FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement, Complainant, v. Cantone Research Inc. (BD No. 26314), Anthony J. Cantone (CRD No. 1066139), and Christine L. Cantone (CRD No. 2687618), Respondents.	DISCIPLINARY PROCEEDING NO. 2013035130101

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. From in or about 2010 through in or about 2013 (the "Relevant Period"), Cantone Research Inc. ("CRI"), acting through Anthony J. Cantone ("Cantone"), the President and majority owner of CRI, made fraudulent misrepresentations and omissions of material fact in connection with the sales and subsequent extensions of over $8 million of certificates of participation ("COPs") in certain promissory notes. To date, four of the five relevant promissory notes have defaulted, resulting in approximately $6 million in losses to investors. At the same time, CRI and Cantone received fees, commissions and other payments in connection with the offerings of more than $1 million.

2. The promissory notes at issue were executed on behalf of one of several entities controlled by Christopher F. Brogdon ("Brogdon"), an individual who worked in the assisted living and nursing home industry. Under the terms of the COPs, investors' funds would be used by Brogdon to purchase and/or redevelop a nursing home, assisted living facility, or other real-estate controlled by Brogdon. In return, investors were promised 10% interest in addition to the return of their principal. Ultimately, investors' principal and interest payments were dependent upon the success of these projects as well as Brogdon's guarantee to repay those amounts. At the time that CRI and Cantone solicited investors to invest in the COPs, and later, when CRI and Cantone extended certain of the COPs, CRI and Cantone either misrepresented or failed to disclose material information to investors that cast substantial doubt on Brogdon's ability to successfully make the required principal and interest payments on the underlying promissory notes.
3. CRI and Cantone misrepresented and/or failed to disclose material facts to investors and prospective investors, including that: (1) Brogdon had twice been barred from the securities industry, once for "egregious misconduct" involving unauthorized transactions, and later for a separate "scheme" involving financial misconduct; (2) Brogdon had been indicted for racketeering, theft, and Medicaid fraud; (3) Brogdon had been found liable for breaching a stock repurchase guarantee agreement; and (4) several entities controlled by Brogdon had filed for bankruptcy.
4. In addition, on numerous occasions during the Relevant Period, Brogdon (and/or an entity under his control) breached the terms of the promissory notes by failing to make a required principal or interest payment. However, instead of informing the

COP investors of these defaults, CRI and Cantone attempted to conceal the defaults from investors by, among other things, secretly "covering" the interest payments on Brogdon's behalf. CRI and Cantone continued to solicit new COP investors after one or more of these defaults without disclosure to prospective investors.

5. CRI and Cantone also made improper use of a portion of investors' funds and recommended to at least 46 CRI customers that they purchase a COP in a promissory note without having a reasonable basis to believe that the investment was suitable for any investor.

6. CRI, acting through Christine Cantone, failed to reasonably supervise Cantone.

7. By engaging in the foregoing fraudulent conduct, CRI and Cantone willfully violated Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder, and violated FINRA Rules 2020 and 2010, as alleged in the First Cause of Action. By the same fraudulent conduct, CRI and Cantone acted in contravention of Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 ("Securities Act") and thereby violated FINRA Rule 2010, as alleged in the Second Cause of Action (which is pleaded in the alternative to the First Cause of Action). By making improper use of customers' funds, CRI and Cantone violated FINRA Rules 2150 and 2010, as alleged in the Third Cause of Action. By recommending that CRI customers purchase COPs in a promissory note without having a reasonable basis to believe that the investment could be suitable for any customer, CRI and Cantone violated FINRA Rules 2111 and 2010, as alleged in the Fourth Cause of Action. By failing to reasonably supervise Cantone, CRI and Christine Cantone violated NASD Conduct Rule 3010 and FINRA Rule 2010.

RESPONDENTS AND JURISDICTION

8. CRI has been a member of FINRA since 1990. CRI maintains one main office in Tinton Falls, New Jersey and has one branch office. It employs approximately 26 registered individuals and conducts a general securities business.

9. CRI's FINRA registration is presently in effect and therefore CRI remains subject to FINRA's ongoing jurisdiction.

10. In 1982, Cantone first became registered with FINRA as a General Securities Representative through an association with a former member firm. In 1995, Cantone became registered as a General Securities Representative and General Securities Principal through CRI. While at CRI, he subsequently became registered as a Research Analyst in 2004, a Research Principal in 2005, and an Investment Banking Representative in 2010. At all times relevant to this Complaint, Cantone was CRI's President and majority owner.

11. Cantone remains registered with CRI and therefore is subject to FINRA's ongoing jurisdiction.

12. Christine Cantone first became registered with FINRA in 1996 as a General Securities Representative through CRI. She subsequently became registered through CRI as an Introducing Broker-Dealer/Financial and Operations Principal, Financial and Operations Principal, General Securities Principal, Municipal Securities Principal, Registered Options Principal, and Operations Professional. During the Relevant Period, Christine Cantone was a minority owner of CRI and also served as the firm's Vice-President and Chief Compliance Officer. Throughout the Relevant Period, Christine Cantone was married to Cantone.

13. In February 2012, Christine Cantone entered into an Offer of Settlement with FINRA in which she was suspended for three months in any principal capacity, fined $10,000 jointly and severally with CRI, and ordered to pay $200,000 in partial restitution to customers jointly and severally with CRI. Without admitting or denying the allegations, Christine Cantone and CRI consented to the described sanctions and to the entry of findings that Christine Cantone failed to reasonably supervise a CRI registered representative who sold fraudulent investments to firm customers and misappropriated more than $1.6 million of customers' funds.

14. Christine Cantone remains registered with CRI and therefore is subject to FINRA's ongoing jurisdiction.

FACTS

SUMMARY OF THE COP OFFERINGS

15. During the Relevant Period, CRI and Cantone offered securities in the form of COPs to investors, including CRI customers. The COPs were issued by limited liability companies controlled by Cantone. All of the COPs were tied to an underlying nursing home, assisted living facility or real-estate redevelopment project controlled by Brogdon.

16. Specifically, for each offering, Cantone's limited liability company purchased a promissory note from an entity controlled by Brogdon and issued COPs in the purchased note to investors. Under the terms of the COPs, as outlined in the Certificate Disclosure Memorandum ("CDM") for each offering, investors were promised 10% interest and the return of their principal at the end of the term.

17. The payment of principal and interest on the promissory notes underlying each COP was guaranteed by Brogdon, Brogdon's wife, and/or two entities controlled by Brogdon: B.F., L.L.C., and C.I., L.L.C.

18. At issue in this Complaint are five Brogdon-related COP offerings (collectively, the "COP Offerings") that CRI and Cantone offered and sold during the Relevant Period, as more fully described below.

19. In or about February 2010, Columbia Financial LLC ("Columbia Financial"), an entity controlled by Cantone, offered $1,700,000 of COPs in a promissory note issued by Polo Road Assisted Living, LLC ("Polo Road"). Polo Road was owned, in part, by Brogdon's wife and son, and was controlled by Brogdon. The Columbia Financial COP offered 10% interest and matured on February 1, 2012 (the "Columbia Financial Offering"). The CDM for the Columbia Financial Offering stated that Polo Road would use the net proceeds from its sale of the promissory note to acquire Richland Pines, an assisted and independent living facility in Columbia, South Carolina. In or about February 2010, CRI and Cantone raised approximately $1.7 million from approximately 70 investors, including at least 68 CRI customers, in connection with the Columbia Financial Offering.

20. In or about February 2011, Chestnut Financial LLC ("Chestnut Financial"), an entity controlled by Cantone, offered $1,950,000 of COPs in promissory notes issued by two Brogdon-related entities: (1) $1,175,000 issued by Chestnut Independent Living, LLC; and (2) $775,000 issued by Highlands Assisted Living, LLC. Chestnut Independent Living and Highlands Assisted Living were owned, in part, by Brogdon's wife, and were controlled by Brogdon. The COPs offered 10% interest

and matured on March 1, 2014 (the "Chestnut Financial Offering"). The CDM for the Chestnut Financial Offering stated that Chestnut Independent Living and Highlands Assisted Living would use the net proceeds from the sales of the two notes to acquire two senior living facilities located in Highlands, North Carolina. In or about February and March 2011, CRI and Cantone raised approximately $1,920,000 from approximately 65 investors, including at least 60 CRI customers, in connection with the Chestnut Financial Offering.

21. In or about July 2011, Oklahoma Financial, LLC ("Oklahoma Financial"), which is controlled by Cantone, offered $2.8 million of COPs in a promissory note issued by Oklahoma Operating, LLC ("Oklahoma Operating"). Oklahoma Operating was owned by Brogdon's wife, and was controlled by Brogdon. The COPs offered 10% interest and matured on July 15, 2013 (the "Oklahoma Financial Offering"). The CDM stated that Oklahoma Operating would lend or advance the net proceeds from the sale of the promissory note to five affiliated limited liability companies, each of which would use the proceeds to pay a portion of the costs for their respective acquisitions of five nursing homes located in Oklahoma. Between in or about June 2011 and in or about August 2011, CRI and Cantone raised approximately $2,790,000 from approximately 87 investors, including at least 79 CRI customers, in connection with the Oklahoma Financial Offering.

22. In or about August 2011, Cedars Financial LLC ("Cedars Financial"), which was controlled by Cantone, offered $550,000 of COPs in a promissory note issued by Cedala, LLC ("Cedala"). Cedala was owned by Brogdon's wife, and was controlled by Brogdon. The COPs offered 10% interest and matured on September 15, 2013

(the "Cedars Financial Offering"). The CDM stated that Cedala would use the proceeds from the sale of the promissory note to redeem a membership interest in Cedala held by Brogdon's wife. In or about August 2011, CRI and Cantone raised approximately $550,000 from approximately 24 investors, including at least 22 CRI customers, in connection with the Cedars Financial Offering.

23. In or about May 2013, Cherokee Financial LLC ("Cherokee Financial"), which is controlled by Cantone, offered $1,825,000 of COPs in a promissory note issued by Arcadia Partners, LLC ("Arcadia"), an entity owned and managed by Brogdon. The COPs offered 10% interest and will mature on May 15, 2018 (the "Cherokee Financial Offering"). The CDM stated that Arcadia would use the proceeds from the sale of the promissory note to pay the costs of constructing the first phase of an age-restricted facility located in Conyers, Georgia. Between in or about April 2013 and in or about June 2013, CRI and Cantone raised approximately $1,825,000 from approximately 53 investors, including at least 46 CRI customers, in connection with the Cherokee Financial Offering.

24. The CDM for each of the COP Offerings provided that principal and interest payments on the COPs would be paid solely from either: (a) payments made by Polo Road, Chestnut Independent Living, Highlands Assisted Living, Oklahoma Operating, Cedala and Arcadia (collectively, the "Brogdon Entities") obtained from revenues generated by the Brogdon Entities from the ownership and operation of the underlying facilities; or (b) payments made by Brogdon, his wife, and B.F., L.L.C. or C.I., L.L.C., pursuant to a separately executed "Guaranty Agreement."[1]

[1] The Columbia Financial CDM also stated that payments could come from monies received pursuant to a mortgage from Polo Road to Columbia Financial.

25. To date, four of the five promissory notes underlying the COP Offerings have defaulted, resulting in approximately $6 million in realized and unrealized losses to investors. At the same time, CRI and Cantone received fees, commissions and other payments in connection with the COP Offerings of more than $1 million.

CANTONE'S PRIOR FAILED COP OFFERING

26. In or about November 2005, Cantone Office Center, LLC, ("COC"), which was owned and controlled by Cantone, issued $2.6 million of COPs in a promissory note related to the development of a Florida real-estate project.

27. Cantone sold the COC COPs to customers of CRI. The COPs were due to mature on November 21, 2007.

28. In or about February 2007, COC offered another $5.1 million worth of COPs to customers of CRI. Those COPs were due to mature on March 1, 2009.

29. The Florida real-estate project failed and the COC COPs went into default. As a result, CRI customers lost millions of dollars. The failed COC COP offering did not involve Brogdon.

Brogdon's Negative Business History

30. Brogdon began his career in the securities industry in 1972 when he became registered as a General Securities Representative through a former FINRA member firm. In 1982, he became registered as a General Securities Principal.

31. In January 1984, NASD filed a disciplinary complaint against Brogdon for unauthorized transactions. In July 1984, the hearing committee entered a decision finding, in part, that "Brogdon effected the unauthorized purchase of transactions in the customer's account for his own nefarious purposes and revealed his scheme to his

superior only after his firm had sustained losses of staggering proportions." The committee further stated that sanctions were warranted "in light of [Brogdon's] egregious misconduct and the $300,000-$375,000 loss which [Brogdon] caused his employer/member, to protect the public from further harm at his hands." Finally, the committee held that Brogdon's presence in the securities industry posed a "substantial threat and cannot be countenanced." Brogdon was barred, censured, and fined $10,000.

32. In July 1984, NASD filed another complaint against Brogdon and a former member firm that he owned for net capital and books and records violations. A decision was rendered on January 28, 1985, which held that "Brogdon devised and employed a scheme to circumvent [a] clearing firm's $500,000 limitation on financing" the firm's inventory. Brogdon was barred, censured, and fined $50,000.

33. After his unsuccessful tenure in the securities industry, Brogdon became involved with the acquisition and operation of nursing homes and assisted living facilities. However, Brogdon's track record in the nursing home and assisted living industries proved to be problematic as well:

    a. In 1990, N.A.B., a nursing home management company partially controlled by Brogdon filed for bankruptcy.

    b. In 1996, the IRS filed multiple tax liens totaling at least $4 million against R.C.A., a corporation that managed assisted living facilities and nursing homes. At the time, Brogdon was R.C.A.'s Chairman.

    c. In 1997, while Brogdon was Chairman of R.C.A., multiple securities fraud class action lawsuits were filed against R.C.A., Brogdon and others, alleging

that defendants misrepresented the success and financial conditions of R.C.A., including its operating income and earnings. The lawsuits were settled in July 1999.

d. In 1999, N.H.C., a public corporation that managed assisted living facilities and nursing homes, declared bankruptcy. At the time, Brogdon was N.H.C.'s Chairman.

34. In 1999, Brogdon was indicted in the State of Florida for racketeering, elder abuse, grand theft, and Medicaid fraud. Court records show that the charges were "nolle prossed" and that the case was closed without disposition in January 2000.

35. In 2003, a Georgia state appellate court affirmed a judgment filed against Brogdon in a civil lawsuit that found that Brogdon had failed to honor a stock repurchase guarantee agreement.

CRI AND CANTONE FAIL TO DISCLOSE MATERIAL INFORMATION CONCERNING THE BACKGROUNDS OF BROGDON AND CANTONE

36. Prior to participating in the COP Offerings, CRI and Cantone conducted minimal due diligence on Brogdon.

37. Even through this minimal due diligence, however, CRI and Cantone became aware that Brogdon had been barred from the securities industry, that he had been criminally indicted, and that he was a defendant in several lawsuits.

38. Also, CRI and Cantone were aware of the failure of the COC COP offerings.

39. Nevertheless, in soliciting investors to participate in the COP Offerings, CRI and Cantone did not disclose any of this material information to prospective investors in the CDMs or otherwise.

40. To the contrary, in both the CDMs and in verbal and written solicitations to potential COP investors, CRI, acting through Cantone, emphasized the experience and success of Brogdon in the nursing home and assisted living industries.

41. For example, in an email solicitation to a prospective investor in 2011, Cantone stated that "Brogdon has been highly successful in owning and managing assisted living homes and nursing homes and currently owns over 50 projects."

THE BROGDON ENTITIES DEFAULT ON THE PROMISSORY NOTES BY FAILING TO MAKE REQUIRED INTEREST PAYMENTS AND CANTONE CONCEALS THE DEFAULTS FROM INVESTORS

42. The first interest payment on the first of the five COP Offerings was due from Polo Road on May 1, 2010. Polo Road failed to make this interest payment.

43. CRI and Cantone did not inform investors or prospective investors in any of the COP Offerings that Polo Road had failed to make this interest payment.

44. Instead, on or about May 10, 2010, Christine Cantone, acting at Cantone's direction, wrote a $28,000 check from the Cantones' personal bank account to Columbia Financial to "cover" the interest payment to investors.

45. Cantone and Christine Cantone "covered" this interest payment even though the CDM for the Columbia Financial Offering explicitly provided that investors' principal and interest would be paid solely from the following sources: (1) revenues generated from Polo Road's ownership and operation of the Richland Pines assisted living facility; (2) payments made by Brogdon, Brogdon's wife, and/or B.F., L.L.C. pursuant to the "Guaranty Agreement"; and/or (3) payments made pursuant to a second mortgage held by Columbia Financial on Richland Pines.

46. During the Relevant Period, this same pattern repeated itself numerous times. On more than ten separate occasions, Polo Road, Chestnut Independent Living,

Highlands Assisted Living, and/or Cedala failed to make a required interest payment in connection with one of the COP Offerings.

47. CRI and Cantone did not inform investors of any of these defaults. Instead, Cantone and Christine Cantone secretly "covered" the interest payments to investors even though the underlying CDMs prohibited them from doing so.

THE BROGDON ENTITIES DEFAULT BY FAILING TO RETURN THE INVESTORS' PRINCIPAL ON THE COLUMBIA FINANCIAL AND OKLAHOMA FINANCIAL PROMISSORY NOTES AND CANTONE NEGOTIATES SECRET EXTENSION AGREEMENTS

48. In the Columbia Financial Offering, Polo Road was required to return the investors' principal by February 1, 2012. It failed to do so.

49. In the Oklahoma Financial Offering, Oklahoma Operating was required to return the investors' principal by July 15, 2013. It failed to do so.

50. In each instance, Cantone negotiated extension agreements with Brogdon, agreeing to delay the return of investors' principal.

51. In exchange for his agreement to extend these promissory notes, Cantone insisted that Brogdon pay Cantone additional "extension fees" and an increased interest rate on those promissory notes of between 14% and 15%. These extension fees and increased interest rates were intended by Cantone to be solely for his benefit and not for the benefit of the COP investors.

52. Cantone did not negotiate a similar "extension fee" or increased interest rate for any of the investors in the COP Offerings.

53. CRI and Cantone did not disclose these additional fees and interest terms to investors.

CANTONE REPEATEDLY ACCUSES BROGDON OF BEING IN "DEFAULT" AND QUESTIONS BROGDON'S ABILITY TO REPAY INVESTORS' FUNDS

54. At various times during the Relevant Period, Cantone accused Brogdon of being in "default" in connection with one or more of the promissory notes underlying the COP Offerings and questioned the reliability of Brogdon and his ability to repay the promissory notes.

55. In June 2011, Cantone wrote in an email that: "It hurts Brogdon's reputation (and my ability to fund future projects) when interest and principal is not paid when due because investors get concerned about his guarantee . . . [there is] an indication that [Brogdon] is stretched too far and that his guarantee is no longer reliable."

56. In April 2012, Cantone wrote in an email to Brogdon stating that it was "difficult to have investors send more money for other offerings when they feel insecure based on past offerings."

57. In May 2012, Cantone wrote in an email to Brogdon: "I actually paid the interest to investors out of my own pocket when it was due because I did not want to hear all the complaints from my brokers and investors and also because there are several new investors in Chestnut that are sensitive to timely payments and I am cultivating them to participate in future projects."

58. In February 2013, Cantone wrote in an email to Brogdon: "I hope that you appreciate that I am trying to work with you on repayment of principal. If this was another dealer, you would already be in court based on your personal guarantee of timely payments."

59. In March 2013, Cantone wrote in an email to Brogdon:

> What would you do if you loaned me money and I did not pay back the principal back in accordance to our agreement?
>
> The problem is even worse because I have about 100 investors that can file a lawsuit against me for not enforcing the terms of the agreements on the various projects we financed. You guaranteed the prompt payment of interest and principal. Yet I had to pay back the principal to five investors who did not want to extend the Polo Road/Columbia Note to avoid complaints to FINRA.

60. Cantone did not inform any of the COP investors or prospective investors of these defaults or of his concerns regarding Brogdon and his ability to repay investors' funds.

CRI, ACTING THOUGH CANTONE, MISUSES INVESTORS' FUNDS

61. Between in or about June and in or about August 2011, CRI, acting through Cantone, solicited investors, including at least 79 CRI customers, to invest in the Oklahoma Financial Offering.

62. In both the Oklahoma Financial CDM and in emails to potential investors at the time that the sales were made, Cantone stated that the proceeds of the offering would be used to purchase five nursing homes located in Oklahoma.

63. Between June and August 2011, Oklahoma Financial received approximately $2.79 million in investors' funds for investment in the Oklahoma Financial COP Offering.

64. CRI, acting through Cantone, sent most of those funds to Brogdon for the purchase of the underlying nursing homes.

65. However, on or about July 28, 2011, CRI, acting through Cantone, withheld $64,500 of the investors' funds.

66. According to Cantone, he held back the $64,500 as "leverage" to induce Brogdon to make payment on a separate promissory note unrelated to the Oklahoma Financial Offering.

67. Subsequently, on August 17, 2011, the $64,500 in investors' funds was wired to an account controlled by Brogdon.

68. On that same day, Brogdon wired $64,500 back to Cantone, who used that amount to pay interest to the investors in a separate Brogdon-related COP Offering which was not connected to the Oklahoma Financial Offering.

CRI, Acting though Cantone, Conducts the Cedars Financial COP Offering Without Disclosing Material Information to Investors

69. On or about August 15, 2011, Brogdon contacted Cantone about conducting the Cedars Financial Offering.

70. In doing so, on or about August 19, 2011, Brogdon sent Cantone financial information about Cedala, the entity that would be borrowing money from CRI's investors through a promissory note and COPs issued by Cedars Financial.

71. The financial information for Cedala indicated that it had sustained the following net losses for the years 2008, 2009 and 2010, respectively: $109,735.73; $232,349.04; and $127,525.92.

72. CRI, acting through Cantone, failed to disclose this information to prospective investors in the Cedars Financial Offering.

CRI'S AND CANTONE'S MISREPRESENTATIONS AND OMISSIONS CULMINATE IN THE CHEROKEE FINANCIAL COP OFFERING

73. Between in or about April 2013 and in or about June 2013, CRI and Cantone solicited investors, including at least 46 CRI customers, to invest in the Cherokee Financial Offering.

74. In or about April 2013, shortly before Cantone began soliciting investors for the Cherokee Financial Offering, Brogdon provided Cantone with 2012 year-end income statements for several of the Brogdon Entities, which showed that, in 2012, Polo Road, Chestnut Independent Living, Highlands Assisted Living, and Cedala had collectively lost more than $2 million.

75. Furthermore, at the time of these solicitations, the following had occurred:

- Polo Road had failed to make required interest payments in May 2010, May 2012, August 2012, and February 2013;
- Polo Road had failed to make required principal payments in February 2012, August 2012, and February 2013;
- Cantone had negotiated secret interest rate increases and fees on the Columbia Financial and Oklahoma Financial deals;
- Chestnut Independent Living and Highlands Independent Living had failed to make *timely* interest payments in June 2011, September 2011, March 2012, December 2012, and March 2013, and had failed to make *any* interest payments in June 2012 and September 2012;
- Cedala had failed to make a timely required interest payment in December 2012;
- As of in or about May 2013, Chestnut Independent Living and Highlands Assisted Living owed Chestnut Financial approximately $350,000 in unpaid interest and fees; and
- Cantone and Christine Cantone had covered numerous interest payments in the Columbia Financial, Chestnut Financial and Cedars Financial Offerings.

76. CRI, acting through Cantone, failed to disclose any of this material information to prospective investors in the Cherokee Financial Offering.

77. Between in or about April 2013 and in or about June 2013, CRI and Cantone raised approximately $1,825,000 from approximately 53 investors for the Cherokee Financial Offering.

CRI AND CHRISTINE CANTONE FAIL TO REASONABLY SUPERVISE CANTONE

78. During the Relevant Period, Christine Cantone was responsible for supervising Cantone's securities sales activities.

79. During this period, Christine Cantone became aware of numerous red flags concerning Cantone's participation in the COP Offerings:

    a. Christine Cantone was aware of Cantone's participation in the failed COC COP Offering;

    b. Christine Cantone was aware that Brogdon had been barred from the securities industry;

    c. Christine Cantone was aware that the Brogdon Entities missed numerous interest payments, and that she and Cantone had secretly "covered" the interest payments; and

    d. Christine Cantone was aware that the Brogdon Entities missed principal payments and that Cantone had extended the underlying promissory notes in exchange for undisclosed fees and increased interest payments.

80. Notwithstanding these red flags, Christine Cantone failed to take any steps to ensure that Cantone was accurately and completely disclosing all material facts concerning the COP Offerings to the investors and prospective investors, at least 100 of which

were CRI customers, or to otherwise supervise Cantone's participation in the COP Offerings.

FIRST CAUSE OF ACTION
MATERIAL MISREPRESENTATIONS AND OMISSIONS IN CONNECTION WITH THE SALE OF THE COP OFFERINGS

(Violations of Section 10(b) of the Exchange Act, SEC Rule 10b-5, and FINRA Rules 2020 and 2010 by CRI and Cantone)

81. The Department realleges and incorporates by reference paragraphs 1-80 above.

82. Section 10(b) of the Exchange Act prohibits "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 security exchange . . . to use or employ, in connection with the purchase or sale of any security . . . any manipulative or deceptive device or contrivance."

83. Rule 10b-5, promulgated under the Exchange Act, prohibits 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, (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, 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."

84. 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."

85. FINRA Rule 2010 requires members and associated persons, in the conduct of their business, to "observe high standards of commercial honor and just and equitable principles of trade."

86. The COPs sold by CRI and Cantone are securities.

87. During the Relevant Period, in connection with the offer and sale of the COPs, and to induce investors to purchase those securities, by the means and instrumentalities of interstate commerce (including telephone and email), CRI and Cantone made numerous misrepresentations of material facts and omitted to disclose material facts, including:

    a. That Brogdon, who controlled the Brogdon Entities, had been barred by the NASD, twice;

    b. That Brogdon had been indicted for fraud;

    c. That a court had affirmed a judgment filed against Brogdon in a civil lawsuit that found that Brogdon had failed to honor a stock repurchase guarantee agreement;

    d. That several entities controlled by Brogdon had filed for bankruptcy, had tax liens filed against them, and/or were sued for fraud and misrepresentation;

    e. That Cantone, through COC, had issued approximately $7.7 million worth of COPs in the COC COP Offering, which defaulted;

    f. The Brogdon Entities' late and missed interest payments in the Columbia Financial, Chestnut Financial and Cedars Financial Offerings;

g. The Brogdon Entities' failure to make required principal payments in the Columbia Financial Offering in February 2012, August 2012, and February 2013;

h. Cantone's and Christine Cantone's coverage of interest payments in the Columbia Financial, Chestnut Financial, and Cedars Financial Offerings, in contravention of the CDMs;

i. Cantone's negotiation of secret terms in the extension agreements, including "extension fees" and increased interest rates of between 14% and 15% on the underlying promissory notes in the Columbia Financial and Oklahoma Financial Offerings;

j. That, as of in or about May 2013, Chestnut Independent Living and Highlands Assisted living owed Chestnut Financial approximately $350,000 for past due payments, interest and late fees;

k. That Cedala had sustained the following net losses for the years 2008, 2009 and 2010, respectively: $109,735.73; $232,349.04; and $127,525.92;

l. That, in 2012, Polo Road, Chestnut Independent Living, Highlands Assisted Living, and Cedala collectively lost more than $2 million; and

m. That $64,500 of investor funds from the Oklahoma Financial Offering were used to pay investors' interest on a separate COP offering.

88. CRI and Cantone knew that the representations in the CDMs for the COP Offerings and in Cantone's communications with the COP investors and prospective investors were false and misleading and contained material omissions, or, in the alternative,

were highly reckless in allowing the COPs to be sold on the basis of the false and misleading CDMs and communications.

89. As a result of the foregoing, CRI and Cantone willfully violated Section 10(b) of the Exchange Act, SEC Rule 10b-5 thereunder, and violated FINRA Rules 2020 and 2010.

SECOND CAUSE OF ACTION
MATERIAL MISREPRESENTATIONS AND OMISSIONS IN CONNECTION WITH THE SALE OF THE COP OFFERINGS

(Violations of Section 17(a) of the Securities Act and FINRA Rule 2010 by CRI and Cantone) (Alternative to the First Cause of Action)

90. The Department realleges and incorporates by reference paragraphs 1-89 above.

91. The COPs sold by CRI and Cantone are securities.

92. Section 17(a)(2) of the Securities Act prohibits, in the offer or sale of any securities using interstate commerce, obtaining "money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading."

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

94. During the Relevant Period, in connection with sales and extensions of the COP Offerings, and by the means and instrumentalities of interstate commerce (including telephone and email), CRI and Cantone: (a) made false and misleading statements of material facts and omitted to state material facts necessary in order to make

statements made, in light of the circumstances under which they were made, not misleading, and (b) engaged in transactions, practices, and a course of business which operated as a fraud or deceit on the COP investors.

95. As a result of the foregoing, CRI and Cantone acted in contravention of Sections 17(a)(2) and 17(a)(3) of the Securities Act, and thereby violated FINRA Rule 2010, and independently violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
IMPROPER USE OF CUSTOMER FUNDS

(Violations of FINRA Rules 2150 and 2010 by CRI and Cantone)

96. The Department realleges and incorporates by reference paragraphs 1-95 above.

97. FINRA Rule 2150(a) provides that "[n]o member or person associated with a member shall make improper use of a customer's securities or funds."

98. In July 2011, CRI and Cantone received approximately $2.8 million in funds from approximately 87 investors, including at least 79 CRI customers, for investment in the Oklahoma Financial Offering.

99. Pursuant to the CDM for the Oklahoma Financial Offering and communications by Cantone to prospective investors, the monies raised in the Oklahoma Financial Offering were to be used to purchase five Oklahoma nursing homes.

100. However, in July 2011, CRI and Cantone held back approximately $64,500 of investors' funds.

101. According to Cantone, the $64,500 was held back as "leverage" to induce Brogdon to make payment on a separate promissory note unrelated to the Oklahoma Financial Offering.

102. In August 2011, CRI and Cantone caused the $64,500 to be wired to a bank account controlled by Brogdon.

103. Subsequently, Brogdon wired the same $64,500 to CRI and Cantone, who then used those funds to pay investors on a separate COP Offering, unrelated to Oklahoma Financial.

104. As a result of the foregoing, CRI and Cantone violated FINRA Rules 2150 and 2010.

FOURTH CAUSE OF ACTION
UNSUITABLE RECOMMENDATIONS

(Violations of FINRA Rules 2111(a) and 2010 by CRI and Cantone)

105. The Department realleges and incorporates by reference paragraphs 1-104 above.

106. FINRA Rule 2111(a) requires a member, when making a recommendation to purchase or sell a security, to have a "reasonable basis to believe that a recommended transaction ... is suitable for the customer...." A broker-dealer must first have a reasonable basis to believe, based upon a reasonable investigation, that the recommendation is suitable for at least some investors.

107. Between in or about April 2013 and in or about June 2013, Cantone recommended the purchase of the Cherokee Financial COPs to at least 46 CRI customers.

108. Cantone lacked a reasonable basis for believing that the Cherokee Financial COPs were suitable for any investor in light of: (i) his failure to conduct reasonable diligence into Arcadia and the viability of the underlying real-estate project in Conyers, Georgia; and (ii) the multiple "red flags" concerning Brogdon and the Brogdon Entities, as described above.

109. As a result of the foregoing, CRI and Cantone violated FINRA Rules 2111(a) and 2010.

FIFTH CAUSE OF ACTION
FAILURE TO SUPERVISE

(Violations of NASD Conduct Rule 3010 and FINRA Rule 2010 by CRI and Christine Cantone)

110. The Department realleges and incorporates by reference paragraphs 1-109 above.

111. During the Relevant Period, Christine Cantone was Cantone's supervisor for the purposes of his sale of securities to at least 100 CRI customers.

112. During this period, Christine Cantone became aware of numerous red flags concerning Cantone's sales of the COP Offerings to CRI customers:

a. Christine Cantone was aware of Cantone's participation in the failed COC COP Offering.

b. Christine Cantone was aware that Brogdon had been barred from the securities industry;

c. Christine Cantone was aware that the Brogdon Entities missed numerous interest payments, and that Cantone had secretly "covered" the interest payments; and

d. Christine Cantone was aware that the Brogdon Entities missed principal payments and that Cantone had extended the underlying promissory notes in exchange for undisclosed fees and increased interest payments.

113. Notwithstanding her knowledge of these red flags, Christine Cantone failed to take reasonable steps to respond to or otherwise address them or to ensure that Cantone was accurately and completely disclosing all material facts concerning the COP Offerings to the investors and prospective investors, many of whom also were CRI customers.

114. As a result of the foregoing, CRI and Christine Cantone violated NASD Conduct Rule 3010 and FINRA Rule 2010.

RELIEF REQUESTED

WHEREFORE, the Department 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 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 Respondents 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 Respondents CRI and Cantone willfully violated Section 10(b) of the Exchange Act.

FINRA DEPARTMENT OF ENFORCEMENT

Date: November 20, 2015

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