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BEFORE THE

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC

In the Matter of the Application of

Merrimac Corporate Securities, Inc.

and

Robert G. Nash

For Review of Disciplinary Action Taken by

FINRA

File No. 3-18045

FINRA'S BRIEF IN OPPOSITION TO THE APPLICATION FOR REVIEW

Alan Lawhead
Vice President and
Director – Appellate Group

Michael Garawski
Associate General Counsel

Celia L. Passaro
Assistant General Counsel

FINRA
1735 K Street, NW
Washington, DC 20006
(202) 728-8985

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I. INTRODUCTION

This case concerns a number of violations resulting from the lax supervisory culture maintained over many years by Merrimac Corporate Securities, Inc. ("Merrimac") and one of its supervisors, Robert G. Nash. For the period spanning from 2008 through 2012, while Merrimac embarked on risky new lines of business, including trading penny stocks and working with foreign finders, Merrimac and Nash failed to adopt and implement the supervisory and anti-money laundering ("AML") procedures required of member firms. These failures to supervise their business violated FINRA rules and concerned important areas such as AML, private securities transactions, penny stock deposits, advertising, and foreign finders. Moreover, Merrimac's and Nash's inadequate supervision resulted in other serious violations, including

providing documents to FINRA on which signatures evidencing supervisory review had been falsified and the unregistered, non-exempt resale by Merrimac of restricted securities.

On appeal, Merrimac and Nash attempt to deflect attention from their own serious violations by attacking FINRA. They accuse FINRA of unfairly targeting the firm for enforcement, the Department of Enforcement ("Enforcement") of acting unethically and incompetently, and the Hearing Officer of being biased, abusing her discretion, and "conspiring" with Enforcement during the hearing. Merrimac's and Nash's rambling accusations are inflammatory and utterly without merit. Neither Merrimac nor Nash cite any support in the record for their claims because there is none. Simply put, the Commission should dismiss these distractions and focus on the uncontroverted evidence of Merrimac's and Nash's violations.

In its brief, Merrimac acknowledges that it is not "without fault."[1] (Merrimac Br. 31st page.) This is an understatement. The record supports that Merrimac and Nash failed to implement even minimally adequate supervisory procedures, going so far as to implement FINRA supervisory templates without even bothering to fill in the blanks in those templates. Merrimac and Nash repeatedly ignored red flags related to penny stock and other risky activities and failed to detect serious wrongdoing by its associated persons. In short, the record strongly supports the violations found by FINRA's National Adjudicatory Council ("NAC") and the sanctions it imposed and the Commission should affirm them.

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[1] "R. __" refers to the page number in the certified record filed with the Commission on August 9, 2017. "Merrimac Br. __" refers to Merrimac's October 28, 2017 brief in support of its application for review. "Nash Br. __" refers to the brief filed by Nash dated October 26, 2017. Since Merrimac neither submitted its brief in hard copy form nor numbered is pages as required by Commission rules of practice, FINRA's citations are based on its printed copy of Merrimac's brief.

II. BACKGROUND

A. Merrimac Corporate Securities, Inc.

Merrimac, a broker-dealer based in Altamonte Springs, Florida, registered with FINRA in 1993. (R. 2924.) During the relevant period, Stephen D. Pizzuti was Merrimac's Chief Executive Officer, and the majority owner of the firm was Pizzuti's wife. (R. 2926-27.) In March 2016, FINRA expelled Merrimac from membership for failure to pay certain fines and costs.[2]

Merrimac was the subject of several disciplinary matters. It was suspended and its registration cancelled for failing to pay required fees. (R. 2931-36.) In 2013, Merrimac was fined and required to retain an independent consultant for failure to supervise reasonably outside business activities and private securities transactions and for failure to establish, maintain, and enforce reasonably its written supervisory procedures ("WSPs") with respect to these activities. (R. 2944-45.). In 2009, FINRA fined Merrimac for selling private placements in contravention of the terms of its membership agreement. (R. 2937-40.)

B. Robert G. Nash

Nash registered as a general securities principal with Merrimac in 2008. (R. 2958.) During the relevant period, Nash served as Merrimac's Chief Compliance Officer ("CCO"). (R. 2926.) Merrimac's WSPs specifically provided that Nash was responsible for supervising and reviewing: (1) office of supervisory jurisdiction ("OSJ") principals; (2) securities transactions; (3) customer complaints; (4) customer accounts; (5) commissions and markups; (6) branch office reviews and examinations; (7) private placements; and (8) outside business activities. (R. 16,200-202.) Nash is not currently registered with a FINRA member firm.

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[2] *See* Merrimac BrokerCheck Report, at p. 15 (attached hereto as Exhibit A).

III. PROCEDURAL HISTORY

This proceeding arose out of several investigations, which were consolidated, that concerned: (1) the outside business activities of John W. Dubrule and Kevin A. Tuttle, Merrimac registered representatives who operated Merrimac's Orlando, Florida OSJ; (2) the content of an investment-related website operated by Pizzuti and Merrimac's supervision of that website; (3) Merrimac's unregistered and non-exempt resales of restricted securities; and (4) Merrimac's supervisory and AML systems. (R. 1-110.)

The consolidated investigations resulted in FINRA's Department of Enforcement ("Enforcement") filing an eight-cause complaint on July 3, 2013 (the "Complaint"). The Complaint named Merrimac, Nash, Pizzuti, Dubrule, Tuttle, and David W. Matthews, Merrimac's AML Compliance Officer ("AMLCO").[3] The Complaint included several causes of action alleging violations by Merrimac and Nash. First, the complaint alleged that Merrimac and Nash provided falsified documents to FINRA, which falsely reflected supervisory review of the deposit of low-priced securities at the firm, in violation of FINRA Rules 8210 and 2010. The Complaint also alleged that Merrimac violated FINRA Rule 2010 by causing the sale of unregistered securities in contravention of Section 5 of the Securities Act of 1933 (the "Securities Act"). Merrimac and Nash were also charged with failure to establish and implement an effective AML system, in violation of NASD Rule 3011(a) and FINRA Rules 3310 and 2010, and with failure to maintain an effective supervisory system, including adequate WSPs, in violation of NASD Rules 3010 and 2110 and FINRA Rule 2010. Finally, the Complaint alleged

[3] Pizzuti, Matthews, Dubrule, and Tuttle settled the claims against them prior to the hearing.

that Merrimac violated Article IV, Section 1 of FINRA's By-Laws and FINRA Rule 2010 by effecting securities transactions while its registration was suspended.

An Extended Hearing Panel ("Hearing Panel") conducted a seven-day hearing and, on March 31, 2015, issued a decision (the "Extended Hearing Panel Decision"). (R. 18,411-446.) The Extended Hearing Panel Decision found that Merrimac had committed the alleged violations. (R. 18,411-12.) The Hearing Panel also found that Nash violated FINRA Rules 8210 and 2010 by submitting false documents to FINRA and violated NASD Rules 3010 and 2110 and FINRA Rule 2010 by failing to maintain a reasonable supervisory system and procedures. (Id.) The Extended Hearing Panel Decision dismissed the allegations of AML violations against Nash because he was not the designated AMLCO. (R. 18,411-12, 18,425.)

For the violations, the Hearing Panel fined Merrimac a total of $225,000, suspended it from FINRA membership for 30 days, suspended it from receiving and liquidating penny stocks for which no registration statement is in effect for one year, and required Merrimac to retain an independent consultant to revise its WSPs. (R. 18,445-46.) For his violations, Nash was fined a total of $50,000, suspended in all principal capacities for a period of one year, and required to requalify as a principal. (Id.)

On April 25, 2015, Merrimac and Nash filed separate notices of appeal appealing the Extended Hearing Panel Decision to the National Adjudicatory Council ("NAC"). (R. 18,447-461.) After a de novo review, the NAC issued a May 26, 2017 decision affirming the Hearing Panel's findings of violation and the sanctions it imposed (the "NAC Decision"). (R. 19,171-206.) This appeal followed.

III. ARGUMENT

On appeal, Merrimac and Nash challenge the NAC's findings of violation and accuse Enforcement and the Hearing Panel of misconduct and bias during the proceedings below. The record, however, supports the NAC's findings of violation and is devoid of any evidence to support Merrimac's and Nash's hyperbolic claims of bias, which appear to be based on hearsay and unauthenticated documents that Merrimac submitted on appeal without the required motion to adduce establishing their admission.[4] Moreover, the record supports the sanctions imposed by FINRA on Merrimac and Nash. The Commission, accordingly, should affirm the NAC Decision.

A. Merrimac and Nash Provided Documents With Falsified Signatures to FINRA

The NAC found that in response to four separate FINRA Rule 8210 requests for documents and information, Merrimac and Nash submitted to FINRA documents on which Nash's signature was copied by a Merrimac employee, falsely reflecting Nash's supervisory review, in violation of FINRA Rules 8210 and 2010. The record supports this finding and the Commission should affirm it.

1. Facts

Beginning in 2008 and through 2010, Merrimac customers increasingly traded low-priced securities not listed on a national securities exchange (so-called "penny stocks"), particularly in the Orlando OSJ run by Dubrule and Tuttle. (R. 2331, 2336, 2498-99, 2793, 14,769-806.) When a customer deposited penny stocks in his or her account, Merrimac used a form provided by its

[4] On November 27, 2017, FINRA filed a separate motion to strike the documents submitted by Merrimac on appeal.

clearing firm called the Deposit Securities Request for Bulletin Board, Pink Sheet and Unregistered Securities (the "DSR form"). (R. 1391-93, 1448, 1857-58, 15,341-46.)

The DSR form required the customer to provide certain information about the source of the stock the customer wanted to deposit. (Id.) The purpose of the DSR form was to allow Merrimac to determine whether the stock qualified for resale either because it was not restricted or control securities or because the resale of those securities qualified for a valid exemption from registration. (Id.) The DSR form was to be first signed by the customer, who represented that the information provided was "true and correct," and then signed by the customer's registered representative. (Id.) The registered representative would then forward the form for review and approval by either one or two Merrimac supervisors. (Id.)

In September 2010, Merrimac and Nash learned that from February through September 2010, Cecelia Schiffer, a registered representative who assisted Dubrule in the Orlando branch office, had falsified a number of DSR forms using photocopies of Dubrule's and Nash's signatures and affixing them on the documents. (R. 1455-71, 1642, 2367-68, 2398, 17,760-62.) The falsification of these documents resulted in expediting the deposit and clearing process for the penny stocks being deposited. (Id.) Schiffer's falsification came to light when she admitted her misconduct to Dubrule. (R. 17,760-62.) Dubrule and Schiffer subsequently had a meeting with Nash and Pizzuti in September 2010 to discuss what had happened. (R. 2394-5.) The discovery of Schiffer's misconduct led to the firm's adoption in September 2010 of a new policy concerning the deposit of penny stocks. (R. 2163-5, 2757-61, 15,333.) Merrimac and Nash, however, did not take any additional steps to investigate the scope and impact of Schiffer's falsification of documents, did not make any written record of the incident or any subsequent

investigation, and did not take any disciplinary action against Schiffer. (R. 2386-7, 2390, 2397-98, 2461-2.)

After learning of Schiffer's falsification of DSR forms, Merrimac responded to four separate FINRA Rule 8210 requests in connection with different investigations.[5] On September 23, 2010, FINRA sent a FINRA Rule 8210 request to Nash's attention requesting documents from Merrimac in connection with FINRA's investigation of the trading activity in a penny stock. (R. 8513-18.) Nash responded on behalf of Merrimac, producing responsive documents that included a DSR form filed in connection with the deposit of 70,000 shares of the penny stock by one of Dubrule's customers. (Id.) This DSR form was one on which Schiffer had photocopied Nash's signature. (Id.)

On January 6, 2011, FINRA sent Nash another FINRA Rule 8210 request for documents in connection with FINRA's 2010 cycle examination of Merrimac. (R. 8519-8640.) Among other things, the request asked for copies of the customer files for 22 customers who were actively trading penny stocks at Merrimac. (Id.) In response to this request, Merrimac and Nash produced documents that included approximately 30 DSR forms on which Schiffer had photocopied Nash's signature. (Id.)

On March 23, 2011, FINRA sent Nash a third FINRA Rule 8210 request in connection with the trading in another penny stock. (R. 14,821-26.) Once again, Merrimac and Nash

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[5] The September 23, 2010 and March 23, 2011 requests were sent by FINRA's Office of Fraud Detection and Market Intelligence in connection with its investigation of the trading of two penny stocks. (R. 8513-18, 14,821-26.) The January 6, 2011 request was sent in connection with FINRA's 2010 routine cycle examination of Merrimac. (R. 8519-8640.) The December 20, 2012 request was sent by FINRA's New York district office after the various Merrimac investigations were consolidated there. (R. 8641-58.)

produced responsive documents that included a DSR form on which Schiffer had photocopied Nash's signature. (R. 14,827-15,012.)

Finally, on December 20, 2012, FINRA sent Nash another FINRA Rule 8210 request, which sought documents concerning the deposit and liquidation of penny stocks by three Merrimac customers. (R. 8641-58.) Nash's response on behalf of Merrimac included DSR forms for two customers on which Schiffer had photocopied Nash's signature. (Id.)

While all FINRA's Rule 8210 requests called for documents which foreseeably included DSR forms, Nash neither took any steps to ascertain whether any DSR forms produced had been falsified by Schiffer, nor informed FINRA that Schiffer had falsified forms and that the production might include such forms. (R. 2386-7, 2390, 2397-98, 2461-2.)

2. Merrimac and Nash Submitted Falsified DSR Forms to FINRA In Violation of FINRA Rule 2010

FINRA Rule 8210(a) provides that FINRA staff may "require a member, person associated with a member, or any other person subject to FINRA's jurisdiction to provide information orally, in writing, or electronically . . . with respect to any matter involved in the investigation, complaint, examination, or proceeding" and to "inspect and copy the books, records, and accounts of such member or person with respect to any matter involved in the investigation, complaint, examination, or proceeding." Because FINRA does not have subpoena power, it "must rely on [FINRA] Rule 8210 to obtain information . . . necessary to carry out its investigations and fulfill its regulatory mandate." *See CMG Inst. Trading, LLC*, Exchange Act Release No. 59325, 2009 SEC LEXIS 215, at *15 (Jan. 30, 2009); *see also Howard Brett Berger*, Exchange Act Release No. 58950, 2008 SEC LEXIS 3141, at *13 (Nov. 14, 2008) (stating that Rule 8210 "is at the heart of the self-regulatory system for the securities industry"), *aff'd*, 347 F. App'x 692 (2d Cir. 2009).

It is well settled that providing false or misleading information to FINRA in response to a FINRA Rule 8210 request violates both Rule 8210 and FINRA Rule 2010.[6] Providing false information to FINRA "can conceal wrongdoing and thereby subvert [FINRA's] ability to perform its regulatory function and protect the public interest." *Ortiz*, 2008 SEC LEXIS 2401, at *32 (internal quotations omitted). By submitting in response to FINRA Rule 8210 requests DSR forms on which Schiffer had photocopied Nash's signature, after learning of Schiffer's misconduct and without investigating its extent or informing FINRA of it, Merrimac and Nash violated FINRA Rules 8210 and 2010.

On appeal, Merrimac acknowledges that in at least nine instances, Merrimac and Nash produced DSR forms to FINRA that contained falsified signatures for Nash that had been photocopied on the forms and that in September 2010, Merrimac adopted a new penny stock policy "based on both [Schiffer] and an expected ramp up in DSR business."[7] *See* Merrimac Br.

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[6] *See Geoffrey Ortiz*, Exchange Act Release No. 58416, 2008 SEC LEXIS 2401, at *23 (Aug. 22, 2008); *Dep't of Enforcement v. Masceri*, Complaint No. C8A040079, 2006 NASD Discip. LEXIS 29, at *36 (NASD NAC Dec. 18, 2006) (explaining that "[i]t is axiomatic that Procedural Rule 8210 prohibits an associated person from providing false or misleading information to [FINRA] in connection with an examination or investigation"); *Dep't of Enforcement v. Walker*, Complaint No. C10970141, 2000 NASD Discip. LEXIS 2, at *26-27 (NASD NAC Apr. 20, 2000) (affirming a violation of FINRA Rule 8210 where an associated person made false statements during on-the-record testimony).

[7] The timing of the meeting at which Pizzuti and Nash learned on Schiffer's falsification was disputed in the NAC proceedings below. In sworn, on-the-record testimony given prior to the filing of the complaint, Pizzuti testified that the meeting occurred around the time that Merrimac adopted a new procedure for penny stocks in September 2010. (R. 2164-66.) During his testimony at the hearing, Pizzuti changed his previous sworn statement and claimed that the meeting occurred in April or May 2011. (R. 2758-61.) Then, in the post-hearing brief submitted by Pizzuti on Merrimac's behalf, he claimed the meeting occurred in 2013. (R. 18,111-160.) The NAC found that the record supported Pizzuti's original admission with respect to the timing of when Merrimac and Nash learned of the falsified DSR forms (i.e., that the meeting at which they learned of the falsifications occurred in or around September 2010). Specifically, the NAC cited the facts that Schiffer's falsification of the DSR forms ceased in September 2010 and that

at 4th page. Merrimac and Nash challenge the NAC's findings of violations, however, on several other grounds. They argue that fewer DSR forms contained falsified signature than the number found by the NAC and that they did not learn of the falsification of particular DSR forms until long after the forms were produced to FINRA. *See* Merrimac Br. at 1st-2nd pages; Nash Br. at 3. In addition, Nash argues the finding of violation against him should be reversed because Matthews settled with FINRA for the same misconduct, because he did not personally collect and review the voluminous documents produced to FINRA in response to the Rule 8210 requests, and because the requests themselves did not specifically request DSR forms. *See* Nash Br. at 3. Merrimac's and Nash's arguments reflect a fundamental misunderstanding of the NAC's findings and are baseless.

First, scienter is not an element of a FINRA Rule 8210 violation and, accordingly, there is no requirement that Merrimac and Nash intentionally submitted falsified DSR forms to FINRA. *See Berger*, 2008 SEC LEXIS 3141, at *39 (holding that scienter is not an element of a Rule 8210 violation); *Richard J. Rouse*, 51 S.E.C. 581, 585 (1993) (rejecting the argument that a violation of FINRA Rule 8210's predecessor rule required a finding of scienter). Rather, the NAC found that Merrimac and Nash violated Rules 8210 and 2010 when, after learning that Schiffer had falsified at least some DSR forms, they took no steps to investigate or access the extent of her misconduct, and soon after produced DSR forms to FINRA without notifying FINRA of the issue. *See DBCC v. Pelaez*, Complaint No. C07960003, 1997 NASD Discip.

Merrimac adopted the new penny stock procedure at that time, which specifically provided that all DSR forms "must be signed by compliance or corporate management before being forwarded to the clearing firm." In its brief on appeal—signed by Pizzuti—Merrimac implicitly admits that the meeting occurred in September 2010 by acknowledging that the 2010 policy was adopted "based on CS [Schiffer]." Merrimac Br. at 4th page. The record belies Nash's continuing claim that he did not learn of the falsification of documents by Schiffer until 2013.

LEXIS 34, at *10 (NASD NBCC May 22, 1997) (finding that respondents violated FINRA Rule 8210's predecessor because they knew that forged documents had been submitted to NASD by the firm, but "did not take any steps to advise . . . NASD of this fact"). The result was producing to FINRA documents that falsely reflected a supervisory review that did not in fact occur. Moreover, while the Rule 8210 requests did not specifically ask for DSR forms, they did request documents concerning penny stocks and customers depositing penny stocks, which certainly included the DSR forms. Merrimac and Nash cannot avoid responsibility for their violations on the grounds that they did not know that particular forms had been falsified when they took absolutely no steps to investigate Schiffer's misconduct.

Second, Merrimac's and Nash's challenges to the NAC's findings with respect to the number of falsified DSR forms submitted to FINRA are without basis in the record and, even if true, do not negate that Merrimac and Nash violated FINRA rules. The NAC found that Merrimac and Nash submitted more than 30 falsified DSR forms to FINRA. On appeal to the NAC, Merrimac and Nash each submitted motions seeking to introduce additional evidence that they argue proves that certain of the DSR forms in question contained genuine signatures. The NAC denied the motions to introduce additional evidence because Merrimac and Nash failed to demonstrate good cause for failing to introduce the evidence at the hearing below and why the evidence was material to the proceeding. Merrimac submits these same documents to the Commission, without the required motion and showing of relevance and good cause, and for which FINRA has submitted a separate motion to strike.

To the extent Merrimac and Nash argue that the number of falsified DSR forms should be reduced because that same form was produced twice or the DSR forms relate to transactions that were never completed, these arguments are unavailing. The fact that respondents produced the

same two falsified DSR forms in response to two separate FINRA Rule 8210 requests does not change the fact that they twice submitted falsified documents to FINRA. Similarly, the fact that DSR forms were produced for transactions that may not have been completed does not change the fact that Merrimac's records contained, and Merrimac and Nash produced to FINRA, DSR forms with falsified signatures. As the NAC noted, it is not the underlying transaction that is at issue, but the fact that the respondents submitted documents to FINRA falsely reflecting a supervisory review that never occurred without telling FINRA the forms may have been falsified. In any event, whether the number of DSR forms submitted to FINRA in response to Rule 8210 requests number nine or more than 30, the fact remains that Merrimac and Nash knew Schiffer had falsified signatures on DSR forms, took no steps to investigate and access the extent of her misconduct, and then produced falsified forms to FINRA, without informing FINRA of the issue.

Finally, Nash argues that he is not responsible for the submission of the falsified DSR forms because the collection and production of these documents were handled by other Merrimac employees, the productions were large, and because Matthews settled with the Commission for similar misconduct. None of these arguments excuses Nash's misconduct here. All four FINRA Rule 8210 requests were addressed to Nash, and the record supports that Nash oversaw the responses. (R. 8513-8658, 14,821-26.) As the person to whom the requests were directed and who oversaw the firm's responses, Nash was responsible for the falsified documents provided to FINRA.[8] Nash knew that Schiffer had photocopied his signature on some DSR

[8] *See Michael Markowski v. SEC*, 34 F.3d 99, 104 (2d Cir. 1994) (rejecting the argument that the senior officer of a brokerage firm relied on reasonable delegation of his obligation to produce documents to an employee); *see also Dep't of Enforcement v. Eplboim*, Complaint No. 2011025674101, 2014 FINRA Discip. LEXIS 8, at *22-23 (FINRA NAC May 14, 2014) (finding

forms. (R. 1455-71, 1642, 2367-68, 2398, 17,760-62.) It was clear from the face of the requests directed to Nash that DSR forms would be responsive and produced, yet Nash took no steps to determine if the DSR forms produced had falsified signatures or to warn FINRA that the signatures may not be genuine.

The record confirms that Merrimac and Nash submitted falsified documents to FINRA in violation of FINRA Rules 8210 and 2010 and, consequently, the Commission should affirm this finding.

B. Merrimac Resold Unregistered, Non-Exempt Restricted Securities

The NAC found that Merrimac violated FINRA Rule 2010 by causing the sale of unregistered securities in contravention of Section 5 of the Securities Act. This violation concerns the sale of an unregistered stock by a Merrimac customer. The record supports that Merrimac failed to meet its burden to establish that this unregistered stock was subject to an applicable exemption from registration. Accordingly, the Commission should affirm the finding of violation.

1. Facts

On July 15, 2010, a Merrimac institutional customer purchased 100 million shares for $50,000 of a company called United States Oil & Gas Corporation ("USOG") from an individual, Jeff Turnbull. (R. 15,899-910.) USOG was quoted on the Pink Sheets and traded in the electronic over-the-counter market. (R. 15,547-644.) Turnbull acquired his USOG shares through the exercise of his conversion rights under the note he received for selling his oil and gas

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that the respondent had an obligation to produce documents under a FINRA Rule 8210 request directed to him and rejecting his attempt to shift responsibility to his firm); *Michael David Borth*, 51 S.E.C. 178, 181 (1992) (rejecting respondent's attempt to shift responsibility to respond to NASD Rule 8210 requests).

company to USOG. (R. 15,645-48.) The note was convertible for up to 400 million shares of USOG, an amount totaling 38% of USOG's outstanding shares. (R. 15,645-48, 15,755-76.)

On August 9, 2010, Merrimac's customer deposited 56.5 million of the USOG shares it purchased from Turnbull into its Merrimac account. (R. 15,999-16,046.) From October 1 through October 8, 2010, this Merrimac customer sold all the USOG stock in its Merrimac account for $124,000 in gross proceeds. (R. 13,995, 15,999-16,046.) The DSR form completed in connection with this customer's sale indicated that the customer had purchased the USOG shares from Turnbull.[9] (R. 15,999-16,000.) The DSR form stated that Turnbull had acquired his shares of USOG subject to a registration statement; however, this was not the case. (Id.) The DSR form also stated that Turnbull was not an affiliate or 10% holder of USOG and the stock certificate provided to Merrimac by the customer did not contain a restrictive legend. (Id.)

2. Merrimac Violated FINRA Rule 2010 When It Sold Unregistered Securities

Section 5 of the Securities Act prohibits the offer and sale of a security unless a registration statement is in effect for the security or a valid exemption from registration applies to the transaction. 15 U.S.C. § 77e(a), (c). The purpose of the registration requirement of Section 5, and the Securities Act as a whole, is to "protect investors by promoting full disclosure of information thought necessary to informed investment decisions." *See SEC v. Ralston Purina Co.*, 346 U.S. 119, 124 (1953). In order to establish a prima facie case of a Section 5 violation, it must be shown that Merrimac sold or offered to sell USOG shares while no registration statement was in effect using interstate facilities or mail. *See Gordon Brent Pierce*, Exchange Act Release No. 71664, 2014 SEC LEXIS 4544, at *27 (Mar. 7, 2014) (setting forth the elements

[9] This was one of the DSR forms on which Schiffer falsified Dubrule's and Nash's signatures. (R. 16,281-82.)

of a prima facie case for a Section 5 violation); *World Trade Fin. Corp.*, Exchange Act Release No. 66114, 2012 SEC LEXIS 56, at *23-24 (Jan. 6, 2012) (same). No showing of scienter is required for violations of Section 5. *See Alvin W. Gebhart, Jr.*, Exchange Act Release No. 53136, 2006 SEC LEXIS 93, at *53 (Jan. 18, 2006), *aff'd*, 595 F.3d 1034 (9th Cir. 2010).

There is no dispute that Merrimac sold USOG stock—for which there was no registration statement in effect—for its customer, through an over-the-counter market. *See, e.g., Dep't of Enforcement v. ACAP Fin., Inc.*, Complaint No. 2007008239001, 2012 FINRA Discip. LEXIS 55, at *10 (FINRA NAC Sept. 26, 2012) (noting that use of over-the-counter market constitutes use of interstate means), *aff'd*, Exchange Act Release No. 70046, 2013 SEC LEXIS 2156 (July 26, 2013), *aff'd*, 783 F.3d 763 (Apr. 3, 2015). Accordingly, a prima facie case of a Section 5 violation is established, and the burden shifts to the Merrimac to prove that the USOG sale was subject to an applicable exemption from registration. *See Pierce*, 2014 SEC LEXIS 4544, at *27-29 (noting that exemptions from registration are affirmative defenses that must be established by the party asserting the defense). The exemptions "are construed strictly to promote full disclosure of information for the protection of the investing public." *Id.* at 29- 30 n.29 (*citing SEC v. Cavanagh*, 445 F.3d 105, 115 (2d Cir. 2006)).

Securities Act Section 4(a) provides exemptions from registration for persons selling unregistered securities. 15 U.S.C. § 77d(a). Section 4(a)(1) states that the provisions of Section 5 shall not apply to "[t]ransactions by any person other than an issuer, underwriter, or dealer." The terms "issuer" and "underwriter", however, are broadly defined by the Securities Act. *See, e.g., Cavanagh*, 445 F.3d at 111 (explaining that the definition of issuer in the Securities Act is interpreted broadly. An underwriter is defined as "any person who has purchased from an issuer with a view to, or offers or sells for an issuer in connection with, the distribution of any security,

or participates or has direct or indirect participation in any such undertaking." 15 U.S.C. § 77b(a)(11). An "issuer" is defined as "every person who issues or proposes to issue any security." 15 U.S.C. § 77b(a)(4). Under this definition, Turnbull was an underwriter for USOG stock for purposes of Section 5, Merrimac's customer acquired its shares from an underwriter, and Merrimac's customer could only sell these restricted shares if an exemption applied to the sale. But no exemption did apply.

Securities Act Rule 144 provides a safe harbor for parties who are deemed *not* to be engaged in the distribution of securities and, accordingly, do not to fall within the broad definition of an "underwriter." 17 C.F.R. § 230.144. However, for restricted securities, the safe harbor is limited by a holding period that must be met by the person claiming the safe harbor. Rule 144(d)(1)(i) provides that when the securities sold are restricted, "a minimum of six months must elapse between the later of the date of the acquisition of the securities from the issuer, or from an affiliate of the issuer, and any resale of such securities in reliance on this section for the account of either the acquiror or any subsequent holder of those securities." 17 C.F.R. § 230.144(d)(1)(i). An "affiliate" of an issuer is defined by Rule 144 as "a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such issuer." 17 C.F.R. § 230.144(a)(1). Factors the SEC has indicated as relevant to the determination of "control" include an individual's status as a director, officer, or 10% shareholder. *See American-Standard*, 1972 SEC No-Act. LEXIS 3787, at *1 (Oct. 11, 1972).

Merrimac has not established an applicable exemption from registration because the safe harbor for resales of restricted securities under Securities Act Rule 144 does not apply to Merrimac's customer's sales of USOG. Merrimac's customer acquired the USOG shares through a stock purchase agreement from Turnbull on July 15, 2010. (R. 15,899-910.) That

same day, Turnbull converted a portion of his note to obtain the USOG shares he sold to Merrimac's customer. (R. 15,911-14.) Turnbull controlled more than 10% of USOG's outstanding stock, was identified as an executive officer of USOG in an SEC filing six months earlier, and was President of USOG's wholly owned subsidiary. Accordingly, he was an affiliate of USOG, the issuer, at the time of his sale to Merrimac's customer and the six-month time limit set forth in Securities Act Rule 144 applied to Merrimac's customer's sale of USOG. Merrimac's customer sold the USOG stock in October 2010, before the six-month holding period had run. (R. 15,999-16,046.)

On appeal, Merrimac argues that Turnbull was not an affiliate of USOG because Turnbull's notice of conversion stated that he was not an affiliate and because Turnbull structured his conversions so that he never held more than 10% of USOG's stock at any one time. *See* Merrimac Br. at 7-13th pages. Merrimac, however, cannot rely on the statement in Turnbull's Notice of Conversion to prove that he was not an affiliate. To the contrary, FINRA member firms are required to take "whatever steps are necessary to ensure that the [transaction] does not involve an issuer, a person in a control relationship with an issuer or an underwriter" and "must take reasonable steps to ensure that the transaction qualifies for the exemption." *FINRA Regulatory Notice 09-05*, 2009 FINRA LEXIS 7, at *4 (Jan. 2009). Moreover, firms "may not rely solely on others" to make this determination. *Id.* at *3. Yet Merrimac did not take these steps and relied solely on a DSR form which contained a falsified signature.

In arguing that Turnbull was not an affiliate, Merrimac once again relies on documents not in evidence to argue that Turnbull structured his conversions to ensure he never owned 10% or more of USOG. (Id.) Merrimac, however, has not made a motion before the Commission to introduce this additional evidence, much less established the materiality and reasonable grounds

for failing to introduce these documents previously, as required by Commission Rule of Practice 452. Accordingly, Merrimac's submission of these documents should be stricken.

Even if the Commission were to consider these documents, however, they do not establish an exemption from registration under Rule 144. The documents show that on each day on July 13, 14, and 15, 2010, Turnbull converted and, on the same day, sold 100 million shares of USOG. Turnbull converted and sold another 100 million shares on August 31, 2010. The documents indicate an intentional structuring of the transaction to attempt to avoid the appearance that Turnbull was a control person for purposes of Rule 144. Turnbull, however, converted and sold 300 million USOG shares over the course of three days. This amount represented approximately 29% of USOG's outstanding shares during this period. The documents, together with Turnbull's other positions with USOG and its subsidiary, support that Turnbull controlled and was consequently an affiliate of USOG.

Merrimac has failed to establish an applicable exemption from registration for its customer's sales of USOG. Accordingly, Merrimac violated FINRA Rule 2010 by causing the sale of unregistered securities in contravention of Securities Act Section 5 and the Commission should affirm this finding.

C. Merrimac Failed to Establish and Implement Effective AML Policies and Procedures

The NAC found that Merrimac failed to establish and maintain supervisory procedures reasonably designed to achieve compliance with AML laws and to monitor and detect suspicious AML activity, in violation of NASD Rule 3011 and FINRA Rules 3310 and 2010. The record shows that Merrimac failed to establish procedures for monitoring penny stocks activity until well after it had started penny stock trading and, when it did so, those procedures were not tailored to Merrimac's business. Moreover, the record shows that Merrimac failed to adequately

detect and respond to red flags concerning its penny stock trading. Accordingly, the Commission should affirm this finding of violation.

1. Facts

From May 2009 through January 2011, Matthews served as Merrimac's designated AMLCO and was responsible for drafting Merrimac's AML procedures and monitoring for suspicious activity. (R. 17,426.) From 2008 through 2010, Merrimac increasingly traded penny stocks. (R. 2331, 2336, 2498-99, 2793, 14,769-806.) When penny stock trading at Merrimac started, Merrimac's 2007 AML Program Compliance and Supervisory Procedures dated January 1, 2007, made only passing reference to penny stocks and provided no guidance for monitoring penny stock trading. (R. 8659-78.) On January 1, 2010, Merrimac adopted FINRA's small firm template for AML monitoring procedures. (R. 8679-8706.) Merrimac did not, however, customize the template for its business, and failed to even fill in the blanks in the template where required. (R. 17,440-1.) Moreover, the procedures provided no specific guidance for responding to red flags for suspicious AML activity. (R. 8679-8706.)

In September 2010, Merrimac adopted a one-page policy and procedure specifically for penny stocks, which required the completion of a DSR form for penny stock transactions. (R. 15,391-6.) The procedure required the DSR form to be signed by compliance or corporate management, and directed representatives to ensure that the law firm "attesting to the supporting documentation" attached to the DSR form was not on the relevant market's prohibited attorneys list.[10] (Id.) The procedure provided no guidance on how to determine whether stock received was permissible for resale and no guidance on detecting or responding to red flags.

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[10] This procedure was adopted in part in response to the discovery of Schiffer's falsification of signatures on DSR forms.

During the relevant time period, Merrimac failed to detect and respond to several red flags indicating possible AML problems. The evidence shows that Merrimac registered representatives received blank DSR forms from customers that were pre-signed without the information to which the customer's signature was to attest. (R. 15,346-546.) The record also shows that Merrimac failed to detect, investigate, or document red flags related to penny stock trading. These red flags included: (1) patterns of trading consisting of large deposits of penny stocks followed by liquidations of the positions; (2) customers trading in penny stocks who had significant disciplinary histories, including bars from the securities industry; (3) trading by customers who acquired their shares as a result of stock promotion activities; and (4) the timing of penny stock trading following positive press releases. (R. 15,067-74, 15,109-18, 16,283-302.)

2. Merrimac Failed to Implement and Establish Adequate AML Procedures In Violation of NASD Rule 3011 and FINRA Rules 3310 and 2010

The Bank Secrecy Act ("BSA") provides the framework for the AML obligations applicable to financial institutions. FINRA Rule 3310 and its predecessor, NASD Rule 3011, require FINRA members to develop and implement a written AML program reasonably designed to achieve and monitor compliance with the requirements of the BSA and its implementing regulations. *See* NASD Rule 3011(b); FINRA Rule 3310(b); *see also Dep't of Enforcement v. N. Woodward Fin. Corp.*, Complaint No. 2011028502101, 2016 FINRA Discip. LEXIS 35, at *29 (FINRA NAC July 19, 2016).

NASD Notice to Members 02-21 ("NTM 02-21") provides explicit guidance concerning firms' AML compliance obligations. 2002 NASD LEXIS 24, at *16-20 (Apr. 2002). NTM 02-21 explains that AML procedures must be tailored to "reflect the firm's business model and customer base" and take into account factors such as the firm's "business activities, the types of accounts it maintains, and the types of transactions in which its customers engage." *Id.*; *see also*

Dep't of Enforcement v. Domestic Sec., Inc., Complaint No. 2005001819101, 2008 FINRA Discip. LEXIS 44, at *11 (FINRA NAC Oct. 2, 2008). Member firms have a duty to detect and investigate red flags indicating potential money laundering and NTM 02-21 sets forth a non-exhaustive list of potential red flags. 2002 NASD LEXIS 24, at *37-42. Penny stock transactions may constitute a red flag requiring further inquiry. *Id.* at *40. Red flags also may include the disciplinary history of the customer, a customer's lack of concern with commissions, and whether the customer tries to avoid the firm's documentation procedures. *Id.* at *37-40.

FINRA published a small firm template to assist small. The template itself explains to firms that use of the template does not "provide a safe harbor from regulatory responsibility" and that the template:

> is provided only as a helpful starting point to walk you through developing your firm's program. If any of the language does not adequately address your firm's business situation in any respect, you will need to prepare your own language. You are responsible for ensuring that the program fits your firm's risk level and that you implement the program.

See FINRA's Small Firm Template, at 1 (http://www.finra.org/sites/default/files/Industry/p011419.doc).

Merrimac failed to adequately develop and implement appropriate AML procedures. Merrimac started penny stock trading in 2008 and this business line increased through 2010. (R. 2331, 2336, 2498-99, 2793, 14,769-806.) Merrimac, however, did not adopt or implement any penny stock procedures until 2010, when it adopted FINRA's small firm template with no tailoring or even completing the required information. (R. 8679-8706, 17,440-1.) Its mechanical adoption of the small firm template did not fulfill Merrimac's obligation to adopt and implement adequate procedures. *See, e.g., Domestic Sec.*, 2008 FINRA Discip. LEXIS 44, at *18 (finding

that respondent failed to establish adequate AML procedures where the firm did not tailor FINRA's small firm template).

And even after it adopted additional procedures related to penny stocks, the record is devoid of any evidence that it detected and adequately responded to obvious red flags. These included customers signing blank DSR forms used to determine whether the penny stocks were permissible for public resale, trading by customers with significant regulatory histories including bars from the securities industry, and patterns of large deposits and liquidations of penny stocks. (R. 15,067-74, 15,109-18, 16,283-302.)

The record is replete with evidence of Merrimac's failures to develop and implement adequate AML procedures and, consequently, the Commission should affirm the finding that Merrimac violated NASD Rule 3011 and FINRA Rules 3310 and 2010.

D. Merrimac and Nash Failed to Establish a Reasonable Supervisory System

The NAC found that Merrimac and Nash failed to establish and enforce an adequate supervisory system, including adequate WSPs, in violation of NASD Rules 3010 and 2110 and FINRA Rule 2010. The record establishes that Merrimac and Nash failed to supervise adequately four areas: (1) certain private securities transactions; (2) penny stock deposits; (3) investment-related websites; and (4) foreign finders.

1. Facts

Before joining Merrimac, Dubrule and Tuttle owned, operated, and managed the assets of two hedge funds, the Dellinger Fund and the TAM Dynamic Allocation Fund. (R 8333-4.) Merrimac approved Dubrule's and Tuttle's request to continue operating the funds after they joined Merrimac. (R. 8335-6.) Merrimac's written approval directed that Dubrule and Tuttle would not solicit additional investments in the funds, including from Merrimac customers. (R.

Id.) Merrimac's WSPs designated Nash as the person responsible for reviewing and monitoring Dubrule's and Tuttle's private securities transactions with respect to the funds. (R. 16,200-202.) Nash testified that he did not do so because he believed Matthews (the firm's AMLCO) was supervising these activities. (R. 2308-9, 2321.) Matthew's role, however, was limited to reviewing statements for the funds—a review which would not have revealed additional investments in the funds. (R. 8498-99.) Despite the limitation in Merrimac's approval of their operation of the funds, Dubrule and Tuttle solicited new investments in the funds from three customers, including Merrimac customers, totaling $4.1 million. (R. 8343-60, 8415-18, 8498-99, 8509-14.)

Merrimac and Nash also failed to supervise reasonably the deposit of penny stocks in Merrimac accounts. As explained above, Schiffer, a registered representative in the Orlando Merrimac branch, falsified DSR forms submitted in connection with deposits of penny stocks by photocopying Nash's signature on the documents. Nash was designated as the supervisor responsible for supervising the Orlando branch. (R. 16,200-202.) When he learned of Schiffer's misconduct, Nash did not take any steps to investigate the scope, extent, or effect of the falsification of documents. (R. 2386-7, 2390, 2397-98, 2461-2.) Instead, he took Schiffer's word that she had only photocopied his signature on two DSR forms. (R. 2398.)

Merriman and Nash also failed to supervise the claims on a website operated by its CEO. At various times during the period from 2010 through 2013, Evaluvest, a website created and operated by Pizzuti, was active and available to the public. (R. 1896, 1904-5, 1931-32, 16,093-172.) Evaluvest provided a subscription-based stock analysis tool which used computational algorithms to identify stocks for investment. (R. 1907-11, 16,093-192.) While Merrimac and Nash claim the site was "a beta test site" and not active, the evidence shows that the site was

accessible by FINRA investigators and the content was accessible without a subscription. (R. 1896, 1904-5, 1931-32, 16,093-172.) The website claimed that it could identify stocks with "the highest Alpha and strongest performance" and made other exaggerated claims with no substantiation. (Id.) The website also did not explain clearly the service being provided and contained undefined terminology. The website failed to disclose risks and did not prominently disclose its relationship to Merrimac or the relationship between Pizzuti and Merrimac. Merrimac's WSPs provided for the review of advertising, but did not identify websites as advertising. The procedures designated Matthews as the person responsible for reviewing advertising, but Matthews never reviewed the Evaluvest website. (R. 17,356.) In fact, no Merrimac principal reviewed Pizzuti's website and the website was not submitted to FINRA Advertising Regulation Department for prior approval.

Merrimac also failed to supervise adequately its use of a foreign finder. On November 19, 2010, Merrimac entered into an agreement with a Mexican entity for referral of accounts from Mexican customers to Merrimac. (R. 15,313-20.) The agreement provided that Merrimac would pay transaction-based compensation to the Mexican entity. (Id.) Initially, Merrimac's WSPs contained no procedures for the supervision of foreign finders. Approximately six months after entering into the agreement, Merrimac adopted a one-page procedure concerning foreign finders. (R. 15,321-2.)

2. Merrimac and Nash Failed to Establish and Implement a Reasonable Supervisory System, In Violation of NASD Rules 3010 and 2110 and FINRA Rule 2010

Pursuant to NASD Rule 3010, FINRA member firms are required to establish and maintain an adequate supervisory system, including WSPs, which are reasonably designed to achieve compliance with the federal securities laws and FINRA rules. *See* NASD Rule

3010(a)(1), (b)(1). Member firms must implement and enforce their supervisory system and written procedures reasonably in light of the circumstances presented, including the obligation to investigate and respond to "red flags" indicating potential problems. *See Ronald Pellegrino*, Exchange Act Release No. 59125, 2008 SEC LEXIS 2843, at *33 (Dec. 19, 2008).

Merrimac and Nash failed to adequately fulfill their supervisory obligations in several respects. First, Merrimac failed to adequately supervise Dubrule's and Tuttle's conduct with respect to the hedge funds, including ensuring that Dubrule and Tuttle complied with the terms of Merrimac's approval of these activities. (R. 8343-60, 8415-18, 8498-99, 8509-14.) The record establishes that other than a cursory review of the funds' statements by Matthews, these activities were essentially unsupervised by Merrimac. (R. 8498-99.)

Second, Merrimac and Nash also failed to adequately supervise the deposit of penny stocks into Merrimac customer accounts—specifically, the DSR forms used by the firm in connection with these deposits. Merrimac and Nash did not learn of Schiffer's falsification of documents until Schiffer admitted her misconduct. Moreover, after Merrimac and Nash did learn about it, they took Schiffer's word that the falsification involved only two forms and failed to investigate the true extent and scope of the misconduct. (R. 2386-7, 2390, 2397-98, 2461-2.)

Third, Merrimac failed to conduct any supervisory review of Pizzuti's Evaluvest website. NASD Rule 2210(a)(1) provides that any material that it used in any websites constitutes an advertisement. Nash was responsible for establishing Merrimac's WSPs, but failed to adopt and implement adequate procedures. Merrimac's procedures did not specifically state that websites were advertising and Merrimac through Matthews, who was designated to review advertising, failed to review the website. (R. 17,356.)

Finally, Merrimac and Nash failed to timely adopt procedures concerning foreign finders upon entering an agreement for the referral of Mexican accounts. It was not until six months after the agreement was entered into with the foreign finder that Merrimac adopted a one-page foreign finder procedure. Moreover, the procedures failed to identify who would supervise foreign finders, nor did they provide any specific directions concerning how that supervision would be conducted.

The Commission should affirm the finding that Merrimac and Nash failed to establish a reasonable supervisory system, in violation of NASD Rules 3010 and 2110 and FINRA Rule 2010, with respect to the supervision of penny stocks, foreign finders, and advertising, and that Merrimac violated NASD Rules 3010 and 2110 and FINRA Rule 2010 with respect to the supervision of DuBrule's and Tuttle's hedge fund activities.

The Commission should also affirm the NAC's finding that Merrimac effected securities transactions while its registration was suspended, as Merrimac does not appear to challenge that finding.

E. **Merrimac's and Nash's Procedural Arguments are Baseless**

Both Merrimac and Nash argue that they were unfairly targeted for enforcement and accuse Enforcement and the Hearing Officer of serious misconduct during the hearing. These accusations are meritless and the Commission should reject them.

1. Merrimac's and Nash's Claim of Selective Prosecution is Baseless

Merrimac and Nash argue that they were targeted by Enforcement—what Nash dubs "regulation out of control." (Nash Br. at 1.) Neither Merrimac nor Nash, however, have established a claim for selective prosecution. The NAC rejected this claim and the Commission should affirm it.

It is well-settled that FINRA has wide discretion in deciding when to bring a disciplinary case. *See Nicholas Avello*, 55 S.E.C. 1197, 1209 n.19 (2002) (rejecting a claim of selective prosecution), *aff'd*, 454 F.3d 619 (7th Cir. 2006). In order to prove a claim of selective prosecution, Merrimac and Nash must show that they were singled out for enforcement while others similarly situated were not and that such prosecution was motivated by arbitrary or unjust considerations such as race, religion, or the desire to prevent the exercise of a constitutionally protected right. *See Scott Epstein*, Exchange Act Release No. 59328, 2009 SEC LEXIS 217, at *53 (Jan. 30, 2009), *aff'd*, F. App'x. 142 (3d Cir. 2010) (rejecting a claim of selective prosecution where respondent failed to show that he was unfairly singled out for prosecution based on improper considerations such as race, religion, or the desire to prevent the exercise of a constitutionally protected right).

While Merrimac indicates that it would like to "pursue these [supposed] injustices further" and complains about certain evidentiary rulings, neither Merrimac nor Nash even attempts to meet the standard for a claim of selective prosecution. (Merrimac Br. at 23rd page; Nash Br. at 1.) The Commission should reject this frivolous claim.

2. There Is No Evidence of Bias By the Hearing Officer and Her Evidentiary And Discovery Rulings Were Not an Abuse of Discretion

Merrimac and Nash claim that the Hearing Officer was biased and point to her rulings during the hearing as evidence. The record does not support this claim.

First, despite their claims of bias throughout the hearing, neither Merrimac nor Nash ever moved to disqualify the hearing officer. FINRA Rule 9233(b) provides that a party, having a "reasonable, good faith belief that bias exists, may file a motion to disqualify a Hearing Officer no later than 15 days after learning of the facts on which the claim is based." A party must promptly assert disqualification. *See Fuad Ahmed*, Exchange Act Release No. 81759, 2017 SEC

LEXIS 3078, at *70-72 (Sept. 28, 2017) (finding that applicants waived an objection to the hearing officer where they waited until after the hearing panel decision to raise the issue); *see also Davis v. Cities Service Oil Co.*, 420 F.2d 1278, 1282 (10th Cir. 1970) ("Promptness in asserting disqualification is required to prevent a party from awaiting the outcome before taking action."). While Merrimac and Nash claim that the Hearing Officer's bias was evident both before and during the hearing, neither of them moved to disqualify her. Accordingly, Merrimac and Nash have waived this objection.

Second, Merrimac's and Nash's wholly unsubstantiated assertions of bias "are an insufficient basis to invalidate" FINRA's proceedings. *See Dep't of Enforcement v. Thaddeus James North*, Complaint No, 2012030527503, 2017 FINRA Discip. LEXIS 28, at *33-34 (FINRA NAC Aug. 3, 2017). Merrimac and Nash point to the Hearing Officer's rulings and her previous position as an employee of Enforcement as evidence of her bias. A hearing officer's adverse evidentiary rulings, however, without more, do not evidence bias. *See Epstein*, 2009 SEC LEXIS 217, at *62. "[B]ias by a hearing officer is disqualifying only when it stems from an extrajudicial source and results in a decision on the merits based on matters other than those gleaned from participation in a case." *See id.* For the same reasons, the fact that the hearing officer previously worked for Enforcement is not enough, without more, to evidence her bias. If it were, the hearing officer would be excluded from hearing any FINRA disciplinary case. The hearing officer was one of three members of the panel to decide this case and it was not her status as a former employee of Enforcement that determined the outcome (as Merrimac and Nash claim), but, as discussed above, the strength of the evidence before the panel.

Merrimac complains that it was improperly denied the right to call two witnesses—a FINRA supersivor, Blake Snyder, and a representative of its clearing firm. (Merrimac Br. 10-

20th pages). Merrimac fails, however, to explain what testimony these witnesses could have provided which would have been relevant and probative. While Snyder conducted a cycle examination of FINRA, Merrimac fails to explain what first-hand knowledge Snyder could offer with respect to Merrimac's violative conduct.[11] Merrimac also claims it requested Snyder's testimony as rebuttal evidence, but again does not explain what evidence Snyder's testimony would have rebutted. (Merrimac Br. 19-20th pages.)

With respect to the testimony from its clearing firm representative, Merrimac fails to explain how this person who it claims "was the person in charge of implementing the very first DSR" would have added with respect to whether Merrimac established an exemption for its sales of unregistered securities. The burden for establishing an exemption falls squarely on Merrimac, not its clearing firm. The hearing officer has broad discretion in determining whether to admit or deny evidence and Merrimac and Nash have not established that the hearing officer abused her discretion here. *See Ahmed*, 2017 SEC LEXIS 3078, at *79-80 (explaining that hearing officers have broad discretion and holding that it was not an abuse of discretion to exclude an expert's testimony where it did not concern the central inquiry in the case); *see also North*, 2017 FINRA Discip. LEXIS at *26 (stating that because a hearing officer's discretion to admit evidence is broad, the party asserting an abuse of discretion must meet a heavy burden).

Merrimac also claims that the hearing officer admitted "improper evidence" at the hearing. (Merrimac Br. 28th-31st pages.) Specifically, Merrimac complains about Exhibits 42C, 66, 66a, 66b, 74, and 75. Exhibit 42C is a Merrimac trade blotter, which included trading

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[11] Instead, Merrimac makes completely unsubstantiated and defamatory claims about Snyder, including that he "broke into" Merrimac offices and provided defamatory information about Pizzuti to a website. (Merrimac Br. 20th page.) Merrimac offers absolutely no evidence to support these claims.

activity at Merrimac, during the period from April 28, 2008 through November 19, 2009, in stocks listed on OTCBB.com. (R. 14,769-14,806.) Exhibits 66, 66A, and 66B are summary exhibits prepared by FINRA, which are based on other documents in evidence and which list instances in which Merrimac received blank DSR forms pre-signed by customers. (R. 15,347-15,546.) Exhibit 74 is a summary exhibit prepared by FINRA based on other documents in evidence setting forth the timeline of Merrimac's sale of an unregistered security, USOG. (R. 16,279-16,280.) Finally, Exhibit 75, is also a summary exhibit prepared by FINRA listing the DSR forms it alleged were falsified by Schiffer, which was also based on the actual forms admitted into evidence and about which Wong testified and was cross-examined. (R. 16,281-16,282.)

Merrimac's argument with respect to Exhibits 66, 66A, and 66B appears to be that these documents should have been excluded because they "were never part of Enforcement's discovery file" and because Merrimac claims there is no evidence that Merrimac representatives had customers sign blank forms. (Merrimac Br. 28th page.) The forms themselves, however, *are* evidence that the customers signed blank forms and are, accordingly, relevant and probative. Moreover, these are Merrimac documents that it provided to FINRA, and Merrimac was given ample opportunity to examine witnesses on the documents. Under these circumstances, Merrimac has not established that it was an abuse of discretion by the hearing officer to admit these exhibits. *See DBCC v. U.S. Associates, Inc.*, Complaint No. NEW-649, 1991 NASD Discip. LEXIS 130, at * 50-51 (NASD NBCC Nov. 19, 1991) (rejecting challenge to admission of evidence where it was given an opportunity to respond to the evidence).

With respect to Exhibits 74 and 75, Merrimac simply claims that these exhibits are "wrong." (Merrimac Br. 30th page.) These were summary exhibits prepared by FINRA to

illustrate its allegations and accurately describe the supporting evidence against Merrimac. Here again, Merrimac was given an opportunity to challenge the content of these exhibits and the Hearing Panel was free to give them the weight and probative value it determined appropriate. Merrimac has again failed to show that it was an abuse of discretion to admit these documents.

3. It Was Within Enforcement's Discretion to Call Wong As Its Witness

Merrimac also challenges Enforcement's decision to call FINRA investigator Joshua Wong as a witness, calling him both incompetent and a liar. (Merrimac Br. 1st, 5-7th, and 20-30th pages.) Both is these accusations are utterly without support. Wong's testimony was honest, accurate, and credible. Wong's role was primarily to authenticate documents and explain the documentary evidence. (R. 1314-1616.) The Hearing Panel was correct to accept his testimony. Here again, Merrimac and Nash were given ample opportunity to cross-examine Wong and challenge his testimony, and they attempted to do so. (R. 1617-1868.) It is the hearing panel's job to determine the credibility and reliability this witness. *See e.g.*, *Mitchell H. Fillet*, Exchange Act Release No. 75054, 2015 SEC LEXIS 2142, at * 27 (May 27, 2015) (explaining that a FINRA hearing panel's determinations of credibility are generally given considerable weight).[12]

Merrimac and Nash's procedural arguments are mere distractions from the real issues here—i.e., the abundant evidence of violations by both parties. The Commission should reject these claims.

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[12] Merrimac also argues that Pizzuti, Dubrule, and Matthews were somehow "forced" to settle the claims against them prior to the hearing because of claimed illnesses and lack of resources. (Merrimac Br. 26-28th pages.) Merrimac offers no evidence that these parties were forced to settle and offers no explanation as to why this claim is relevant to Merrimac's appeal of its violations. This claim is particularly puzzling with respect to Pizzuti, who claims he was "forced" to settle, yet represented Merrimac at the hearing and pursued its appeals.

F. The Sanctions Imposed By FINRA For Merrimac's and Nash's Violations Are Neither Excessive Nor Oppressive

The Commission should affirm the sanctions imposed because they are neither excessive nor oppressive and the NAC properly applied the FINRA Sanction Guidelines ("Guidelines"), including the Principal Considerations in Determining Sanctions ("Principal Considerations") contained in them.[13]

Exchange Act Section 19(e)(2) directs the Commission to sustain the sanctions imposed by FINRA unless it finds, having due regard for the public interest and the protection of investors, that the sanctions are excessive or oppressive or impose an unnecessary or inappropriate burden on competition. *See* 15 U.S.C. § 78s(e)(2); *Jack H. Stein*, 56 S.E.C. 108, 120-121 (2003). The Commission uses the Guidelines as a benchmark in conducting its review under Exchange Act Section 19(e)(2). *See Robert D. Tucker*, Exchange Act Release No. 68210, 2012 SEC LEXIS 3496, at *61 n.85 (Nov. 9, 2012) (explaining that the Guidelines serve as a benchmark); *Richard A. Neaton*, Exchange Act Release No. 65598, 2011 SEC LEXIS 3719, at *39 n.38 (Oct. 20, 2011) (same).

1. Providing Falsified Documents to FINRA

The NAC fined Nash $25,000 and suspended him for one year in all principal capacities for providing to FINRA DSR forms with falsified signatures, in violation of FINRA Rules 8210 and 2010. For the same violation, the NAC fined Merrimac $50,000. These sanctions fall squarely within the range recommended by the Guidelines and are appropriately remedial sanctions for Merrimac's and Nash's serious misconduct.

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[13] *See FINRA Sanction Guidelines* (2013 ed.) ("Guidelines"). A copy of the relevant portions of the 2013 Sanction Guidelines are attached as Exhibit A.

The Guidelines recommend a fine of $25,000 to $50,000 for failures to respond to FINRA Rule 8210. *Guidelines*, at 33. Additionally, for violations by individuals, the Guidelines recommend a bar or, where mitigation exists, a suspension in any or all capacities of up to two years. *Id.* The Guidelines also recommend expulsion for violations by firms where the misconduct is egregious and, where mitigation exists, a suspension for up to two years with respect to any or all activities and functions. *Id.* The importance of the information requested, from FINRA's perspective, is the principal consideration in determining sanctions for violations of FINRA Rule 8210. *Id.*

The NAC correctly found that the information at issue here—the falsified DSR forms—were important and that this was an aggravating factor. These violations were serious. The DSR forms evidenced Merrimac's and Nash's supervision—or lack thereof—of penny stock deposits, an area particularly prone to abuse. *See, e.g.*, *Ronald S. Bloomfield*, Exchange Act Release No. 71632, 2014 SEC LEXIS 4543, at *5-8 (Feb. 27, 2014) (explaining the risks associated with penny stock trading due to the lack of public information and the susceptibility of penny stocks for use in fraudulent schemes and money laundering). The falsified documents were important to FINRA's evaluation of whether Merrimac was properly supervising penny stock transactions. It is also aggravating that Merrimac and Nash submitted more than 30 falsified DSR forms in response to multiple FINRA Rule 8210 requests over the course of several months. *Guidelines*, at 6-7 (Principal Considerations in Determining Sanctions Nos. 8, 9). Merrimac and Nash knew that Schiffer had falsified DSR forms, yet recklessly produced these forms to FINRA. (R. 1455-71, 1642, 2367-68, 2398, 17,760-62.) Merrimac and Nash learned of Schiffer's actions, took her word that it only involved two DSR forms, and failed to conduct any investigation of the extent of her misconduct. Moreover, when Merrimac and Nash received Rule 8210 requests from

FINRA, they produced responsive DSR forms without informing FINRA of the possibility that the signatures on certain forms may have been falsified. *Guidelines*, at 7 (Principal Considerations in Determining Sanctions No. 13).

Under these circumstances, the sanctions imposed by the NAC are appropriately remedial and the Commission should sustain them.

2. Sales of Unregistered Securities

The NAC fined Merrimac $50,000 for violating FINRA Rule 2010 by causing the sale of unregistered securities in contravention of Securities Act Section 5. The Commission should sustain this sanction, which is supported by the Guidelines and the applicable aggravating factors.

The Guidelines recommend a fine of $2,500 to $50,000 for sales of unregistered securities and a higher fine in egregious cases. *Guidelines*, at 24. In egregious cases, the Guidelines also recommend a suspension with respect to any or all activities and functions for up to 30 business days or until the relevant procedural deficiencies are remedied. *Id.* The Guidelines set forth several principal considerations for determining sanctions in cases of sales of unregistered securities. These include: (1) whether the respondent attempted to comply with an exemption from registration; (2) the share volume and dollar amount of the transaction; (3) whether the respondent had implemented reasonable procedures to ensure that it did not participate in unregistered distributions; and (4) whether the responded disregarded "red flags" suggesting the presence of an unregistered distribution. *Id.*

The NAC found that Merrimac's violation was egregious because it failed to conduct any due diligence concerning the sale of the USOG stock and did virtually nothing to ensure its compliance with the registration requirements of Section 5. Merrimac's customer deposited 56

million shares of USOG—a low-priced security quoted on the pink sheets and not traded on a National Securities Exchange—and began liquidating the stock and transferring the proceeds out of its account. (R. 13,995, 15,999-16,046.) While the paperwork submitted by the customer indicated that it had received the stock from a party potentially connected with USOG, Merrimac took no steps to confirm whether the stock was in fact acquired under an effective registration statement with the SEC or whether an exemption from registration applied to the customer's resale of USOG. By its own admission, Merrimac relied solely on the lack of a restrictive legend on the stock certificate to determine if the securities were restricted. Moreover, the DSR form submitted for this transaction was one on which Nash's signature was falsified and, accordingly, Merrimac's lack of reasonable supervisory procedures contributed to the violation by failing to detect or prevent Schiffer's misconduct.

Under these circumstances, a $50,000 fine is an appropriately remedial sanction for Merrimac's complete disregard of its obligations, and the Commission should sustain this sanction.

3. AML Violations

The NAC fined Merrimac $25,000 for its failures to establish and implement adequate AML policies. Merrimac's failures to timely adopt and implement properly tailored AML procedures were serious and the Commission should sustain the fine imposed by the NAC.

While the Guidelines do not specifically address AML violations, the guidelines for failures to supervise are often consulted when considering AML sanctions. *See, e.g.*, *Domestic Sec.*, 2008 FINRA Discip. LEXIS 44, at *21 n.9 (applying guideline for failure to supervise in an AML violation case). The Guidelines recommend a fine of $5,000 to $50,000 for supervisory failures. *Guidelines*, at 103. The Guidelines also recommend limiting the activities of a firm for

up to 30 business days or a longer suspension of up to two years in egregious cases where the firm's violations involve systemic supervisory violations. *Id.* There are three specific principal considerations applicable to sanctions for failures to supervise. These include: (1) whether the firm ignored "red flags" that should have resulted in additional supervisory scrutiny; (2) the nature, extent, size, and character of the underlying misconduct; and (3) the quality and degree of the supervisor's implementation of the firm's supervisory procedures. *Id.*

All of the principal considerations apply to aggravate Merrimac's AML violations. Beginning in 2008 and increasingly through 2010, Merrimac began trading penny stocks, a type of trading uniquely susceptible to AML abuses. (R. 2331, 2336, 2498-99, 2793, 14,769-806.) Notwithstanding its entry into this risky new business, Merrimac failed to adopt any AML procedures until 2010. And when Merrimac did adopt AML procedures, it simply adopted FINRA's small firm template without tailoring it to Merrimac's business. (R. 17,440-1.) Indeed, Merrimac did not even bother to fill in the blanks in the template required to be completed by the firm.

Merrimac's pro forma adoption of policies resulted in inadequate implementation of AML monitoring which resulted in Merrimac failing to detect and investigate potentially suspicious penny stock trading consisting of deposits and liquidations of large blocks of stock. Merrimac also failed to detect the disciplinary history of several customers even though its policy required background checks. (R. 15,067-74, 15,109-18, 16,283-302.)

Merrimac's failures to implement AML procedures was serious and the Commission should sustain the fine imposed by the NAC.

4. Supervisory Violations

For its various supervisory failures, the NAC fined Merrimac $50,000, imposed a one-year suspension from receiving and liquidating penny stocks for which no registration statement is in effect, and required Merrimac to retain an expert to evaluate and approve its WSPs. For his supervisory violations, the NAC fined Nash $25,000, imposed a one-year suspension in all principal capacities, and required him to requalify as a general securities principal. Merrimac's and Nash's supervisory failures were egregious and the Commission should sustain these sanctions.

The Guidelines for failures to supervise apply to these violations. For Merrimac, the Guidelines recommend a fine of $5,000 to $50,000 and limiting the activities of the appropriate branch or department for up to 30 business days. *Guidelines*, at 103. In egregious cases, the Guidelines recommend limiting all activities of the firm for up to 30 business days, a longer suspension of up to two years, or an expulsion where the firm's violations involve systemic supervision violations. *Id.* For Nash, the Guidelines recommend a fine and a suspension in all supervisory capacities of up to 30 business days. *Id.* Where the misconduct is egregious, the Guidelines recommend a suspension of up to two years or a bar. The principal considerations when considering a sanction for failure to supervise include: (1) whether the firm ignored "red flags" which should have resulted in additional supervisory scrutiny; (2) the nature, extent, size, and character of the underlying misconduct; and (3) the quality and degree of the supervisor's implementation of the firm's supervisory procedures.

The Guidelines also include specific recommendations for violations involving deficient supervisory procedures. In such cases, the Guidelines recommend a fine of $1,000 to $25,000. *Guidelines*, at 104. Where the violation is egregious, the Guidelines recommend a suspension in

any and all capacities of up to one year for a responsible individual and with respect to any or all activities or functions for up to 30 business days for a firm and until procedures are amended to conform with the rules. *Id.* The relevant principal considerations include: (1) whether the deficiencies allowed violative conduct; and (2) whether the deficiencies made it difficult to determine the individual responsible for specific areas of supervision and compliance. *Id.*

The NAC properly found that Merrimac's and Nash's various supervisory failures were egregious. Other than a review of statements by Matthews, Merrimac and Nash completely failed to supervise Dubrule's and Tuttle's private securities transactions with respect to the funds. Similarly, their failures to supervise properly penny stock activities allowed Schiffer's falsification of documents to go undetected until she confessed her misconduct and allowed the sale of unregistered USOG stock.

Merrimac's WSPs failed to provide for the review of websites as advertising and allowed a website created and operated by Merrimac's CEO to go completely unsupervised by Merrimac. Nash did not adopt any procedures with respect to foreign finders until six months after Merrimac entered into an agreement with a foreign finder, and when procedures were finally adopted, they failed to provide basic guidance, including who would supervise foreign finders and how supervision would be conducted.

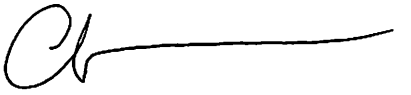
Merrimac's and Nash's supervisory failures were numerous, systematic, occurred over an extended period of time, and allowed violative conduct to occur at the firm. Merrimac's implementation of supervisory procedures was lax, often failing even to name the person responsible for particular areas of supervision. Merrimac and Nash regularly failed to respond to obvious red flags. Further aggravating is Merrimac's disciplinary history, which includes sanctions for similar conduct—specifically, inadequate supervisory procedures and failures to

supervise outside business activities and private securities transactions. The sanctions imposed by the NAC are appropriately remedial given these egregious failures to.

V. CONCLUSION

The record demonstrates a widespread lack of supervision and procedures by Merrimac and Nash and abundantly supports the NAC's findings of violations. Merrimac's and Nash's repeated failures to adopt and implement reasonable procedures, even as the firm became involved in new business areas potentially fraught with risks of abuse, violated FINRA rules and resulted in other serious violations. Merrimac and Nash failed to supervise deposits of penny stocks, advertising, the hedge fund activities of its associated persons, and its business with a foreign finder. Merrimac caused the resale of registered securities and ignored numerous red flags that should have been investigated. Merrimac and Nash also failed to detect the falsification of documents by its associated person and, when she confessed, failed to assess the extent of her misconduct, leading to the production of these falsified documents to FINRA. The Commission should dismiss Merrimac's and Nash's applications for review and affirm the NAC's findings of violations and the sanctions it imposed.

Respectfully submitted,



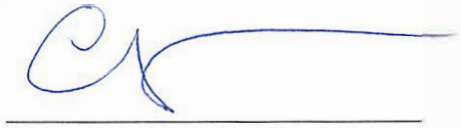
Celia L. Passaro
Assistant General Counsel
FINRA
1735 K Street, NW
Washington, DC 20006
(202) 728-8985

November 29, 2017

CERTIFICATE OF COMPLIANCE

I, Celia L. Passaro, certify that this brief complies with the length limitation set forth in Commission Rule of Practice 450(c). I have relied on the word count feature of Microsoft Word in verifying that this brief contains 11,842 words, exclusive of the pages containing the table of contents, table of authorities, and any addendum that consists solely of copies of applicable cases, pertinent legislative provisions, or rules and exhibits.

Respectfully submitted,



Celia L. Passaro
Assistant General Counsel
FINRA – Office of General Counsel
1735 K Street, NW
Washington, DC 20006
202-728-8985 – Telephone
202-728-8264 – Facsimile

CERTIFICATE OF SERVICE

I, Celia L. Passaro, certify that on this 29th day of November 2017, I caused a copy of the foregoing FINRA's Brief in Opposition to the Application for Review, In the Matter of Merrimac Corporate Securities, Inc. and Robert G. Nash, Administrative Proceeding File No. 3-18045 to be served by messenger and facsimile on:

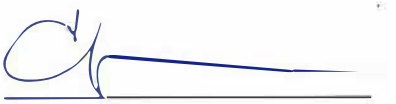
Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Fax: (202) 772-9324

and via FedEx on:

Merrimac Corporate Securities. Inc.,
c/o Stephen D. Pizzuti
2341 Westwood Drive
Longwood, FL 32779

Robert G. Nash
[redacted]
Deltona, FL [redacted]

Service was made on the Commission by messenger and on the Applicants by overnight delivery service due to the distance between FINRA's offices and the Applicants.



Celia L. Passaro
Assistant General Counsel
FINRA
1735 K Street, NW
Washington, DC 20006
(202) 728-8985

Exhibit A

BrokerCheck Report

MERRIMAC CORPORATE SECURITIES, INC.

CRD# 35463

About BrokerCheck®

BrokerCheck offers information on all current, and many former, registered securities brokers, and all current and former registered securities firms. FINRA strongly encourages investors to use BrokerCheck to check the background of securities brokers and brokerage firms before deciding to conduct, or continue to conduct, business with them.

- **What is included in a BrokerCheck report?**
- BrokerCheck reports for individual brokers include information such as employment history, professional qualifications, disciplinary actions, criminal convictions, civil judgments and arbitration awards. BrokerCheck reports for brokerage firms include information on a firm's profile, history, and operations, as well as many of the same disclosure events mentioned above.
- Please note that the information contained in a BrokerCheck report may include pending actions or allegations that may be contested, unresolved or unproven. In the end, these actions or allegations may be resolved in favor of the broker or brokerage firm, or concluded through a negotiated settlement with no admission or finding of wrongdoing.
- **Where did this information come from?**
- The information contained in BrokerCheck comes from FINRA's Central Registration Depository, or CRD® and is a combination of:
  - information FINRA and/or the Securities and Exchange Commission (SEC) require brokers and brokerage firms to submit as part of the registration and licensing process, and
  - information that regulators report regarding disciplinary actions or allegations against firms or brokers.
- **How current is this information?**
- Generally, active brokerage firms and brokers are required to update their professional and disciplinary information in CRD within 30 days. Under most circumstances, information reported by brokerage firms, brokers and regulators is available in BrokerCheck the next business day.
- **What if I want to check the background of an investment adviser firm or investment adviser representative?**
- To check the background of an investment adviser firm or representative, you can search for the firm or individual in BrokerCheck. If your search is successful, click on the link provided to view the available licensing and registration information in the SEC's Investment Adviser Public Disclosure (IAPD) website at https://www.adviserinfo.sec.gov. In the alternative, you may search the IAPD website directly or contact your state securities regulator at http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/P455414.
- **Are there other resources I can use to check the background of investment professionals?**
- FINRA recommends that you learn as much as possible about an investment professional before deciding to work with them. Your state securities regulator can help you research brokers and investment adviser representatives doing business in your state.
-

Thank you for using FINRA BrokerCheck.

Using this site/information means that you accept the FINRA BrokerCheck Terms and Conditions. A complete list of Terms and Conditions can be found at brokercheck.finra.org

For additional information about the contents of this report, please refer to the User Guidance or www.finra.org/brokercheck. It provides a glossary of terms and a list of frequently asked questions, as well as additional resources. For more information about FINRA, visit www.finra.org.

MERRIMAC CORPORATE SECURITIES, INC.

CRD# 35463

SEC# 8-46721

Main Office Location

1150 DOUGLAS AVENUE
STE 1080
ALTAMONTE SPRINGS, FL 32714

Mailing Address

1150 DOUGLAS AVENUE
STE 1080
ALTAMONTE SPRINGS, FL 32714

Business Telephone Number

407-389-8500

This firm is a brokerage firm and an investment adviser firm. For more information about investment adviser firms, visit the SEC's Investment Adviser Public Disclosure website at:

https://www.adviserinfo.sec.gov

Report Summary for this Firm

This report summary provides an overview of the brokerage firm. Additional information for this firm can be found in the detailed report.

Firm Profile

This firm is classified as a corporation.

This firm was formed in New Hampshire on 10/20/1993.

Its fiscal year ends in September.

Firm History

Information relating to the brokerage firm's history such as other business names and successions (e.g., mergers, acquisitions) can be found in the detailed report.

Firm Operations

This brokerage firm is no longer registered with FINRA or a national securities exchange.

Disclosure Events

Brokerage firms are required to disclose certain criminal matters, regulatory actions, civil judicial proceedings and financial matters in which the firm or one of its control affiliates has been involved.

Are there events disclosed about this firm?	**Yes**

The following types of disclosures have been reported:

Type	Count
Regulatory Event	7
Arbitration	2

Registration Withdrawal Information

This section provides information relating to the date the brokerage firm ceased doing business and the firm's financial obligations to customers or other brokerage firms.

This firm terminated or withdrew registration on:	05/15/2015
Does this brokerage firm owe any money or securities to any customer or brokerage firm?	No

Firm Profile

This firm is classified as a corporation.

This firm was formed in New Hampshire on 10/20/1993.

Its fiscal year ends in September.

Firm Names and Locations

This section provides the brokerage firm's full legal name, "Doing Business As" name, business and mailing addresses, telephone number, and any alternate name by which the firm conducts business and where such name is used.

MERRIMAC CORPORATE SECURITIES, INC.

Doing business as MERRIMAC CORPORATE SECURITIES, INC.

CRD# 35463

SEC# 8-46721

Main Office Location

1150 DOUGLAS AVENUE
STE 1080
ALTAMONTE SPRINGS, FL 32714

Mailing Address

1150 DOUGLAS AVENUE
STE 1080
ALTAMONTE SPRINGS, FL 32714

Business Telephone Number

407-389-8500

Firm Profile

This section provides information relating to all direct owners and executive officers of the brokerage firm.

Direct Owners and Executive Officers

Legal Name & CRD# (if any):	TEAM ADVISORY CORPORATE, INC.
Is this a domestic or foreign entity or an individual?	Domestic Entity
Position	SHAREHOLDER
Position Start Date	11/2002
Percentage of Ownership	75% or more
Does this owner direct the management or policies of the firm?	Yes
Is this a public reporting company?	No

Firm Profile

This section provides information relating to any indirect owners of the brokerage firm.

Indirect Owners

Legal Name & CRD# (if any):	PIZZUTI, KRISTIN ANN
Is this a domestic or foreign entity or an individual?	Individual
Company through which indirect ownership is established	TEAM ADVISORY CORPORATE, INC.
Relationship to Direct Owner	SHAREHOLDER
Relationship Established	11/2002
Percentage of Ownership	75% or more
Does this owner direct the management or policies of the firm?	Yes
Is this a public reporting company?	No

Firm History

This section provides information relating to any successions (e.g., mergers, acquisitions) involving the firm.

No information reported.

Firm Operations

Registrations

This section provides information about the regulators (Securities and Exchange Commission (SEC), self-regulatory organizations (SROs), and U.S. states and territories) with which the brokerage firm is currently registered and licensed, the date the license became effective, and certain information about the firm's SEC registration.

This firm is no longer registered.

The firm's registration was from 12/17/1993 to 03/21/2016.

Firm Operations

Types of Business

This section provides the types of business, including non-securities business, the brokerage firm is engaged in or expects to be engaged in.

This firm currently conducts 13 types of businesses.

Types of Business

Broker or dealer retailing corporate equity securities over-the-counter
Broker or dealer selling corporate debt securities
Mutual fund retailer
U S. government securities broker
Municipal securities broker
Broker or dealer selling variable life insurance or annuities
Put and call broker or dealer or option writer
Investment advisory services
Broker or dealer selling tax shelters or limited partnerships in primary distributions
Broker or dealer selling tax shelters or limited partnerships in the secondary market
Non-exchange member arranging for transactions in listed securities by exchange member
Private placements of securities
Other - ACT AS A SELLING GROUP MEMBER IN BEST EFFORTS UNDERWRITINGS. ACT AS PLACEMENT AGENT IN REAL ESTATE INVESTMENT TRUSTS ON A BEST EFFORTS BASIS. PROVIDE ONLINE BROKERAGE SERVICES THROUGH A CLEARING FIRM.

Other Types of Business

This firm does not effect transactions in commodities, commodity futures, or commodity options.
This firm does not engage in other non-securities business.

Non-Securities Business Description:

Firm Operations

Clearing Arrangements

This firm does not hold or maintain funds or securities or provide clearing services for other broker-dealer(s).

Introducing Arrangements

This firm does refer or introduce customers to other brokers and dealers.

Name:	COR CLEARING CORP
Business Address:	9300 UNDERWOOD AVE, STE. 400 OMAHA, NE 68114
Effective Date:	02/12/2013
Description:	MERRIMAC CORPORATE SECURITIES, INC. OPERATES PURSUANT TO A FULLY DISCLOSED CLEARING AGREEMENT WITH COR CLEARING CORPORATION.

Name:	APEX CLEARING CORPORATION
CRD #:	13071
Business Address:	1700 PACIFIC AVENUE SUITE 1400 DALLAS, TX 75201
Effective Date:	06/06/2012
Description:	MERRIMAC CORPORATE SECURITIES, INC. OPERATES PURSUANT TO A FULLY DISCLOSED CLEARING AGREEMENT WITH APEX CLEARING CORPORATION.

Firm Operations

Industry Arrangements

This firm does have books or records maintained by a third party.

Name:	COR CLEARING CORP
Business Address:	9300 UNDERWOOD AVE, STE. 400 OMAHA, NE 68114
Effective Date:	02/12/2013
Description:	MERRIMAC CORPORATE SECURITIES, INC. OPERATES PURSUANT TO A FULLY DISCLOSED CLEARING AGREEMENT WITH COR CLEARING CORPORATION.

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Effective Date:	06/06/2012
Description:	MERRIMAC CORPORATE SECURITIES, INC. OPERATES PURSUANT TO A FULLY DISCLOSED CLEARING AGREEMENT WITH APEX CLEARING CORPORATION.

This firm does have accounts, funds, or securities maintained by a third party.

Name:	COR CLEARING CORP
Business Address:	9300 UNDERWOOD AVE, STE. 400 OMAHA, NE 68114
Effective Date:	02/12/2013
Description:	MERRIMAC CORPORATE SECURITIES, INC. OPERATES PURSUANT TO A FULLY DISCLOSED CLEARING AGREEMENT WITH COR CLEARING CORPORATION.

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Firm Operations

Industry Arrangements (continued)

This firm does have customer accounts, funds, or securities maintained by a third party.

Name:	COR CLEARING CORP
Business Address:	9300 UNDERWOOD AVE, STE. 400 OMAHA, NE 68114
Effective Date:	02/12/2013
Description:	MERRIMAC CORPORATE SECURITIES, INC. OPERATES PURSUANT TO A FULLY DISCLOSED CLEARING AGREEMENT WITH COR CLEARING CORPORATION.

Name:	APEX CLEARING CORPORATION
CRD #:	13071
Business Address:	1700 PACIFIC AVENUE SUITE 1400 DALLAS, TX 75201
Effective Date:	06/06/2012
Description:	MERRIMAC CORPORATE SECURITIES, INC. OPERATES PURSUANT TO A FULLY DISCLOSED CLEARING AGREEMENT WITH APEX CLEARING CORPORATION.

Control Persons/Financing

This firm does not have individuals who control its management or policies through agreement.

This firm does not have individuals who wholly or partly finance the firm's business.

Firm Operations

Organization Affiliates

This section provides information on control relationships the firm has with other firms in the securities, investment advisory, or banking business.

This firm is not, directly or indirectly:

- **in control of**
- **controlled by**
- **or under common control with**

the following partnerships, corporations, or other organizations engaged in the securities or investment advisory business.

This firm is not directly or indirectly, controlled by the following:

- **bank holding company**
- **national bank**
- **state member bank of the Federal Reserve System**
- **state non-member bank**
- **savings bank or association**
- **credit union**
- **or foreign bank**

Disclosure Events

All firms registered to sell securities or provide investment advice are required to disclose regulatory actions, criminal or civil judicial proceedings, and certain financial matters in which the firm or one of its control affiliates has been involved. For your convenience, below is a matrix of the number and status of disclosure events involving this brokerage firm or one of its control affiliates. Further information regarding these events can be found in the subsequent pages of this report.

	Pending	Final	On Appeal
Regulatory Event	0	6	1
Arbitration	N/A	2	N/A

Disclosure Event Details

What you should know about reported disclosure events:

1. **BrokerCheck provides details for any disclosure event that was reported in CRD. It also includes summary information regarding FINRA arbitration awards in cases where the brokerage firm was named as a respondent.**
2. **Certain thresholds must be met before an event is reported to CRD, for example:**
   - A law enforcement agency must file formal charges before a brokerage firm is required to disclose a particular criminal event.
3. **Disclosure events in BrokerCheck reports come from different sources:**
   - Disclosure events for this brokerage firm were reported by the firm and/or regulators. When the firm and a regulator report information for the same event, both versions of the event will appear in the BrokerCheck report. The different versions will be separated by a solid line with the reporting source labeled.
4. **There are different statuses and dispositions for disclosure events:**
   - A disclosure event may have a status of *pending, on appeal,* or *final.*
     - A "pending" event involves allegations that have not been proven or formally adjudicated.
     - An event that is "on appeal" involves allegations that have been adjudicated but are currently being appealed.
     - A "final" event has been concluded and its resolution is not subject to change.
   - A final event generally has a disposition of *adjudicated, settled* or *otherwise resolved.*
     - An "adjudicated" matter includes a disposition by (1) a court of law in a criminal or civil matter, or (2) an administrative panel in an action brought by a regulator that is contested by the party charged with some alleged wrongdoing.
     - A "settled" matter generally involves an agreement by the parties to resolve the matter. Please note that firms may choose to settle customer disputes or regulatory matters for business or other reasons.
     - A "resolved" matter usually involves no payment to the customer and no finding of wrongdoing on the part of the individual broker. Such matters generally involve customer disputes.
5. **You may wish to contact the brokerage firm to obtain further information regarding any of the disclosure events contained in this BrokerCheck report.**

Regulatory - Final

This type of disclosure event involves (1) a final, formal proceeding initiated by a regulatory authority (e.g., a state securities agency, self-regulatory organization, federal regulator such as the U.S. Securities and Exchange Commission, foreign financial regulatory body) for a violation of investment-related rules or regulations; or (2) a revocation or suspension of the authority of a brokerage firm or its control affiliate to act as an attorney, accountant or federal contractor.

Disclosure 1 of 6

Reporting Source:	Regulator
Current Status:	Final

Allegations:	RESPONDENT MERRIMAC CORPORATE SECURITIES, INC. FAILED TO PAY FINES AND/OR COSTS OF $102,599.21 IN FINRA CASE #2009017195204.
Initiated By:	FINRA
Date Initiated:	03/21/2016
Docket/Case Number:	2009017195204
Principal Product Type:	No Product
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	Expulsion
Other Sanction(s)/Relief Sought:	
Resolution:	Other
Resolution Date:	03/21/2016
Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?	No
Sanctions Ordered:	Revocation/Expulsion/Denial
Other Sanctions Ordered:	
Sanction Details:	PURSUANT TO FINRA RULE 8320, RESPONDENT MERRIMAC CORPORATE SECURITIES, INC. IS EXPELLED FROM FINRA MEMBERSHIP AS OF THE CLOSE OF BUSINESS ON MARCH 21, 2016 FOR FAILURE TO PAY FINES AND/OR COSTS.

Disclosure 2 of 6

Reporting Source:	Regulator
Current Status:	Final
Allegations:	RESPONDENT MERRIMAC CORPORATE SECURITIES, INC. FAILED TO PAY FEES OF $31,993.90 DUE TO FINRA.
Initiated By:	FINRA
Date Initiated:	05/20/2015
Docket/Case Number:	N/A

Principal Product Type:	No Product
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	Other
Other Sanction(s)/Relief Sought:	CANCELLATION
Resolution:	Other
Resolution Date:	06/10/2015
Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?	No
Sanctions Ordered:	
Other Sanctions Ordered:	CANCELLATION
Sanction Details:	PURSUANT TO FINRA RULE 9553, MERRIMAC CORPORATE SECURITIES' MEMBERSHIP WITH FINRA IS CANCELED AS OF JUNE 10, 2015 FOR FAILURE TO PAY OUTSTANDING FEES.

Reporting Source:	Firm
Current Status:	Final
Allegations:	FINRA CANCELED MEMEBERSHIP FOR NON-PAYMENT OF FINRA FEES
Initiated By:	FINRA
Date Initiated:	05/20/2015
Docket/Case Number:	N/A
Principal Product Type:	No Product
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	Other
Other Sanction(s)/Relief Sought:	MEMBERSHIP CANCELED
Resolution:	Other

Resolution Date:	06/10/2015
Firm Statement	MERRIMAC FILED MEMBERSHIP WITHDRAW (BDW) ON 5/15/2015. FINRA CANCELED MEMEBERSHIP FOR NON-PAYMENT OF FINRA FEES ON 6/10/2015.

Disclosure 3 of 6

Reporting Source:	Regulator
Current Status:	Final
Appealed To and Date Appeal Filed:	APPEALED TO THE NAC ON DECEMBER 5, 2013.
Allegations:	FINRA RULE 2010, NASD RULES 2110, 3010 - MERRIMAC CORPORATE SECURITIES, INC. FAILED TO REASONABLY SUPERVISE OUTSIDE BUSINESS ACTIVITIES AND PRIVATE SECURITIES TRANSACTIONS OF ITS CHIEF EXECUTIVE OFFICER'S RELATIVE AND ANOTHER, BOTH REGISTERED REPRESENTATIVES AT THE FIRM. THESE INDIVIDUALS OPERATED A COMPANY AND SOLD INVESTMENTS IN THE COMPANY AWAY FROM THE FIRM AND ARRANGED FOR THE INVESTORS, MANY OF WHOM WERE FIRM CUSTOMERS, TO HOLD THEIR INVESTMENTS AWAY FROM MERRIMAC'S CLEARING FIRM WITH NON-BROKER-DEALER CUSTODIANS. THE FIRM FAILED TO ADEQUATELY SUPERVISE THESE INDIVIDUALS AND TO TAKE REASONABLE STEPS TO DETERMINE IF THEY WERE COMPLYING WITH NASD RULES 3030 AND 3040. THE FIRM FAILED TO CONDUCT A REASONABLE INQUIRY INTO THEIR COMPANY AND THEIR ROLES IN THE COMPANY, TO OBTAIN DETAILS OF THE PRIVATE SECURITIES TRANSACTION WITH A CUSTOMER PRIOR TO APPROVING THAT TRANSACTION, AND FAILED TO DOCUMENT THE CONDITIONS IMPOSED UPON THE INDIVIDUALS TO SOLICIT AN INVESTOR FOR THE COMPANY IN ACCORDANCE WITH RULE 3040. AFTER APPROVING THE INDIVIDUALS TO SOLICIT A CUSTOMER TO INVEST IN THE COMPANY, THE FIRM FAILED TO INQUIRE INTO WHETHER THE BROKERS HAD SOLICITED ANY OTHER INVESTORS, AND FAILED TO INQUIRE INTO THE COMPANY'S FINANCIAL HEALTH, EITHER WHEN IT APPROVED THE TRANSACTIONS OR SUBSEQUENTLY. THIS WAS IMPORTANT BECAUSE THE CUSTOMER WAS A FIRM CUSTOMER. ONE OF THE INDIVIDUALS WAS RECEIVING SELLING COMPENSATION IN CONNECTION WITH ANOTHER COMPANY AND THE FIRM WAS REQUIRED TO RECORD THESE SALES ON ITS BOOKS AND RECORDS AND SUPERVISE HIS PARTICIPATION IN THE TRANSACTIONS BUT FAILED TO ADEQUATELY REVIEW HIS CUSTOMER SALES. THE FIRM'S CHIEF EXECUTIVE OFFICER LEARNED OF WEBSITES CLAIMING THAT HIS RELATIVE'S AND THE OTHER INDIVIDUAL'S COMPANY WAS A PONZI SCHEME AND HAVING SERIOUS FINANCIAL DIFFICULTIES. THESE ALLEGATIONS CONSTITUTED RED FLAGS THAT THE INDIVIDUALS MAY

HAVE VIOLATED THE CONDITIONS THE FIRM IMPOSED WHEN IT APPROVED THEIR PARTICIPATION IN THE COMPANY BUT THE FIRM DID NOT TAKE APPROPRIATE STEPS TO INVESTIGATE UNTIL AFTER IT RECEIVED A CUSTOMER COMPLAINT. THE FIRM PERMITTED ITS BROKERS TO UTILIZE OUTSIDE CUSTODIANS TO MAINTAIN CUSTODY OF NONTRADEABLE CUSTOMER ASSETS BUT HAD AN INADEQUATE SYSTEM FOR SUPERVISING BROKERS' USE OF OUTSIDE CUSTODIANS. THE FIRM LACKED WRITTEN SUPERVISORY PROCEDURES REQUIRING BROKERS TO NOTIFY THE FIRM IF THEY WERE ACTING AS AGENTS OF INVESTORS, INCLUDING FIRM CUSTOMERS, WHO HELD ASSETS WITH THE OUTSIDE CUSTODIANS NOT SOLD THROUGH THE FIRM AND TO PROVIDE THE FIRM WITH DUPLICATE ACCOUNT STATEMENTS AND CONFIRMATIONS FOR SUCH ASSETS SO THAT THE FIRM COULD MONITOR FOR FINANCIAL AND OPERATIONS, ANTI-FRAUD AND SUITABILITY ISSUES, AND TO COMPLY WITH APPLICABLE REGULATORY REQUIREMENTS. THE FIRM FAILED TO ESTABLISH, MAINTAIN AND ENFORCE WRITTEN PROCEDURES TO SUPERVISE ITS BROKERS' USE OF OUTSIDE CUSTODIANS, AND FAILED TO IMPLEMENT A PROGRAM REASONABLY DESIGNED TO MONITOR ITS BROKERS' USE OF OUTSIDE CUSTODIANS.

Initiated By:	FINRA
Date Initiated:	06/28/2012
Docket/Case Number:	2009017195204
Principal Product Type:	No Product
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	
Other Sanction(s)/Relief Sought:	
Resolution:	Decision
Resolution Date:	06/01/2015
Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?	No
Sanctions Ordered:	Monetary/Fine $100,000.00
Other Sanctions Ordered:	UNDERTAKINGS AND PAY COSTS

Sanction Details:

THE FIRM WAS FINED $100,000 AND REQUIRED TO RETAIN AN INDEPENDENT CONSULTANT TO REVIEW ITS POLICIES, SYSTEMS AND PROCEDURES (WRITTEN AND OTHERWISE), AND TRAINING RELATING TO OUTSIDE BUSINESS ACTIVITY AND PRIVATE SECURITIES TRANSACTIONS, AND ADOPT AND IMPLEMENT THE INDEPENDENT CONSULTANT'S RECOMMENDATIONS. THE FIRM IS ALSO REQUIRED TO PAY COSTS IN THE AMOUNT OF $2,599.21.

(THE FINE IS PAYABLE IN 10 INSTALLMENTS OF $10,000)

Regulator Statement

HEARING PANEL DECISION RENDERED NOVEMBER 19, 2013 WHEREIN RESPONDENT IS FINED $100,000, PAYABLE IN TEN INSTALLMENTS OF $10,000, AND IS REQUIRED TO RETAIN AN INDEPENDENT CONSULTANT TO CONDUCT A COMPREHENSIVE REVIEW OF THE ADEQUACY OF THE FIRM'S POLICIES, SYSTEMS AND PROCEDURES (WRITTEN AND OTHERWISE), AND TRAINING RELATING TO OUTSIDE BUSINESS ACTIVITY AND PRIVATE SECURITIES TRANSACTIONS. MERRIMAC SHALL ADOPT AND IMPLEMENT THE RECOMMENDATIONS OF THE INDEPENDENT CONSULTANT. MERRIMAC IS ALSO ORDERED TO PAY THE COSTS OF THE HEARING IN THE AMOUNT OF $2,599.21. APPEALED TO THE NAC ON DECEMBER 5, 2013.

NAC DECISION RENDERED APRIL 29, 2015. THE SANCTIONS WERE IMPOSED BY THE NATIONAL ADJUDICATORY COUNCIL (NAC) FOLLOWING THE APPEAL OF THE OFFICE OF HEARING OFFICERS DECISION. THE SANCTIONS WERE BASED ON FINDINGS THAT THE FIRM FAILED TO REASONABLY SUPERVISE THE OUTSIDE BUSINESS ACTIVITIES AND PRIVATE SECURITIES TRANSACTIONS OF TWO REGISTERED REPRESENTATIVES WHO HAVE SINCE BEEN BARRED FROM THE INDUSTRY AND TO ESTABLISH, MAINTAIN, AND ENFORCE REASONABLE WRITTEN SUPERVISORY PROCEDURES. THE FINDINGS STATED THAT THE REPRESENTATIVES OPERATED A COMPANY AND SOLD INVESTMENTS AWAY FROM THE FIRM. THE REPRESENTATIVES SOLICITED INDIVIDUALS TO INVEST IN THEIR COMPANY AND RAISED AN AGGREGATE AMOUNT OF $4 MILLION FROM THOSE INVESTORS. THE REPRESENTATIVES ARRANGED FOR INVESTORS, MANY OF WHOM WERE FIRM CUSTOMERS, TO HOLD INVESTMENTS IN THEIR COMPANY AWAY FROM THE FIRM'S CLEARING FIRM WITH NON-BROKER-DEALER CUSTODIANS. ONE REPRESENTATIVE ALSO SOLICITED INVESTMENTS IN A SECOND OUTSIDE BUSINESS, OF WHICH HE WAS AN OWNER. THE FINDINGS ALSO STATED THAT THE FIRM FAILED TO ADEQUATELY IMPLEMENT ITS PROCEDURES REGARDING PARTICIPATION IN OUTSIDE BUSINESSES AND IN PRIVATE SECURITIES TRANSACTIONS, AND FAILED TO IMPLEMENT REASONABLE PROCEDURES REGARDING THE USE OF OUTSIDE CUSTODIANS. THE FIRM FAILED TO ADEQUATELY INQUIRE INTO THE REPRESENTATIVES' OUTSIDE BUSINESS ACTIVITIES AND INVOLVEMENT IN PRIVATE SECURITIES TRANSACTIONS DESPITE PERSONAL KNOWLEDGE ABOUT BOTH. THE FIRM FURTHER

FAILED TO FOLLOW UP ON RED FLAGS REGARDING THESE ACTIVITIES. THE DECISION BECAME FINAL JUNE 1, 2015.

Reporting Source:	Firm
Current Status:	Final
Allegations:	FINRA RULE 2010, NASD RULES 2110, 3010 - CEO FAILED TO REASONABLY SUPERVISE OUTSIDE BUSINESS ACTIVITIES AND PRIVATE SECURITIES TRANSACTIONS OF A RELATIVE AND ANOTHER INDIVIDUAL, BOTH REGISTERED REPRESENTATIVES AT THE FIRM. THESE INDIVIDUALS OPERATED A COMPANY AND SOLD INVESTMENTS IN THE COMPANY AWAY FROM THE FIRM AND ARRANGED FOR THE INVESTORS, MANY OF WHOM WERE FIRM CUSTOMERS, TO HOLD THEIR INVESTMENTS AWAY FROM THE FIRM'S CLEARING FIRM WITH NON-BROKER-DEALER CUSTODIANS. BECAUSE OF HIS BUSINESS AND PERSONAL RELATIONSHIP WITH ONE OF THE INDIVIDUALS, CEO WAS OR SHOULD HAVE BEEN, AWARE OF HIS RELATIVE'S AND THE OTHER INDIVIDUAL'S FUNDRAISING ACTIVITIES FOR THEIR COMPANY AND HIS RELATIVE'S FUNDRAISING ACTIVITIES FOR ANOTHER COMPANY. CEO WAS, THEREFORE, RESPONSIBLE FOR TAKING REASONABLE STEPS TO DETERMINE WHETHER THEY WERE IN COMPLIANCE WITH NASD RULES 3030 AND 3040 AND THE FIRM'S CORRESPONDING POLICIES AND PROCEDURES BUT FAILED TO TAKE THESE STEPS. CEO LEARNED OF WEBSITES CLAIMING THAT HIS RELATIVE'S AND THE OTHER INDIVIDUAL'S COMPANY WAS A PONZI SCHEME AND HAVING SERIOUS FINANCIAL DIFFICULTIES. THESE ALLEGATIONS CONSTITUTED RED FLAGS THAT THE INDIVIDUALS MAY HAVE VIOLATED THE CONDITIONS THE FIRM IMPOSED WHEN IT APPROVED THEIR PARTICIPATION IN THE COMPANY BUT HE DID NOT TAKE APPROPRIATE STEPS TO INVESTIGATE UNTIL AFTER THE FIRM RECEIVED A CUSTOMER COMPLAINT. CEO FAILED TO TAKE REASONABLE STEPS TO DETERMINE WHETHER THE FIRM AND THE CHIEF COMPLIANCE OFFICER WERE COMPLYING WITH THEIR RESPONSIBILITIES TO SUPERVISE THE INDIVIDUALS.
Initiated By:	FINRA
Date Initiated:	06/28/2013
Docket/Case Number:	2009017195204
Principal Product Type:	No Product
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	Other

Other Sanction(s)/Relief Sought:	N/A
Resolution:	Decision & Order of Offer of Settlement
Resolution Date:	06/01/2015
Sanctions Ordered:	Monetary/Fine $100,000.00 Suspension
Other Sanctions Ordered:	
Sanction Details:	THE FIRM FILED BDW ON 5/15/2015 BEFORE ANY SUSPENSION TOOK EFFECT.
Firm Statement	AS ARGUED DURING THE APPEAL, A $100,000 FINE ON A SMALL FIRM WOULD PUT FIRM BELOW NET CAP AND OUT OF BUSINESS. THE FIRM FILED BDW ON 5/15/2015.

Disclosure 4 of 6

Reporting Source:	Regulator
Current Status:	Final
Appealed To and Date Appeal Filed:	APPEALED TO THE NAC ON JANUARY 12, 2011
Allegations:	SEC SECTION 17(A) OF THE SECURITIES EXCHANGE ACT OF 1934, RULES 17A-3, 17A-4, NASD RULES 1017, 2110, 3010(A), 3010(B), 3110: THE FIRM SOLD PRIVATE PLACEMENTS AND OTHER SECURITIES NOT AUTHORIZED UNDER ITS MEMBERSHIP AGREEMENT THEREBY VIOLATING THE TERMS OF ITS MEMBERSHIP AGREEMENT AND NASD MEMBERSHIP AND REGISTRATION RULE 1017. THE FIRM FAILED TO ESTABLISH, MAINTAIN, AND ENFORCE WRITTEN PROCEDURES REASONABLY DESIGNED TO SUPERVISE THE TYPES OF BUSINESS IN WHICH IT ENGAGED, INCLUDING PRIVATE PLACEMENT, OTHER TYPES OF INVESTMENT BUSINESSES, AND VARIABLE ANNUITY BUSINESS, FROM WHICH IT GENERATED A RELATIVELY SUBSTANTIAL PORTION OF ITS TOTAL REVENUE. THE FIRM'S WRITTEN SUPERVISORY PROCEDURES DID NOT ADDRESS PRODUCT-SPECIFIC FACTORS RELATING TO THE SECURITIES BUSINESS AND INVESTMENT BUSINESSES IT ENGAGED IN, SUCH AS DUE DILIGENCE ON THE ISSUERS, INVESTOR QUALIFICATION, ESCROW AND CONTINGENCY REQUIREMENTS, LIQUIDITY AND RISK TOLERANCE CONCERNS, AND FACTORS RELATING TO PURCHASE, SALE, OR EXCHANGE OF VARIABLE ANNUITIES, SUCH AS SURRENDER FEES, EXPENSES, RIDERS, AND DEATH BENEFITS. THE FIRM FAILED TO PRESERVE ALL OF ITS BUSINESS-RELATED ELECTRONIC COMMUNICATIONS IN ACCORDANCE WITH SEC RULE 17A-4. THE FIRM FAILED TO PRESERVE ELECTRONIC COMMUNICATIONS IN THE REQUISITE

	FORMAT AND MANNER, AND FAILED TO FILE TIMELY NOTIFICATION OF ITS USE OF ELECTRONIC STORAGE MEDIA, THEREBY WILLFULLY VIOLATING SECTION 17(A) OF THE 1934 AND SEC RULE 17A-4. THE FIRM FAILED TO COMPLY WITH RECORDKEEPING REQUIREMENTS AND FAILED TO MAINTAIN ITEMIZED DAILY BLOTTERS FOR ALL PURCHASES AND SALES OF SECURITIES FOR ITS DIRECT APPLICATION MUTUAL FUND AND VARIABLE ANNUITY BUSINESS, AS A RESULT, WILLFULLY VIOLATING SECTION 17(A) OF THE 1934 ACT AND SEC RULES 17A-3 AND 17A-4 AND ALSO VIOLATING NASD RULES 3110 AND 2110.
Initiated By:	FINRA
Date Initiated:	09/24/2009
Docket/Case Number:	2007007151101
Principal Product Type:	Annuity(ies) - Variable
Other Product Type(s):	PRIVATE PLACEMENTS AND OTHER UNSPECIFIED SECURITIES
Principal Sanction(s)/Relief Sought:	
Other Sanction(s)/Relief Sought:	
Resolution:	Decision
Resolution Date:	06/04/2012
Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?	No
Sanctions Ordered:	Monetary/Fine $18,500.00
Other Sanctions Ordered:	HEARING PANEL COSTS OF $4,676.80, APPEAL COSTS OF $1,485
Sanction Details:	HEARING PANEL DECISION RENDERED DECEMBER 8, 2010 WHEREIN THE FIRM WAS FINED $18,500 AND ORDERED TO PAY COSTS IN THE AMOUNT OF $4,676.80. THE FINE AND COSTS SHALL BE PAYABLE NOT LESS THAN 30 DAYS AFTER THE DECISION BECOMES FINAL. APPEALED TO THE NAC ON JANUARY 12, 2011. NAC DECISION RENDERED MAY 2, 2012 WHEREIN THE FINDINGS AND SANCTIONS ARE AFFIRMED; THEREFORE, THE FIRM IS FINED $18,500. THE NAC AFFIRMED THE HEARING PANEL'S COSTS OF $4,676.80 AND IMPOSED APPEAL COSTS OF $1,485. AS A RESULT OF ITS WILLFUL VIOLATION OF SECTION 17(A) OF EXCHANGE ACT AND EXCHANGE ACT RULE 17A-4, THE FIRM IS STATUTORILY DISQUALIFIED.

THE DECISION IS FINAL JUNE 4, 2012.
FINE PAID IN FULL JUNE 25, 2012.

Reporting Source:	Firm
Current Status:	Final
Allegations:	FINRA CITED THE FIRM FOR SELLING PRIVATE PLACEMENTS WHEN THEY WERE NOT LISTED ON ITS MEMBERSHIP AGREEMENT. ADDITIONALLY, FINRA CITED THE FIRM FOR FAILING TO ARCHIVE ITS EMAIL TRAFFIC FOR A PERIOD WHEN THE EMAIL ARCHIVER WAS DOWN.
Initiated By:	FINRA
Date Initiated:	09/24/2009
Docket/Case Number:	2007007151101
Principal Product Type:	Other
Other Product Type(s):	PRIVATE PLACEMENTS AND NON-PRODUCT ISSUES (UNSPECIFIED)
Principal Sanction(s)/Relief Sought:	Civil and Administrative Penalt(ies) /Fine(s)
Other Sanction(s)/Relief Sought:	
Resolution:	Decision
Resolution Date:	06/04/2012
Sanctions Ordered:	Monetary/Fine $18,500.00
Other Sanctions Ordered:	
Sanction Details:	THE FIRM PAID THE $18,500.00 FINE, $4,676.00 IN PANEL COSTS, AND $1,485.00 IN HEARING COSTS.
Firm Statement	THE FIRM PAID A MONETARY FINE, AND ALTHOUGH WE CONTINUE TO DISAGREE WITH FINRA'S USE OF THE TERM "WILLFUL," WE ACCEPTED THE DECISION WITHOUT FURTHER APPEALS BECAUSE OF MONETARY CONSIDERATIONS. THE ACTUAL INFRACTION OCCURRED WHEN OUR EMAIL ARCHIVER WAS INADVERTENTLY LEFT OFF AFTER A SERVER WAS REPAIRED. THE DECISION TO NOT APPEAL FURTHER WAS BASED ON OUR UNDERSTANDING WE WERE NOT SUBJECT TO LOSING ANY RIGHTS TO CONDUCT BUSINESS OR STANDING AS A MEMBERSHIP. WHILE THIS IS CORRECT, THE TERM STATUTORY DISQUALIFICATION AS WRITTEN ALLUDES TO A MORE DIRE CONSEQUENCE WHICH SIMPLY IS NOT THE CASE.

Disclosure 5 of 6

Reporting Source:	Regulator
Current Status:	Final
Allegations:	MERRIMAC CORPORATE SECURITIES, INC. FAILED TO PAY ITS ANNUAL ASSESSMENT FEE.
Initiated By:	FINRA
Date Initiated:	08/12/2009
Docket/Case Number:	N/A
Principal Product Type:	No Product
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	
Other Sanction(s)/Relief Sought:	
Resolution:	Other
Resolution Date:	09/02/2009
Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?	No
Sanctions Ordered:	Suspension
Other Sanctions Ordered:	
Sanction Details:	PURSUANT TO FINRA RULE 9553, MERRIMAC CORPORATE SECURITIES' MEMBERSHIP WITH FINRA IS SUSPENDED AS OF SEPTEMBER 2, 2009 FOR FAILURE TO PAY ANNUAL ASSESSMENT FEES. SUSPENSION LIFTED SEPTEMBER 18, 2009.

Reporting Source:	Firm
Current Status:	Final
Allegations:	FIRM FAILED TO PAY MEMBERSHIP DUES.

Initiated By:	FINRA
Date Initiated:	08/12/2009
Docket/Case Number:	N/A
Principal Product Type:	No Product
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	Suspension
Other Sanction(s)/Relief Sought:	
Resolution:	Other
Resolution Date:	09/18/2009
Sanctions Ordered:	Suspension
Other Sanctions Ordered:	
Sanction Details:	MEMBERSHIP FEES WERE IMMEDIATELY WIRED TO FINRA SAME DAY WE RECEIVED SUSPENSION NOTICE VIA EMAIL FROM CRD.
Firm Statement	THE FIRM'S CFO HAD BOOKED THE LIABILITY AND COUNTED IT AGAINST NET CAPITAL, HOWEVER AND WAS INADVERTENTLY OMITTED FROM THE PAYMENT SYSTEM, SO IT REMAINED AN UNPAID BUT ACCOUNTED FOR LIABILITY. IT SHOULD NOTED THAT MERRIMAC DID NOT RECEIVE ANY INDICATION THAT THEY WERE GOING TO BE OR BEING SUSPENDED UNTIL RECEIVING AN EMAIL NOTIFICATION FROM CRD THE DAY AFTER FINRA FILED THE U6 REGARDING THE MATTER ON 9/16/2009. THE FIRM IMMEDIATELY RECTIFIED THE SITUATION.

Disclosure 6 of 6

Reporting Source:	Regulator
Current Status:	Final
Allegations:	NASD RULES 2110 AND 3020 DURING THE PERIOD FROM DECEMBER 2002 TO FEBRUARY 2005, THE FIRM FAILED TO MAINTAIN A BLANKET FIDELITY BOND AS REQUIRED BY NASD RULE 3020.
Initiated By:	NASD
Date Initiated:	02/15/2006
Docket/Case Number:	E072005023302

Principal Product Type:	Other
Other Product Type(s):	BLANKET FIDELITY BOND
Principal Sanction(s)/Relief Sought:	
Other Sanction(s)/Relief Sought:	
Resolution:	Acceptance, Waiver & Consent(AWC)
Resolution Date:	02/15/2006
Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?	No
Sanctions Ordered:	Censure Monetary/Fine $5,000.00
Other Sanctions Ordered:	
Sanction Details:	WITHOUT ADMITTING OR DENYING THE ALLEGATIONS, THE FIRM CONSENTED TO THE DESCRIBED SANCTIONS AND TO THE ENTRY OF FINDINGS; THEREFORE THE FIRM IS CENSURED AND FINED $5,000.

Reporting Source:	Firm
Current Status:	Final
Allegations:	DURING THE PERIOD FROM DECEMBER 2002 TO FEBRUARY 2005, MERRIMAC CORPORATE SECURITIES, INC. FAILED TO MAINTAIN A BLANKET FIDELITY BOND AS REQUIRED BY NASD CONDUCT RULE 3020, IN VIOLATION OF NASD CONDUCT RULE 3020 AND 2110.
Initiated By:	NATIONAL ASSOCIATION OF SECURITIES DEALERS
Date Initiated:	02/02/2006
Docket/Case Number:	E072005023302
Principal Product Type:	Other
Other Product Type(s):	FIDELITY BOND
Principal Sanction(s)/Relief Sought:	Censure

Other Sanction(s)/Relief Sought:	$5,000 FINE
Resolution:	Acceptance, Waiver & Consent(AWC)
Resolution Date:	02/15/2006
Sanctions Ordered:	Censure Monetary/Fine $5,000.00
Other Sanctions Ordered:	
Sanction Details:	CENSURE AND FINE OF $5000.00 IMPOSED. PAID IN FULL 02/28/06
Firm Statement	DURING THE PERIOD FROM DECEMBER 2002 TO FEBRUARY 2005, MERRIMAC CORPORATE SECURITIES, INC. FAILED TO MAINTAIN A BLANKET FIDELITY BOND AS REQUIRED BY NASD CONDUCT RULE 3020, IN VIOLATION OF NASD CONDUCT RULE 3020 AND 2110. CENSURE AND FINE OF $5000.00 IMPOSED. FIRM ELECTED TO PARTICIPATE IN THE INSTALLMENT PAYMENT PLAN APPROVED BY THE NASD.

Regulatory - On Appeal

This type of disclosure event involves (1) a formal proceeding initiated by a regulatory authority (e.g., a state securities agency, self-regulatory organization, federal regulator such as the Securities and Exchange Commission, foreign financial regulatory body) for a violation of investment-related rules or regulations that is currently on appeal; or (2) a revocation or suspension of the authority of a brokerage firm or its control affiliate to act as an attorney, accountant or federal contractor that is currently on appeal.

Disclosure 1 of 1

Reporting Source:	Regulator
Current Status:	On Appeal
Appealed To and Date Appeal Filed:	ON APRIL 24, 2015, THIS MATTER WAS APPEALED TO THE NATIONAL ADJUDICATORY COUNCIL (NAC) AND THE SANCTIONS ARE NOT IN EFFECT PENDING REVIEW. ON JUNE 26, 2017, THE FIRM APPEALED THE NAC DECISION TO THE SECURITIES AND EXCHANGE COMMISSION (SEC). THE SANCTIONS ARE NOT IN EFFECT PENDING THE APPEAL.
Allegations:	SECTION 5 OF THE SECURITIES ACT OF 1933, FINRA BY-LAWS ARTICLE IV, SECTION 1, FINRA RULES 2010, 3310, 8210, NASD RULE 3011: IN RESPONSE TO FINRA REQUESTS FOR DOCUMENTS, THE FIRM KNOWINGLY PROVIDED FORGED DOCUMENTS TO FINRA THAT FALSELY REFLECTED THAT DOZENS OF PENNY STOCK TRANSACTIONS HAD BEEN REVIEWED BY THE FIRM'S SUPERVISORY AND COMPLIANCE PERSONNEL, WHEN IN FACT NO SUPERVISION OCCURRED. AN INDIVIDUAL AT THE FIRM CAUSED IT TO SELL UNREGISTERED SHARES OF PENNY STOCKS WHEN NO REGISTRATION OR EXEMPTION FROM REGISTRATION APPLIED TO THE SHARES. THE PENNY STOCKS WERE PROCESSED BY AN UNLICENSED FIRM EMPLOYEE AND THUS WERE NOT REVIEWED BY ANY FIRM SUPERVISORY OR COMPLIANCE PERSONNEL. THE FIRM SOLD UNREGISTERED SECURITIES IN CONTRAVENTION OF SECTION 5 OF THE SECURITIES ACT OF 1933. THE FIRM FAILED TO IMPLEMENT ANTI-MONEY LAUNDERING (AML) PROCEDURES CONCERNING PENNY STOCK TRADING THAT WERE DESIGNED TO ACHIEVE COMPLIANCE WITH THE BANK SECRECY ACT. THE FIRM FAILED TO ADEQUATELY REVIEW CUSTOMER TRANSACTIONS INVOLVING PENNY STOCKS, AND IN MANY INSTANCES, PENNY STOCK TRANSACTIONS WERE PROCESSED WITHOUT ANY SUPERVISORY REVIEW. THE FIRM FAILED TO ADEQUATELY RESEARCH THE SECURITIES-RELATED DISCIPLINARY HISTORY OF CUSTOMERS, OR WAS AWARE OF THEIR DISCIPLINARY HISTORY AND DID NOTHING TO ELEVATE OR TAILOR THE LEVEL OF SUPERVISION OF THEIR CUSTOMERS' TRADING ACTIVITY. THE FIRM FAILED TO IDENTIFY IRREGULAR TRADING ACTIVITY PRESENT DURING THE TIME IMMEDIATELY AFTER THE ISSUANCE OF ISSUERS' PRESS RELEASES, AND FAILED TO IDENTIFY TRADING ACTIVITY THAT SHOULD HAVE REASONABLY BEEN OBSERVED AS A RED

FLAG ACCORDING TO THE FIRM'S AML PROCEDURES. THE FIRM'S LACK OF RISK-BASED MONITORING PREVENTED THE FIRM FROM OBSERVING PATTERNS OF SUSPICIOUS ACTIVITY AND RESULTED IN CERTAIN FIRM CUSTOMERS SELLING MILLIONS OF SHARES OF UNREGISTERED NON-EXEMPT SECURITIES TO THE PUBLIC. THE FIRM FAILED TO ESTABLISH, MAINTAIN, AND ENFORCE AN ADEQUATE SUPERVISION SYSTEM. THE FIRM FAILED TO REASONABLY SUPERVISE INDIVIDUALS' OUTSIDE BUSINESS ACTIVITIES. THE FIRM FAILED TO TAKE REASONABLE STEPS TO REVIEW THE INDIVIDUALS' ACTIVITIES, AND FAILED TO RECORD ON THE FIRM'S BOOKS AND RECORDS SECURITIES TRANSACTIONS THAT THE INDIVIDUALS' FACILITATED THROUGH CERTAIN FUNDS. THE FIRM FAILED TO REVIEW FIRM CUSTOMERS' PENNY STOCK TRADING ACTIVITY AND RELATED DEPOSIT SECURITIES REQUEST FORMS, AND CONSEQUENTLY CAUSED THE FIRM TO PROCESS APPROXIMATELY 33 UNSUPERVISED PENNY STOCK TRANSACTIONS, INCLUDING A SINGLE DEPOSIT TRANSACTION THAT RESULTED IN THE SALE OF MILLIONS OF SHARES OF UNREGISTERED SECURITIES. THE FIRM FAILED TO ESTABLISH, MAINTAIN, AND ENFORCE AN ADEQUATE SUPERVISORY SYSTEM RELATED TO THE SUPERVISION OF FOREIGN FINDERS. THE FIRM EFFECTED SECURITIES TRANSACTIONS WHILE ITS REGISTRATION WITH FINRA WAS SUSPENDED FOR THE FAILURE TO PAY ITS ANNUAL REGISTRATION FEE.

Initiated By:	FINRA
Date Initiated:	07/03/2013
Docket/Case Number:	2011027666902
Principal Product Type:	Penny Stock(s)
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	Other
Other Sanction(s)/Relief Sought:	N/A
Resolution:	Other
Resolution Date:	05/26/2017
Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?	No
Regulator Statement	EXTENDED HEARING PANEL DECISION RENDERED MARCH 31, 2015

WHEREIN THE FIRM WAS FINED A TOTAL OF $225,000, SUSPENDED FROM MEMBERSHIP WITH FINRA FOR 30 BUSINESS DAYS, SUSPENDED FOR ONE YEAR FROM RECEIVING AND LIQUIDATING PENNY STOCKS FOR WHICH NO REGISTRATION STATEMENT IS IN EFFECT, REQUIRED TO RETAIN AN INDEPENDENT CONSULTANT TO REVISE ITS WRITTEN SUPERVISORY PROCEDURES, AND ORDERED TO PAY COSTS OF $6,753.58. THE SANCTIONS WERE BASED ON FINDINGS THAT IN RESPONSE TO FINRA REQUESTS FOR DOCUMENTS, THE FIRM KNOWINGLY PROVIDED FALSIFIED DEPOSIT SECURITIES REQUEST FORMS (DSR FORMS), A CUSTOMER QUESTIONNAIRE REGARDING THE SOURCE OF THE PENNY STOCK AND ITS REGISTRATION STATUS, TO FINRA THAT FALSELY REFLECTED THAT VARIOUS PENNY STOCK TRANSACTIONS HAD BEEN REVIEWED BY THE FIRM'S SUPERVISORY AND COMPLIANCE PERSONNEL, WHEN IN FACT NO SUPERVISORY REVIEW HAD OCCURRED. THE FIRM'S CHIEF COMPLIANCE OFFICER (CCO) ACKNOWLEDGED THAT HE WAS RESPONSIBLE FOR THE INFORMATION PROVIDED TO FINRA IN RESPONSE TO FINRA'S INFORMATION REQUESTS. NEITHER HE NOR ANYONE ELSE ON THE FIRM'S BEHALF EVER NOTIFIED FINRA THAT THE RESPONSES CONTAINED FALSIFIED DSR FORMS. THE FINDINGS STATED THAT THE FALSIFICATION OF THE DSR FORMS CAUSED PENNY STOCK DEPOSITS BY THE FIRM'S CUSTOMERS TO AVOID ANY SUPERVISORY REVIEW. THE LACK OF AN EFFECTIVE SUPERVISORY REVIEW CONTRIBUTED TO THE FIRM'S SALES OF UNREGISTERED PENNY STOCK INTO THE MARKET. THE FIRM SOLD UNREGISTERED SECURITIES IN CONTRAVENTION OF SECTION 5 OF THE SECURITIES ACT OF 1933. THE FINDINGS ALSO STATED THAT THE FIRM FAILED TO DEVELOP AND IMPLEMENT ADEQUATE ANTI-MONEY LAUNDERING (AML) POLICIES AND PROCEDURES, TO MONITOR, DETECT, AND CAUSE THE REPORTING OF SUSPICIOUS ACTIVITY. NOT ONLY WERE THE FIRM'S POLICIES AND PROCEDURES INADEQUATE, THE FIRM FAILED TO IMPLEMENT THEM IN AT LEAST THREE WAYS. FIRST, REGISTERED REPRESENTATIVES OBTAINED PRE-SIGNED, BLANK DSR FORMS FROM THEIR CUSTOMERS. SECOND, THE FIRM FAILED TO CONSISTENTLY AND TIMELY IDENTIFY AND DOCUMENT SUSPICIOUS PENNY STOCK ACTIVITY. THIRD, THE FIRM FAILED TO IDENTIFY CUSTOMERS WITH REGULATORY DISCIPLINARY HISTORIES. THE FINDINGS ALSO INCLUDED THAT THE FIRM FAILED TO HAVE A REASONABLE SUPERVISORY SYSTEM, INCLUDING WRITTEN SUPERVISORY PROCEDURES, FOR THE ACTIVITIES OF, AND THE BUSINESS TRANSACTED BY, THE FIRM. AS A RESULT, THE FIRM FAILED TO SUPERVISE TWO REGISTERED REPRESENTATIVES' PARTICIPATION IN THEIR PRIVATE SECURITIES TRANSACTIONS, THE FIRM AND ITS CCO FAILED TO SUPERVISE PENNY STOCK TRANSACTIONS AND DSR FORMS, THE FIRM FAILED TO SUPERVISE WEBSITES OF ITS CHIEF EXECUTIVE OFFICER (CEO) AND ITS CCO FAILED TO ESTABLISH PROCEDURES CLEARLY IDENTIFYING WEBSITES AS ADVERTISING MATERIAL, AND THE FIRM AND ITS CCO FAILED TO TIMELY ESTABLISH PROCEDURES FOR

FOREIGN FINDERS. FINRA FOUND THAT THE FIRM EFFECTED SECURITIES TRANSACTIONS WHILE ITS REGISTRATION WITH FINRA WAS SUSPENDED FOR THE FAILURE TO PAY ITS ANNUAL REGISTRATION FEE. DURING THAT PERIOD, THE FIRM EFFECTED MORE THAN 750 SECURITIES TRANSACTIONS.
ON APRIL 24, 2015, THIS MATTER WAS APPEALED TO THE NAC AND THE SANCTIONS ARE NOT IN EFFECT PENDING REVIEW. NAC DECISION RENDERED MAY 26, 2017 IN WHICH THE NAC AFFIRMED THE FINDINGS AND SANCTIONS IMPOSED BY THE EXTENDED HEARING PANEL DECISION. THE NAC IMPOSED APPEAL COSTS OF $1,703.83, TO BE PAID JOINTLY AND SEVERALLY. ON JUNE 27, 2017, THE FIRM APPEALED THE NAC DECISION TO THE SEC. THE SANCTIONS ARE NOT IN EFFECT PENDING THE APPEAL.

Reporting Source:	Firm
Current Status:	On Appeal
Appealed To and Date Appeal Filed:	ON 4/24/215 THIS MATTER WAS APPEALED TO THE NAC AND THE SANCTIONS ARE NOT IN EFFECT PENDING REVIEW.
Allegations:	FINRA RULES 2010, 3310, 8210, NASD RULE 3010, 3011: IN RESPONSE TO FINRA REQUESTS FOR DOCUMENTS, CCO KNOWINGLY PROVIDED FORGED DOCUMENTS TO FINRA THAT FALSELY REFLECTED THAT DOZENS OF PENNY STOCK TRANSACTIONS HAD BEEN REVIEWED BY HIS MEMBER FIRM'S SUPERVISORY AND COMPLIANCE PERSONNEL, WHEN IN FACT NO SUPERVISION OCCURRED. DESPITE THAT CCO KNEW THAT THE DOCUMENTS WERE FORGED, HE FAILED TO NOTIFY FINRA OF THIS FACT WHEN PROVIDING THE DOCUMENTS. CCO, AS THE FIRM'S ANTI-MONEY LAUNDERING (AML) COMPLIANCE OFFICER, FAILED TO IMPLEMENT AML PROCEDURES CONCERNING PENNY STOCK TRADING THAT WERE DESIGNED TO ACHIEVE COMPLIANCE WITH THE BANK SECRECY ACT. CCO FAILED TO ADEQUATELY REVIEW CUSTOMER TRANSACTIONS INVOLVING PENNY STOCKS, AND IN MANY INSTANCES, PENNY STOCK TRANSACTIONS WERE PROCESSED WITHOUT ANY SUPERVISORY REVIEW. CCO FAILED TO IDENTIFY SPECIFIC INSTANCES OF SUSPICIOUS ACTIVITY IN THE ACCOUNTS OF FIRM CUSTOMERS THAT EXCLUSIVELY TRADED IN PENNY STOCKS, INCLUDING FAILING TO IDENTIFY CUSTOMERS WITH SECURITIES-RELATED HISTORY, FAILING TO IDENTIFY SUSPICIOUS TRADING ACTIVITY, AND FAILING TO IDENTIFY RED FLAGS DIRECTLY RELATED TO PENNY STOCK TRADING. CCO FAILED TO ADEQUATELY RESEARCH THE SECURITIES-RELATED DISCIPLINARY HISTORY OF THE CUSTOMERS, OR WAS AWARE OF THEIR DISCIPLINARY HISTORY AND DID NOTHING TO ELEVATE OR TAILOR THE LEVEL OF SUPERVISION OF THEIR CUSTOMERS' TRADING ACTIVITY. CCO FAILED TO IDENTIFY IRREGULAR TRADING ACTIVITY PRESENT DURING THE TIME IMMEDIATELY AFTER THE

ISSUANCE OF ISSUERS' PRESS RELEASES, AND FAILED TO IDENTIFY TRADING ACTIVITY THAT SHOULD HAVE REASONABLY BEEN OBSERVED AS A RED FLAG ACCORDING TO THE FIRM'S AML PROCEDURES. CCO FAILED TO REVIEW DOZENS OF FORGED DEPOSIT SECURITIES REQUEST FORMS AND THUS ALLOWED TO BE PROCESSED DOZENS OF PENNY STOCK TRANSACTIONS ABSENT ANY SUPERVISORY REVIEW. IN SOME INSTANCES, UNSUPERVISED PENNY STOCK DEPOSITS WERE MADE INTO FIRM ACCOUNTS CONTROLLED BY CUSTOMERS WITH SECURITIES-RELATED DISCIPLINARY HISTORY. THE FIRM'S LACK OF RISK-BASED MONITORING PREVENTED THE FIRM FROM OBSERVING PATTERNS OF SUSPICIOUS ACTIVITY AND RESULTED IN CERTAIN FIRM CUSTOMERS SELLING MILLIONS OF SHARES OF UNREGISTERED NON-EXEMPT SECURITIES TO THE PUBLIC. CCO FAILED TO ESTABLISH, MAINTAIN, AND ENFORCE AN ADEQUATE SUPERVISION SYSTEM. CCO FAILED TO REVIEW FIRM CUSTOMERS' PENNY STOCK TRADING ACTIVITY AND RELATED DEPOSIT SECURITIES REQUEST FORMS, AND CONSEQUENTLY CAUSED THE FIRM TO PROCESS APPROXIMATELY 33 UNSUPERVISED PENNY STOCK TRANSACTIONS, INCLUDING A SINGLE DEPOSIT TRANSACTION THAT RESULTED IN THE SALE OF MILLIONS OF SHARES OF UNREGISTERED SECURITIES. AS CHIEF COMPLIANCE OFFICER WAS AWARE OF WEBSITES USED BY A REGISTERED REPRESENTATIVE AND CONTENDED THAT HE PERIODICALLY REVIEWED THE CONTENT OF THE WEBSITES. HOWEVER, CCO FAILED TO MAKE ANY RECORD OF HIS REVIEW AND APPROVAL OF THE CONTENT OF THE WEBSITES.

Initiated By:	FINRA
Date Initiated:	07/03/2013
Docket/Case Number:	2011027666902
Principal Product Type:	Other
Other Product Type(s):	N/A
Principal Sanction(s)/Relief Sought:	Other
Other Sanction(s)/Relief Sought:	
Resolution:	Decision
Resolution Date:	04/24/2015
Firm Statement	EVEN THOUGH WE FILED FOR BDW ON 5/15/2015, WE CANNOT ALLOW SUCH AN UNFAIR DECISION BY THE EXTENDED FINRA HEARING PANEL TO STAND. THE PANEL BLATANTLY IGNORED HARD EVIDENCE AND FACTS AND IN SO DOING, RUBBER STAMPED ENFORCEMENTS BASELESS ALLEGATIONS. WE NOW HAVE EVEN MORE EVIDENCE AND FACTS TO

FURTHER DISPUTE THE CLAIMS. WE ARE VERY CONFIDENT THAT A COMPETENT AND HONEST NAC PANEL WILL OVERTURN THE EXTENDED PANEL'S DECISION AND REJECT ALL FINDINGS IN THE DECISION.

Arbitration Award - Award / Judgment

Brokerage firms are not required to report arbitration claims filed against them by customers; however, BrokerCheck provides summary information regarding FINRA arbitration awards involving securities and commodities disputes between public customers and registered securities firms in this section of the report.
The full text of arbitration awards issued by FINRA is available at www.finra.org/awardsonline.

Disclosure 1 of 2

Reporting Source:	Regulator
Type of Event:	ARBITRATION
Allegations:	ACCOUNT ACTIVITY-BRCH OF FIDUCIARY DT; ACCOUNT ACTIVITY-MISREPRESENTATION; ACCOUNT ACTIVITY-OMISSION OF FACTS; ACCOUNT ACTIVITY-OTHER; ACCOUNT RELATED-BREACH OF CONTRACT; ACCOUNT RELATED-FAILURE TO SUPERVISE; ACCOUNT RELATED-NEGLIGENCE
Arbitration Forum:	FINRA
Case Initiated:	04/26/2012
Case Number:	12-01384
Disputed Product Type:	CORPORATE BONDS
Sum of All Relief Requested:	$1,500,000.00
Disposition:	AWARD AGAINST PARTY
Disposition Date:	01/06/2014
Sum of All Relief Awarded:	$60,300.01

There may be a non-monetary award associated with this arbitration.
Please select the Case Number above to view more detailed information.

Disclosure 2 of 2

Reporting Source:	Regulator
Type of Event:	ARBITRATION
Allegations:	ACCOUNT ACTIVITY-BRCH OF FIDUCIARY DT; ACCOUNT ACTIVITY-MISREPRESENTATION; ACCOUNT ACTIVITY-OMISSION OF FACTS; ACCOUNT ACTIVITY-OTHER; ACCOUNT RELATED-BREACH OF CONTRACT; ACCOUNT RELATED-FAILURE TO SUPERVISE; ACCOUNT RELATED-NEGLIGENCE; ACCOUNT RELATED-OTHER; DO NOT USE-OTHER-OTHER
Arbitration Forum:	FINRA

Case Initiated:	11/07/2014
Case Number:	14-03343
Disputed Product Type:	VARIABLE ANNUITIES
Sum of All Relief Requested:	$300,000.00
Disposition:	AWARD AGAINST PARTY
Disposition Date:	06/07/2017
Sum of All Relief Awarded:	$215,650.01

There may be a non-monetary award associated with this arbitration.
Please select the Case Number above to view more detailed information.

End of Report

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Exhibit B

FINRA

Financial Industry Regulatory Authority

Sanction Guidelines

Table of Contents

Overview

The regulatory mission of FINRA is to protect investors and strengthen market integrity through vigorous, even-handed and cost-effective self-regulation. FINRA embraces self-regulation as the most effective means of infusing a balance of industry and non-industry expertise into the regulatory process. FINRA believes that an important facet of its regulatory function is the building of public confidence in the financial markets. As part of FINRA's regulatory mission, it must stand ready to discipline member firms and their associated persons by imposing sanctions when necessary and appropriate to protect investors, other member firms and associated persons, and to promote the public interest.

The National Adjudicatory Council (NAC), formerly the National Business Conduct Committee, has developed the *FINRA Sanction Guidelines* for use by the various bodies adjudicating disciplinary decisions, including Hearing Panels and the NAC itself (collectively, the Adjudicators), in determining appropriate remedial sanctions. FINRA has published the *FINRA Sanction Guidelines* so that members, associated persons and their counsel may become more familiar with the types of disciplinary sanctions that may be applicable to various violations. FINRA staff and respondents also may use these guidelines in crafting settlements, acknowledging the broadly recognized principle that settled cases generally result in lower sanctions than fully litigated cases to provide incentives to settle.

These guidelines do not prescribe fixed sanctions for particular violations. Rather, they provide direction for Adjudicators in imposing sanctions consistently and fairly. The guidelines recommend ranges for sanctions and suggest factors that Adjudicators may consider in determining, for each case, where within the range the sanctions should fall or whether sanctions should be above or below the recommended range. These guidelines are not intended to be absolute. Based on the facts and circumstances presented in each case, Adjudicators may impose sanctions that fall outside the ranges recommended and may consider aggravating and mitigating factors in addition to those listed in these guidelines.

These guidelines address some typical securities-industry violations. For violations that are not addressed specifically, Adjudicators are encouraged to look to the guidelines for analogous violations.

In order to promote consistency and uniformity in the application of these guidelines, the NAC has outlined certain **General Principles Applicable to All Sanction Determinations** that should be considered in connection with the imposition of sanctions in all cases. Also included is a list of **Principal Considerations in Determining Sanctions**, which enumerates generic factors for consideration in all cases. Also, a number of guidelines identify potential principal considerations that are specific to the described violation.

General Principles Applicable to All Sanction Determinations

1. **Disciplinary sanctions are remedial in nature and should be designed to deter future misconduct and to improve overall business standards in the securities industry.** The overall purposes of FINRA's disciplinary process and FINRA's responsibility in imposing sanctions are to remediate misconduct by preventing the recurrence of misconduct, improving overall standards in the industry, and protecting the investing public. Toward this end, Adjudicators should design sanctions that are significant enough to prevent and discourage future misconduct by a respondent, to deter others from engaging in similar misconduct, and to modify and improve business practices. Depending on the seriousness of the violations, Adjudicators should impose sanctions that are significant enough to ensure effective deterrence. When necessary to achieve this goal, Adjudicators should impose sanctions that exceed the range recommended in the applicable guideline.

   When applying these principles and crafting appropriate remedial sanctions, Adjudicators also should consider firm size[1] with a view toward ensuring that the sanctions imposed are not punitive but are sufficiently remedial to achieve deterrence.[2] (Also see General Principle No. 8 regarding ability to pay.)

2. **Disciplinary sanctions should be more severe for recidivists.** An important objective of the disciplinary process is to deter and prevent future misconduct by imposing progressively escalating sanctions on recidivists beyond those outlined in these guidelines, up to and including barring registered persons and expelling firms. Adjudicators should always consider a respondent's disciplinary history in determining sanctions. Adjudicators should consider imposing more severe sanctions when a respondent's disciplinary history includes (a) past misconduct similar to that at issue; or (b) past misconduct that evidences disregard for regulatory requirements, investor protection or commercial integrity. Even if a respondent has no history of relevant misconduct, however, the misconduct at issue may be so serious as to justify sanctions beyond the range contemplated in the guidelines; *i.e.*, an isolated act of egregious misconduct could justify sanctions significantly above or different from those recommended in the guidelines.

   Certain regulatory incidents are not relevant to the determination of sanctions. Arbitration proceedings, whether pending, settled or litigated to conclusion, are not "disciplinary" actions. Similarly, pending investigations or the existence of ongoing regulatory proceedings prior to a final decision are not relevant.

   In certain cases, particularly those involving quality-of-markets issues, these guidelines recommend increasingly severe monetary sanctions for second and subsequent disciplinary actions. This escalation is consistent with the concept that repeated acts of misconduct call for increasingly severe sanctions.

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1 Factors to consider in connection with assessing firm size are: the firm's financial resources; the nature of the firm's business; the number of individuals associated with the firm; the level of trading activity at the firm; other entities that the firm controls, is controlled by, or is under common control with; and the firm's contractual relationships (such as introducing broker/clearing firm relationships). **This list is included for illustrative purposes and is not exhaustive. Other factors also may be considered in connection with assessing firm size.**

2 Adjudicators may consider firm size in connection with the imposition of sanctions with respect to rule violations involving negligence. With respect to violations involving fraudulent, willful and/or reckless misconduct, Adjudicators should consider whether, given the totality of the circumstances involved, it is appropriate to consider firm size and may determine that, given the egregious nature of the fraudulent activity, firm size will not be considered in connection with sanctions.

3. **Adjudicators should tailor sanctions to respond to the misconduct at issue.** Sanctions in disciplinary proceedings are intended to be remedial and to prevent the recurrence of misconduct. Adjudicators therefore should impose sanctions tailored to address the misconduct involved in each particular case. Section 15A of the Securities Exchange Act of 1934 and FINRA Rule 8310 provide that FINRA may enforce compliance with its rules by: limitation or modification of a respondent's business activities, functions and operations; fine; censure; suspension (of an individual from functioning in any or all capacities, or of a firm from engaging in any or all activities or functions, for a defined period or contingent on the performance of a particular act); bar (permanent expulsion of an individual from associating with a firm in any or all capacities); expulsion (of a firm from FINRA membership and, consequently, from the securities industry); or any other fitting sanction.

   To address the misconduct effectively in any given case, Adjudicators may design sanctions other than those specified in these guidelines. For example, to achieve deterrence and remediate misconduct, Adjudicators may impose sanctions that: (a) require a respondent firm to retain a qualified independent consultant to design and/or implement procedures for improved future compliance with regulatory requirements; (b) suspend or bar a respondent firm from engaging in a particular line of business; (c) require an individual or member firm respondent, prior to conducting future business, to disclose certain information to new and/or existing clients, including disclosure of disciplinary history; (d) require a respondent firm to implement heightened supervision of certain individuals or departments in the firm; (e) require an individual or member firm respondent to obtain a FINRA staff letter stating that a proposed communication with the public is consistent with FINRA standards prior to disseminating that communication to the public; (f) limit the number of securities in which a respondent firm may make a market; (g) limit the activities of a respondent firm; or (h) require a respondent firm to institute tape recording procedures. **This list is illustrative, not exhaustive, and is included to provide examples of the types of sanctions that Adjudicators may design to address specific misconduct and to achieve deterrence. Adjudicators may craft other sanctions specifically designed to prevent the recurrence of misconduct.**

   The recommended ranges in these guidelines are not absolute. The guidelines suggest, but do not mandate, the range and types of sanctions to be applied. Depending on the facts and circumstances of a case, Adjudicators may determine that no remedial purpose is served by imposing a sanction within the range recommended in the applicable guideline; *i.e.*, that a sanction below the recommended range, or no sanction at all, is appropriate. Conversely, Adjudicators may determine that egregious misconduct requires the imposition of sanctions above or otherwise outside of a recommended range. For instance, in an egregious case, Adjudicators may consider barring an individual respondent and/or expelling a respondent member firm, regardless of whether the individual guidelines applicable to the case recommend a bar and/or expulsion or other less severe sanctions. Adjudicators must always exercise judgment and discretion and consider appropriate aggravating and mitigating factors in determining remedial sanctions in each case. In addition, whether the sanctions are within or outside of the recommended range, Adjudicators must identify the basis for the sanctions imposed.

4. **Aggregation or "batching" of violations may be appropriate for purposes of determining sanctions in disciplinary proceedings.** The range of monetary sanctions in each case may be applied in the aggregate for similar types of violations rather than per individual violation. For example, it may be appropriate to aggregate similar violations if: (a) the violative conduct was unintentional or negligent (*i.e.*, did not involve manipulative, fraudulent or deceptive intent); (b) the conduct did not result in injury to public investors or, in cases involving injury to the public, if restitution was made; or (c) the violations resulted from a single systemic problem or cause that has been corrected.

   Depending on the facts and circumstances of a case, however, multiple violations may be treated individually such that a sanction is imposed for each violation. In addition, numerous, similar violations may warrant higher sanctions, since the existence of multiple violations may be treated as an aggravating factor.

5. **Where appropriate to remediate misconduct, Adjudicators should order restitution and/or rescission.** Restitution is a traditional remedy used to restore the status quo ante where a victim otherwise would unjustly suffer loss. Adjudicators may determine that restitution is an appropriate sanction where necessary to remediate misconduct. Adjudicators may order restitution when an identifiable person, member firm or other party has suffered a quantifiable loss proximately caused by a respondent's misconduct.[3]

   Adjudicators should calculate orders of restitution based on the actual amount of the loss sustained by a person, member firm or other party, as demonstrated by the evidence. Orders of restitution may exceed the amount of the respondent's ill-gotten gain. Restitution orders must include a description of the Adjudicator's method of calculation.

   When a member firm has compensated a customer or other party for losses caused by an individual respondent's misconduct, Adjudicators may order that the individual respondent pay restitution to the firm.

   Where appropriate, Adjudicators may order that a respondent offer rescission to an injured party.

3 Other avenues, such as arbitration, are available to injured customers as a means to redress grievances.

6. **To remediate misconduct, Adjudicators should consider a respondent's ill-gotten gain when determining an appropriate remedy.** In cases in which the record demonstrates that the respondent obtained a financial benefit[4] from his or her misconduct, where appropriate to remediate misconduct, Adjudicators may require the disgorgement of such ill-gotten gain by ordering disgorgement of some or all of the financial benefit derived, directly or indirectly.[5] In appropriate cases, Adjudicators may order that the respondent's ill-gotten gain be disgorged and that the financial benefit, directly and indirectly, derived by the respondent be used to redress harms suffered by customers. In cases in which the respondent's ill-gotten gain is ordered to be disgorged to FINRA, and FINRA collects the full amount of the disgorgement order, FINRA's routine practice is to contribute the amount collected to the FINRA Investor Education Foundation.

7. **Where appropriate, Adjudicators should require a respondent to requalify in any or all capacities.** The remedial purpose of disciplinary sanctions may be served by requiring an individual respondent to requalify by examination as a condition of continued employment in the securities industry. Such a sanction may be imposed when Adjudicators find that a respondent's actions have demonstrated a lack of knowledge or familiarity with the rules and laws governing the securities industry.

8. **When raised by a respondent, Adjudicators are required to consider ability to pay in connection with the imposition, reduction or waiver of a fine or restitution.** Adjudicators are required to consider a respondent's *bona fide* inability to pay when imposing a fine or ordering restitution. The burden is on the respondent to raise the issue of inability to pay and to provide evidence thereof.[6] If a respondent does not raise the issue of inability to pay during the initial consideration of a matter before "trial-level" Adjudicators, Adjudicators considering the matter on appeal generally will presume the issue of inability to pay to have been waived (unless the inability to pay is alleged to have resulted from a subsequent change in circumstances). Adjudicators should require respondents who raise the issue of inability to pay to document their financial status through the use of standard documents that FINRA staff can provided. Proof of inability to pay need not result in a reduction or waiver of a fine, restitution or disgorgement order, but could instead result in the imposition of an installment payment plan or another alternate payment option. In cases in which Adjudicators modify a monetary sanction based on a *bona fide* inability to pay, the written decision should so indicate. Although Adjudicators must consider a respondent's *bona fide* inability to pay when the issue is raised by a respondent, monetary sanctions imposed on member firms need not be related to or limited by the firm's required minimum net capital.

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4 "Financial benefit" includes any commissions, concessions, revenues, profits, gains, compensation, income, fees, other remuneration, or other benefits the respondent received, directly or indirectly, as a result of the misconduct.

5 Certain guidelines specifically recommend that Adjudicators consider ordering disgorgement in addition to a fine. These guidelines are singled out because they involve violations in which financial benefit occurs most frequently. These specific references should not be read to imply that it is less important or desirable to order disgorgement of ill-gotten gain in other instances. The concept of ordering disgorgement of ill-gotten gain is important and, if appropriate to remediate misconduct, may be considered in all cases whether or not the concept is specifically referenced in the applicable guideline.

6 *See In re Toney L. Reed*, Exchange Act Rel. No. 37572 (August 14, 1996), wherein the Securities and Exchange Commission directed FINRA to consider financial ability to pay when ordering restitution. In these guidelines, the NAC has explained its understanding of the Commission's directives to FINRA based on the *Reed* decision and other Commission decisions.

Principal Considerations in Determining Sanctions

The following list of factors should be considered in conjunction with the imposition of sanctions with respect to all violationsIndividual guidelines may list additional violation-specific factors.

Although many of the general and violation-specific considerations, when they apply in the case at hand, have the potential to be either aggravating or mitigating, some considerations have the potential to be only aggravating or only mitigating. For instance, the presence of certain factors may be aggravating, but their absence does not draw an inference of mitigation.[1] The relevancy and characterization of a factor depends on the facts and circumstances of a case and the type of violation. This list is illustrative, not exhaustive; as appropriate, Adjudicators should consider case-specific factors in addition to those listed here and in the individual guidelines.

1.e The respondent's relevant disciplinary history (see Generale Principle No. 2).e

2.e Whether an individual or member firm respondent acceptede responsibility for and acknowledged the misconduct to his ore her employer (in the case of an individual) or a regulator prior toe detection and intervention by the firm (in the case of an individual)e or a regulator.e

3.e Whether an individual or member firm respondent voluntarilye employed subsequent corrective measures, prior to detectione or intervention by the firm (in the case of an individual) or by ae regulator, to revise general and/or specific procedures to avoide recurrence of misconduct.e

4.e Whether the respondent voluntarily and reasonably attempted,e prior to detection and intervention, to pay restitution or otherwisee remedy the misconduct.e

5.e Whether, at the time of the violation, the respondent member firme had developed reasonable supervisory, operational and/or technicale procedures or controls that were properly implemented.e

6.e Whether, at the time of the violation, the respondent member firme had developed adequate training and educational initiatives.e

7.e Whether the respondent demonstrated reasonable reliance one competent legal or accounting advice.e

8.e Whether the respondent engaged in numerous acts and/or ae pattern of misconduct.e

9.e Whether the respondent engaged in the misconduct over ane extended period of time.e

10.eWhether the respondent attempted to conceal his or here misconduct or to lull into inactivity, mislead, deceive or intimidatee a customer, regulatory authorities or, in the case of an individuale respondent, the member firm with which he or she is/wase associated.e

11.eWith respect to other parties, including the investing public, thee member firm with which an individual respondent is associated,e and/or other market participants, (a) whether the respondent'se misconduct resulted directly or indirectly in injury to such othere parties, and (b) the nature and extent of the injury.e

1 *See, e.g., Rooms v. SEC*, 444 F.3d 1208, 1214-15 (10th Cir. 2006) (explaining that while the existence of a disciplinary history is an aggravating factor when determining the appropriate sanction, its absence is not mitigating).

12.eWhether the respondent provided substantial assistance toe FINRA in its examination and/or investigation of the underlyinge misconduct, or whether the respondent attempted to delay FINRA'se investigation, to conceal information from FINRA, or to provideе inaccurate or misleading testimony or documentary informatione to FINRA.e

13.eWhether the respondent's misconduct was the result of ane intentional act, recklessness or negligence.e

14.eWhether the member firm with which an individual respondent is/e was associated disciplined the respondent for the same misconducte at issue prior to regulatory detection. Adjudicators may alsoe consider whether another regulator sanctioned a respondent fore the same misconduct at issue and whether that sanction providede substantial remediation.e

15.eWhether the respondent engaged in the misconduct at issuee notwithstanding prior warnings from FINRA, another regulator or ae supervisor (in the case of an individual respondent) that the conducte violated FINRA rules or applicable securities laws or regulations.e

16.eWhether the respondent member firm can demonstrate that thee misconduct at issue was aberrant or not otherwise reflective of thee firm's historical compliance record.e

17.eWhether the respondent's misconduct resulted in the potential fore the respondent's monetary or other gain.e

18.eThe number, size and character of the transactions at issue.e

19.eThe level of sophistication of the injured or affected customer.e

Applicability

These guidelines supersede prior editions of the *FINRA Sanction Guidelines*, whether published in a booklet or discussed in *FINRA Regulatory Notices* (formerly *NASD Notices to Members*). These guidelines are effective as of the date of publication, and apply to all disciplinary matters, including pending matters. FINRA may, from time to time, amend these guidelines and announce the amendments in a *Regulatory Notice* or post the changes on FINRA's website *(www.finra.org)*. Additionally, the NAC may, on occasion, specifically amend a particular guideline through issuance of a disciplinary decision. Amendments accomplished through the NAC decision-making process or announced via *Regulatory Notices* or on the FINRA website should be treated like other amendments to these guidelines, even before publication of a revised edition of the *FINRA Sanction Guidelines*. Interested parties are advised to check FINRA's website carefully to ensure that they are employing the most current version of these guidelines.

Unregistered Securities—Sales of

FINRA Rule 2010 and Section 5 of the Securities Act of 1933

Principal Considerations in Determining Sanctions	Monetary Sanction	Suspension, Bar or Other Sanctions
See Principal Considerations in Introductory Section 1. Whether the respondent attempted to comply with an exemption from registration. 2. Whether the respondent sold before effective date of registration statement. 3. Share volume and dollar amount of transactions involved. 4. Whether the respondent had implemented reasonable procedures to ensure that it did not participate in an unregistered distribution. 5. Whether the respondent disregarded "red flags" suggesting the presence of unregistered distribution.	Fine of $2,500 to $50,000.[1] In egregious cases, consider a higher fine.	***Individual*** In egregious cases, consider a lengthier suspension in any or all capacities for up to two years or a bar. ***Firm*** In egregious cases, consider suspending the firm with respect to any or all activities or functions for up to 30 business days or until procedural deficiencies are remedied.

1. As set forth in General Principle No. 6, Adjudicators may also order disgorgement.

Failure to Respond, Failure to Respond Truthfully or in a Timely Manner, or Providing a Partial but Incomplete Response to Requests Made Pursuant to FINRA Rule 8210

FINRA Rules 2010 and 8210

Principal Considerations in Determining Sanctions	Monetary Sanction	Suspension, Bar or Other Sanctions
See Principal Considerations in Introductory Section *Failure to Respond or to Respond Truthfully* 1. Importance of the information requested as viewed from FINRA's perspective. *Providing a Partial but Incomplete Response* 1. Importance of the information requested that was not provided as viewed from FINRA's perspective, and whether the information provided was relevant and responsive to the request. 2. Number of requests made, the time the respondent took to respond, and the degree of regulatory pressure required to obtain a response. 3. Whether the respondent thoroughly explains valid reason(s) for the deficiencies in the response. *Failure to Respond in a Timely Manner* 1. Importance of the information requested as viewed from FINRA's perspective. 2. Number of requests made and the degree of regulatory pressure required to obtain a response. 3. Length of time to respond.	*Failure to Respond or to Respond Truthfully* Fine of $25,000 to $50,000. *Providing a Partial but Incomplete Response* Fine of $10,000 to $50,000. *Failure to Respond in a Timely Manner* Fine of $2,500 to $25,000.	*Individual* If the individual did not respond in any manner, a bar should be standard.[1] Where the individual provided a partial but incomplete response, a bar is standard unless the person can demonstrate that the information provided substantially complied with all aspects of the request. Where mitigation exists, or the person did not respond in a timely manner, consider suspending the individual in any or all capacities for up to two years.[2] *Firm* In an egregious case, expel the firm. If mitigation exists, consider suspending the firm with respect to any or all activities or functions for up to two years. In cases involving failure to respond in a timely manner, consider suspending the responsible individual(s) in any or all capacities and/or suspending the firm with respect to any or all activities or functions for a period of up to 30 business days.

1 When a respondent does not respond until after FINRA files a complaint, Adjudicators should apply the presumption that the failure constitutes a complete failure to respond.

2 The lack of harm to customers or benefit to a violator does not mitigate a Rule 8210 violation.

Supervision—Failure to Supervise

FINRA Rule 2010 and NASD Rule 3010[1]

Principal Considerations in Determining Sanctions	Monetary Sanction	Suspension, Bar or Other Sanctions
See Principal Considerations in Introductory Section 1. Whether respondent ignored "red flag" warnings that should have resulted in additional supervisory scrutiny. Consider whether individuals responsible for underlying misconduct attempted to conceal misconduct from respondent. 2. Nature, extent, size and character of the underlying misconduct. 3. Quality and degree of supervisor's implementation of the firm's supervisory procedures and controls.	Fine of $5,000 to $50,000.[2] Consider independent (rather than joint and several) monetary sanctions for firm and responsible individual(s). Consider suspending responsible individual in all supervisory capacities for up to 30 business days. Consider limiting activities of appropriate branch office or department for up to 30 business days.	In egregious cases, consider limiting activities of the branch office or department for a longer period or suspending the firm with respect to any or all activities or functions for up to 30 business days. Also consider suspending the responsible individual in any or all capacities for up to two years or barring the responsible individual. In a case against a member firm involving systemic supervision failures, consider a longer suspension of the firm with respect to any or all activities or functions (of up to two years) or expulsion of the firm.

1 This guideline also is appropriate for violations of MSRB Rule G-27.

2 As set forth in General Principle No. 6. Adjudicators may also order disgorgement.

Supervisory Procedures—Deficient Written Supervisory Procedures

FINRA Rule 2010 and NASD Rule 3010[1]

Principal Considerations in Determining Sanctions	Monetary Sanction	Suspension, Bar or Other Sanctions
See Principal Considerations in Introductory Section 1. Whether deficiencies allowed violative conduct to occur or to escape detection. 2. Whether the deficiencies made it difficult to determine the individual or individuals responsible for specific areas of supervision or compliance.	Fine of $1,000 to $25,000.	In egregious cases, consider suspending the responsible individual(s) in any or all capacities for up to one year. Also consider suspending the firm with respect to any or all relevant activities or functions for up to 30 business days and thereafter until the supervisory procedures are amended to conform to rule requirements.

1 This guideline also is appropriate for violations of MSRB Rule G-27.

FINRA

Financial Industry Regulatory Authority

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Celia L. Passaro
Assistant General Counsel

Direct: (202) 728-8985
Fax: (202) 728-8264

November 29, 2017

VIA MESSENGER AND FACSIMILE

Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Fax: (202) 772-9324

RE: In the Matter of the Application for Review of Merrimac Corporate Securities, Inc. and Robert G. Nash, Administrative Proceeding No. 3-18045

Dear Mr. Fields:

Enclosed please find the original and three (3) copies of FINRA's Brief in Opposition to the Application for Review in the above-captioned matter.

Please contact me at (202) 728-8985 if you have any questions.

Very truly yours,

Celia L. Passaro

Enclosures

cc: Robert G. Nash (via FedEx)
Stephen Pizzuti (via FedEx)