

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

Department of Enforcement,

Complainant,

v.

Gustave J. Schmidt
CRD No. 2709698,

Respondent.

Disciplinary Proceeding
No. 2022074096805

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Respondent Gustave Schmidt failed to disclose compensation related to private placements that he brought to his firm and recommended to his clients, including a fee that exceeded the maximum disclosed amount in the offering documents by fifty percent. Despite this outsized compensation, Schmidt failed to have a reasonable understanding of the risks, rewards, and costs associated with the products he was recommending.

2. Between December 2020 and April 2021, while associated with Investment Network Inc. (“INI”) (CRD 127724), Schmidt recommended that ten of his customers make purchases of interests in pre-initial public offering (“pre-IPO”) companies through various private placement offerings (the “Offerings”), with a total principal value of \$437,100.

3. Schmidt made material omissions regarding the compensation that he and his firm would receive in connection with these recommendations and engaged in a course of conduct that deceived investors. The offering documents, including a private placement memorandum,

private placement series supplement, operating agreement, and subscription documents (collectively, the “offering documents”), that Schmidt reviewed and caused to be provided to customers in connection with Schmidt’s recommendations disclosed that Schmidt and INI would receive “up to ten percent” placement fee from sales of the Offerings. Schmidt knew, however, that the Offerings’ issuer had promised to pay INI—and, thus, Schmidt—in addition to the maximum amount of compensation disclosed to investors, ten percent, an additional five percent fee, as well as half of any profits collected by the issuer. Ultimately, Schmidt received at least \$19,888.05 in undisclosed compensation. As a result, Schmidt violated FINRA Rule 2010 by virtue of contravening Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933.

4. Schmidt also willfully violated Exchange Act Rule 15l-1(a)(1) by failing to comply with Regulation Best Interest’s (“Regulation BI”’s) Disclosure Obligation and violated FINRA Rule 2010 by failing to fully and fairly disclose in writing the above material facts relating to conflicts of interest.

5. Finally, at the time he recommended the Offerings, Schmidt failed to exercise reasonable care, diligence, and skill to understand the potential risks, rewards, and costs associated with the Offerings. Schmidt did not have a reasonable understanding of the Offerings, including how the Offerings were structured, how the issuer acquired pre-IPO interests, or the costs of the Offerings. As a result, Schmidt lacked a reasonable basis to recommend investing in the Offerings to any customers, and thereby willfully violated Exchange Act Rule 15l-1(a)(1) by failing to comply with Regulation BI’s Care Obligation and violated FINRA Rule 2010.

RESPONDENT AND JURISDICTION

6. Schmidt first became registered with FINRA in 1996 through an association with a FINRA member firm.

7. From 1996 through 2016, Schmidt was registered with FINRA as a General Securities Representative, among other capacities, through associations with nine different member firms.

8. In January 2017, Schmidt became registered with FINRA as a General Securities Representative and General Securities Principal through an association with INI.

9. Schmidt remains associated with INI and registered in those capacities, and he is therefore subject to FINRA's jurisdiction.

FACTS

I. The StraightPath Offerings.

10. The Offerings provided investors the opportunity to indirectly invest in privately held pre-IPO companies.

11. The Offerings were managed by StraightPath Venture Partners LLC ("StraightPath"), which is a Delaware limited liability company. StraightPath formed various private investment funds, including SP Ventures Fund 8 and SP Ventures Fund 9 (the "StraightPath funds"), for the purpose of investing directly in pre-IPO companies. StraightPath Management LLC, served as the investment advisor for the StraightPath funds.

12. Each Offering represented a particular series in one of the StraightPath funds. Each series purportedly possessed shares or interests in a particular pre-IPO company. Investors could purchase a membership interest in a StraightPath fund series for the purpose of investing indirectly into a specific pre-IPO company.

13. A StraightPath fund series' sole asset was the shares or interests in a particular pre-IPO company.

14. If a liquidity event occurred for the pre-IPO company in an Offering—for example, the company conducted an initial public offering and its shares became available on a stock market exchange—the investor would receive either shares of the now-public company or proceeds from StraightPath’s sale of the shares in the Offering.

II. Schmidt requests permission from INI to recommend the Offerings.

15. In 2020, Schmidt heard about StraightPath from a customer and conducted internet searches to learn about StraightPath. Schmidt found contact information for a StraightPath principal (“SP Principal”) and called him to ask further questions.

16. Schmidt had no prior experience with private placements offerings.

17. In the fall of 2020, Schmidt requested permission from INI to sell the Offerings through INI. At that time, INI did not sell private placements and did not have written supervisory procedures for private placements, and no one at the firm had any experience performing due diligence on private placements or otherwise supervising private placement offerings.

18. INI agreed to allow registered representatives at the firm, including Schmidt, to sell the Offerings to customers. StraightPath sent Schmidt a “Master Selected Dealers Agreement” (“MSDA”), which defined the terms under which INI would act as a placement agent for StraightPath’s offerings. Schmidt provided a copy of the MSDA to INI’s owner, president, CEO, CFO, and CCO (“INI Executive”), who executed it on behalf of INI on or about November 13, 2020.

19. Pursuant to that agreement, StraightPath would pay INI: (i) up to a ten percent commission; (ii) fifty percent of any carried interest collected by the manager for investments

made through INI; and (iii) certain fees INI was permitted to charge on a monthly basis. INI did not charge any monthly fees.

20. Around the same time, SP Principal verbally informed Schmidt that StraightPath would pay INI an additional five percent fee for each INI customer who invested in an Offering. This five percent fee was in addition to the up to ten percent cash commission stated in the MSDA and was not separately disclosed in the MSDA.

III. Schmidt engaged in a course of business that misrepresented to investors the compensation that he and INI would receive.

21. Schmidt and three other registered representatives at INI began recommending the Offerings in December 2020.

22. Prior to recommending a particular Offering, Schmidt reviewed the offering documents for that Offering.

23. For each Offering, Schmidt obtained from StraightPath the effective price per-pre-IPO company share that customers would pay, as this information was not provided in the offering documents. He then communicated this price per-share when recommending the Offerings to customers.

24. If a customer expressed interest in the Offering, Schmidt provided the customer's contact information to StraightPath and identified the relevant Offering. StraightPath then sent emails to the customer confirming the price per-share equivalent that the customer would pay for interests in the pre-IPO company and providing links to the offering documents. Schmidt understood that StraightPath emailed links to the offering documents to his customers once Schmidt provided StraightPath with their contact information. StraightPath copied Schmidt on its emails to his customers.

25. On at least one occasion, Schmidt directly sent a customer a series investment letter, and on multiple occasions he directly sent customers subscription documents for their execution.

26. The offering documents disclosed certain terms and fees associated with each Offering.

27. Specifically, the offering documents disclosed that customers may be charged various fees payable to StraightPath or its affiliates and up to a ten percent placement fee payable to INI, as the placement agent. The offering documents also provided that, upon a liquidity event, StraightPath may retain twenty percent of any profits (“Carried Interest”).

28. The offering documents did not disclose the extra five percent fee that SP Principal informed Schmidt would be paid to INI for each INI customer that invested in an Offering, nor did the offering documents disclose that StraightPath would pay INI fifty percent of any carried interest that StraightPath collected.

29. After an investor executed the subscription agreement and invested in a particular Offering, StraightPath sent the investor a letter (the “Welcome Letter”) confirming the transaction on behalf of the applicable StraightPath fund. This letter would disclose, among other things, the total principal amount of the investment, the fees deducted from the investor’s principal, the investor’s percentage interest in the fund series, the number of underlying private company shares in which the investor had purportedly obtained an interest, and the purchase price equivalent for those shares.

30. Like the offering documents, the Welcome Letters made no mention of the extra five percent payment or of INI’s entitlement to a fifty percent share of any carried interest. They disclosed only that StraightPath had deducted a ten percent “Brokers Concession” from the

customer's capital contribution, and that it had not deducted a management fee, expense fee, or due diligence fee.

31. StraightPath copied Schmidt on the transmittal of these Welcome Letters.

32. On multiple occasions, Schmidt discussed the extra five percent fee with SP Principal. For example, SP Principal assured Schmidt that the pricing for each Offering included the five percent additional fee to INI. On one occasion, SP Principal quoted Schmidt a price for an Offering, and after Schmidt asked SP Principal to confirm the pricing included "our 5," SP Principal increased the price of the offering, stating the new price included "your five percent."

33. Beginning in January 2021, StraightPath sent Schmidt summaries of the fees it would pay INI for recent investments in the Offerings by INI customers. Those summaries identified the specific investments and listed both the ten percent placement fee disclosed in the offering documents and a separate fee, labeled an "expense fee," that amounted to an additional five percent.

34. Schmidt did not forward these summaries to any principals at INI. Instead, Schmidt prepared and sent handwritten summaries to INI principals stating the total fees he generated for recommending the Offerings. INI paid Schmidt his 91 percent payout based on the summaries.

35. In total, Schmidt recommended the Offerings to 10 retail customers who made 18 investments in the Offerings with a total principal value of \$437,100. Schmidt received \$59,664.15 in commissions, including \$19,888.05 that was attributable to the undisclosed five percent fee. INI also received \$32,005.42 in undisclosed carried interest compensation from StraightPath.

IV. Schmidt did not have a reasonable basis to recommend the Offerings to any investors.

36. Before recommending the Offerings to his customers, Schmidt failed to exercise reasonable care, diligence, and skill to understand the potential risks, rewards, and costs associated with the Offerings.

37. Schmidt did not have a reasonable understanding of the risks, rewards, and costs of the Offerings that he recommended to customers. Specifically, Schmidt did not understand how StraightPath structured the Offerings, how StraightPath acquired pre-IPO shares, and who owned and operated StraightPath. Without a reasonable understanding of the Offerings' structure and their acquisition of pre-IPO holdings, Schmidt lacked the information needed to have a reasonable understanding of the risks, rewards, and costs of the Offerings.

38. Schmidt also did not understand and consider the costs that investors would pay for the Offerings. He had no understanding of how StraightPath profited from the Offerings, including whether StraightPath applied any markups. Although StraightPath disclosed in the offering documents that it *may* charge investors a higher price to acquire an interest in the underlying private company shares than StraightPath had paid to acquire the shares, Schmidt never asked StraightPath if it applied markups, nor did StraightPath ever disclose to investors whether it applied markups, or the amount of such markups. At the time he recommended the Offerings, Schmidt therefore did not have a reasonable understanding of the costs of the Offerings.

39. StraightPath is currently in federal receivership as a result of a complaint filed by the SEC against StraightPath principals alleging violations of federal securities laws in connection with their actions with respect to StraightPath offerings. On November 4, 2025, StraightPath's principals were convicted after a jury trial of securities fraud, wire fraud, and other federal offenses in the U.S. District Court for the Southern District of New York.

FIRST CAUSE OF ACTION
Fraudulent Conduct
(FINRA Rule 2010, for acting in contravention of
Section 17(a)(2) and (a)(3) of the Securities Act)

40. The Department of Enforcement realleges and incorporates by reference all paragraphs above.

41. Section 17(a) of the Securities Act provides that:

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, directly or indirectly . . .

(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; or

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

42. FINRA Rule 2010 requires that FINRA members observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business. A violation of Section 17(a) of the Securities Act is also a violation of FINRA Rule 2010.

43. The Offerings were securities, and Schmidt recommended and sold the Offerings to retail customers using telephone, email, and U.S. mail to communicate and send and receive documents related to the Offerings.

44. Schmidt obtained money or property by means of omitting to state material facts necessary in order to make the statements made in the offering documents, in light of the circumstances under which they were made, not misleading.

45. Schmidt caused the dissemination of offering documents that he knew, or should have known, omitted material facts concerning the compensation he and INI would receive from StraightPath: the additional five percent fee and INI's entitlement to fifty percent of any carried interest collected by StraightPath.

46. These omissions were material because they related to Schmidt's and INI's compensation and potential conflicts of interest in recommending the Offerings.

47. Schmidt was at least negligent in causing the dissemination of offering documents containing material omissions.

48. As a result of this conduct, Schmidt obtained \$59,664.15 in concessions, including \$19,888.05 attributable to the undisclosed five percent fee.

49. Schmidt also engaged in a course of business that operated as a fraud or deceit upon purchasers of the Offerings.

50. Schmidt reviewed the offering documents prior to recommending the Offerings to customers such that he knew or should have known that they contained the material omissions described above. Nonetheless, he recommended the Offerings to INI customers, and then sent StraightPath the names and contact information for customers who had interest in an Offering with the knowledge and understanding that StraightPath would send the offering documents to those customers. He thereby caused StraightPath to disseminate offering documents for 18 separate Offerings to 10 different customers, all of which contained material omissions. Schmidt was copied on all of StraightPath's communications disseminating the offering documents to these customers as well as on subsequent communications from StraightPath to investors confirming their investments. These communications also failed to disclose the additional five percent fee while summarizing other fees.

51. In addition to repeatedly causing the dissemination of offering documents that he knew or should have known contained material omissions, Schmidt verbally agreed with StraightPath that it would pay INI an additional five percent fee that was not set forth in the selling agreement between INI and StraightPath. Schmidt received summaries directly from StraightPath that reflected the undisclosed five percent fee. Schmidt did not provide the summaries to INI. He did, however, provide INI with handwritten summaries of concessions he was owed and then accepted payouts from INI that included a substantial share of the undisclosed five percent fee INI had received from StraightPath.

52. Schmidt's course of conduct misled his customers concerning the compensation that INI and Schmidt would receive for sales of the Offerings.

53. Schmidt's conduct operated as a fraud or deceit upon his customers.

54. Schmidt was at least negligent in engaging in the transactions, practices and course of conduct alleged above that operated as a fraud or deceit upon his customers.

55. As a result of the foregoing conduct, Schmidt violated FINRA Rule 2010 by virtue of acting in contravention of Section 17(a)(2) and 17(a)(3) of the Securities Act.

SECOND CAUSE OF ACTION
Failure to Disclose a Conflict of Interest
(Willful Violation of Exchange Act Rule 15c-1(a)(1) Regulation Best Interest
and a Violation of FINRA Rule 2010)

56. The Department of Enforcement realleges and incorporates by reference paragraphs 1–39 above.

57. As of June 30, 2020, broker-dealers and their associated persons are required to comply with Regulation BI under the Securities Exchange Act of 1934. Rule 15c-1(a)(1) of Regulation BI requires a broker, dealer, or a natural person associated with a broker or dealer, when making a recommendation of any securities transaction or investment strategy involving

securities (including account recommendations) to a retail customer, to act in the best interest of that retail customer at the time the recommendation is made, without placing the financial or other interest of the broker, dealer, or associated person ahead of the interest of the retail customer.

58. Regulation BI's Disclosure Obligation, set forth at Exchange Act Rule 15c-1(a)(2)(i), requires broker-dealers and associated persons to provide retail customers full and fair written disclosure, prior to or at the time of the recommendation, of all material facts relating to conflicts of interest that are associated with the recommendation. Regulation BI defines a "conflict of interest" to be an interest that might incline a broker-dealer or an associated person—consciously or unconsciously—to make a recommendation that is not disinterested.

59. Regulation BI defines a retail customer as a natural person, or the legal representative of such natural person, who receives a recommendation of any securities transaction or investment strategy involving securities from a broker, dealer, or a natural person who is an associated person of a broker or dealer; and uses the recommendation primarily for personal, family, or household purposes.

60. Regulation BI's Adopting Release provides that broker-dealers and associated persons must disclose material facts relating to compensation associated with recommendations to retail customers and related conflicts of interest. This disclosure should summarize how the broker-dealer and associated persons are compensated for their recommendations and the conflicts of interest that such compensation creates. This summary should include the sources and types of compensation received.

61. Failure to comply with the Disclosure Obligation constitutes a violation of Regulation BI's General Obligation.

62. A violation of Regulation BI is also a violation of FINRA Rule 2010, which requires associated persons to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

63. Schmidt failed to disclose in writing, either prior to or at the time of the recommending the Offerings to customers, material facts concerning additional fees and carried interest that the issuer paid or would pay to INI (and indirectly Schmidt). In addition to the placement fee disclosed in the offering documents, the issuer paid INI (and indirectly Schmidt) an additional fee that was not disclosed in any of the offering documents. Further, if the Offerings were profitable, the manager would pay INI (and indirectly Schmidt) half of any carried interest.

64. As a result of the foregoing conduct, Schmidt willfully violated Exchange Act Rule 15l-1(a)(1) and also violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
No Reasonable Basis to Recommend the Offerings
(Willful Violation of Exchange Act Rule 15l-1(a)(1) Regulation Best Interest
and Violation of FINRA Rule 2010)

65. The Department of Enforcement realleges and incorporates by reference paragraphs 1–39 above.

66. Regulation BI’s Care Obligation, set forth at Exchange Act Rule 15l-1(a)(2)(ii), requires broker-dealers and their associated persons to exercise reasonable diligence, care, and skill to, among other things, understand the potential risks, rewards, and costs associated with a recommendation. Regulation BI’s Adopting Release provides that what constitutes “reasonable diligence” depends on, among other things, the complexity of, and risks associated with, the recommended security. The Care Obligation requires broker-dealers and their associated persons

to have a reasonable basis to believe that the recommendation could be in the best interest of at least *some* retail investors.

67. Failure to comply with the Care Obligation constitutes a violation of Regulation BI's General Obligation.

68. A violation of Regulation BI also is a violation of FINRA Rule 2010, which requires associated persons to "observe high standards of commercial honor and just and equitable principles of trade" in the conduct of their business.

69. FINRA Regulatory Notice 10-22 explains that due diligence on private placements should include, at a minimum, a reasonable investigation concerning the issuer and its management, the business prospects of the issuer, the assets held by or to be acquired by the issuer, the claims being made, and the intended use of proceeds of the offering.

70. Prior to recommending the Offerings, Schmidt failed to conduct a reasonable investigation, or due diligence, to understand the Offerings and reach a reasonable conclusion that they were in the best interests of at least some investors.

71. As described above, when Schmidt recommended the Offerings to his customers, he did not have a reasonable understanding of the Offerings, including the structure of the Offerings, how pre-IPO shares were acquired, who owned and operated StraightPath, and the costs of the Offerings.

72. As a result of the foregoing conduct, Respondent Schmidt willfully violated Exchange Act Rule 15c-1(a)(1) and violated FINRA Rule 2010.

RELIEF REQUESTED

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

- A. make findings of fact and conclusions of law that Respondent 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 Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and
- D. make specific findings that Respondent willfully violated Exchange Act Rule 15c-1(a)(1).

FINRA DEPARTMENT OF ENFORCEMENT

Date: November 20, 2025



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