

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013036837803**

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

RE: Robert E. Richards, Respondent
Former Registered Representative
CRD No. 2663610

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, I, Robert E. Richards ("Richards" or "Respondent") submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Richards entered the securities industry in 1995 and became registered as General Securities Representative in February 1996. In 1999 he became registered as a General Securities Principal and Equity Trader. Richards passed the Uniform Securities State Law Exam in 2004.

Since 1995, Richards has been registered with seven member firms. From February 2005 until his voluntary termination in July 2014, Richards was registered with Finance 500, Inc. ("Finance 500" or "Firm") as a General Securities Representative, General Securities Principal, and Equity Trader. Throughout his time at Finance 500, Richards worked out of the Firm's Florida office where he also acted as branch manager. After leaving Finance 500, Richards was registered with a different FINRA-member firm from July 2014 through April 2015.

Richards is currently not registered with any FINRA member but remains subject to FINRA's jurisdiction pursuant to Article V, Section 4 of FINRA's By-Laws.

Richards has no disciplinary history.

OVERVIEW

From 2005 to 2014, Richards was a supervisor for Finance 500's Florida branch office. During that time, five to seven brokers worked in the branch and reported to Richards and others. Richards also was a broker and trader in certain penny stock companies. Throughout the period, the Florida branch traded listed and low-priced equities as a market maker, for the Firm's accounts, and for its retail customers. As set forth in more detail below, Richards, through his actions and omissions, aided and abetted a price manipulation of two penny stocks, failed to implement Finance 500's AML procedures, and failed to adequately supervise the Florida branch.

In 2010, Richards, who was one of the Finance 500 traders in Dolphin Digital Stock ("DPDM"), aided and abetted the price manipulation of DPDM by Robert Mouallem, a broker at FINRA-member firm GS, and two of Mouallem's customers. Also in 2010, Richards, who was one of the Finance 500 traders in Fibrocell Science, Inc. ("FCSC"), aided and abetted the price manipulation of FCSC by a trader at former FINRA-member John Carris Investments, LLC ("JCI").

At the time Richards made trades in both DPDM and FCSC, Richards was reckless in failing to recognize that his actions were part of an overall course of conduct that was illegal or improper and in failing to inquire sufficiently into whether the trades were part of such a course of conduct. As a result, Richards violated FINRA Rule 2010.

By engaging in penny stock trading on behalf of Firm customers, the Florida branch dealt in a segment of the market prone to fraudulent activity. Despite the risks, Richards did not implement Finance 500's AML compliance system. As a result, Richards was either unaware of or chose to ignore numerous red flags related to his branch's market making activity and the retail trading activity of its customers. Specifically, he failed to monitor for red flags associated with suspicious activity, and, when he became aware of red flags, failed to perform additional due diligence or report the suspicious activity to the Firm's AML Officer. As a result, Richards violated NASD Rule 3011(a) and FINRA Rules 3310(a) and 2010.

Richards also failed to properly supervise the Florida branch. Richards did not regularly review the Florida branch's trade blotters or the electronic correspondence sent and received by his brokers and did not comply with the Firm's policies and procedures related to the sale of unregistered securities. As a result, Richards violated NASD Rule 3010(b) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Richards Violated FINRA Rule 2010

Pre-arranged or "matched" trades occur when an individual coordinates buy and sell orders for a security at substantially the same price, the same size, and at the same time. Matched trading is a "manipulative device" when the trades are intended to artificially affect the market for a security. FINRA Rule 2010 states that "[a] member, in the conduct of its business, shall observe high

standards of commercial honor and just and equitable principles of trade.” A broker violates FINRA Rule 2010 when, like Richards, he aids and abets a price manipulation by others.

DPDM

From at least March 31, 2010 through April 6, 2010, Richards aided and abetted the price manipulation of DPDM by Mouallem and his customers.

Beginning in 2009, Giuseppe Pino Baldassarre, DPDM’s former President and Chief Executive Officer, and Malcolm Stockdale, a DPDM shareholder, developed a scheme to manipulate the market for DPDM stock through a series of matched trades. Mouallem, their broker at GS, arranged for the buy and sell orders to be entered at pre-determined times, prices, and quantities; he placed the pre-arranged sell orders of DPDM stock for Baldassarre’s and Stockdale’s accounts through Finance 500.

Mouallem provided Richards and other Finance 500 traders with orders to sell shares of DPDM at specific prices and quantities. Mouallem would direct Richards to reduce his asking price at a specific time so that his would be the lowest offer in the market. Mouallem would also inform Richards who the contra party to certain trades would be. As a result, Baldassarre’s and Stockdale’s shares would be executed against corresponding purchase orders entered by others participating in the scheme.

At the time he was executing the trades, Richards knew that DPDM was thinly traded. He also knew that Baldassarre and Stockdale were interested in selling large quantities of DPDM stock without impacting the price. Between March 31 and April 6, 2010, Mouallem placed four orders to sell a total of 90,000 shares of DPDM on behalf of Baldassarre and Stockdale, generating approximately \$31,775 in proceeds.

Richards rendered substantial assistance in the manipulation of DPDM by executing the trades as instructed by Mouallem. Richards was reckless in failing to recognize that his actions were part of an overall course of conduct that was illegal or improper.¹

FCSC

Between May 1, 2010 and September 30, 2010, Richards aided and abetted the price manipulation of FCSC by JCI and its trader, Jason Barter.²

Beginning in September 2009, JCI acted as a placement agent for nine FCSC offerings. Richards was aware that JCI had been involved with these offerings and had a financial interest in improving the price of FCSC.

¹ Baldassarre, Stockdale, and Mouallem were subsequently arrested, convicted, and imprisoned for their fraudulent trading of DPDM stock.

² In FINRA Disciplinary Proceeding No. 2011028647101 (Jan. 14, 2015), JCI and Barter were found to have violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder for manipulating FCSC.

Richards was also aware that FCSC was a very illiquid stock and that it was thinly traded. Regardless, on at least 60 occasions over approximately two months, Barter routed buy and sell orders of FCSC to Richards and other Finance 500 traders with identical price and volume to Finance 500 for execution. Barter misrepresented the trades as crosses merely to change beneficial ownership for clients. In all 60 instances, however, the buy and sell orders were submitted to the Florida branch within 10 seconds of one another. These matched trades had little or no economic purpose and made up a large portion of the trading volume for FCSC.

Richards rendered substantial assistance in the manipulation of FCSC by executing the trades as instructed by Barter. Richards was reckless in failing to recognize that his actions were part of an overall course of conduct that was illegal or improper.

By aiding and abetting price manipulation of DPDM and FCSC, Richards violated FINRA Rule 2010.

Richards Violated NASD Rule 3011(a) and FINRA Rules 3310(a) and 2010

FINRA Rule 3310(a) and former NASD Rule 3011(a)³ requires members to establish and implement policies and procedures “that can be reasonably expected to detect and cause the reporting of” suspicious activity and transactions as required by the Bank Secrecy Act.⁴ Notices to Members 02-21 (April 2002) and 02-47 (August 2002) emphasized a firm’s duty to detect red flags and, if detected, “perform additional due diligence before proceeding with the transaction.” Member firms’ AML programs must also lead to the reporting of suspicious transactions, where appropriate.

The Firm’s AML policies placed an obligation on the Firm’s associated persons to “be aware of ‘red flags’ that may indicate suspicious activity” and provided examples of possible red flags. When an associated person became aware of a red flag, the Firm’s procedures required two additional steps. The registered person must “perform additional due diligence before proceeding with any transactions,” and also should “IMMEDIATELY report any suspicious activity” to one of the Firm’s principals or its AML Compliance Officer.

On several occasions, Richards failed to fulfill his responsibilities under these AML procedures in numerous respects. Richards failed to adequately monitor his branch for suspicious activity by not regularly reviewing his branch’s market making blotter for red flags indicating manipulative trading. When Richards became aware of red flags, he failed to investigate or escalate the issue to the AML Compliance Officer. For example, in August 2012, Richards learned that one of his customers, ██████████, had been arrested for manipulating the market for a penny stock company. Cimino pled guilty, served time, and had a penny stock bar placed on him as a result of an action by the Securities and Exchange Commission. Nevertheless, Richards opened an account for Cimino’s wife that was used to deposit and

³ FINRA Rule 3310 became effective Jan. 1, 2010.

⁴ FINRA Rule 0140 (effective December 15, 2008) states that “[t]he Rules shall apply to all members and persons associated with a member. Persons associated with a member shall have the same duties and obligations as a member under the Rules.” Thus, FINRA Rule 3310 applies to individual registered representatives who ignore and/or fail to report red flags of potentially suspicious activity.

liquidate shares of a penny stock, on at least one occasion at Cimino's direction. Richards neither conducted additional due diligence nor reported the activity in the Cimino account to the Firm's AML Compliance Officer.

Similarly, and as discussed above, Richards executed suspicious trades in DPDM and FCSC without making further inquiry. Again, Richards did not report the activity to the Firm's AML Compliance Officer.

Accordingly, Richards violated NASD Rule 3011(a) and FINRA Rules 3310(a) and 2010.

Richards Violated NASD Rule 3010(b) and FINRA Rule 2010

NASD Rule 3010(b) requires a member to "establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD." A supervisor has a duty to enforce the firm's supervisory systems and investigate red flags indicating misconduct.

The Florida branch Richards supervised engaged in high-risk activity – trading and liquidation of low-priced securities. Despite the substantial risk posed by this activity, on several occasions, Richards failed to implement and enforce a supervisory system in Finance 500's Florida branch office. His specific supervisory failures include:

- Richards failed to adequately review trade blotters and other reports to identify suspicious or manipulative trading. As a result, he failed to identify or respond to numerous red flags indicating suspicious trading was occurring at the Florida branch.
- Richards failed to perform due diligence to verify a person's identity prior to approving customer accounts. As a result, Richards approved new accounts for individuals with criminal and regulatory backgrounds who subsequently engaged in suspicious trading.
- Richards failed to review all of the electronic communications sent or received by the staff he supervised, as required by Firm procedures.
- Richards failed to adequately implement the Firm's procedures related to compliance with Section 5 of the Securities Act of 1933. Richards repeatedly approved new customer accounts and the deposit of low-priced securities without ensuring adequate searching inquiry was conducted, despite evidence that the accounts were to hold recently obtained physical certificates for which there was incomplete documentation as to how and when the customer acquired the shares.

As a result, Richards violated NASD Rule 3010(b) and FINRA Rule 2010.

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

- a two-year suspension from association with any FINRA member in any capacity;
- a requirement to requalify as a General Securities Principal by passing the Series 24 examination prior to reassociation with any FINRA member in that capacity following the two-year suspension; and
- a \$25,000 fine.

The fine shall be due and payable either immediately upon reassociation with a member firm following the two-year suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

I understand that if I am barred or suspended from associating with any FINRA member, I become subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Exchange Act. Accordingly, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

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

Further, I specifically and voluntarily waive any right to claim bias or prejudgment of the Chief

Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

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

III.

OTHER MATTERS

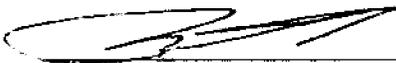
I understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
 1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 4. I may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. I may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects my: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

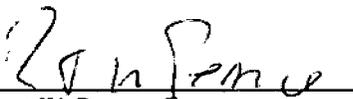
- D. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

1.8.16
Date (mm/dd/yyyy)


Robert E. Richards

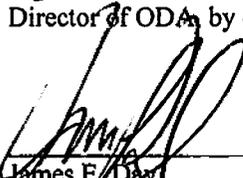
Reviewed by:


Robert W. Pearce, Esq.
Counsel for Respondent
Robert Wayne Pearce, P.A.
1499 W. Palmetto Park Road, Suite 400
Boca Raton, Florida 33486
T: 561.338.0037

Accepted by FINRA:

1/11/16
Date

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


James E. Day
Vice President and Chief Counsel
FINRA Department of Enforcement
15200 Omega Drive, Suite 300
Rockville, MD 20850
T: 301.258.8520
F: 301.208.8090