



Important Notice
The Depository Trust Company

B #:	0736-14
Date:	April 4, 2014
To:	All Participants, Depository Facilities and Pledgee Banks
Category:	Operations
From:	Operations Regulatory Compliance
Attention:	Managing Partners, Officers and Cashiers
Subject:	Resumption of DTC Services - Protek Capital, Inc. REVISED

Please be advised that effective April 2, 2014, DTC has suspended all services, except custody, for the issue referenced below:

CUSIP

74370A104

SECURITY NAME

Protek Capital, Inc.

Link to FINRA action:



Protek_FINRA.pdf

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Non-Confidential

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

DELANEY EQUITY GROUP, LLC,
(BD No. 142285)

and

DAVID C. DELANEY
(CRD No. 2447186)

Respondents.

Disciplinary Proceeding
No. 2010021108301

Hearing Officer: LOM

ORDER ACCEPTING OFFER OF SETTLEMENT

INTRODUCTION

Disciplinary Proceeding No. 2010021108301 was filed on December 6, 2012, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondents Delaney Equity Group, LLC (DEG) and David C. Delaney (Delaney) submitted an Offer of Settlement ("Offer") to Complainant on August 6, 2013, which, among other things, amended the Complaint as set forth in the Offer.

Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondents have consented, without admitting or denying the allegations of the Complaint (as amended by the Offer), and solely for the purposes of this

proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of findings and violations consistent with the allegations of the Complaint (as amended by the Offer), and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

A. Delaney Equity Group, LLC

DEG has been a FINRA member firm since 2007, and is registered as a broker-dealer with the U.S. Securities and Exchange Commission (SEC). DEG is organized as a limited liability company with Delaney as its majority owner. DEG conducts a general securities business and clears its transactions on a fully disclosed basis through another FINRA member firm. DEG operates out of its main office located in West Palm Beach, Florida. DEG is subject to FINRA's jurisdiction as a FINRA regulated entity.

B. David C. Delaney

Delaney entered the securities industry in December 1993, when he was employed by a FINRA member firm. Delaney was first registered with FINRA as a general securities representative in December 1994. Subsequently, Delaney was consecutively employed by three FINRA member firms from May 1995 through May 2007. Delaney founded DEG in 2006 and served as its president, CCO and AMLCO, among other positions, during the relevant period. Delaney was registered by DEG as a general securities representative and principal with FINRA, among other registrations, in May 2007. Delaney is subject to FINRA's jurisdiction as an associated person of DEG.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

SUMMARY

1. During the period from December 2008 through July 2010, DEG, acting through Delaney, its President, Chief Compliance Officer (CCO) and Anti-Money Laundering Compliance Officer (AMLCO), allowed customer B.A. and its numerous affiliated accounts to sell almost a billion newly issued, unregistered equity shares of five issuers: Connectyx (CTYX), ProPalms USA, Inc. (PRPM), Shot Spirits (SSPT), Solos Endoscopy (SNDY) and Green Bridge (GRBG). As a result, DEG and Delaney participated in the distribution of almost a billion shares of unregistered and non-exempt securities, in contravention of Section 5 of the Securities Act of 1933 (Securities Act), and in violation of FINRA Rule 2010.
2. Moreover, DEG, acting through Delaney, failed to establish, maintain and enforce a supervisory system, including written supervisory procedures (WSPs), reasonably designed to ensure compliance with Section 5 of the Securities Act and the applicable rules and regulations with respect to the distribution of unregistered and non-exempt securities, in violation of NASD Conduct Rule 3010(a) and (b) and FINRA Rule 2010.
3. Additionally, DEG, acting through Delaney, failed to abide by the terms of its membership agreement by failing to enforce its WSPs for supervising individuals with prior disciplinary disclosures at a heightened level, in violation of NASD Conduct Rules 3010(a), 3010(b), 2110 and FINRA Rule 2010.
4. Finally, DEG, acting through Delaney, failed to adequately implement anti-money laundering (AML) policies, procedures, and internal controls and enforce its AML compliance program (AMLCP) by failing to identify a customer who had a regulatory history, failed to detect highly suspicious activity, properly investigate the suspicious activity and report suspicious activity as required. This suspicious activity included, but

was not limited to, deposits of almost a billion shares of low-priced equity securities into multiple related accounts, the liquidation of those shares soon after they were deposited, and the wiring of the sales proceeds out to the accounts soon after their liquidation.

Additionally, the suspicious activity included the deposit, journaling, sale and wiring of the sales proceeds involving low-priced biotech stocks in accounts related to or referred by a customer with a regulatory history. As a result of such conduct, DEG and Delaney violated NASD Conduct Rule 3011(a) and FINRA Rules 3310(a) and 2010.

RESPONDENTS AND JURISDICTION

5. DEG has been a FINRA member firm since 2007, and is registered as a broker-dealer with the U.S. Securities and Exchange Commission (SEC). DEG is organized as a limited liability company with Delaney as its majority owner. DEG conducts a general securities business and clears its transactions on a fully disclosed basis through another FINRA member firm. DEG operates out of its main office located in West Palm Beach, Florida, and currently has eight registered representatives, all of whom operate out of DEG's main office.
6. Delaney entered the securities industry in December 1993, when he was employed by a FINRA member firm. Delaney was first registered with FINRA as a general securities representative in December 1994. Subsequently, Delaney was consecutively employed by three FINRA member firms from May 1995 through May 2007. Delaney founded DEG in 2006 and serves as its president, CCO and AMLCO, among other positions. Delaney was registered by DEG as a general securities representative and principal with FINRA, among other registrations, in May 2007.
7. Both DEG and Delaney are subject to FINRA's jurisdiction, because DEG remains a FINRA member firm and Delaney is currently registered with FINRA. Moreover, the

misconduct alleged in the Complaint herein occurred while DEG and Delaney were subject to FINRA's jurisdiction.

FACTS COMMON TO ALL COUNTS

Distribution of Unregistered and Non-Exempt Securities by DEG

8. During 2009, customer B.A. opened multiple accounts and affiliated accounts at DEG, through which it engaged in a pattern of depositing large blocks of unregistered, newly-issued, low-priced equity securities and then liquidating the positions. B.A. was a corporation engaged in the business of stock promotion.
9. On or about April 27, 2009, DEG placed B.A. on a heightened customer account monitoring list because the corporation described its business as public and investor relations.
10. B.A. received unregistered securities from issuers through purported Regulation D, Rule 504 offerings.¹ Rule 504 provides that stock issued under this exemption can be freely resold if it is issued, pursuant to a state law exemption that exempts from securities registration offerings, to in-state accredited investors. Rule 504's exemption, however, is unavailable if the offering and sale of the unregistered securities is part of a scheme to evade Section 5's registration requirements.
11. Despite numerous red flags, DEG, acting through Delaney, failed to conduct the necessary due diligence to determine whether the securities that B.A. asked DEG to sell were part of a scheme to evade the securities laws, and actively facilitated B.A.'s distributions of unregistered securities in violation of Section 5 of the Securities Act.
12. In exchange for executing the sales of the unregistered securities, B.A. paid DEG commissions of almost \$55,000 for the liquidation of nearly a billion shares of equity

¹ Regulation D provides exemptions from the registration requirements set forth in Section 5 of the Securities Act.

securities during the period from April 2009 through July 2010. DEG's sales of the unregistered low-priced equity securities on behalf of B.A. resulted in proceeds to B.A. of almost \$2.4 million.

13. Delaney also directly engaged in personal business activities with B.A., involving both the purchase of stock and the borrowing of funds.
14. Specifically, Delaney entered into multiple agreements with B.A. to acquire stock. On May 14, 2010, Delaney entered into an agreement to purchase 25,000,000 shares of CTYX stock from B.A. Also on May 14, 2010, Delaney entered into an agreement to purchase shares of Artfest International, Inc. (ARTS) from B.A.
15. Thereafter, Delaney deposited 50 million shares of ARTS common stock into an account at DEG. During the period from May 26, 2010 through June 8, 2010, DEG liquidated approximately 37.9 million shares of ARTS common stock, generating proceeds of approximately \$54,000.
16. Moreover, on June 1, 2010, Delaney personally borrowed \$100,000 from B.A., which wired the funds to Delaney's bank account.

B.A.'s Distribution and Sale of Unregistered and Non-Exempt shares of CTYX through DEG

17. B.A. and CTYX entered into a consulting agreement on April 8, 2009. B.A. agreed to promote CTYX stock to its database of brokers throughout the United States. CTYX agreed to pay B.A. \$40,000 per month for its services. This compensation could and was paid in stock at a rate of \$.01 per share or four million shares per month.
18. The agreement between CTYX and B.A. also gave B.A. the option to purchase up to \$500,000 worth of CTYX common stock at predetermined prices in accordance with a schedule included in the agreement.

19. CTYX issued B.A. shares of its common stock pursuant to the consulting agreement. The shares issued for compensation were unregistered and newly issued. The shares were issued to B.A. pursuant to a Regulation D, Rule 504 exemption from registration. No registration statement was in effect for B.A.'s CTYX shares.
20. DEG, acting through Delaney, as part of its review of these sales obtained documentation including the consulting agreement between B.A. and CTYX, subscription agreements executed by B.A. for shares issued by CTYX to B.A., and letters from G. J-P. of the Law Offices of J-P & J-P, counsel for CTYX.² G. J-P. opined that the shares issued by CTYX to B.A. were unrestricted and freely tradable.
21. B.A. represented in connection with the subscription agreements for the purchase of CTYX shares that the shares are being acquired for B.A.'s own account and not for the accounts of others, for investment purposes only, and not with a view to the sale or distribution of such shares.
22. However, during the period from April 29, 2009 through July 8, 2010, B.A., acting through DEG, engaged in a distribution of the CTYX shares it acquired from CTYX, depositing 277,875,101 shares of CTYX into its accounts at DEG, and selling almost all of the CTYX shares it deposited generating proceeds of \$574,666.
23. DEG obtained commissions from the sales of CTYX shares by B.A. in the amount of \$18,712.
24. As of April 29, 2009, CTYX had approximately 65.5 million shares outstanding. As of May 5, 2010, CTYX had approximately 600 million shares outstanding with approximately 451 million shares in the float. B.A. sold approximately 272 million

² Effective April 21, 2010, Pink OTC Markets, Inc. no longer accepted legal opinions from G. J-P. Furthermore, the Pink OTC Markets added G. J-P.'s name to the "List of Prohibited Attorneys" publicly available on its website.

shares into the market through DEG during this period, accounted for approximately 46% of the increase in CTYX shares outstanding and 61% increase of the shares in the float.

B.A.'s Distribution and Sale of Unregistered and Non-Exempt shares of PRPM through DEG

25. B.A. entered into a consulting agreement with PRPM dated September 16, 2009. This consulting agreement was essentially identical to the agreement entered into with CTYX and states that B.A. will receive \$25,000 per month, payable in the form of either cash or shares of PRPM common stock, as compensation for its services.
26. The consulting agreement also gave B.A. the option, as additional compensation, to purchase up to \$500,000 of common stock at a 40% discount to the market based upon the 10-day average closing bid price.
27. PRPM issued shares of its common stock to B.A., pursuant to the consulting agreement. The shares issued for compensation were unregistered and newly issued. The shares were issued to B.A. pursuant to a Regulation D, Rule 504 exemption from registration. No registration statement was in effect for B.A.'s PRPM shares.
28. DEG, acting through Delaney, as part of its review of these sales obtained documentation including the consulting agreement between B.A. and PRPM, subscription agreements executed by B.A. for shares issued by PRPM to B.A. and letters from G. J-P., who was also counsel for PRPM. G. J-P. opined that the shares issued by PRPM to B.A. were unrestricted and freely tradable.
29. B.A. represented in connection with the subscription agreements for the purchase of PRPM shares that the shares are being acquired for B.A.'s own account and not for the accounts of others, for investment purposes only, and not with a view to the sale or distribution of such shares.

30. During the period from October 30, 2009 through June 25, 2010, B.A. deposited over 100 million shares of PRPM into its accounts at DEG and sold over 136 million shares of PRPM, generating proceeds of \$248,639.
31. DEG obtained commissions from the sales of PRPM shares by B.A. in the amount of \$4,930.
32. As of September 23, 2009, just prior to the commencement of sales by B.A., PRPM had approximately 580 million shares outstanding. B.A. deposited over 100 million shares of PRPM into its accounts with DEG from October 2009 through May 2010. As of April 12, 2010, PRPM had approximately 736 million shares outstanding and as of April 30, 2010, PRPM had approximately 524 million shares in the float. The sales of the PRPM shares by B.A. through Delaney during the period of October 2009 through May 2010, accounted for approximately 64% of the increase in the PRPM shares outstanding and 26% of the shares in the public float.

B.A.'s Distribution and Sale of Unregistered and Non-Exempt shares of SSPT through DEG

33. B.A. entered into a consulting agreement with SSPT dated October 27, 2009. This consulting agreement was essentially identical to the agreements noted above, and states that B.A. will receive \$50,000 per month, payable in the form of either cash or SSPT common stock, for providing promotional services to SSPT.
34. The consulting agreement also gave B.A. the option, as additional compensation, to purchase up to \$500,000 worth of common stock at a discount to the market price.
35. SSPT issued B.A. shares of its common stock pursuant to the consulting agreement. The shares issued for compensation were unregistered and newly issued. The shares were issued to B.A. pursuant to a Regulation D, Rule 504 exemption from registration. No registration statement was in effect for B.A.'s SSPT shares.

36. DEG, acting through Delaney, as part of its review of these sales obtained documentation including the consulting agreement between B.A. and SSPT, subscription agreements executed by B.A. for shares issued by SSPT to B.A. and letters from G. J-P., who was counsel for SSPT. G. J-P. opined that the shares issued by SSPT to B.A. were unrestricted and freely tradable.
37. B.A. represented in connection with the subscription agreements for the purchase of SSPT shares that the shares are being acquired for B.A.'s own account and not for the accounts of others, for investment purposes only, and not with a view to the sale or distribution of such shares.
38. During the period from December 23, 2009 through June 4, 2010, B.A. deposited over 92 million shares of SSPT into its accounts at DEG. During the period of January 1, 2010 through June 16, 2010, B.A. liquidated over 82 million shares of SSPT through DEG generating proceeds of \$137,212.
39. DEG obtained commissions from the sales of SSPT by B.A. of approximately \$1,660.
40. According to SSPT, as of December 31, 2009, it had approximately 68 million shares in the public float. Approximately 92 million shares of SSPT were deposited into B.A.'s accounts from December 2009 through June 2010 at DEG. As of April 28, 2010, SSPT had approximately 604 million shares outstanding. The SSPT shares sold by B.A. into the market during the period of January 2009 through June 2010, accounts for approximately 13.5% of the shares outstanding.

B.A.'s Distribution and Sale of Unregistered and Non-Exempt shares of SNDY through DEG

41. B.A. entered into a consulting agreement with SNDY dated July 30, 2008. This consulting agreement was essentially identical to the agreements noted above and states

- that B.A. will receive \$40,000 in cash per month, or \$40,000 worth of SNDY common stock per month, for providing promotional services to SNDY.
42. The consulting agreement also gave B.A. the option, as additional compensation, to purchase up to \$500,000 worth of common stock at a 50% discount to the market price.
43. SNDY issued shares of its common stock to B.A., pursuant to the consulting agreement. The shares issued were unregistered and newly issued. The shares were issued to B.A. pursuant to a Regulation D, Rule 504 exemption from registration. No registration statement was in effect for B.A.'s SNDY shares.
44. DEG, acting through Delaney, as part of its review of these sales obtained documentation including the consulting agreement between B.A. and SNDY, subscription agreements executed by B.A. for shares issued by SNDY to B.A. and letters from G. J-P., who was counsel for SNDY. G. J-P. opined that the shares issued by SNDY to B.A. were unrestricted and freely tradable.
45. B.A. represented in connection with the subscription agreements for the purchase of SNDY shares that the shares are being acquired for B.A.'s own accounts and not for the accounts of others, for investment purposes only, and not with a view to the sale or distribution of such shares.
46. During the period from August 10, 2009 through April 30, 2010, B.A. deposited 207,814,200 shares of SNDY into its accounts at DEG. During the period from August 11, 2009 through June 14, 2010, all 207,814,200 shares were liquidated with gross proceeds to B.A. of approximately \$660,523.
47. DEG obtained commissions from the sales of SNDY by B.A. in the amount of approximately \$16,840.

48. As of July 29, 2009, there were approximately 900 million shares of SNDY outstanding. From August 2009 through April 2010, B.A. deposited approximately 207 million shares of SNDY into its accounts at DEG. In March 2010, SNDY had approximately 954 million shares outstanding. FINRA calculated that B.A. acting through DEG, accounted for approximately 16% of the increase in the shares outstanding and 29.5% of the shares in the float.

49. According to a report filed by SNDY with the Pink Sheets, SNDY had approximately 702 million shares in the float and 1.3 billion shares outstanding, as of June 30, 2010.

B.A.'s Distribution and Sale of Unregistered and Non-Exempt shares of GRBG³ through DEG

50. B.A. entered into a consulting agreement with GRBG dated May 6, 2009. This consulting agreement was essentially identical to the agreements noted above and states that B.A. will receive \$50,000 in cash per month, or \$50,000 worth of GRBG common stock per month, for providing promotional services to GRBG.

51. The consulting agreement also gave B.A. the option, as additional compensation, to purchase up to \$500,000 worth of common stock at a 50% discount to an average market price. B.A. was to receive 10 million shares of GRBG's common stock upon the execution of the agreement.

52. GRBG issued shares of its common stock to B.A., pursuant to the consulting agreement. The shares issued were unregistered and newly issued. The shares were issued to B.A. pursuant to a Regulation D, Rule 504 exemption from registration. No registration statement was in effect for B.A.'s GRBG shares.

53. DEG, acting through Delaney, as part of its review of these sales obtained documentation including the consulting agreement between B.A. and GRBG, subscription agreements

³ GRBG was formerly known as NXGen Holdings, Inc.

executed by B.A. for shares issued by GRBG to B.A. and letters from G. J-P., who was counsel for GRBG. G. J-P. opined that the shares issued by GRBG to B.A. were unrestricted and freely tradable.

54. B.A. represented in connection with the subscription agreements for the purchase of GRBG shares that the shares are being acquired for B.A.'s own accounts and not for the accounts of others, for investment purposes only, and not with a view to the sale or distribution of such shares.
55. During the period from August 20, 2009 through May 27, 2010, B.A. deposited approximately 300 million shares of GRBG into its account at DEG. During the period from August 21, 2009 through June 11, 2010, B.A. liquidated approximately 293 million of the GRBG shares deposited into its account, generating gross proceeds to B.A. in the amount of approximately \$745,511.
56. DEG obtained commissions from the sales of GRBG by B.A. in the amount of approximately \$12,241.
57. As of June 30, 2010, the sales by B.A. through DEG accounted for approximately 23% of the total outstanding shares and approximately 27% of the float of GRBG common stock.

R.C.'s Distribution and Sale of Unregistered and Non-Exempt shares of FMNJ through DEG⁴

58. R.C. opened a securities account with DEG on May 5, 2010. R.C. was controlled by S.L.
59. During the period of July 2010 to February 2011, S.L. deposited 2.4 billion shares of FMNJ common stock into R.C.'s account at DEG. FMNJ issued shares of its common stock to S.L. as compensation and other shares to another entity.

⁴ This conduct was first discovered in the 2011 examination of DEG, and was not alleged in the Complaint. However, it is included herein for purposes of settlement.

60. The shares issued for compensation to S.L. were unregistered and newly issued. The shares issued to the other entity were issued pursuant to a claimed Texas state law, Regulation D, Rule 504 exemption from registration. These securities were acquired by S.L. from an affiliate of FMNJ in a non-public offering and deposited into R.C.'s account with DEG.
61. The deposits into R.C.'s account at DEG involved four individual deposits of 600 million shares in July, September and November 2010. No registration statement was in effect for any of the FMNJ shares deposited into R.C.'s account at DEG.
62. DEG, acting through Delaney, obtained various documents in connection with the deposits of FMNJ common stock into R.C.'s account including, among others: multiple stock purchase agreements dated in February, September, November, and December 2010; a letter from W.A.S., acting on behalf of FMNJ, dated in November 2009 and another letter from W.A.S. dated May 17, 2010; a corporate resolution authorizing two billion shares in November 2009; a Form D filed in March 2008 for a Rule 504 offering; an agreement dated in September 2010, whereby FMNJ agreed to pay S.L. \$30,000 for services provided on or about February 22, 2010, but would issue securities in satisfaction of the debt in September 2010; and FMNJ stock certificates dated in September 2010.
63. W.A.S. opined in his letters issued in November 2009 and May 2010 that the shares issued by FMNJ were unrestricted and freely tradable pursuant to a Texas state law exemption. The first opinion letter regarded two billion shares issued pursuant to a private offering by FMNJ on April 1, 2009, and the second opinion letter regarded 2.5 billion shares issued pursuant to a private offering, also dated April 1, 2009.

64. The corporate resolution for the FMNJ stock issuance indicated that the shares were issued pursuant to Rule 506. The agreements between FMNJ and S.L. indicated that the securities were issued as compensation for services rendered no earlier than January 2010. The Deposit Securities Request for Bulletin Board, Pink Sheet and Unregistered Securities questionnaire (DSRQ) signed by Delaney indicated that the shares were exempt pursuant to Regulation D, Rule 504.
65. During a six-month period from September 2010 to February 2011, R.C. sold 1.8 billion shares of FMNJ common stock through its account at DEG, generating gross proceeds of \$174,572. DEG grossed at least \$3,030 in commissions from R.C.'s sales of FMNJ common stock. R.C. further wired the proceeds of \$172,851 out of its DEG account, during the same period, through a total of eight wire transfers.
66. The liquidation of FMNJ stock was the only securities-related activity R.C. engaged in at DEG.

O.C.R.'s Distribution and Sale of Unregistered and Non-Exempt shares of PRPM through DEG⁵

67. O.C.R. is controlled by physician Dr. B.G., located in Boca Raton, Florida. O.C.R. opened an account with DEG in July 2010. Yet, O.C.R.'s new account documents indicate that O.C.R. shares an address with B.A. in New York.
68. In August 2010, after DEG's clearing firm refused to accept any further security deposits by B.A., O.C.R. acquired millions of newly-issued shares of PRPM common stock from B.A.

⁵ This conduct was first discovered in the 2011 examination of DEG, and was not alleged in the Complaint. However, it is included herein for purposes of settlement.

69. Then, during the period of September 13, 2010 to November 18, 2010, O.C.R. deposited 160,610,724 shares of PRPM common stock in its account at DEG. No registration statement was in effect for any of the PRPM shares deposited into O.C.R.'s account.
70. Every deposited share of PRPM was sold through DEG during the period of September 13, 2010 to December 23, 2010 generating gross proceeds of \$95,475. During the period of September 22, 2010 to December 29, 2010, O.C.R. executed five outgoing wire transfers in the amount of \$163,000, which included the proceeds from the liquidation of PRPM common stock. DEG grossed at least \$2,015 in commissions from the sales of PRPM by O.C.R.
71. The PRPM shares were issued to O.C.R. pursuant to a claimed Regulation D, Rule 504 exemption from registration. However, the PRPM shares were either issued to a different New York address as what was listed on O.C.R.'s new account form, or were issued to C.N.D., Esquire, as escrow agent.
72. DEG, acting through Delaney, as part of its review of these sales obtained documentation including, among other things, subscription agreements executed by O.C.R. and an opinion letter issued in August 2010 by C.N.D., acting as counsel for PRPM.
73. In September 2012, C.N.D. was, among other things, barred from participating in the offering of any penny stock and enjoined by the SEC for providing false opinion letters to a transfer agent that improperly removed restrictions on securities.

DEG Failed to Establish, Maintain and Enforce a Supervisory System Reasonably Designed to Ensure Compliance with Section 5

DEG's Policies and Procedures

74. DEG had WSPs that addressed the sale of unregistered securities, and those procedures were updated after FINRA's issuance of Regulatory Notice 10-22 (April 2010), which

reminded broker-dealers of their obligation to conduct due diligence in connection with exempt offerings.

75. DEG's WSPs contained steps relevant to determining whether a stock being deposited and sold by a customer was registered or exempt from registration. DEG's WSPs list the following as potential red flags signaling the possibility of an unregistered distribution:
- A customer opens a new account and delivers physical certificates representing a large block of thinly traded or low-price securities;
 - A customer has a pattern of depositing physical share certificates, immediately selling the shares and then wiring out the proceeds of the resale;
 - A customer deposits share certificates that are recently issued or represent a large percentage of the float for the security; and
 - The lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities or the nature of the transaction in which the securities were acquired.
76. DEG's WSPs required Delaney to conduct an investigation if any customer engages in activity deemed a red flag and if the transaction is allowed, obtain "an affirmation from counsel" and approve the transaction, noting the findings in a log.
77. But, while DEG's WSPs addressed the issues discussed in Regulatory Notice 10-22, the WSPs were not tailored to the securities liquidation business that DEG conducted.
78. DEG's WSPs gave minimal guidance regarding how to comply with the requirements of Section 5, evaluating red flags and what steps to take to determine compliance, other than listing the red flags provided in Regulatory Notice 10-22, as of April 2010.
79. DEG's WSPs did not address when an inquiry was required following the deposit of a large block of newly issued shares, the exact nature of the inquiry to be done, or any other aspect of the actions necessary to determine the tradability of deposited shares.

DEG Failed to Implement Adequate AML Procedures and Failed to Detect, Investigate and Report Suspicious Activity

Overview of AML Rules and Regulations

80. In July 2002, the United States Department of the Treasury issued regulations (31 C.F.R. Section 103.19(a)(1)) requiring suspicious transaction reporting by broker-dealers.
81. Consequently, FINRA⁶ adopted NASD Conduct Rule 3011⁷, which requires FINRA member firms to, among other things:
- (a) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. §5318(g) and the implementing regulations thereunder.
82. FINRA issued numerous communications to its members regarding the requirement to have an AMLCP, notifying them that the requirement applied to all FINRA member firms. Among other things, FINRA communicated the requirement in Notice to Members (NtM) 02-21 (April 2002) and reiterated this requirement in subsequent NtMs 02-47 (August 2002), 02-50 (August 2002), 02-78 (November 2002), 02-80 (December 2002), 03-34 (June 2003) and 06-07 (February 2006).

DEG Failed to Implement Adequate AML Policies and Procedures

83. DEG utilized an AMLCP that it derived from FINRA's Small Firm template. However, despite FINRA's guidance that firms should tailor programs to fit the particular firm's business, DEG did little to customize the template's language to their business.
84. Citing NASD Conduct Rule 3011 and the Bank Secrecy Act, DEG's AMLCP included a description of money laundering activity, and stated that it was the obligation of each member of DEG to detect and prevent potential money laundering activities.

⁶ Then known as the NASD.

⁷ On January 1, 2010, NASD Conduct Rule 3011 was superseded by FINRA Rule 3310.

85. DEG's AMLCP also stated that DEG was required to file a Suspicious Activity Report (SAR) for any transaction that may be indicative of money laundering activity.
86. DEG's AMLCP further includes a listing of twenty-five AML red flags taken directly from the "red flags" listed in FINRA's Small Firm Template including the following:
- The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business strategy;
 - The customer (or a person publicly associated with the customer) has a questionable background, or is the subject of news reports indicating possible criminal, civil, or regulatory violations;
 - The customer's account has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity;
 - The customer, for no apparent reason or in conjunction with other "red flags," engages in transactions involving certain types of securities, such as penny stocks, Regulation "S" (Reg S) stocks, and bearer bonds, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity);
 - The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent business purpose or other purpose; and
 - The customer's account has inflows of funds or other assets well beyond the known income or resources of the customer.
87. DEG's AMLCP designates Delaney as its AMLCO and principal responsible for, among other things, the approval of DEG's AMLCP, maintenance of the AMLCP, review of red flags and the filing of Forms SAR-SF.
88. Upon suspicion of AML red flags, DEG's WSPs required DEG and Delaney to perform additional due diligence before proceeding with the transaction, and if appropriate, required DEG to notify regulatory organizations and/or law enforcement of suspicious activities through the filing of a SAR.

89. DEG's AMLCP failed to include a section entitled, "Monitoring Accounts for Suspicious Activity," or list any specific tasks that DEG should undertake in an effort to monitor for suspicious activity related to its securities liquidation business.
90. DEG's AMLCP failed to include any specific procedures aimed at preventing and detecting suspicious activity related to the liquidation of large volumes of low priced stocks, despite the importance of that type of business to DEG.
91. DEG did maintain a "Heightened Customer Account Monitoring – Master List," which included customer names, account numbers, the date placed on the list and the reason for the heightened monitoring.
92. DEG further created a "RED FLAG" Due Diligence form. The form indicates that:
- The purpose of this form is to memorialize the additional due diligence conducted upon the detection of a "red flag" in regulatory violations.

DEG Failed to Detect and Investigate Suspicious Activity Regarding A.P. and J.R.

Customer A.P.

93. In December 2008, A.P. opened an account with DEG through registered representative J.D. (Delaney's father). A.P.'s son also opened an account with DEG through J.D. in December 2008. Also in December 2008, A.P.'s daughter, who was a minor at the time, opened a custodian account⁸ with DEG through J.D.
94. During the period from 1986 through 1999, A.P. was employed as a trader with former FINRA member firm Baird Patrick & Co., Inc. (Baird Patrick). A.P. worked with J.D. at Baird Patrick.
95. In 2002, A.P. was enjoined and suspended from association with any broker-dealer for nine months as a result of actions brought by the SEC.

⁸ A.P.'s sister-in-law was listed as the custodian for this account.

96. The SEC alleged that A.P. had executed numerous manipulative trades in proprietary and customer accounts maintained at Baird Patrick, including wash sales and matched orders. Additionally, it was alleged that A.P. was the registered representative for various customer accounts at Baird Patrick, and executed purchases and sales at the direction of a third-party without consulting the account holders.
97. Delaney had known customer A.P. for approximately 15 years, when A.P. indicated that he wanted to open an account with DEG. Delaney further knew when A.P. indicated an interest in opening an account that he had some type of regulatory problem or disciplinary history.
98. Delaney performed the customer identification review regarding A.P. on behalf of DEG. Delaney did not find any regulatory problem or disciplinary history during his review of A.P.'s background.
99. Delaney did not contact A.P. and question him about whether he had a regulatory problem or disciplinary history.
100. In conducting his customer identification review, Delaney did not use A.P.'s full name. Instead, Delaney used an abbreviated or shortened version of A.P.'s first name.
101. Delaney had access to A.P.'s full name and could have used his full name in his customer identification review.
102. Had Delaney used A.P.'s full name in conducting his customer identification review, Delaney would have uncovered the regulatory actions taken by the SEC against A.P.
103. A.P.'s regulatory background was an AML red flag.
104. Delaney failed to detect the AML red flag associated with A.P.'s regulatory background.
105. Delaney further failed to place A.P.'s account and A.P.'s children's accounts on the Heightened Customer Account Monitoring – Master List.

Activity in Accounts Affiliated with A.P.

106. In December 2008, when A.P.'s son's account with DEG was opened, A.P.'s son was 21 years old and listed as a student on his new account form. The new account form further contains check marks next to the range \$65,000-\$124,999 for A.P.'s son's income, net worth and liquid net worth.
107. Also, in December 2008, when A.P.'s daughter's custodial account was opened with DEG, she was 17. A.P.'s daughter's income, net worth and liquid net worth were listed as \$0-\$25,000.
108. From December 2008 through June 2009, nearly all of the activity in both of A.P.'s children's accounts involved the deposit, journaling, purchase, or sale of low-priced biotech stocks.
109. From January 2009 through May 2009, no funds were deposited into A.P.'s children's accounts.
110. In February 2009, shares of RXAF and MSBT were deposited into A.P.'s daughter's account electronically via Deposit/Withdraw at Custodian (DWAC).
111. The source of A.P.'s daughter's shares of RXAF was a private purchase by A.P. from a relative of a co-defendant in the SEC action against A.P. and the source of A.P.'s daughter's shares of MSBT was a private purchase by A.P. from J.R.
112. Some of the RXAF and MSBT shares deposited in A.P.'s daughter's account were later journaled to A.P.'s son's account. A portion of the shares journaled from A.P.'s daughter's account to A.P.'s son's account were sold, and the remaining balance of journaled shares was subsequently journaled back to A.P.'s daughter's account.
113. There were 16 purchases of 2,327,000 shares for a total value of \$57,376 in A.P.'s daughter's account, and 52 sales of 1,472,524 shares, generating proceeds of

\$135,493.51. Additionally, there were six purchases in the aggregate amount of 612,000 shares at a total cost of \$39,948 in A.P.'s son's account. Furthermore, there were 10 sales involving 287,000 shares in A.P.'s son's account resulting in proceeds of \$39,948.

114. Each of the accounts associated with A.P. at DEG exhibited multiple AML red flags, particularly in view of the stated backgrounds of the account holders. However, DEG, acting through Delaney, failed to detect and investigate the red flags associated with such accounts.

Customer J.R.

115. J.R. was referred to J.D. by customer A.P. J.R. was a former brokerage client of A.P., and was involved in the pharmaceutical business through his wholly-owned corporation S.B.A.
116. From January 2009 through May 2009, J.R. established six related accounts for himself, his spouse and his corporation.
117. A.P.'s children's accounts frequently traded the same low-priced biotech stocks on the same days as transactions occurring in the accounts controlled by J.R. at DEG.
118. On 18 separate occasions from February 2009 through May 2009, A.P.'s children and J.R. executed transactions in the same penny stocks on the exact same days. At times, A.P.'s children and J.R. were on the same side of the transactions, while in other instances, A.P.'s children and J.R. took opposite positions.

Activity in Accounts Affiliated with J.R.

119. Nearly all of the activity in J.R.'s accounts involved the deposit, withdrawal, journaling, purchase, or sale of low-priced biotech stocks.
120. From January 2009 through June 2009, J.R.'s accounts engaged in extensive cash movements, including a large number of wires. During this period, cash movements

included seven cash deposits totaling \$143,046.74; 56 incoming wires totaling \$657,876.49; four inter-account cash journals totaling \$63,446.70; and 12 outgoing wires totaling \$93,614.50.

121. Additionally, customer J.R. made five deposits of securities into his accounts involving 660,350 shares of three different securities with a total value of \$228,954. J.R. deposited and wired \$800,000 into his various accounts, primarily during the period from January 2009 through March 2009.
122. Customer J.R. also deposited shares of three securities into his accounts. J.R.'s accounts were much more active than A.P.'s accounts, generating 352 purchases of 23,429,733 shares with a total cost of \$953,463.59. There were also 63 sales involving 7,817,733 shares in J.R.'s accounts, resulting in proceeds of \$458,812.26.
123. Furthermore, from March 2009 through April 2009, J.R. engaged in a series of securities journals between his various accounts, involving the securities of issuers connected to a co-defendant in the SEC action against A.P.
124. In March 2009, J.R. requested that hundreds of thousands of shares of CLXS, MSBT, and SCLL be delivered out of one of his accounts with DEG to a brokerage account at another FINRA member firm.
125. In May 2009 and June 2009, J.R. delivered millions of shares of SCLL, ILNS and MSBT out of various accounts at DEG to accounts at two other FINRA member firms.
126. Furthermore, during the relevant period, J.R. engaged in suspicious trading. Specifically, on six separate occasions, J.R. entered buys and sells in the same security on the same day, often in separate accounts as more fully described in **Schedule A** attached to the Complaint and incorporated herein by reference.

127. All six of J.R.'s accounts at DEG exhibited multiple AML red flags. However, DEG, acting through Delaney, failed to detect and investigate the red flags.

DEG Failed to Detect, Investigate and Report Suspicious Activity Regarding B.A.

128. Delaney, as DEG's AMLCO, noted at least some of the red flags listed in DEG's AMLCP in connection with the trading by B.A.

129. Activities that should have raised suspicions include the following:

- B.A. maintained multiple accounts for no apparent purpose, except to help facilitate the sale of unregistered securities, including numerous accounts at other broker-dealers;
- The majority of B.A.'s activity at DEG was transferring large blocks of unregistered low-priced stocks, which were issued pursuant to Rule 504, into B.A.'s accounts, liquidating them, and wiring out the proceeds;
- B.A. received new issuances of unregistered securities just as the previous issuance was almost sold off;
- B.A. engaged in frequent and extensive wire activity involving wiring the proceeds of the stock liquidations from its account at DEG;
- B.A. was the subject of an action by the SEC, alleging misrepresentations and material omissions in connection with the sale of hundreds of millions of unregistered shares of an issuer's stock; and
- DEG, acting through Delaney, received inquiries from FINRA's Market Regulation Department and The Office of Fraud Detection and Market Intelligence regarding trading by B.A. in two of the subject securities.

130. Delaney, as the AMLCO, noted some of the foregoing red flags in connection with the transactions in B.A.'s accounts, but failed to sufficiently investigate B.A.'s suspicious activity to determine whether the filing of a SAR was warranted.

131. As a result, despite the presence of red flags, DEG, acting through Delaney, failed to sufficiently investigate and, if necessary, report suspicious activity in accordance with its procedures and NASD Conduct Rule 3011.

DEG Failed to Detect, Investigate and Report Suspicious Activity Regarding R.C.

132. Delaney, as DEG's AMLCO, failed to detect any red flags listed in DEG's AMLCP in connection with the trading by R.C. until after the sale of three quarters of the shares R.C. deposited in its account at DEG.
133. Activities that should have raised suspicions include the following:
- R.C.'s activity at DEG involved the deposit of physical certificates representing large blocks of an unregistered, low-priced equity security, purportedly issued pursuant to Rule 504, into R.C.'s account.
 - R.C. received and deposited new issuances of unregistered securities just as the previous issuance was almost sold off;
 - The lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities, or the nature of the transaction in which the securities were acquired; and
 - R.C.'s trading showed a pattern of depositing physical share certificates of a single issuer, immediately selling the shares and then wiring out the proceeds of the sales.
134. Delaney, as the AMLCO, failed to timely investigate R.C.'s suspicious activity to determine whether the filing of a SAR was warranted.
135. As a result, despite the presence of red flags, DEG, acting through Delaney, failed to detect, investigate and, if necessary, report suspicious activity in accordance with its procedures and FINRA Rule 3310.

DEG Failed to Detect, Investigate and Report Suspicious Activity Regarding O.C.R.

136. Delaney, as DEG's AMLCO, failed to detect any red flags listed in DEG's AMLCP in connection with the trading by O.C.R.
137. Activities that should have raised suspicions include the following:
- O.C.R. opened a new account and delivered physical certificates representing a large block of thinly traded or low-priced securities;

- The source of the PRPM stock deposited by O.C.R. and B.A., was the subject of an action by the SEC, alleging misrepresentations and material omissions in connection with the sale of hundreds of millions of unregistered shares of an issuer's stock;
- O.C.R. appears to have been acting as an agent for an undisclosed principal (B.A.);
- O.C.R. deposited share certificates that were recently issued, and the lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities, or the nature of the transaction in which the securities were acquired;
- O.C.R. had a pattern of depositing physical share certificates, immediately selling the shares and then wiring out the proceeds of the resale;
- O.C.R. received new issuances of unregistered securities just as the previous issuance was almost sold off;
- PRPM had been through several recent name changes, business combinations, recapitalizations, or the company's officers are also officers of numerous similar companies;⁹ and
- PRPM's SEC filings were not current, were incomplete, or nonexistent.¹⁰

138. Delaney, as the AMLCO, failed to investigate O.C.R.'s suspicious activity to determine whether the filing of a SAR was warranted.

139. As a result, despite the presence of red flags, DEG, acting through Delaney, failed to detect, investigate and, if necessary, report suspicious activity in accordance with its procedures and FINRA Rule 3310.

SALES OF UNREGISTERED AND NON-EXEMPT SECURITIES FINRA RULE 2010 BY DEG AND DELANEY

140. As detailed above in paragraphs 8 through 73, B.A. deposited almost a billion shares of five low-priced equity securities during April 2009 through July 2010, a period of about 14 months. B.A. then proceeded to sell almost all of the shares deposited, as well as some additional shares it purchased, and wired out the proceeds.

⁹ PRPM (n/k/a ProTek Capital, Inc.) underwent name changes in October 2010, June 2007 and March 2007.

¹⁰ According to the Pink Sheets website at <http://www.otcm Markets.com/stock/PRPM/company-info> and <http://www.otcm Markets.com/stock/PRPM/filings>, PRPM's stock was deregistered on June 24, 2009 and the issuer is not making SEC filings.

141. B.A.'s sales through DEG ceased in July 2010, only when DEG's clearing firm, restricted B.A.'s accounts, and only after B.A. had obtained almost \$2.4 million through the sale of these securities.
142. B.A. obtained all of the unregistered shares of CTYX, PRPM, SSPT, SNDY, and GRBG through offerings purportedly made under Rule 504 of Regulation D.
143. Rule 504 provides an exemption from the registration requirements of Section 5. Rule 504 generally provides that stock under this exemption can be freely sold if it is issued pursuant to an applicable state law registration exemption. However, Rule 504's exemption is unavailable if the unregistered securities are acquired with a view towards distribution or if the offering and sale of the unregistered securities are part of a scheme to evade the registration requirements of Section 5.
144. B.A. acquired the shares directly from the issuers executing subscription agreements, copies of which were provided to DEG, that expressly state that the investor represents that the shares are being acquired for the investor's (B.A.'s) own account and not for the account of others, for investment purposes only, and not with a view to the sale or distribution thereof in whole or in part.
145. However, B.A. deposited the shares it acquired directly from the issuers into its accounts at DEG within days of acquiring them. B.A. then sold the majority of the shares within days or weeks after depositing them into its accounts.
146. Despite the suspicious nature of the activity in B.A.'s accounts, DEG, acting through Delaney, failed to conduct adequate due diligence to determine whether they were participating in a scheme to evade the registration requirements of Section 5 by selling shares of CTYX, PRPM, SSPT, SNDY, and GRBG on behalf of B.A.

147. Instead, DEG, acting through Delaney, relied on opinion letters issued by one counsel representing all of the issuers, who was later found to have issued inaccurate correspondence to the OTC Markets, and failed to note the contradiction in B.A.'s actions and representations in connection with the acquisition and sale of the issuers stock.
148. DEG, acting through Delaney, sold almost a billion shares of CTYX, PRPM, SSPT, SNDY, and GRBG common stock on behalf of B.A. that were not registered with the SEC, and no exemption from registration applied to such sales.
149. In view of the foregoing, DEG, acting through Delaney, participated in the illegal distribution of almost a billion shares of unregistered and non-exempt securities, in contravention of Section 5 of the Securities Act.
150. As detailed in paragraph 59 above, R.C. deposited 2.4 billion shares of unregistered, non-exempt shares of FMNJ common stock, a low-priced equity security into its account at DEG.
151. Then, during the period of September 2010 through February 2011, a period of about six months, R.C. sold 1.8 billion shares of FMNJ and wired out the proceeds. R.C. then journaled the remaining shares to another securities account.
152. R.C. obtained almost \$175,000 through the sale of these securities and DEG grossed over \$3,000 in commissions from the sale of FMNJ securities by R.C.
153. R.C. obtained the unregistered shares for services purportedly rendered to FMNJ, through offerings purportedly made under Rule 504 of Regulation D.
154. R.C. acquired the unregistered shares directly or indirectly from FMNJ in an offering not involving a public offering through agreements, copies of which were provided to DEG.
155. R.C. deposited shares of FMNJ common stock into its account at DEG within days of acquiring them, sold the deposited shares, deposited additional share, to sell, sold those

- shares, and wired out the proceeds.
156. Despite the suspicious nature of the activity in R.C.'s account, DEG, acting through Delaney, failed to conduct adequate due diligence to determine whether they were participating in a scheme to evade the registration requirements of Section 5 by selling shares of FMNJ common stock on behalf of R.C.
 157. DEG, acting through Delaney, sold 1.8 billion shares of FMNJ common stock on behalf of R.C. that were not registered with the SEC, and for which no exemption from registration was available.
 158. In view of the foregoing, DEG, acting through Delaney, participated in the illegal distribution of FMNJ shares of unregistered and non-exempt securities, in contravention of Section 5 of the Securities Act.
 159. As detailed in paragraphs 69-70 above, O.C.R. deposited over 160 million of unregistered, non-exempt, low-priced PRPM common stock during a three-month period (September through November 2010). O.C.R. then proceeded to sell all of its PRPM shares and wired the proceeds out of its account by December 2010.
 160. O.C.R. obtained over \$95,000 in gross proceeds from the sale of PRPM common stock and wired \$163,000 out of its account at DEG. DEG grossed commissions on the sale of PRPM common stock sold by O.C.R. of over \$2,000.
 161. O.C.R. obtained the unregistered shares from B.A. through offerings purportedly made under Rule 504 of Regulation D.
 162. O.C.R. acquired the unregistered shares directly or indirectly from the issuer in an offering not involving a public offering through agreements, copies of which were provided to DEG.
 163. O.C.R. would deposit shares of PRPM common stock into its account at DEG within

days of acquiring them, sell the shares deposited then deposit additional shares only to sell those shares and wire out the proceeds.

164. Despite the suspicious nature of the activity in O.C.R.'s account, DEG, acting through Delaney, failed to conduct adequate due diligence to determine whether they were participating in a scheme to evade the registration requirements of Section 5 by selling shares of PRPM common stock on behalf of O.C.R..
165. Instead, DEG, acting through Delaney, relied on opinion letters issued by C.N.D. the issuer's counsel, who was associated with B.A., and who was later enjoined by the SEC for providing false opinion letters to a transfer agent that improperly removed restrictions on securities.
166. DEG, acting through Delaney, also failed to note the contradiction in addresses used by O.C.R.
167. DEG, acting through Delaney, sold 160 million shares of PRPM common stock on behalf of O.C.R. that were not registered with the SEC, and for which no exemption from registration was available.
168. In view of the foregoing, DEG, acting through Delaney, participated in the illegal distribution of PRPM common stock, in contravention of Section 5 of the Securities Act.
169. Such acts, practices and conduct constitute separate and distinct violations of FINRA Rule 2010 by Respondents DEG and Delaney.

**FAILURE TO SUPERVISE – INADEQUATE PROCEDURES
NASD CONDUCT RULES 3010(A) AND 3010(B) AND FINRA RULE 2010 BY DEG AND DELANEY**

170. NASD Conduct Rule 3010(a) requires firms to "establish and maintain a system to supervise activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules."

171. Under NASD Conduct Rule 3010(b), these systems must be documented in the firm's WSPs. The procedures also must be tailored to the business lines in which the firm engages. They also must set out mechanisms for ensuring compliance and detecting violations, and must not merely set out what conduct is prohibited.
172. During the period from April 2009 through February 2011, DEG, acting through Delaney, failed to establish, maintain and enforce adequate policies and procedures, including WSPs, reasonably designed to ensure compliance with Section 5 of the Securities Act.
173. As detailed in paragraphs 74 through 79 above, DEG's procedures were not adequately designed to prevent the sale of unregistered securities that were not exempt from registration, for determining whether securities were appropriately exempt from registration, or whether transactions were otherwise in violation of Section 5 of the Securities Act.
174. Delaney was primarily responsible for establishing, maintaining, and enforcing DEG's supervisory system and WSPs.
175. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 3010(a) and (b) and FINRA Rule 2010 by Respondents DEG and Delaney.

**INADEQUATE ANTI-MONEY LAUNDERING PROCEDURES
NASD CONDUCT RULE 3011(A) AND FINRA RULES 3310(A) AND 2010 BY DEG AND DELANEY**

176. During the period from at least April 2009 through February 2011, DEG, acting through Delaney, its AMLCO, failed to develop and implement AML policies, procedures, and internal controls that were reasonably designed to achieve compliance with the Bank Secrecy Act, and the implementing regulations thereunder.

177. Specifically, DEG's AML procedures failed to address the detection, monitoring, analyzing, investigating, and reporting of suspicious activity in the context of DEG's securities liquidation business.
178. As President and AMLCO of DEG, Delaney was responsible for the adequacy of DEG's supervisory procedures and the content of DEG's AMLCP.
179. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rule 3011(a) (for conduct prior to January 1, 2010), FINRA Rules 3310(a) (for conduct commencing on January 1, 2010) and 2010 by Respondents DEG and Delaney.

FAILURE TO DETECT, INVESTIGATE AND REPORT SUSPICIOUS ACTIVITY REGARDING B.A. NASD CONDUCT RULE 3010(A) AND FINRA RULES 3310(A) AND 2010 BY DEG AND DELANEY

180. DEG's AMLCP required the detection, investigation and reporting of suspicious activities. As AMLCO, Delaney was responsible for the detection, investigation and reporting of suspicious activities for DEG.
181. Delaney was aware of the nature of B.A.'s trading activity. Delaney knew that B.A. opened numerous accounts and deposited nearly a billion shares of multiple issuers' unregistered low-priced securities. Delaney knew that B.A. liquidated the low-priced securities and wired out the proceeds. Delaney knew by at least January 2010 that B.A. was the subject of an action by the SEC alleging misrepresentations and material omissions in connection with the sale of hundreds of millions of unregistered and non-exempt shares of an issuer's stock.
182. During the period from April 2009 through July 2010, DEG and Delaney should have detected the suspicious nature of B.A.'s liquidation of low-priced securities, investigated the activity, and made SAR filings as necessary. Instead, DEG and Delaney permitted B.A.'s suspicious trading activity to occur and failed to report any of B.A.'s activities through a SAR as necessary.

183. DEG, acting through Delaney, either failed to identify or ignored red flags involving numerous instances of suspicious activities, and thus failed to sufficiently investigate, and if necessary, report these activities in accordance with DEG's WSPs, the requirements of the Bank Secrecy Act, and the implementing regulations thereunder.
184. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rule 3011(a) (for conduct prior to January 1, 2010), FINRA Rules 3310(a) (for conduct commencing on January 1, 2010) and 2010 by Respondents DEG and Delaney.

**FAILURE TO DETECT AND INVESTIGATE SUSPICIOUS ACTIVITY REGARDING A.P. AND J.R.
NASD CONDUCT RULES 3011(A) AND 2110 AND FINRA RULE 2010 BY DEG AND DELANEY**

185. During the period from December 2008 through June 2009, there were five red flags identified in DEG's AML procedures that are directly applicable to the accounts associated with A.P. and J.R. and the transactions therein, as listed in paragraph 86 above.
186. DEG and Delaney should have detected the suspicious nature of A.P.'s and J.R.'s accounts and the trading therein, which consisted of the liquidation of low-priced securities, and investigated this suspicious activity. Instead, DEG and Delaney failed to detect and investigate the suspicious nature of A.P.'s and J.R.'s accounts and the trading therein.
187. None of A.P.'s or J.R.'s associated accounts were included on the Heightened Customer Account Monitoring – Master List.
188. ““RED FLAG” Due Diligence” forms were not completed for either of A.P.'s or J.R.'s associated accounts.
189. DEG, acting through Delaney, failed to identify or ignored red flags involving numerous instances of potentially suspicious activities regarding the accounts associated with A.P. and J.R., and thus failed to investigate these activities in accordance with DEG's

procedures, and the requirements of the Bank Secrecy Act and the implementing regulations thereunder.

190. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 3011(a) and 2110 (for conduct prior to December 15, 2008) and FINRA Rule 2010 (for conduct commencing on December 15, 2008) by Respondents DEG and Delaney.

**FAILURE TO DETECT, INVESTIGATE AND REPORT SUSPICIOUS ACTIVITY REGARDING R.C.
FINRA RULES 3310(A) AND 2010 BY DEG AND DELANEY**

191. Delaney was aware of the nature of R.C.'s trading activity. Delaney knew that R.C. opened a securities account and deposited 2.4 billion shares of single issuer of unregistered, low-priced securities. Delaney knew that R.C. liquidated 1.8 billion shares of the low-priced securities and that this was the only activity in R.C.'s account. Delaney further knew that R.C. wired out the proceeds and then journaled the balance of 600 million shares in its account to another securities broker-dealer.
192. During the period from September 2010 through February 2011, DEG and Delaney should have detected the suspicious nature of R.C.'s liquidation of low-priced securities, investigated the activity, and made SAR filings as necessary. Instead, DEG and Delaney permitted R.C.'s suspicious trading activity to occur and failed to report any of R.C.'s activities through a SAR as necessary.
193. DEG, acting through Delaney, either failed to identify or ignored red flags involving numerous instances of suspicious activities, and thus failed to sufficiently investigate, and if necessary, report these activities in accordance with DEG's WSPs, the requirements of the Bank Secrecy Act, and the implementing regulations thereunder.
194. Such acts, practices and conduct constitute separate and distinct violations of FINRA Rules 3310(a) and 2010 by Respondents DEG and Delaney.

**FAILURE TO DETECT, INVESTIGATE AND REPORT SUSPICIOUS ACTIVITY REGARDING O.C.R.
FINRA RULES 3310(A) AND 2010 BY DEG AND DELANEY**

195. Delaney was aware of the nature of O.C.R.'s trading activity. Delaney knew that O.C.R. opened a securities account after DEG's clearing firm would no longer accept security deposits from B.A. and deposited 160 million shares of PRPM, an issuer whose low-priced shares B.A. had been depositing and liquidating.
196. Delaney knew that DEG's clearing firm suspected that O.C.R. was acting on behalf of B.A.
197. Delaney knew that O.C.R. liquidated millions of shares of PRPM common stock that it acquired from B.A. and wired out the proceeds
198. During the period from September 2010 through December 2010, DEG and Delaney should have detected the suspicious nature of O.C.R.'s liquidation of PRPM common stock, investigated the activity, and made SAR filings as necessary. Instead, DEG and Delaney permitted O.C.R.'s suspicious trading activity to occur and failed to report any of O.C.R.'s activities through a SAR as necessary.
199. DEG, acting through Delaney, either failed to identify or ignored red flags involving numerous instances of suspicious activities, and thus failed to sufficiently investigate and, if necessary, report these activities in accordance with DEG's WSPs, the requirements of the Bank Secrecy Act, and the implementing regulations thereunder.
200. Such acts, practices and conduct constitute separate and distinct violations of FINRA Rules 3310(a) and 2010 by Respondents DEG and Delaney.

**FAILURE TO IMPLEMENT HEIGHTENED SUPERVISION
NASD CONDUCT RULES 3010(A), 3010(B) AND 2110 AND FINRA RULE 2010 BY DEG AND
DELANEY**

201. In June 2006, J.D., Delaney's father and later a DEG registered representative, settled a FINRA disciplinary action through a letter of Acceptance, Waiver and Consent (AWC),

wherein he was suspended and fined. J.D. consented to the entry of findings to sanctions and was found to have violated NASD Conduct Rules 2510(b) and 2110.

202. When DEG became a FINRA member firm in 2007, FINRA required and DEG and Delaney agreed, as part of DEG's membership agreement, that J.D. be subjected to heightened supervision. DEG crafted and submitted WSPs in connection with its membership approval that contained procedures for heightened supervision of associated persons with disciplinary disclosures.
203. Specifically, DEG's WSPs required registered representatives with prior disciplinary disclosures to be placed under heightened supervisory scrutiny as follows: (1) initial order memorandum to evidence review and approval prior to the execution of all trades executed/entered by the representative; (2) review all new accounts opened by the representative; (3) sample and call customers to verify that the information contained on the new account forms was accurate and complete; and (4) monitor customer account activity on a monthly basis.
204. During the period of at least January 22, 2009 through May 29, 2009, DEG failed to cause the order memoranda to be initialed prior to the execution of transactions by J.D., or to call his customers to verify their account information. As DEG's president and CCO, Delaney was responsible for ensuring that DEG's procedures were enforced and that heightened supervision was imposed upon J.D.
205. Delaney assigned another principal to conduct the heightened supervision of J.D., because DEG's membership agreement specifically prohibited DEG from designating Delaney as the supervising principal for J.D.

206. The principal assigned by Delaney to conduct the heightened supervision of J.D. was not consistently available to implement such supervision, because he reported to work only two or three days per week due to poor health.
207. The principal assigned by Delaney to conduct the heightened supervision of J.D. also relied on Delaney to notify him if any of J.D.'s accounts exhibited third-party trading authority, although Delaney was prohibited from directly supervising J.D. in DEG's membership agreement.
208. During the period of at least January 2008 through May 2009, DEG, acting through Delaney, failed to enforce its WSPs and impose heightened supervision on J.D.
209. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 3010(a), 3010(b), 2110 (for conduct prior to December 15, 2008) and FINRA Rule 2010 (for conduct commencing on December 15, 2008) by Respondents DEG and Delaney.

Based on the foregoing, Respondents DEG and Delaney violated NASD Conduct Rules 3010(a), 3010(b), 3011(a) and 2110 and FINRA Rules 3310(a) and 2010.

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

SANCTIONS

It is ordered that Respondents be:

Respondent DEG

- Censured;
- Fined in the amount of \$215,000;

- For a six-month period from the date of the Notice of Acceptance of Offer of Settlement,

DEG is prohibited from:

- a. Directly or indirectly receiving, in any manner, any penny stock¹¹ in any form, including but not limited to receipt in certificate form, receipt by DWAC or by Depository Trust Corporation (DTC) Free Receipt, unless the shares evidenced by such certificate are subject to an effective registration statement. The indirect receipt of securities includes securities received by DEG's clearing firm on behalf of DEG's customers or securities transferred from the clearing firm via any means unless the stock has been beneficially owned by the account holder, including the account holders predecessor, for the requisite period not to be less than 180 days, or subject to an effective registration statement as determined by the SEC;
- b. Selling, for the benefit of any customer or firm proprietary account, any penny stock deposited with DEG (including through the firm's clearing firm) by Automated Customer Account Transfer (ACAT) unless:
 - i. The stock has been held in the account for at least 180 days or has been beneficially owned by the accountholder, including the accountholders predecessors, if any, for the requisite statutory period not to be less than 180 days; and
 - ii. In amounts not to exceed the volume limitations prescribed by the applicable federal securities laws; or
 - iii. The stock is subject to an effective registration statement.

- DEG shall:

- a. Retain, within 60 days of the date of the Order Accepting Offer of Settlement, an Independent Consultant, not unacceptable to FINRA staff, to conduct a comprehensive review of the adequacy of DEG's policies, systems and procedures (written and otherwise) and training relating to the compliance with Section 5 of the Securities Act of 1933, the applicable rules and regulations with respect to the distribution of unregistered non-exempt securities, compliance with the requirements of the Bank Secrecy Act, 31 U.S.C. §5311, et seq., and the regulations promulgated thereunder.
- b. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant;
- c. Cooperate with the Independent Consultant in all respects, including by providing staff support. DEG shall place no restrictions on the Independent Consultant's

¹¹ As defined in Securities Exchange Act of 1934 Rule 3a51-1 (17 C.F.R. §240-3a51-1).

communications with FINRA staff, and upon request, shall make available to FINRA staff any and all communications between the Independent Consultant and DEG and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, DEG shall not terminate the relationship with the Independent Consultant without FINRA staff's written approval; DEG shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to FINRA;

- d. At the conclusion of the review, which shall be no more than 120 days after the date of the Order Accepting Offer of Settlement, require the Independent Consultant to submit to DEG and FINRA staff a Written Report. The Written Report shall address, at a minimum, (i) the adequacy of DEG's policies, systems, procedures, and training relating to compliance with Section 5 of the Securities Act of 1933, the applicable rules and regulations with respect to the distribution of unregistered non-exempt securities, compliance with the requirements of the Bank Secrecy Act, 31 U.S.C. §5311, et seq., and the regulations promulgated thereunder; (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the DEG's policies, systems, procedures and training; and
- e. Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with DEG, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this Offer shall not, without prior written consent of FINRA staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with DEG or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.
- f. Within 60 days after delivery of the Written Report, DEG shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. DEG shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide DEG with a written decision reflecting his or her determination. DEG will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.
- g. Within 30 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), DEG shall

provide FINRA staff with a written implementation report, certified by an officer of DEG, attesting to, containing documentation of, and setting forth the details of DEG's implementation of the Independent Consultant's recommendations.

Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

Respondent Delaney

- Fined in the amount of \$40,000;
- Suspended for a period of two months from association with any FINRA member in all capacities; and
- Suspended for a period of thirteen months from association with any FINRA member in a principal capacity to run consecutively from the termination of the two-month suspension in all capacities.

Respondent DEG agrees to pay the monetary sanctions upon notice that this Order has been issued and that such payments are due and payable. Respondent DEG has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent Delaney agrees to pay the monetary sanctions upon notice that this Order has been issued and that such payments are due and payable. Respondent Delaney has submitted an Election of Payment form showing the method by which he proposes to pay the fine imposed.

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

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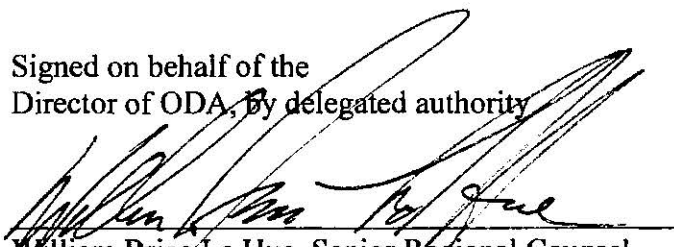
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SO ORDERED.

8/16/13
Date

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

A handwritten signature in black ink, appearing to read "William Brice La Hue", written over a horizontal line.

William Brice La Hue, Senior Regional Counsel
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