

STATE OF NEW JERSEY
BUREAU OF SECURITIES
P.O. Box 47029
Newark, New Jersey 07101
Telephone: (973) 504-3600

IN THE MATTER OF:

GARDEN STATE SECURITIES, INC.
(CRD # 10083)

**ADMINISTRATIVE
CONSENT ORDER**

BEFORE CHRISTOPHER W. GEROLD, BUREAU CHIEF

Pursuant to the authority granted to Christopher W. Gerold, Bureau Chief of the New Jersey Bureau of Securities (the "Bureau Chief"), under the Uniform Securities Law (1997), N.J.S.A. 49:3-47 et seq. (the "Securities Law"), and after investigation, careful review, and due consideration of the facts and statutory provisions set forth below, the Bureau Chief hereby finds that there is good cause and it is in the public interest to enter into an Administrative Consent Order (the "Consent Order") with Garden State Securities, Inc. ("Garden State" or "GSS"), and Garden State hereby agrees to resolve any and all issues in controversy regarding the specific conduct described herein on the terms set forth in this Consent Order.

WHEREAS, the New Jersey Bureau of Securities (the "Bureau") is the State agency with the responsibility to administer and enforce the Securities Law;

WHEREAS, N.J.S.A. 49:3-67 authorizes the Bureau Chief from time to time to issue such orders as are necessary to carry out the provisions of the Securities Law, upon a finding that the action is necessary and appropriate in the public interest or for the protection of investors or

consistent with the purposes fairly intended by the provisions of the Securities Law;

WHEREAS, the Bureau has conducted an investigation into certain activities of Garden State as set forth in this Consent Order (the “Bureau GSS Investigation”);

WHEREAS, Garden State and the Bureau Chief wish to resolve these issues without the expense and delay that formal proceedings would involve;

WHEREAS, Garden State consents to the form, content, and entry of this Consent Order. Accordingly, Garden State waives the following rights:

- a. To be afforded an opportunity for hearing on the Bureau Chief’s findings of fact and conclusions of law in this Consent Order; and
- b. To seek judicial review of, or otherwise challenge or contend, the validity of this Consent Order;

WHEREAS, Garden State agrees that solely for the purposes of settling this matter, or any future proceedings by the Bureau solely related to the conduct herein, this Consent Order shall have the same effect as if proven and ordered after a full hearing held pursuant to N.J.S.A. 52:14B-1 et seq.; and

WHEREAS, this Consent Order concludes the Bureau GSS Investigation and any civil or administrative action that could be commenced, pursuant to the Securities Law, on behalf of the Bureau Chief, as it relates to seeking civil monetary penalties or other relief against Garden State for the specific conduct described herein.

The Bureau Chief makes the following findings of fact and conclusions of law, which Garden State neither admits nor denies:

I.

BACKGROUND

Garden State

1. Garden State (CRD #10083), headquartered in Red Bank, New Jersey, has been registered with the Bureau as a broker-dealer since July 1983.

Relevant Non-Parties

2. Darnell Deans (CRD # 2200059) (“Deans”) was registered with the Bureau as an agent of Garden State from January 4, 2005 to June 18, 2013. On November 26, 2013, Garden State filed a Uniform Termination Notice for Securities Industry Registration (Form U5), terminating Deans “for cause” stating that Deans was terminated based on “management loss of confidence due to ongoing regulatory issues.”

3. From at least December 2005 through February 2011, Deans operated Unity Financial Strategists Inc. (“UFS”) (a New York corporation) as an independently-owned branch office of Garden State, located in New York, New York. Customers of UFS and Deans were at all relevant times customers of Garden State.

4. On June 18, 2013, the Bureau issued a Summary Revocation and Penalty Order against Deans (the “June 2013 Summary Order”) and revoked his registration, finding, among other things, that Deans engaged in dishonest or unethical business practices in the securities industry. Deans, through counsel, submitted a written response dated July 2, 2013 to the June 2013 Summary Order. The Bureau transmitted the contested matter to the Office of Administrative Law. The Bureau and Deans subsequently agreed to settle the contested matter through an Administrative Consent Order, dated September 3, 2014. Although a settlement had been reached, on January 4, 2016, the Bureau issued a Summary Order Vacating Administrative Consent Order

And Amendment To The Administrative Consent Order Dated September 2, 2014 (the “January 2016 Summary Order”). The January 2016 Summary Order reinstated the June 2013 Summary Order revoking Deans’ registration as an agent. Deans’ registration with the Bureau has been revoked since the entry of the June 2013 Summary Order.

5. The Newark Watershed Conservation & Development Corporation (the “NWCDC”) was established in 1973 as a not-for-profit entity pursuant to a contract with the City of Newark, New Jersey (“Newark”). The NWCDC had responsibility to manage and plan for the conservation of approximately 35,000 acres in northern New Jersey owned by Newark, including fresh water reservoirs that provide water to Newark and other surrounding municipalities.

6. The NWCDC filed a Chapter 11 Bankruptcy petition on or about January 2, 2015, and the management of the watershed properties and water supply reverted back to Newark.

7. Since at least November 2005 through late 2006, Zinnerford Smith (“Smith”) was the Executive Director of the NWCDC.

8. From late 2006 through March 2013, Linda Watkins-Brashear (“Watkins-Brashear”) was the Acting Executive Director or the Executive Director of the NWCDC.

II.

THE NWCDC ACCOUNT

9. The NWCDC maintained an account at Garden State from 2005 until 2011 (the “NWCDC Account”). The Bureau GSS Investigation of Garden State’s account opening process and supervision of the NWCDC Account activity revealed numerous supervisory deficiencies, systemic irregularities, and violations of its own Written Supervisory Policies and Procedures (“WSPs”).

A. Deficiencies and Irregularities with the NWCDC Account Profile Forms

10. Garden State opened the NWCDC Account on or about November 30, 2005. Deans was the account's registered representative (the "RR") of record. Both Smith and Deans signed a "New Account Form" on or about November 30, 2005 (the "2005 New Account Form").

11. The 2005 New Account Form contained a section captioned "Investment Objectives," which provided for the customer to identify their investment objectives. This section was not completed on the 2005 New Account Form. Despite this omission, on or about November 30, 2005, a Garden State supervisor signed the 2005 New Account Form, which documented Garden State's approval and opening of the NWCDC Account.

12. On or about November 30, 2005, Smith also signed a Garden State "Certification Of Investment Powers Corporate Accounts" form (the "2005 Certification Form"). On the 2005 Certification Form, Smith certified that at the time he was the only NWCDC officer with authority to direct investments. The 2005 Certification Form required Smith to indicate whether the account was permitted to engage in "Cash Transactions Only" or "Both Cash and Margin Transactions." No indication was made as to either option. Despite this omission, on or about November 30, 2005, Deans signed the 2005 Certification Form, which was also approved by a Garden State supervisor on or about December 13, 2005.

13. On or about February 7, 2007 another "Certification Of Investment Powers Corporate Accounts" form was purportedly signed by Smith and Deans (the "2007 Certification Form"). The 2007 Certification Form reflected that Smith had now been authorized to effect securities transactions in the NWCDC Account using both cash and margin.

14. The 2007 Certification Form appeared to have been an altered version of the completed 2005 Certification Form. Both forms had identical handwritten entries, including both Smith and

Deans' signatures. Unlike the 2005 Certification Form, the 2007 Certification Form had a checkmark added to permit cash and margin trading.

15. Garden State did not detect that the 2007 Certification Form was an altered version of the 2005 Certification Form. Despite these supervisory failures, the 2007 Certification Form was approved by a Garden State supervisor on or about February 8, 2007.

16. On February 8, 2007, the Operations Manager at Garden State advised its clearing firm by email that the NWCDC "should be sending [a] Margin agreement shortly" and "[i]f it is not received [they] will sell out" a position in the NWCDC Account. On that same day, a "Client's Margin Account Agreement And Application" (the "Margin Agreement") for the NWCDC Account was purportedly signed by Watkins-Brashear. However, "Z. Smith" appeared under Watkins-Brashear's signature as the hand-printed name of the person authorized to act on behalf of the NWCDC. The Margin Agreement also stated that the signatory was the "Director" of the NWCDC. Additionally, the section of the Margin Agreement designated for the approval signature of a Garden State supervisor was blank.

17. Despite the deficiencies, Garden State allowed cash and margin trades to be executed in the NWCDC Account entered by Deans.

18. On or about September 24, 2009, Watkins-Brashear purportedly signed an updated New Account Form on behalf of the NWCDC, designated as an "Update" (the "2009 Updated Form"). Like the 2005 New Account Form, the 2009 Updated Form again did not indicate the investment objectives of the NWCDC. The 2009 Updated Form was not signed by Deans as the RR of record, or by any Garden State supervisor as required by Garden State's procedures.

B. Aggressive, Speculative, and Risky Trading By Deans In The NWCDC Account

19. In December 2005, the NWCDC transferred cash and securities totaling approximately \$879,919 into the NWCDC Account. These transfers of securities purchased through another broker-dealer included ten open-end mutual funds, a closed-end mutual fund, three equity positions, a municipal bond, and \$524,131 in cash.

20. The activity that followed included mutual fund switching, use of margin, short selling, short-term trading, and excessive trading. Given the absence of documented investment objectives for the NWCDC Account, these activities were red flags that Garden State failed to adequately investigate.

1. Mutual Fund Switching

21. Between December 2005 and April 2007, there were nine mutual fund switches in the NWCDC Account.

22. GSS's 2005 WSPs defined mutual fund "switching" as "the selling or redemption of one mutual fund with a sales charge to buy another mutual fund with a sales charge." The WSPs required a determination of "whether the switch is justified and whether the customer understands the consequences of the switch." The WSPs further required that a "[switch] letter be obtained from the customer acknowledging an understanding of the consequences of the switch [and] [i]t [was] the designated supervisor's responsibility to ensure switch letters are obtained for switch transactions." (GSS 2005 WSPs §14.4 Mutual Funds - Switching).

23. Despite the fact that switch letters were required to be obtained and retained for the nine switches in the NWCDC Account, Garden State was not able to locate any such letters.

2. Use of Margin And Imposition Of Cash-In-Advance Restriction

24. In a margin account, a customer borrows money through the broker-dealer to effect a securities transaction and uses the investment as collateral. The use of margin exposes the customer to the potential for higher trading gains and/or losses. It also requires the customer to pay margin loan interest charges.

25. As stated above, Garden State allowed margin trading to occur in the NWCDC Account despite the deficiencies with the Margin Agreement and the 2007 Certification Form.

26. During the life of the NWCDC Account, the highest month-end margin loan balance was \$571,664 in June 2008, which constituted approximately 47.57% of the NWCDC Account's value.

27. As a result of the use of margin, the NWCDC Account paid \$47,635 in margin loan interest charges between February 2007 and September 2010.

28. On March 15, 2007, Garden State's clearing firm advised Garden State that the NWCDC Account would be restricted if there were further "cash in advance" ("CIA") violations. Such violations did in fact occur and by September 2007, the account (with notice to Garden State) was placed on a "Permanent" CIA restriction. According to the clearing firm, "[a] margin account on CIA restriction is not allowed to execute a trade without first having appropriate cash available and buying power in the account to cover the trade(s)." Garden State failed to enforce the CIA restriction and allowed the trading in the NWCDC Account to violate the restriction. The clearing firm thereafter notified Garden State of additional CIA violations.

29. On seventeen occasions between March 19, 2009 and August 31, 2010, the clearing firm issued written margin maintenance calls to the NWCDC. The maintenance calls requested the NWCDC to either make a deposit of funds or securities as further collateral for its margin loan, or sell securities in its account. In order to release funds in response to a maintenance call and/or a

CIA violation, securities in the NWCDC Account were sold, or purchased (to cover a short position), on approximately ten occasions.

3. Short Selling

30. Short selling is a speculative strategy whereby a customer bets that the price of a security will decrease in the future. Using a margin account, the customer borrows a security that the customer does not own and sells it. The customer covers the short position by later repurchasing the same security and returning it to the lender. The profit is the difference between an initial higher sale price and a lower purchase price. Alternatively, a loss occurs when a purchase price ends up being higher than an earlier selling price. The potential for loss is theoretically unlimited.

31. In June 2007, despite the lack of investment objectives in Garden State forms or documents for the account, Deans began the practice of short selling securities in the NWCDC Account.

4. Short-Term Trading and Excessive Trading

32. In January 2006, Deans implemented a short-term trading strategy in the NWCDC Account including day trading. A short-term trading strategy is an aggressive and speculative strategy.

33. Deans actively traded the NWCDC Account from 2007 to July 2010 when the purchase activity ceased.

34. The turnover rate in the NWCDC Account was approximately 12.3 in 2009 and approximately 6.9 in 2010.

35. The cost-to-equity ratio in the NWCDC Account was approximately 23.09% in 2009 and approximately 19.75% in 2010.

36. These turnover rates were indicative of excessive trading, and the cost-to-equity ratios reflect that the account had to have made approximately 23.09% and 19.75% during these time periods to simply break even, much less return a profit.

C. Garden State Failed to Reasonably Supervise to Prevent Aggressive, Speculative, and Risky Transaction Activity in the NWCDC Account

37. Garden State failed to reasonably supervise Deans and the activity in the NWCDC Account. Garden State's failures permitted Deans over a period of approximately five years to engage in aggressive, speculative, and risky transaction activity in the NWCDC Account. Moreover, Garden State failed to enforce a trading restriction it imposed on the NWCDC Account.

1. 2006 - 2008 Supervisory Failures

38. On at least five occasions between 2006 and 2007, the Chief Compliance Officer (the "CCO") at Garden State requested via email that Deans and/or other Garden State personnel send an activity letter to the NWCDC. Garden State's stated purpose in sending activity letters to customers was explained as follows: "*to confirm that your account activity remains consistent with your financial objectives and financial ability in accordance with your wishes and that your finances can withstand the impact of market volatility.*" During this period there was no investment objective recorded for the NWCDC Account.

39. Beginning in 2006, the NWCDC Account began appearing on Garden State's excessive commission exception report. Between 2006 and 2010, Garden State failed to take action on these occasions.

2. 2009 Supervisory Failures

40. On February 2, 2009, the CCO sent an email to Deans requesting that an activity letter be sent to the NWCDC. An activity letter was sent on or about February 3, 2009, but the attachments do not appear to have been signed or returned by the NWCDC.

41. The February 3, 2009 activity letter instructed: "*Accordingly, please acknowledge this letter by completing the attached Active Account Suitability Questionnaire and the Active Account Suitability Supplement and return to the undersigned at your earliest convenience.*"

42. The Active Account Suitability Questionnaire (the “AA Questionnaire”) asked the customer to provide information about, among other things, the customer’s investment objectives, prior investment experience, prior margin experience, and assets. The Active Account Suitability Supplement (the “AA Supplement”) discussed various risks associated with active trading, and sought to have the customer acknowledge by signature that the customer was “*aware of the liabilities which may be incurred through active trading.*”

43. Despite at least three written requests from the CCO to Deans to have the AA Questionnaire and AA Supplement completed by the NWCDC, the documents were not returned to Garden State by the NWCDC.

44. On July 1, 2009, the CCO sent an email to Deans, the Garden State Operations Manager, and others placing trading restrictions on certain accounts, including the NWCDC Account (the “July Trading Restriction”). The email stated: “*The following accounts will be coded liq[uidating] orders only since we have not received signed active account forms.*”

45. Despite the July Trading Restriction, Garden State allowed Deans (as well as others Deans supervised) to continue effecting purchase transactions in restricted accounts, including the NWCDC Account.

46. As a result, the CCO drafted a proposed Letter of Admonishment, which he provided to Deans’ immediate supervisor on July 28, 2009.

47. Garden State did not issue this Letter of Admonishment to Deans. In fact, Garden State failed to discipline Deans for violating the July Trading Restriction, and did not discipline him for failing to supervise other Garden State agents who also violated the restriction.

48. Between October and December 2009, numerous efforts were made to obtain from Deans an updated new account form and missing information on the NWCDC Account and other

accounts of Deans. Despite these efforts and the fact that the NWCDC Account was restricted to liquidating trades only, Deans effected trades in the account.

49. As of December 2009, Garden State did not have sufficient information to determine that the previous transaction activity was suitable for the NWCDC because it still had not documented any investment objective information for the NWCDC.

3. 2010 Supervisory Failures

50. The NWCDC Account continued to be actively traded in 2010. Although Garden State still had not documented the NWCDC's investment objectives, the NWCDC Account appeared on the Active Accounts Report five times in 2010 (January, February, March, April, and May). Approximately thirty-eight additional purchases were effected in the NWCDC Account, including purchases to cover short positions. On several occasions between May 2010 and August 2010, personnel from the clearing firm inquired with the Garden State Operations Manager about whether the NWCDC Account would be "selling to cover" in connection with a margin call. During the same time period, the clearing firm issued eleven written margin maintenance calls to the NWCDC.

51. On or about December 13 and December 14, 2010, Garden State audited the UFS branch office operated by Deans. Garden State's auditor noted in the Audit Report that the NWCDC Account was one of the largest commission producing accounts in the office. The Audit Report also stated that the "*New account form is outdated (11-05) and incomplete (no investment objective indicated),*" and that "*[i]nformation in file indicates that the account is to be closed as soon as possible.*"

52. At the time of the 2010 audit, the NWCDC Account held only one security position -- 85,000 shares of a penny stock. In February 2011, the NWCDC withdrew \$7,970 from its account,

leaving a zero account balance, and effectively closing the account.

53. Between December 2005 and February 2011, the NWCDC Account under Garden State’s supervision paid transaction costs of at least \$369,859, which include commissions, margin loan interest, and penalties relating to the sale of “B” share mutual funds.

54. On November 6, 2015, the NWCDC filed an Adversary Complaint (subsequently amended) in its Chapter 11 Bankruptcy case to recover damages from various parties, including Garden State, Deans, and UFS. The NWCDC alleged in its Complaint that Garden State, Deans, and UFS “advised and/or facilitated . . . unlawful, high risk investment activity” in the NWCDC Account at Garden State, including “improper margin trading,” and transactions that “caused trading losses and excessive fees and costs for money management activities in which the NWCDC should never have been involved.”

55. In September 2017 Garden State settled the Adversary Complaint filed by the NWCDC with a payment of \$450,000. Other named parties did not participate in the settlement.

III.

OTHER CONDUCT

A. Books and Records

1. Failure to Document Investment Objectives for Other Customer Accounts

56. 17 C.F.R. § 240.17a-3 sets forth the books and records that are required to be made and kept current by brokers or dealers. This includes, pursuant to 17 C.F.R. § 240.17a-3(a)(17):

For each account with a natural person as a customer or owner:

(i)(A) An account record including the customer’s or owner’s name, . . . annual income, net worth (excluding value of primary residence), and the account’s investment objectives....

57. Pursuant to 17 C.F.R. § 240.17a-4(e)(5), all account record information required pursuant to 17 C.F.R. § 240.17a-3(a)(17) must be maintained “until at least six years after the earlier of the date the account was closed or the date on which the information was replaced or updated.”

58. The Bureau requested Garden State to produce records identifying the investment objectives of certain customers unrelated to the NWCDC. Garden State failed to produce any records documenting customer investment objectives for at least sixteen Garden State customer accounts which were active on one or more occasions during the six years preceding the date of the Bureau’s request.

2. **Failure to Exercise Control Over Books and Records**

59. The Bureau requested that Garden State produce supervisory trade review records (the “Trade Review Spreadsheets”) for a specific time period. Garden State failed to produce the Trade Review Spreadsheets because the spreadsheets were password protected by one or more former employees, and the passwords were unknown to Garden State.

B. Failure to Reasonably Supervise to Ensure that Commissions are Fair and Reasonable

60. During all relevant times, the National Association of Securities Dealers (“NASD”) and its successor the Financial Industry Regulatory Authority (“FINRA”) maintained a guideline of five percent for determining whether transaction charges are fair and reasonable (the “5% Policy”). This guideline applies to commissions on agency trades, and to mark-ups or mark-downs on principal transactions. NASD Rule 2440 provided the 5% Policy and the related guidance until May 2014 (including IM-2440). Since May 2014, FINRA has set forth the 5% Policy in FINRA Rule 2121 and in the “Supplementary Material” associated with that Rule.

61. According to FINRA, “[t]he 5% Policy is a guide, not a rule.” Thus, a commission pattern

of 5% or even less may be considered unfair or unreasonable. Fairness of commission determinations must be based on a consideration of all of the relevant factors. The Supplementary Material (and prior IM-2440) set forth seven factors (the “Relevant Factors”) in addition to the commission percentage that should be taken into consideration in determining the fairness of a commission. The factors include, but are not limited to:

- 1) The Type of Security Involved
- 2) The Availability of the Security in the Market
- 3) The Price of the Security
- 4) The Amount of Money Involved in a Transaction
- 5) Disclosure
- 6) The Pattern of Mark-Ups
- 7) The Nature of the Member’s Business

62. Since at least January 2006, Garden State’s WSPs reference and incorporate the respective NASD and FINRA Rules and guidance concerning the fairness of commissions with emphasis on the requirement to consider all relevant circumstances and factors.

63. Between approximately 2006 and at least June 2016, Garden State failed to have a reasonable system of supervisory review to determine whether commissions were fair and reasonable. Instead, Garden State: (i) used commission review reports and spreadsheets that were inadequate for their intended purpose, and (ii) failed to appropriately document the Relevant Factors when approving commissions in excess of 5%.

CONCLUSIONS OF LAW

64. The Bureau has jurisdiction over this matter pursuant to the Securities Law.

65. Pursuant to N.J.S.A. 49:3-58(a):

The bureau chief may by order deny, suspend, or revoke any registration if he finds: (1) that the order is in the public interest; and (2) that the applicant or registrant[:]

. . .
(xi) has failed reasonably to supervise: his agents if he is a broker-dealer or issuer; the agents of a broker dealer or issuer for whom he has supervisory responsibility[.]

66. Garden State failed to reasonably supervise its agents and to have an effective system of follow-up and review with respect to certain of its business activities. Specifically, Garden State:

- a. Permitted Deans and the NWCDC Account to engage in the aggressive and speculative trading activity described in this Consent Order without a reasonable basis to determine or believe that the trading activity was suitable for the NWCDC;
- b. Failed to make and/or preserve a record of the investment objectives of the NWCDC and certain other customer accounts;
- c. Failed to adequately secure and document consent from the NWCDC to trade on margin before executing the initial margin transaction in the NWCDC Account, and thereafter failed to prevent the margin activity;
- d. Failed to detect that an investment authority certification form had been altered;
- e. Failed to discipline Deans for not obtaining suitability information from the NWCDC;
- f. Failed to enforce a trading restriction that it imposed on Deans and the NWCDC Account;
- g. Failed to discipline Deans for violating the trading restriction which Garden State imposed on the NWCDC Account;
- h. Failed to maintain password access control over certain supervisory records;

- i. Conducted supervisory reviews for potentially excessive commissions by relying upon reports and spreadsheets which were inadequate for their intended purpose; and
- j. Failed to reasonably supervise to determine whether commissions and mark-ups/mark-downs were fair and reasonable.

67. Pursuant to N.J.S.A. 49:3-59(b), “[e]very registered broker-dealer and investment adviser shall make and keep those accounts, correspondence, memoranda, papers, books, and other records as the bureau chief by rule prescribes. Such books, records and accounts shall conform to those prescribed by the Securities and Exchange Commission.”

68. Garden State violated N.J.S.A. 49:3-59(b) by:

- a. Failing to make and keep current records for customer accounts that include, among other things, the customers’ investment objectives, as required by 17 C.F.R. § 240.17a-3(a)(17)(i)(A).
- b. Failing to maintain and preserve the records required by 17 C.F.R. § 240.17a-3(a)(17)(i)(A) for at least six years after the earlier of the date the account was closed or the date on which the information was replaced or updated, as required by 17 C.F.R. § 240.17a-4 (e)(5).

69. It is in the public interest to take action against Garden State pursuant to N.J.S.A. 49:3-58(a)(1).

70. Pursuant to N.J.S.A. 49:3-70.1, the violations described above constitute a basis for the assessment of civil monetary penalties against Garden State.

THEREFORE, it is on this 8 day of December 2017, **ORDERED** and **AGREED** that:

71. Garden State, its representatives, agents, employees, affiliates, assigns, or successors in interest shall cease and desist from engaging in conduct constituting or which would constitute a violation of the Securities Law and the regulations promulgated thereunder, either directly or through any person, organization, or other device.

72. Garden State is hereby assessed and shall pay a civil monetary penalty in the amount of Two Hundred Seventy-Five Thousand dollars (\$275,000). Garden State shall pay the civil monetary penalty as follows (“Penalty Installment Plan”):

- a. Garden State shall make an initial payment of One Hundred Fifty Thousand dollars (\$150,000) upon execution of this Consent Order;
- b. Garden State shall make a second payment of Twenty-Five Thousand dollars (\$25,000) within three months of the date of this Consent Order;
- c. Garden State shall make a third payment of Twenty-Five Thousand dollars (\$25,000) within six months of the date of this Consent Order;
- d. Garden State shall make the fourth payment of Twenty-Five Thousand dollars (\$25,000) within nine months of the date of this Consent Order;
- e. Garden State shall make the fifth payment of Twenty-Five Thousand dollars (\$25,000) within twelve months of the date of this Consent Order; and
- f. Garden State shall make the sixth payment of Twenty-Five Thousand dollars (\$25,000) within fifteen months of the date of this Consent Order.

73. The payments under the Penalty Installment Plan shall be made by certified check, bank check, or an attorney trust account check, payable to “State of New Jersey, Bureau of Securities,” and delivered to the Bureau at 153 Halsey Street, 6th Floor, Newark, NJ 07102, to the attention of

the Bureau Chief. The civil monetary penalty payments shall be deposited in the Securities Enforcement Fund, pursuant to N.J.S.A. 49:3-66.1. Garden State relinquishes all rights to the funds used to pay the civil monetary penalty notwithstanding any other provision in this Consent Order.

74. A default of the Penalty Installment Plan will be deemed to have occurred if Garden State fails to make and/or the Bureau fails to receive, any of the required payments within the time periods and within the manner prescribed by paragraphs 72 and 73, above, and/or violates this Consent Order.

75. If default occurs, the Bureau and/or Bureau Chief may:

- a. declare to Garden State that the unpaid portion of the civil monetary penalty is immediately due and payable;
- b. vacate this Consent Order; and/or
- c. take any action permitted by law.

76. Garden State shall:

- a. Retain, within thirty (30) days of the date of execution of this Consent Order, an Independent Consultant, not unacceptable to the Bureau, to conduct a comprehensive review of the adequacy of Garden State's supervisory policies, systems, procedures, and training (the "Review") to ensure that Garden State:
 - i. Has reasonable grounds to believe that each recommended investment strategy, purchase, sale, or exchange of any security or securities is suitable for the customer based upon reasonable inquiry made concerning the customer's investment objectives, financial situation and needs, and other relevant information known, or that should be known, to Garden State. Customer activity that falls under this suitability

- determination requirement includes, without limitation: mutual fund switching, short-term trading, day trading, short selling, margin trading, and trading that may be excessive in size and frequency in view of the investment objectives, financial resources, and/or character of the account;
- ii. Is in compliance with the requirement that mark ups, mark downs, and commissions regarding all security types be fair and reasonable, including requirements that Garden State should not receive an unreasonable commission or profit on a transaction entered into with or for a customer. This shall include applicable requirements set forth in N.J.A.C. 13:47A-6.3(a)(9), and FINRA Rule 2121 (and the Supplementary Material associated with that Rule);
 - iii. Verifies that the actual fees being charged to customers are consistent with all customer facing documents;
 - iv. Is currently in compliance with the books and records requirements of 17 C.F.R. §§ 240: 17a-3(a)(17); 17a-4(c); and 17a-4(e)(5); and
 - v. Is currently in compliance with Regulation S-P, including that its supervisory personnel are trained in implementing the requirements of its WSPs to safeguard customer records when an individual terminates an association with Garden State.
- b. Cooperate with the Independent Consultant in all respects, including by providing staff support. Garden State shall place no restrictions on the Independent Consultant's communications with the Bureau, and upon request, shall make available to the Bureau any and all communications between the Independent Consultant and Garden State, and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, Garden State shall not terminate the relationship with the

Independent Consultant without the written approval of the Bureau. Garden State 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 to prevent the Independent Consultant from transmitting any information, reports, or documents to the Bureau. At the conclusion of the Review, which shall be no more than ninety (90) days after the retention of the Independent Consultant, the Independent Consultant shall submit to Garden State and the Bureau an Independent Consultant's report (the "Report") which shall address at a minimum: (i) a description of the Review performed and the conclusions reached, and (ii) the Independent Consultant's recommendations for modifications and additions to Garden State's policies, systems, procedures, and training, if any;

- c. Within thirty (30) days after delivery of the Report, Garden State shall adopt and implement the recommendations of the Independent Consultant. If Garden State determines that a recommendation is unduly burdensome or impractical, Garden State may propose an alternative procedure to the Independent Consultant designed to achieve the same objective. Garden State shall submit such proposed alternative procedure(s) in writing simultaneously to the Independent Consultant and the Bureau. However, this shall not delay Garden State's implementation of the remaining recommendations contained in the Report;
- d. Within thirty (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 Garden State with a written decision reflecting his or her determination. Garden State 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; and

- e. Within thirty (30) days after the issuance of the (i) Report or (ii) written determination regarding alternative procedures (if any), whichever is later, Garden State shall provide the Bureau with a written implementation report that includes supporting documentation that attests to the details of Garden State's implementation of the Independent Consultant's recommendations.

77. No person representing, or employee, or official of the Bureau or the State of New Jersey has made any additional promise or representation to Garden State or its counsel regarding this Consent Order.

78. Garden State shall cooperate with the Bureau in this investigation or any related litigation, investigation, order, and/or proceeding. Cooperation with the Bureau is material and shall include, but is not limited to:

- a. voluntarily and promptly appearing, without a subpoena and at its own expense, to serve as a witness and testify completely and truthfully in any related litigation, investigation, order, and/or proceeding;
- b. voluntarily and promptly attending and fully participating in any meetings requested by the Bureau;
- c. agreeing to and complying with the terms of the Consent Order; and
- d. voluntarily and promptly responding to the Bureau's requests for documents or information.

79. This Consent Order shall not bind any person not a party hereto, except as provided herein.

80. Garden State has read this Consent Order, understands it, and agrees to be bound by its

terms. Garden State understands that it had the right and opportunity to consult with an attorney regarding this Consent Order.

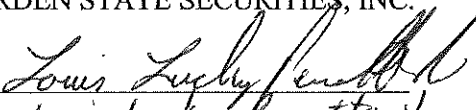
81. Nothing contained herein shall in any manner be construed to limit or affect any position that the Bureau, any other government, or any person, including investors, may take in any future or pending action not specifically encompassed herein.

NEW JERSEY BUREAU OF SECURITIES

By: 
CHRISTOPHER W. GEROLD
BUREAU CHIEF

DATED: 12/7/17

GARDEN STATE SECURITIES, INC.

By: 
Name: Louis Lucky Perrotto Jr.
Title: CEO