictions applied to all pre-IPO shares owned by Spartan and certain employees, rather than just those shares sold short, Spartan and Registered Rep A were able to lift the restrictions on all of their pre-IPO shares and liquidate millions of additional shares before July 26, 2021, when the first Spartan customers were able to sell unrestricted shares.

E. Spartan Misrepresented and Omitted Material Facts to Customers Regarding the Sale of Restricted ALZN Shares

68. Before and immediately after the IPO date, Lowry and Monchik were explicitly informed that Spartan customers wanted to remove their ALZN resale restrictions and sell their stock. For example:

- a. Customer A repeatedly spoke with Monchik and others prior to the IPO about his desire to sell his ALZN shares as soon as possible, and traveled to Spartan's offices in New York from his home in Florida to expedite, unsuccessfully, the process for lifting restrictions to sell his shares.
- b. On June 15, 2021, Registered Rep C, a Spartan registered representative, emailed Lowry, Monchik, and Operations Manager asking for copies of restriction removal paperwork for 18 customers who owned ALZN.

- c. On the same date, Registered Rep D, a Spartan sales director, emailed Operations Manager and Monchik asking Operations Manager to send restriction removal paperwork to six Spartan customers who owned ALZN shares.
- d. On the same date, Registered Rep E, a Spartan registered representative, emailed Operations Manager and Monchik asking Operations Manager to “lift the restriction for Alzamend” for three customer accounts.
- e. Two days later, Registered Rep F, a Spartan registered representative, sent Operations Manager and Monchik a list of 23 Spartan customers who were “ready to return the [ALZN restriction removal] paperwork as soon as we get it out.”

69. In the days immediately following the IPO, Spartan customers expressed frustration to the firm’s registered representatives about their inability to sell their ALZN shares. For example:

- a. On June 16, 2021, Customer B emailed the Spartan registered representative assigned to his account, Registered Rep C, stating, “WE STILL DON’T HAVE OUR PAPERS SO WE CAN SELL SOME OR ALL OF OUR ALZN STOCK,” and instructing him to “GET SOMEBODY MOVING.” On June 18, Customer B emailed again, stating “I STILL don’t have the simple forms to sign so I could sell the [ALZN] stock I own . . . [T]hat is Spartan Capital[’s] FAULT no one else . . . I WAS TOLD THAT WHEN I PURCHASED THE STOCK AND IPO OF ALZN WOULD BE OFFERED FOR TRADING THAT I COULD SELL MY STOCK RIGHT AWAY!”

- b. On June 16, 2021, Customer C emailed his Spartan registered representative stating that he was “a little irritated” because “[ALZN] could have put the removal process in place in advance of the IPO and clearly didn’t do so.” Customer C stated, “[w]e meet the requirements for safe harbor resales,” and [t]here is no good reason we should [not] be able to sell now.”
- c. On June 17, 2021, Customer D emailed his Spartan registered representative expressing “concern[] it may be a couple of weeks before I receive the 30k registered tradeable stock.” Customer D asked: “How do I protect myself against a fall in value. Can I sell now with delayed settlement.”
- d. On June 22, 2021, Customer E sent an email to his registered representative expressing his frustration with the delays and his suspicions that Spartan was liquidating its own shares:

“As you know, I have reached out to you numerous times over the last year or two attempting to get your attention to make sure we had whatever paperwork complete in case this start-up progressed to an IPO. . . . At today’s prices versus the opening day, I have missed on a significant opportunity. . . . It seems that the Placement Agent and maybe others were able to register, but I was not. . . . I would like someone to walk me through how this is equitable without any conflicts of interest in this process assuming Spartan Capital is the placement agent. . . .”

70. After the close of trading on June 23, 2021, eight days after the IPO date, Spartan, through Monchik, sent its first communication to customers about the process for removing resale restrictions from their pre-IPO ALZN shares, in an email (June 23, 2021 Notification Email) that stated:

You are advised as a result of this offering, the shares of [ALZN] that you purchased in either 2017 or 2019 (or both) . . . are now eligible for public sale under Rule 144.

Should you wish to sell your Alzamend shares, because your share certificates currently contain a restrictive legend and because they were not registered at the time of purchase, there are steps you need to take in order to remove the restrictive legend and sell your shares. Please contact your Spartan representative for assistance with this process. Although Spartan cannot itself remove the legend, we can provide assistance and work with the company, its transfer agent, and company counsel to facilitate this process. There are steps you need to take in order to remove the restrictive legend and sell your shares, including the preparation and delivery of a seller representation letter confirming your eligibility to sell.

71. Spartan failed to disclose to its customers in this email, or at any other time, the option to sell pre-IPO shares short, “deemed owned” immediately after the IPO or that Spartan and its employees were availing themselves of this process to reap tens of millions in profits in the days and weeks following the IPO.

72. Monchik participated, with outside counsel, in drafting the June 23, 2021 email. Monchik provided an advance copy of the June 23, 2021 email to Lowry and then caused it to be sent to Spartan’s customers who owned pre-IPO shares.

73. On June 25, 2021, Spartan sent a form email, drafted by Monchik, to Spartan customers who owned pre-IPO ALZN shares, which enclosed the seller’s representation letter for each customer to complete, along with restriction removal documents and instructions on how to remit payment for the required legal opinion. The email stated that Spartan “cannot itself remove the legend or control the process and has been advised that this can take between 2 to 4 weeks for completion.”

74. After Spartan received the required documentation back from each customer who owned restricted ALZN shares, Spartan transmitted the documents to Law Firm B for a legal opinion, and after the legal opinion was issued, Law Firm B or Spartan sent the documents to ALZN, which then sent them to ALZN’s transfer agent for processing.

75. Spartan’s customers, however, experienced delays in processing their restriction removal paperwork. For instance, Spartan’s decision to recommend its own outside lawyers, Law Firm B, rather than the ALZN-recommended lawyers, Law Firm A, to prepare the legal opinions delayed the restriction removal process for Spartan customers because, among other things, Law Firm B was not on Transfer Agent B’s list of approved counsel.

F. Spartan’s Customers Sold Their Shares at Substantially Lower Prices as a Result of the Delay in Removing Their Resale Restrictions

76. Because Spartan customers were required to undergo the restriction removal process before selling their ALZN shares, the earliest date on which any Spartan customer sold pre-IPO ALZN shares was July 29, 2021, approximately six weeks after the IPO.

77. By July 29, 2021, Spartan and its employees who used the “deemed owned” process had liquidated approximately 5.7 million pre-IPO ALZN shares, generating over \$50 million in proceeds.

78. ALZN’s share price declined precipitously after the Spartan accounts had liquidated their shares. On July 29, 2021, the date of the first Spartan customer sale, ALZN’s share price ranged from \$4.60 to \$5.24, a significant decline from the range at which Spartan-affiliated accounts (\$8.33 to \$16.29) sold in June 2021.

79. From July 29 to August 31, 2021, Spartan customers sold their pre-IPO ALZN shares at prices ranging from \$2.76 to \$5.00 per share. Thus, Spartan’s customers lost a significant opportunity for profit compared to Spartan and its employees who sold short.

III. IN CONNECTION WITH THE ALZAMEND IPO, SPARTAN FAILED TO DISCLOSE ALL UNDERWRITING COMPENSATION

A. FINRA's Corporate Financing Department Reviews the Reasonableness of Underwriting Terms and Arrangements, Including Compensation, for Offerings by FINRA Member Firms

80. FINRA Rule 5110, also known as the Corporate Financing Rule, regulates the terms and arrangements associated with the public offering of securities and, among other things, requires a member firm that participates in a public offering to file documents and information with FINRA disclosing the underwriting terms and arrangements.

81. FINRA's Corporate Financing Department reviews this information prior to the commencement of sales to determine whether the underwriting compensation and other terms and arrangements meet the requirements of the applicable FINRA rules. A member may proceed with a public offering only if FINRA has provided an opinion that it has no objection to the proposed underwriting terms and arrangements.

82. To allow FINRA's Corporate Financing Department to determine whether the underwriting terms and arrangements are fair and reasonable, Rule 5110 requires that members file with FINRA documents and other information related to public offerings, including registration statements or offering circulars and their exhibits and amendments.

83. Rule 5110 requires members to disclose and provide documentation to FINRA related to all "underwriting compensation" as defined under the Rule.

84. Pursuant to FINRA Rule 5110(j)(22), the term "underwriting compensation" is defined broadly and includes:

any payment, right, interest, or benefit received or to be received by a participating member from any source for underwriting, allocation, distribution, advisory and other investment banking services in connection with a public offering. In addition, underwriting compensation shall include finder's fees, underwriter's counsel fees, and securities.

85. FINRA provides a Public Offering System to facilitate the filing of documents required under Rule 5110 with FINRA's Corporate Financing Department.

B. Spartan Failed to Include, and Thereby Failed to Disclose, All Underwriting Compensation to FINRA's Corporate Financing Department

86. Between April 21, 2021, and June 11, 2021, Spartan made filings with FINRA's Corporate Financing Department related to the ALZN IPO, which included a draft registration statement for ALZN.

87. Based upon Spartan's estimate in early June 2021 that the IPO would generate \$12.5 million in offering proceeds, FINRA's Corporate Financing Department determined that Spartan's proposed compensation of \$1.6 million was reasonable.

88. On June 8, 2021, Spartan proposed compensation of \$1.6 million, which was composed of the following items:

- a. \$875,000 underwriter's discount;
- b. \$300,000 in counsel fees and expenses;
- c. \$125,000 in non-accountable expenses;
- d. \$175,000 in securities; and
- e. a right of first refusal valued at \$125,000.

89. Based upon the information provided by Spartan, FINRA issued a "no objections" letter to Spartan on June 11, 2021, for the ALZN IPO.

90. Concurrently, FINRA staff notified the SEC that it had concluded its review of the underwriting terms and arrangements, based upon its review of the information submitted to FINRA.

91. The Department's No Objections opinion was required under SEC Rule 461 in connection with a request for acceleration that Spartan filed with the SEC on June 10, 2021.

92. As alleged above, in 2019 Spartan was paid \$475,000 and 500,000 shares of ALZN common stock pursuant to the Uplisting Agreement.

93. The \$475,000 and 500,000 shares of ALZN common stock paid to Spartan pursuant to the Uplisting Agreement were underwriting compensation that should have been, but were not, included in Spartan's disclosure of underwriting compensation to FINRA through the Public Offering System and in certain public filings.

94. None of Spartan's filings with FINRA's Corporate Financing Department, including the draft registration statement, prospectus and other attachments to its filings, disclosed that Spartan received IPO underwriting compensation in connection with the Uplisting Agreement.

95. If Spartan had disclosed the \$475,000 and 500,000 shares of ALZN common stock that it was paid under the Uplisting Agreement, Spartan's total underwriting compensation would have been \$4,261,250, or approximately 34 percent of the maximum anticipated IPO proceeds of \$12.5 million.

96. This disclosure failure deprived Corporate Financing of the opportunity to assess the reasonableness of the compensation.

C. Spartan Had No Written Supervisory Procedures or System for Complying with FINRA Rule 5110

97. Spartan had written supervisory procedures (WSPs) that addressed "participating in corporate securities underwritings."

98. At the time of the ALZN IPO, the firm had no WSPs or system addressing compliance with FINRA Rule 5110.

99. At the time of the ALZN IPO, the firm had no WSPs or system for addressing identification and reporting of disclosable underwriting compensation in connection with participation in a public offering.

IV. THE FIRM FAILED TO SUPERVISE THE CONFLICTS OF INTEREST INHERENT IN THE FIRM’S SCHEME TO LIQUIDATE THE PRE-IPO ALZN SHARES OWNED BY THE FIRM AND ITS EMPLOYEES BEFORE ITS CUSTOMERS

100. During the relevant period, the firm’s WSPs generally recognized the potential for conflicts of interest to arise when the firm’s business was supervised by an employee with a personal interest in a particular transaction. For example:

- a. Section 1.9.2 of the WSPs, which addresses instances where Spartan registered representatives seek to trade a security in their personal accounts that is also held in a customer’s account, provides “[t]he customer’s interest has precedence over any employee’s personal interest.”
- b. Section 19.7.8 of the WSPs prohibited the firm from participating in a public offering when a conflict existed unless the nature of the conflict was “prominently disclosed” and other conditions were met.

101. The post-IPO trading of ALZN shares by Spartan employees and the firm’s interactions with Spartan customers regarding the sale of their pre-IPO ALZN shares were supervised or implemented by Spartan employees who personally owned pre-IPO ALZN shares. This arrangement posed obvious conflicts of interest in determining whether to offer customers the option of selling their shares short, “deemed owned,” or to disclose to customers that Spartan and its representatives were availing themselves of the “deemed owned” process.

102. The key decisions about the liquidation of ALZN shares by Spartan employees, including which employees were allowed to sell and whether such sales should be limited, were

made by Lowry and Monchik, who collectively owned, directly or indirectly, millions of pre-IPO ALZN shares.

103. Monchik also oversaw the process for removing resale restrictions for Spartan customers and communications with customers on this topic, which included fielding questions from Spartan representatives and contacting the issuer, the transfer agent, and the law firm that provided the customers' legal opinions.

104. Operations Manager, who owned 31,250 pre-IPO ALZN shares, was responsible for preparing and gathering for each customer the paperwork needed to remove their resale restrictions.

105. Office Manager, who owned 62,500 pre-IPO ALZN shares, was responsible for liquidating the Spartan employees' ALZN shares after the IPO.

106. The firm had no system, and imposed no procedures, to mitigate conflicts of interest in the firm's interactions with customers regarding sales of ALZN shares, including in determining whether to offer customers the option of selling their shares short, "deemed owned," or to disclose to customers that Spartan and its representatives were doing so.

FIRST CAUSE OF ACTION
Scheme to Defraud
(Violation of Section 10(b) of the Securities Exchange Act of 1934
and Rules 10b-5(a) and (c), thereunder; FINRA Rule 2010 by contravening
Section 17(a)(3) of the Securities Act of 1933; and FINRA Rules 2020 and 2010
by Spartan, Lowry, and Monchik)

107. The Department of Enforcement realleges and incorporates by reference all preceding paragraphs.

108. Exchange Act §10(b) provides:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails, or of any facility of any national securities exchange . . .

b. To use or employ, in connection with the purchase or sale of any security . . . , any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.

109. Exchange Act Rule 10b-5 provides:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

a. To employ any device, scheme, or artifice to defraud, [or]

. . .

c. To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person,

in connection with the purchase or sale of any security.

110. Securities Act §17(a) provides:

It shall be 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 the use of the mails . . .

(3) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.

111. FINRA Rule 2020 provides that “[n]o member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.”

112. A violation of Securities Act Section 17(a), Securities Exchange Act Section 10(b), the Exchange Act’s anti-fraud rules or FINRA Rule 2020 also violates FINRA Rule 2010, which requires associated persons, in the conduct of their business, to observe “high standards of commercial honor and just and equitable principles of trade.”

113. Spartan, Lowry, and Monchik engaged in a scheme to defraud Spartan customers by failing to disclose, and materially misleading customers regarding, the customers’ ability to

resell restricted ALZN shares that Spartan sold to the customers in the 2017 and 2019 private placements.

114. Spartan, Lowry, and Monchik engaged in the scheme to delay their customers' ability to resell their restricted ALZN shares so that Spartan and selected employees could liquidate their similarly restricted ALZN shares soon after the IPO commenced using the "deemed owned" exception.

115. Spartan, Lowry, and Monchik knew, or were reckless in not knowing, that the firm's customers would seek to sell their pre-IPO ALZN shares as soon as possible after ALZN's IPO commenced because Spartan sold those shares to the customers in private placements at a substantial discount to the anticipated IPO price.

116. Having undertaken to assist customers with, and provide information regarding, the restriction removal process, Spartan and Monchik had a duty to speak truthfully to, and not to mislead, customers regarding sales of their restricted shares. Nevertheless, although the IPO commenced on June 15, 2021, Spartan, through Monchik, first advised customers about the process for removing resale restrictions from their pre-IPO ALZN shares in the June 23, 2021 Notification Email.

117. Monchik participated in the preparation of the email and acknowledged to Lowry the problematic nature of their scheme to sell ALZN short well before Spartan customers were able to sell their shares without disclosing this to them. Monchik also shared the June 23 Notification Email with Lowry the day before Spartan, through Monchik, sent it to customers.

118. The June 23, 2021 Notification Email omitted the following material facts that rendered this communication materially misleading (collectively, the Material Omissions):

- a. Spartan customers could sell their pre-IPO shares short prior to having the resale restrictions removed by taking advantage of the “deemed owned” process; and
- b. Spartan and its employees were availing themselves of the sold short “deemed owned” process and thereby selling shares for millions of dollars in profits in the days and weeks following the IPO.

119. These omissions were material because Spartan customers who held pre-IPO shares, many of whom expressed a desire to sell their shares, could reasonably have sought to avail themselves of the “deemed owned” exception on the same basis as Spartan and its employees and during the period when Spartan and its employees did so.

120. Spartan, Lowry, and Monchik deliberately omitted, or were reckless in not disclosing, the Material Omissions, which were designed to keep Spartan customers unaware of the Respondents’ selling activities, thereby allowing the Respondents to ensure their sales occurred at the highest possible prices.

121. Spartan, Lowry, and Monchik furthered their scheme by unduly delaying the removal of restrictions from customer shares while expediting the removal of restrictions from shares held by Spartan and select employees as follows:

- a. Ahead of the IPO, Law Firm A, recommended by ALZN, committed to provide an omnibus Rule 144 opinion letter in support of removing all customers’ restrictions within a week of the IPO, which would have substantially expedited the customers’ restriction removal process. Instead, Spartan engaged its own outside lawyers, Law Firm B, which allowed Spartan, through Monchik, to direct Law Firm B to expedite issuing legal

opinions for Spartan and certain Spartan employees, while Law Firm B adopted a slower and more cumbersome process, without the issuance of omnibus opinion letters, with respect to Spartan customers.

- b. Monchik arranged for restriction removal paperwork to be prepared on or before the IPO date for the Spartan accounts that sold short, and at Monchik's behest, ALZN intervened to expedite the transfer agent's processing of the restriction removal paperwork for the Spartan proprietary account.
- c. Spartan's ALZN shares were made eligible for resale within fifteen days after the necessary documents were completed, whereas Spartan customers typically waited at least 30 days for their resale restrictions to be removed after they submitted their paperwork.

122. The Respondents' scheme generated over \$50 million in proceeds over six weeks, while Spartan's customers were unable to liquidate their pre-IPO shares. By the time Spartan's customers were able to sell their shares, ALZN's share price had plummeted, and the customers suffered substantial lost opportunities for profit.

123. Respondents' failure to disclose material facts regarding the customers' ability to timely liquidate their pre-IPO shares was in connection with the purchase or sale of securities on a national exchange.

124. As a result of the foregoing conduct, Respondents Spartan, Lowry, and Monchik willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rules 10b-5(a) and 10b-5(c) thereunder; violated FINRA Rule 2010 by contravening Section 17(a)(3) of the Securities Act of 1933; and violated FINRA Rules 2020 and 2010.

SECOND CAUSE OF ACTION
Fraudulent Omissions
(Violation of Section 10(b) of the Securities Exchange Act of 1934
and Rule 10b-5(b), thereunder; FINRA Rule 2010 by contravening
Section 17(a)(2) of the Securities Act of 1933; and FINRA Rules 2020 and 2010
by Spartan and Monchik)

125. The Department of Enforcement realleges and incorporates by reference all preceding paragraphs.

126. Exchange Act §10(b) provides:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails, or of any facility of any national securities exchange . . .

b. To use or employ, in connection with the purchase or sale of any security . . . , any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.

127. Exchange Act Rule 10b-5 provides

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

. . .

b. To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading . . .

in connection with the purchase or sale of any security.

128. Securities Act §17(a) provides:

It shall be 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 the use of the mails . . .

(2) to obtain 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.

129. Spartan, through Monchik, made the Material Omissions to Spartan customers that owned pre-IPO shares.

130. Spartan and Monchik knew, or were reckless in not knowing, that the firm's customers would seek to sell their pre-IPO ALZN shares as soon as possible after ALZN's IPO commenced.

131. Having undertaken to assist customers with, and provide information regarding, the restriction removal process, Spartan and Monchik had a duty to speak truthfully to, and not to mislead, customers regarding sales of their restricted shares. Nevertheless, although the IPO commenced on June 15, 2021, Spartan, through Monchik, first advised customers about the process for removing resale restrictions from their pre-IPO ALZN shares in the June 23, 2021 Notification Email.

132. Monchik participated in the preparation of the email and acknowledged to Lowry the problematic nature of respondents selling ALZN short well before Spartan customers were able to sell their shares without disclosing this to them. Monchik also shared the June 23 Notification Email with Lowry the day before Spartan, through Monchik, sent it to customers.

133. Spartan and Monchik deliberately omitted, or were reckless in not disclosing, the Material Omissions, which were designed to keep Spartan customers unaware that the Respondents were selling ALZN shares and using the deemed owned process.

134. The Material Omissions were made in connection with the purchase or sale of securities on a national exchange.

135. As a result of the foregoing conduct, Respondents Spartan and Monchik willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5(b) thereunder;

violated FINRA Rule 2010 by virtue of violating Section 17(a)(2) of the Securities Act of 1933; and violated FINRA Rules 2020 and 2010.

THIRD CAUSE OF ACTION
Unfair and Unreasonable Underwriting Compensation
(Violation of FINRA Rules 5110 and 2010 by Spartan)

136. The Department of Enforcement realleges and incorporates by reference all preceding paragraphs.

137. FINRA Rule 5110(a)(1)(A), titled “Requirements for Public Offerings,” prohibits FINRA member firms from participating in public offerings in which the underwriting terms and conditions, including underwriting compensation, are unfair or unreasonable.

138. Pursuant to FINRA Rule 5110(j)(22), the term “underwriting compensation” is defined broadly and includes:

any payment, right, interest, or benefit received or to be received by a participating member from any source for underwriting, allocation, distribution, advisory and other investment banking services in connection with a public offering. In addition, underwriting compensation shall include finder’s fees, underwriter’s counsel fees, and securities.

139. Supplementary Material to FINRA Rule 5110, at FINRA Rule 5110.01(a)(6)–(7), states that “financial consulting and advisory fees,” as well as the receipt of securities, are considered underwriting compensation for purposes of FINRA Rule 5110.

140. In 2019, Spartan received \$475,000 and 500,000 shares of ALZN common stock as compensation pursuant to the Uplisting Agreement, which expressly covered Spartan’s consulting services related to an anticipated IPO.

141. The \$475,000 and 500,000 shares of ALZN common stock that Spartan received pursuant to the Uplisting Agreement were underwriting compensation under FINRA Rule 5110(j)(22).

142. In connection with the ALZN IPO, Spartan filed documents and information regarding underwriting compensation in support of its request for a “no objections” opinion from FINRA pursuant to FINRA Rule 5110(a)(1)(C)(ii).

143. Pursuant to FINRA Rule 5110(j)(20)(A), for firm commitment underwritings, such as the ALZN IPO, FINRA’s review period is generally 180 days preceding the required filing date through the 60-day period following the effective date of the offering. However, as FINRA clarified during the adoption of amendments to FINRA Rule 5110, “if there is an arrangement . . . to pay compensation related to the underwriting outside of the review period, the payment must be included [as underwriting compensation] under Rule 5110” (Exchange Act Release No. 34-85715).

144. In connection with its review of the underwriting terms and conditions, including underwriting compensation, of the ALZN IPO, and of Spartan’s request for a “no objections” opinion, FINRA’s Corporate Financing Department initially determined that Spartan’s proposed total underwriting compensation of \$1.6 million was reasonable.

145. Spartan’s request for a “no objections” opinion from FINRA did not include the \$475,000 or 500,000 shares of ALZN common stock in connection with the Uplisting Agreement.

146. Spartan’s underwriting compensation, including the \$475,000 and 500,000 shares of ALZN common stock in connection with the Uplisting Agreement, totaling \$4,261,250, or approximately 34 percent of maximum IPO proceeds, was unfair and unreasonable.

147. Spartan’s participation in the ALZN IPO, in which the underwriting terms and conditions, including underwriting compensation, were unfair or unreasonable, violated FINRA Rule 5110(a)(1)(A).

148. A violation of FINRA Rule 5110 also violates FINRA Rule 2010.

149. As a result of the foregoing conduct, Spartan violated FINRA Rules 5110(a)(1)(A) and 2010.

FOURTH CAUSE OF ACTION
Failure to Disclose Underwriting Compensation
(Violation of FINRA Rules 5110 and 2010 by Spartan)

150. The Department of Enforcement realleges and incorporates by reference all preceding paragraphs.

151. FINRA Rule 5110(a)(1)(C) provides:

(C) No member may engage in the distribution or sale of securities in any public offering required to be filed by this Rule . . . unless:

(i) documents and information specified in paragraph (a)(4) have been filed with FINRA; and

(ii) FINRA has provided an opinion that it has no objection to the proposed underwriting terms and arrangements.

152. FINRA Rule 5110(a)(4), in turn, titled “Documents and Information Required to be Filed,” identifies the documents and information that must be filed:

(A) The following documents required to be filed under paragraph (a) must be filed in FINRA's Public Offering System for review . . .:

(i) the registration statement, offering circular, offering memorandum, notification of filing, notice of intention, application for conversion, and any other document used to offer securities to the public;

(ii) all documents relevant to the underwriting terms and arrangements, including any proposed underwriting agreement, agreement among underwriters, selected dealer's agreement, agency agreement, purchase agreement, letter of intent, engagement letter, consulting agreement . . .;

(B) Any member filing documents with FINRA pursuant to paragraph (a)(4)(A) must file the following information with respect to the offering in FINRA's Public Offering System:

(i) an estimate of the maximum public offering price;

(ii) an estimate of the maximum value for each item of underwriting compensation; . . . [and]

(iv) a description of any securities of the issuer acquired and beneficially owned by any participating member during the review period

153. Rule 5110(b)(1), titled “Disclosure Requirements for Underwriting Compensation,” further requires that “[a] description of each item of underwriting compensation received or to be received by a participating member must be disclosed in the section on distribution arrangements in the prospectus or similar document.”

154. In connection with the ALZN IPO, Spartan filed documents and information regarding underwriting compensation in support of its request for a “no objections” opinion from FINRA pursuant to FINRA Rule 5110(a)(1)(C)(ii).

155. Between April 21 and June 11, 2021, Spartan filed documents and information related to the ALZN IPO with FINRA through FINRA’s Public Offering System, including a proposed registration statement, prospectus, and documents relevant to the disclosed underwriting terms and arrangements.

156. Spartan did not disclose, in any of the documents or other information it filed with FINRA, the \$475,000 and 500,000 shares of ALZN common stock that Spartan received pursuant to the Uplisting Agreement as underwriting compensation.

157. By participating in sales of securities in the ALZN IPO without disclosing those items of underwriting compensation, Spartan violated FINRA Rule 5110(a)(1)(C).

158. Spartan’s failure to file documents and information disclosing the underwriting compensation that it received pursuant to the Uplisting Agreement violated FINRA Rules 5110(a)(4) and 5110(b)(1).

159. A violation of FINRA Rule 5110 also violates FINRA Rule 2010.

160. As a result of the foregoing conduct, Spartan violated FINRA Rules 5110(a)(1)(C), 5110(a)(4), 5110(b)(1) and 2010.

FIFTH CAUSE OF ACTION
Failure to Establish and Maintain a Supervisory System and Procedures
Regarding Compliance with Antifraud Rules and FINRA Rule 5110
(Violation of FINRA Rules 3110(a) and (b) by Spartan)

161. The Department of Enforcement realleges and incorporates by reference all preceding paragraphs.

162. FINRA Rule 3110(a) requires member firms to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA Rules.

163. FINRA Rule 3110(b) requires member firms to establish, maintain, and enforce written procedures to supervise the types of business in which it engages that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA Rules.

164. During the period May 2021 through July 2021, Spartan failed to establish and maintain a reasonable supervisory system and written supervisory procedures to address the conflicts of interest posed by Spartan, the firm's principals, and its employees who owned pre-IPO shares of ALZN. The Respondents' ownership of ALZN shares created a conflict of interest in that they were incentivized to liquidate their shares prior to customers, whose sales could drive down share prices.

165. Lowry and Monchik made the critical decisions regarding whether it was permissible for Spartan employees to sell their pre-IPO ALZN shares using the "deemed owned" process, without disclosing this to Spartan customers.

166. Monchik also served as the primary point of contact for Spartan’s registered representatives regarding the mechanics of removing resale restrictions for Spartan customers and interfaced with ALZN, the transfer agent, and lawyers on behalf of customers.

167. Because Lowry and Monchik collectively owned millions of pre-IPO ALZN shares, they had an interest in using the “deemed owned” process to sell their positions quickly, while favorable prices prevailed, and preventing customers from engaging in widespread selling that could have adversely impacted ALZN’s share price.

168. Other Spartan employees who owned pre-IPO shares participated in the restriction removal process or arranged sales of ALZN shares by the firm and its employees:

- a. Operations Manager, who sold short 31,250 his own pre-IPO ALZN shares using the “deemed owned exception,” was responsible for preparing and gathering for each customer the paperwork needed to remove their resale restrictions.
- b. Office Manager, who sold short his own 62,500 pre-IPO ALZN shares using the “deemed owned” exception, was responsible for liquidating the Spartan employees’ ALZN shares after the IPO.

169. Notwithstanding these conflicts of interest, the firm lacked any systems or procedures, including WSPs, to address these types of conflicts and instead allowed Lowry, Monchik, and certain other employees to use their positions at the firm to benefit themselves to the detriment of the firm’s customers.

170. Additionally, during the period of May 2021 through June 2021, Spartan failed to establish and maintain reasonable supervisory systems and procedures, including WSPs, for ensuring compliance with FINRA Rule 5110.

171. The firm had no supervisory system or written supervisory procedures addressing FINRA Rule 5110 or any of its requirements, including the requirement to disclose compensation it received for underwriting services and make required filings with FINRA.

172. A violation of FINRA Rule 3110(a) or (b) also violates FINRA Rule 2010.

173. As a result of the foregoing conduct, Spartan violated FINRA Rules 3110(a), 3110(b) and 2010.

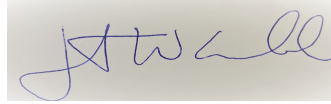
RELIEF REQUESTED

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), including monetary sanctions, be imposed;
- C. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondent[s] be required to disgorge fully any and all ill-gotten gains;
- D. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330;
- E. make specific findings that Respondents Spartan, Lowry and Monchik willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

FINRA DEPARTMENT OF ENFORCEMENT

Date: March 17, 2026



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**EXHIBIT A: SUMMARY OF SALES OF PRE-IPO ALZN SHARES OWNED BY
SPARTAN OR ITS EMPLOYEES FROM JUNE 16, 2021 THROUGH JULY 26, 2021**

Date Range	Spartan Selling Shareholders	Share Price Range	Number of Shares Sold	Gross Amount
June 15–29, 2021 ¹	Spartan (J. Lowry)	\$8.33–\$16.29	648,362	\$7,064,389.30
	Monchik	\$8.33–\$10.86	368,750	\$3,680,446.46
June 15–30, 2021 ²	Registered Rep A	\$8.33–\$16.29	1,140,138	\$12,657,162.70
	Office Manager	\$10.86–\$16.29	62,500	\$848,550.01
	Operations Manager	\$10.00–\$11.41	31,250	\$330,684.86
	Registered Rep B	\$16.29	12,500	\$203,643.75
July 1–9, 2021 ³	Registered Rep A	\$6.35–\$7.09	87,055	\$564,589.90
June 30, 2021 to July 26, 2021 ⁴	Spartan (J. Lowry)	\$6.13–\$11.37	1,982,012	\$15,626,968.30
July 10–26, 2021 ⁵	Registered Rep A	\$6.13– \$7.08	1,403,181	\$9,469,621.69
Total (June 15, 2021 to July 26, 2021)	Spartan (J. Lowry)	\$6.13–\$16.29	2,630,374	\$22,691,357.60
	Registered Rep A	\$6.13– \$16.29	2,630,374	\$22,691,374.29
	Monchik	\$8.33–\$10.86	368,750	\$3,680,446.46
	Office Manager	\$10.86–\$16.29	62,500	\$848,550.01
	Operations Manager	\$10.00–\$11.70	31,250	\$330,604.86
	Registered Rep B	\$16.29	12,500	\$203,643.75
		Totals	5,735,748	\$50,445,976.97

¹ All deemed owned sales.

² All deemed owned sales.

³ All deemed owned sales.

⁴ Post-restriction removal.

⁵ Post-restriction removal.

**EXHIBIT B: ALL SALES OF PRE-IPO SHARES OWNED BY SPARTAN
OR ITS EMPLOYEES FROM JUNE 2021 THROUGH SEPTEMBER 2021**

Trade Date	Account	Price	Quantity	Gross Amount
June 15, 2021	Registered Rep B	\$16.2915	12,500	\$203,643.75
June 15, 2021	Office Manager	\$16.2915	31,250	\$509,109.38
June 15, 2021	Spartan Capital	\$16.2915	75,336	\$1,227,336.44
June 15, 2021	Registered Rep A	\$16.2915	75,337	\$1,227,352.74
			194,423	\$3,167,442.31
June 16, 2021	Office Manager	\$10.8621	31,250	\$339,440.63
June 16, 2021	Operations Manager	\$10.50	1,000	\$10,500.00
June 16, 2021	Operations Manager	\$10.50	1,000	\$10,500.00
June 16, 2021	Operations Manager	\$10.0325	1,500	\$15,048.75
June 16, 2021	Operations Manager	\$10.0473	1,000	\$10,047.32
June 16, 2021	Operations Manager	\$10.0233	1,000	\$10,023.30
June 16, 2021	Operations Manager	\$10.02	1,500	\$15,030.00
June 16, 2021	Operations Manager	\$10	500	\$5,000.00
June 16, 2021	Operations Manager	\$10.02	1,000	\$10,020.00
June 16, 2021	Operations Manager	\$10.112	1,000	\$10,112.00
June 16, 2021	Operations Manager	\$10.6007	2,000	\$21,201.46
June 16, 2021	Operations Manager	\$11	2,000	\$22,000.00
June 16, 2021	Operations Manager	\$11.0506	1,000	\$11,050.60
June 16, 2021	Operations Manager	\$10.7056	1,000	\$10,705.60
June 16, 2021	Operations Manager	\$11.41	1,000	\$11,410.00
June 16, 2021	Operations Manager	\$10.9108	2,500	\$27,277.00
June 16, 2021	Monchik	\$10.8621	20,417	\$221,771.50
June 16, 2021	Spartan Capital	\$10.8621	20,417	\$221,771.50
June 16, 2021	Registered Rep A	\$10.8621	20,417	\$221,771.50
			111,501	\$1,204,681.16
June 17, 2021	Operations Manager	\$11.5101	1,000	\$11,510.12
June 17, 2021	Operations Manager	\$11.3366	2,000	\$22,673.25
June 17, 2021	Operations Manager	\$11.6997	378	\$4,422.48
June 17, 2021	Operations Manager	\$11.25	1,000	\$11,250.03
June 17, 2021	Operations Manager	\$10.1063	2,000	\$20,212.58
June 17, 2021	Operations Manager	\$10.011	1,000	\$10,011.01
June 17, 2021	Operations Manager	\$10.155	1,500	\$15,232.54
June 17, 2021	Operations Manager	\$10.0902	372	\$3,753.56
June 17, 2021	Operations Manager	\$10.0811	2,000	\$20,162.26
June 17, 2021	Monchik	\$10.7005	16,339	\$174,835.47
June 17, 2021	Spartan Capital	\$10.7005	16,338	\$174,824.77
June 17, 2021	Registered Rep A	\$10.7005	16,338	\$174,824.77
June 17, 2021	Operations Manager	\$11.451	1,000	\$11,451.00
			61,265	\$655,163.84
June 22, 2021	Monchik	\$8.3293	14,000	\$116,610.20
June 22, 2021	Monchik	\$9.1165	1,725	\$15,725.96
June 22, 2021	Spartan Capital	\$8.3293	14,000	\$116,610.20
June 22, 2021	Spartan Capital	\$9.1165	1,725	\$15,725.96

Trade Date	Account	Price	Quantity	Gross Amount
June 22, 2021	Registered Rep A	\$8.3293	14,000	\$116,610.20
June 22, 2021	Registered Rep A	\$9.1165	1,725	\$15,725.96
			47,175	\$397,008.48
June 23, 2021	Monchik	\$8.9286	30,435	\$271,741.94
June 23, 2021	Spartan Capital	\$8.9286	30,434	\$271,733.01
June 23, 2021	Registered Rep A	\$8.9286	30,435	\$271,741.94
			91,304	\$815,216.89
June 24, 2021	Monchik	\$8.6567	5,734	\$49,637.52
June 24, 2021	Spartan Capital	\$8.6567	5,733	\$49,628.86
June 24, 2021	Registered Rep A	\$8.6567	5,733	\$49,628.86
			17,200	\$148,895.24
June 28, 2021	Monchik	\$8.88645	50,743	\$450,925.13
June 28, 2021	Monchik	\$10.2721	147,938	\$1,519,633.93
June 28, 2021	Spartan Capital	\$8.88645	50,743	\$450,925.13
June 28, 2021	Spartan Capital	\$10.2721	147,938	\$1,519,633.93
June 28, 2021	Registered Rep A	\$8.88645	50,743	\$450,925.13
June 28, 2021	Registered Rep A	\$10.2721	147,938	\$1,519,633.93
			596,043	\$5,911,677.18
June 29, 2021	Monchik	\$10.5573	81,419	\$859,564.81
June 29, 2021	Spartan Capital	\$10.5573	285,698	\$3,016,199.50
June 29, 2021	Registered Rep A	\$10.5573	285,699	\$3,016,210.05
			652,816	\$6,891,974.36
June 30, 2021	Spartan Capital	\$11.3726	491,773	\$5,592,737.62
June 30, 2021	Registered Rep A	\$11.3726	491,773	\$5,592,737.62
			983,546	\$11,185,475.24
July 6, 2021	Spartan Capital	\$7.0856	16,236	\$115,041.80
July 6, 2021	Spartan Capital	\$7.0857	14	\$99.20
July 6, 2021	Registered Rep A	\$7.0856	16,236	\$115,041.80
July 6, 2021	Registered Rep A	\$7.0857	14	\$99.20
			32,500	\$230,282.00
July 9, 2021	Spartan Capital	\$6.3477	70,806	\$449,455.25
July 9, 2021	Registered Rep A	\$6.3477	70,805	\$449,448.90
			141,611	\$898,904.15
July 12, 2021	Spartan Capital	\$6.1698	101,450	\$625,926.21
July 12, 2021	Registered Rep A	\$6.1698	101,450	\$625,926.21
			202,900	\$1,251,852.42
July 13, 2021	Spartan Capital	\$6.3966	37,331	\$238,791.47
July 13, 2021	Spartan Capital	\$6.1343	13,750	\$84,346.63
July 13, 2021	Spartan Capital	\$6.245	54,000	\$337,230.00
July 13, 2021	Registered Rep A	\$6.3966	37,331	\$238,791.47
July 13, 2021	Registered Rep A	\$6.1343	13,750	\$84,346.63
July 13, 2021	Registered Rep A	\$6.245	54,000	\$337,230.00
			210,162	\$1,320,736.20
July 14, 2021	Spartan Capital	\$6.5255	132,166	\$862,449.23
July 14, 2021	Registered Rep A	\$6.5255	132,166	\$862,449.23
			264,332	\$1,724,898.46
July 15, 2021	Spartan Capital	\$6.8484	236,337	\$1,618,530.31

Trade Date	Account	Price	Quantity	Gross Amount
July 15, 2021	Registered Rep A	\$6.8484	236,337	\$1,618,530.31
			472,674	\$3,237,060.62
July 16, 2021	Spartan Capital	\$6.3694	77,980	\$496,685.81
July 16, 2021	Registered Rep A	\$6.3694	77,978	\$496,673.07
			155,958	\$993,358.88
July 22, 2021	Spartan Capital	\$6.3582	143,425	\$911,924.84
July 22, 2021	Registered Rep A	\$6.3582	143,425	\$911,924.84
			286,850	\$1,823,849.68
July 26, 2021	Spartan Capital	\$7.08316	601,744	\$4,262,249.93
July 26, 2021	Spartan Capital	\$6.30	5,000	\$31,500.00
July 26, 2021	Registered Rep A	\$7.08316	601,744	\$4,262,249.93
July 26, 2021	Registered Rep A	\$6.30	5,000	\$31,500.00
			1,213,488	\$8,587,499.86
August 11, 2021	Spartan Capital	\$4.11749	87,171	\$358,925.72
August 11, 2021	Registered Rep A	\$4.11749	87,171	\$358,925.72
			174,342	\$717,851.44
August 12, 2021	Spartan Capital	\$4.06415	29,450	\$119,689.22
August 12, 2021	Registered Rep A	\$4.06415	29,450	\$119,689.22
			58,900	\$239,378.44
September 14, 2021	Spartan Capital	\$3.0026	64,836	\$194,676.57
September 14, 2021	Spartan Capital	\$3.111	37,500	\$116,662.50
September 14, 2021	Registered Rep A	\$3.0026	64,835	\$194,673.57
September 14, 2021	Registered Rep A	\$3.111	37,500	\$116,662.50
			204,671	\$622,675.14
September 15, 2021	Spartan Capital	\$2.6647	76,551	\$203,985.45
September 15, 2021	Spartan Capital	\$2.6397	75,435	\$199,125.77
September 15, 2021	Registered Rep A	\$2.6647	76,550	\$203,982.79
September 15, 2021	Registered Rep A	\$2.6397	75,435	\$199,125.77
			303,971	\$806,219.78
September 16, 2021	Spartan Capital	\$2.7169	66,517	\$180,720.04
September 16, 2021	Registered Rep A	\$2.7169	66,517	\$180,720.04
			133,034	\$361,440.08
September 20, 2021	Spartan Capital	\$2.3737	51,921	\$123,244.88
September 20, 2021	Registered Rep A	\$2.3737	51,921	\$123,244.88
			103,842	\$246,489.76
September 21, 2021	Spartan Capital	\$2.40	86,495	\$207,588.00
September 21, 2021	Registered Rep A	\$2.40	86,497	\$207,592.80
			172,992	\$415,180.80
			6,887,500	\$53,855,212.41

Account	Total Shares Sold
Registered Rep B (XXXX-9579)	12,500
Registered Rep A (XXXX-1622)	3,206,250
Spartan Capital Securities LLC (XXXX- 7420)	3,206,250
Kim Monchik (XXXX-4892)	368,750
Operations Manager (XXXX-3575)	31,250
Office Manager (XXXX-9014)	62,500
Total	6,887,500