

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

**DEPARTMENT OF ENFORCEMENT,**

COMPLAINANT,

V.

**L.J. HART AND COMPANY**  
(CRD NO. 28867)

**AND**

**LARRY JOE HART**  
(CRD NO. 836620),

RESPONDENTS.

**DISCIPLINARY PROCEEDING  
NO. 2011027491601**

**HEARING OFFICER: MAD**

**ORDER ACCEPTING OFFER OF  
SETTLEMENT**

Date: September 24, 2013

**INTRODUCTION**

Disciplinary Proceeding No. 2011027491601 was filed on December 28, 2012, by the Department of Enforcement of the Financial Industry Regulatory Authority (“FINRA”) (“Complainant”). Respondent, L.J. Hart and Company (“L.J. Hart” or the firm), submitted an Offer of Settlement (“Offer”) to Complainant dated September 13, 2013. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (“NAC”), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (“ODA”) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.<sup>1</sup>

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, as amended by the Offer of Settlement, and

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<sup>1</sup>Pursuant to the Offer of Settlement, by this Order all claims against Respondent, Larry Joe Hart, and all claims under Rule G-17, are dismissed.

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, to the entry of findings and violations consistent with the allegations of the Complaint, as amended by the Offer of Settlement, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

### **BACKGROUND**

L.J. Hart is a municipal underwriting firm; the firm is a FINRA member and has been a FINRA member since 1991. The firm primarily underwrites the issuance of bonds for Missouri school districts and counties. L.J. Hart's home office is located in St. Louis and, while the firm does not have any branch locations, it employs six registered individuals throughout the State of Missouri. By virtue of its current FINRA membership, FINRA has jurisdiction over L.J. Hart under Article IV of its By-Laws. The firm has no relevant disciplinary history.

### **FINDINGS AND CONCLUSIONS**

It has been determined that the Offer be accepted and that findings be made as follows:<sup>2</sup>

#### **Summary**

1. From January 1, 2009 to March 31, 2011 (the "Relevant Period"), L.J. Hart engaged in a program of improperly gifting tickets to various sporting events in Kansas City, Missouri and St. Louis, Missouri to employees of municipal securities issuers (e.g., public school superintendents, county commissioners, etc.), or members of the governing

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<sup>2</sup> The findings herein are pursuant to Respondent L.J. Hart's Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

boards for such municipal securities issuers (e.g., school board members) (collectively, “Municipal Issuer Representatives”).

2. During the Relevant Period, the L.J. Hart ticket-gifting program resulted in the firm improperly gifting over 2,000 tickets valued at \$183,546.00 to Municipal Issuer Representatives. Specifically, on 598 distinct occasions throughout the Relevant Period, L.J. Hart gifted tickets to various sporting events valued in excess of \$100 to individual Municipal Issuer Representatives within a one-year period. In each such case, L.J. Hart did not host the Municipal Issuer Representatives at the sporting events and, in fact, there were no L.J. Hart employees present at the events.

3. The tickets gifted by L.J. Hart were related to the municipal securities business conducted by L.J. Hart’s municipal issuer clients. Indeed, L.J. Hart only gifted tickets to Municipal Issuer Representatives employed by or associated with firm clients. Individuals associated with municipal issuers that retained a firm other than L.J. Hart were not offered tickets. Moreover, L.J. Hart at times gave multiple sets of tickets, as well as more expensive tickets, to Municipal Issuer Representatives associated with clients that retained L.J. Hart to underwrite major financing projects.

4. By gifting tickets worth over \$100 in a one-year period to Municipal Issuer Representatives for sporting events not hosted by L.J. Hart, the firm violated MSRB Rule G-20. In addition, by failing to establish and maintain a supervisory system reasonably designed to supervise the gifting of tickets to Municipal Issuer Representatives, L.J. Hart violated MSRB Rule G-27.

### **Respondents and Jurisdiction**

5. L.J. Hart is a municipal underwriting firm; the firm is a FINRA member and has been a FINRA member since 1991. The firm primarily underwrites the issuance of bonds for Missouri school districts and counties. L.J. Hart's home office is located in St. Louis and, while the firm does not have any branch locations, it employs six registered individuals throughout the State of Missouri. By virtue of its current FINRA membership, FINRA has jurisdiction over L.J. Hart under Article IV of its By-Laws.

### **First Cause of Action** **MSRB Rule G-20** **Gifts, Gratuities and Non-Cash Compensation** (L.J. Hart)

6. The Department realleges and incorporates by reference paragraphs 1-5, above.

7. During the Relevant Period, L.J. Hart purchased season tickets for games of the following teams: the Kansas City Chiefs (football), the Kansas City Royals (baseball), the St. Louis Blues (hockey), the St. Louis Cardinals (baseball), and the St. Louis Rams (football). The firm also purchased tickets for playoff games or additional tickets for regular season games the firm believed Municipal Issuer Representatives would enjoy (e.g., the St. Louis Cardinals vs. the Kansas City Royals).

8. L.J. Hart distributed the tickets to Municipal Issuer Representatives associated with municipal entities that it considered customers of the firm. Customers included school districts and counties for which L.J. Hart had underwritten municipal securities offerings and with which the firm maintained a continuous business relationship. If a municipal entity chose to use the services of another firm, then the firm no longer

considered that entity a customer, and the Municipal Issuer Representatives for that entity did not receive tickets from L.J. Hart.

9. L.J. Hart distributed approximately one-third of the tickets it purchased to members of various Missouri school boards through the annual conference held by the Missouri School Boards Association. L.J. Hart was an exhibitor at the conference, which typically took place in late September. As an exhibitor at the conference, L.J. Hart personnel asked school board members to fill out a piece of paper with their contact information and professional affiliation if they wanted to attend one of the offered football, baseball, or hockey games.

10. After the conference, the firm separated the names of Municipal Issuer Representatives who were associated with L.J. Hart clients from the names of Municipal Issuer Representatives who were not associated with L.J. Hart clients. Municipal Issuer Representatives not associated with L.J. Hart clients were not given tickets.

11. After L.J. Hart selected the Municipal Issuer Representatives who would receive tickets, the firm would send letters to them proposing several dates for a sporting event. Based on an expressed preference, the firm then mailed each recipient a set of two or four tickets to a football, baseball or hockey game. Most recipients received four tickets, and some received parking passes. L.J. Hart did not place any conditions on the recipients' use of the tickets.

12. L.J. Hart awarded additional tickets to Municipal Issuer Representatives in a similar manner at the annual conference held by the Missouri Association of Rural Education.

13. L.J. Hart also gifted roughly one-half of its season tickets to Missouri school superintendents. L.J. Hart personnel contacted various superintendents for firm clients to check their availability to attend games. The firm then mailed the tickets to the superintendents of L.J. Hart's school district clients who committed to attend the games. Again, L.J. Hart did not place any conditions on the use of the tickets.

14. L.J. Hart also gifted a number of the remaining tickets to county commissioners for counties that retained L.J. Hart's underwriting services, and to personnel of banks that purchased bonds from L.J. Hart.

15. During the Relevant Period, the tickets gifted by L.J. Hart for various sporting events ranged in price from \$32.00 each to \$260.00 each. The Municipal Issuer Representatives typically received sets of two to four tickets and could use the additional tickets for anyone of their choosing, including family and friends.

16. L.J. Hart at times issued the most expensive tickets to Municipal Issuer Representatives of clients that the firm considered significant, i.e., clients that retained the firm for multiple high dollar financing projects over a period of years. These Municipal Issuer Representatives also often received multiple sets of tickets each calendar year.

17. For example, in 2009, L.J. Hart underwrote an issuance of bonds for Municipal Issuer A. The following Municipal Issuer Representatives associated with Municipal Issuer A received tickets to various sporting events in 2009, which were not hosted by L.J. Hart:

(a) Municipal Issuer Representative 1 received two Rams tickets to one game valued at \$148.00 total;

(b) Municipal Issuer Representative 2 received four Cardinals tickets to one game valued at \$260.00 total;

(c) Municipal Issuer Representative 3 received four Cardinals tickets valued at \$260.00 total; and

(d) Municipal Issuer Representative 3 further received two Rams tickets to one game valued at \$200.00 total.

18. L.J. Hart's gifts to the Municipal Issuer Representatives of Municipal Issuer A did not end in 2009. In 2010, Municipal Issuer Representative 4 received four Cardinals tickets to one game valued at \$268.00; Municipal Issuer Representative 5 received four Cardinals tickets to one game valued at \$460.00; Municipal Issuer Representative 3 received four Rams tickets to one game valued at \$400.00; and Municipal Issuer Representative 6 received two Blues tickets to one game valued at \$150.00.

19. In another example, in 2010, L.J. Hart underwrote the issuance of bonds for Municipal Issuer B. Municipal Issuer Representative 7 from Municipal Issuer B, received the following tickets during the Relevant Period:

(a) Four Cardinals tickets to one game valued at \$260.00 total;

(b) Two Rams tickets to one game valued at \$200.00 total;

(c) Two Blues tickets to one game valued at \$106.00 total;

(d) Four Rams tickets to one game valued at \$280.00 total; and

(e) Another four Rams tickets to one game valued at \$400.00 total.

20. Municipal Issuer Representatives could receive tickets from L.J. Hart while employed for different Municipal Issuer clients of L.J. Hart. For example in 2009, Municipal Issuer Representative 8, then of Municipal Issuer C, a client of L.J. Hart received four Cardinals baseball tickets to one game from the firm valued at \$220.00. The next year, Municipal Issuer Representative 8 transferred to Municipal Issuer D, also a client of L.J. Hart. In 2010, Municipal Issuer Representative 8 received four Cardinals

baseball tickets to one game from L.J. Hart in 2010, valued at \$404.00. In 2009, L.J. Hart underwrote an issuance of bonds for Municipal Issuer C. In 2010, L.J. Hart underwrote an issuance of bonds for Municipal Issuer D.

21. All told, in 598 instances during the Relevant Period, L.J. Hart, improperly gifted 2,143 tickets valued at \$183,546.00 to Municipal Issuer Representatives associated with L.J. Hart clients. Exhibit 1 to the Complaint is a spreadsheet which lists each sporting event ticket improperly gifted by L.J. Hart during the Relevant Period. The spreadsheet also contains the names of the recipients, the number of tickets received, the value of the tickets received, the relevant dates and sporting events, and the names of the recipients' employers, all of which were L.J. Hart clients.

22. The tickets gifted by L.J. Hart were related to the municipal securities activities of the employers of the Municipal Issuer Representatives who received tickets as evidenced by, among other things, the following:

(a) Only Municipal Issuer Representatives associated with L.J. Hart clients received tickets from L.J. Hart;

(b) Individuals associated with municipal securities issuers that retained firms other than L.J. Hart were not offered tickets; and,

(c) L.J. Hart gave multiple sets of tickets and more expensive tickets to Municipal Issuer Representatives associated with clients that retained L.J. Hart to underwrite major financing projects.

As a result of the foregoing conduct, Respondent L.J. Hart and Company violated MSRB Rule G-20.

**Second Cause of Action**  
**MSRB Rule G-27**  
**Supervision**  
(L.J. Hart)

23. The Department realleges and incorporates by reference paragraphs 1-23 above.

24. During the Relevant Period, L.J. Hart failed to establish and maintain a supervisory system reasonably designed to achieve compliance with the applicable MSRB Rules.

25. First, L.J. Hart's written supervisory procedures regarding gifts and gratuities improperly stated the requirements of Rule G-20. The procedures stated: "Under this rule, the Firm is prohibited from giving anything of service or value including gratuities in excess of \$100.00 per year to anyone in relation to the municipal securities activities of the firm. There are exceptions which include tickets for sporting events and other entertainment, occasional meals and sponsoring of legitimate business functions. All employees of the Firm are to be made cognizant of this requirement prior to accepting a position. It is the responsibility of the Compliance Officer to educate all staff members of this rule in order to insure the Firm abides by it."

26. The policy established and maintained by L.J. Hart, however, failed to note that MSRB Rule G-20 states that the exemption for occasional gifts of meals or tickets to theatrical, sporting, and other entertainment only applies if such events are hosted by the broker, dealer or municipal securities dealer. During the Relevant Period L.J. Hart gifted over 2,000 tickets to sporting events that were not hosted by the firm.

27. Second, the firm's written procedures did not contain any procedures detailing how L.J. Hart personnel would be supervised to ensure that they did not give

anything of service or value in excess of \$100.00 per year to anyone in relation to the municipal securities activities of the recipient's employer. Specifically, the firm's procedures failed to: (a) designate any specific individual responsible for supervising the ticket gifting program; (b) specify the manner in which such supervision should be performed; (c) specify the frequency of any supervisory review; and, (d) identify a process for documenting any supervisory review.

28. In sum, the activities of L.J. Hart went unchecked by any supervisor or supervisory process, and resulted in the gifting of over 2,000 tickets to sporting events that were not hosted by the firm, in violation of Rule G-20.

29. Through this conduct, L.J. Hart violated MSRB Rule G-27.

Based on the foregoing, Respondent violated MSRB Rules G-20 and G-27. Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

### **SANCTIONS**

It is ordered that Respondent be censured and fined \$200,000. The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

FINRA

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



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