

**COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE SECRETARY OF THE COMMONWEALTH
SECURITIES DIVISION
ONE ASHBURTON PLACE, ROOM 1701
BOSTON, MASSACHUSETTS 02108**

IN THE MATTER OF:)	
)	
SPARTAN CAPITAL SECURITIES, LLC, AND DEAN J. KAJOURAS,)	Docket No. E-2016-0085
)	
RESPONDENTS.)	
)	

SECRETARY OF
THE COMMONWEALTH
SECURITIES DIVISION
2016 OCT 20 AM 9:50

ADMINISTRATIVE COMPLAINT

I. PRELIMINARY STATEMENT

The Enforcement Section of the Massachusetts Securities Division of the Office of the Secretary of the Commonwealth (the “Enforcement Section” and the “Division,” respectively) files this Administrative Complaint (the “Complaint”) to commence an adjudicatory proceeding against Spartan Capital Securities, LLC (“Spartan”) and Dean J. Kajouras (“Kajouras”) (collectively, the “Respondents”), for violations of MASS. GEN. LAWS ch. 110A, the Massachusetts Uniform Securities Act (the “Act”), and 950 MASS. CODE REGS. 10.00-14.413 (the “Regulations”). The Enforcement Section alleges that the Respondents engaged in deceptive, dishonest, and unethical conduct and that Spartan failed reasonably to supervise its agents or other employees to assure compliance with the Act and Regulations, in violation of the Act and Regulations.

The Enforcement Section seeks an order: 1) finding as fact the allegations set forth below; 2) finding that all sanctions and remedies detailed herein are in the public interest and necessary for the protection of Massachusetts investors; 3) requiring Respondents to permanently cease and desist from further conduct in violation of the Act and Regulations in the Commonwealth; 4)

revoking Spartan Capital's registration as a broker-dealer in the Commonwealth of Massachusetts; 5) permanently barring Respondents from associating with or registering in the Commonwealth as a broker-dealer, broker-dealer agent, or as a partner, officer, director, or control person of a broker-dealer; 6) permanently barring Respondents from associating with or registering in the Commonwealth with any state-registered investment adviser, Securities and Exchange Commission registered investment adviser, and investment adviser excluded from the definition of investment adviser; 7) permanently barring Respondents from associating with or registering in the Commonwealth with any issuer of securities in the Commonwealth; 8) requiring Respondents to compensate investors for those losses attributable to the alleged wrongdoing; 9) imposing an administrative fine on Respondents for each violation of the Act in an amount and upon such terms and conditions as the Director or Presiding Officer may determine; 10) requiring Respondents to provide an accounting for all profits and other direct and indirect remuneration received in connection with the alleged wrongdoing; 11) requiring Respondents to disgorge all profits and direct and indirect remuneration received in connection with the alleged wrongdoing; 12) censuring Respondents; and 13) taking any such further actions which may be necessary or appropriate in the public interest for the protection of Massachusetts investors.

II. SUMMARY

“Americans are living longer than ever, meaning that retirement assets have to last longer than ever, too. . . . Therefore, the financial decisions made by those who are at or nearing retirement are more important now than ever.” This is a quote from Spartan's written supervisory policies and procedures. However, this enforcement action arises out of the top-to-bottom failure by Spartan and its registered representatives to adhere to the spirit of that statement. Between April 2009 and September 2014, two registered representatives of Spartan –

Agent¹ and Respondent Kajouras – engaged in abusive sales practices in the accounts of at least one retired resident of Massachusetts. Lack of meaningful supervision by Spartan allowed Agent and Kajouras to continue their activities unchecked, ultimately depleting the accounts with high commissions and fees and unsuitable investment recommendations.

In early 2009, Agent cold called a then-64-year old retired resident of Massachusetts (“Retired Investor”). At the time, Retired Investor had been retired for approximately seven years. He had never been an aggressive investor, investing primarily in mutual funds and conservative fixed income products. Retired Investor had always relied on a financial adviser to make investment decisions in his accounts. Although Retired Investor initially declined to open an account at Spartan, he finally relented after continued solicitation by Agent and invested substantially all of his liquid assets that he had saved for his retirement. Retired Investor opened an individual brokerage account in April 2009, funding it with over \$222,000 from his savings. Despite Retired Investor’s age, financial situation, and investment history, Spartan opened his brokerage account with an investment objective of “speculation” and a corresponding risk tolerance of “very aggressive.” When Spartan sent him forms to sign in order to open the brokerage account, he received the forms with a letter which told him to “sign . . . where indicated.” Like the vast majority of customers at investment firms, Retired Investor trusted that his new financial advisers had accurately recorded the necessary information to open his accounts and he signed the documentation as instructed.

Not satisfied with one account and over \$200,000 from Retired Investor, Agent and Spartan continued to call him to solicit additional investment at Spartan. In August 2009 Agent and Spartan CEO John Lowry convinced Retired Investor to transfer his third-party IRA – approximately \$162,000 in mutual funds – to Spartan with the promise that he would save

¹ Agent passed away in August 2012. His name and CRD number have been withheld.

money on fees by investing in individual stocks through Spartan. Instead, Agent churned both accounts, generating a total of \$115,791 in commissions and \$9,050 in fees and other costs over only seven months. The annual turnover rate – the number of times that the securities in an account are replaced with new securities – was 24.47 in the brokerage account and 9.77 in the IRA, both well above the rate indicative of churning. Given the rate and nature of Agent’s trading over a full year, Retired Investor needed gains of approximately 94% in the brokerage account and approximately 45.37% in the IRA just to cover transaction costs and break even. The assets that Retired Investor entrusted to Spartan constituted substantially all of his liquid assets that he had saved and invested for retirement. Ultimately, commissions and fees negated much of the gains in the brokerage account and the IRA suffered a significant loss in value under Agent.

When Agent resigned from the firm in November 2009, Kajouras took over responsibility for servicing Retired Investor’s accounts. In addition to being a registered broker-dealer agent of Spartan, Kajouras was also the firm’s co-CEO and co-Founder. At first, Kajouras decreased the rate of trading in the account and Retired Investor’s account values rose. But in early 2011 Kajouras unsuitably overconcentrated Retired Investor’s accounts in Sandridge Energy Inc., an oil and gas exploration company based in Oklahoma. In March and April 2011, Kajouras bought a combined 27,800 shares of Sandridge for over \$316,000. At the end of April 2011, Sandridge stock constituted nearly 70% of Retired Investor’s accounts by market value. Kajouras failed to diversify or implement any strategy to mitigate the business risk of such an investment, and his all-or-nothing bet on Sandridge flopped. The company’s stock price fell consistently through 2013 and precipitously in December 2014, before the company filed for bankruptcy in May 2016 as shares were trading at less than a dollar.

Several times, Retired Investor sought Kajouras' advice on what to do with Sandridge, which at the time comprised nearly his entire portfolio at Spartan. Kajouras repeatedly advised Retired Investor to hold his shares and be patient, assuring him that the value of the company's "assets in the ground" was significantly higher than the stock price. Kajouras failed to take steps to mitigate the risk of concentrating so much of Retired Investor's accounts in one security in a volatile sector, and his assurances about the value of Sandridge turned out to be fool's gold. Kajouras' advice to Retired Investor also flew in the face of his own apparent strategy – Kajouras began actively buying and selling Sandridge in his own accounts in May 2011 and sold off the last of his positions in 2013 and 2014. By June 2016, Sandridge stock was trading at less than two cents per share, and the value of Retired Investor's accounts had plummeted along with it, losing close to 80% of Retired Investor's initial investment. Spartan also charged Retired Investor unreasonable and inequitable fees in his accounts, including up to \$75.00 per executed transaction for postage handling. Unbeknownst to Retired Investor, this fee was actually a supplemental commission – further enriching Spartan at Retired Investor's expense.

During this entire time, Spartan failed to consistently and meaningfully review the activity in Retired Investor's securities accounts and Spartan failed to detect or prevent Agent's and Kajouras' detrimental trading activity in Retired Investor's accounts. Although Spartan established the minimum written supervisory procedures, the firm failed to ensure that these procedures were meaningfully applied or enforced. As a result, Spartan failed to spot blatant red flags and failed to detect, prevent, or correct either of its representatives' securities law violations.

Securities industry records indicate that Agent and Kajouras are each part of a pattern of sales practice complaints, regulatory and disciplinary actions, and questionable employment

history. Agent had a troubled past that should have warranted close supervision. Over six years, Agent jumped from firm to firm, ultimately working at five different firms including three separate tenures at Spartan Capital. Spartan terminated Agent from his second tenure at the firm in June 2011 for wrongfully taking proprietary information. In addition, during sworn testimony, two Spartan executives testified that Agent had a history of prescription drug addiction, with one executive suggesting that it was related to the incident in June 2011. Agent was terminated from his next job after approximately one month for behaving inappropriately during a regulatory training session. Notwithstanding Agent's most recent employment history, Spartan hired Agent a third time in July 2012, although the Division denied his application for registration. Kajouras has at least nine customer complaints going back as far as 1999, totaling approximately \$1.2 million in alleged damages. These complaints include overconcentration, churning, excessive commissions, unauthorized trading, misrepresentations, failure to follow instructions, unsuitable recommendations, breach of contract, and failure to supervise. Despite his history, Kajouras was the only person designated with supervisory responsibility over Agent during the time period at issue in this Complaint.

As a firm, Spartan also has a history of regulatory actions, having been sanctioned at least three times by state regulators and self-regulatory organizations for allegations related to cold calling violations and improper payment of commissions to unregistered entities. But Spartan also continues to hire broker-dealer agents with prior disciplinary history. In response to a Division survey of multiple broker-dealers operating in the Commonwealth, Spartan indicated that between January 2014 and June 2016 it hired sixty broker-dealer agents with a record of prior discipline, but only six of those agents were placed on heightened supervision at the time of employment.

As a result of Spartan's lax supervision of its broker-dealer agents, in addition to monetary sanctions, the Enforcement Section seeks to revoke the registration of Respondent Spartan in the securities industry in the Commonwealth and bar all Respondents permanently from the securities industry in the Commonwealth.

III. JURISDICTION AND AUTHORITY

1. As provided for by the Act, the Division has jurisdiction over matters relating to securities pursuant to chapter 110A of Massachusetts General Laws.
2. The Enforcement Section brings this action pursuant to the authority conferred upon the Division by Section 407A, 204, and 414 of the Act, wherein the Division has the authority to conduct an adjudicatory proceeding to enforce the provisions of the Act and the Regulations.
3. This proceeding is brought in accordance with Sections 204, 407A, and 414 of the Act and its Regulations.
4. The Enforcement Section reserves the right to amend this Complaint and/or bring additional administrative complaints to reflect information developed during the current and ongoing investigation.

IV. RELEVANT TIME PERIOD

5. Except as otherwise expressly stated, the conduct described herein occurred during the approximate time period of March 1, 2009 to present (the "Relevant Time Period").

V. RESPONDENTS

6. Spartan Capital Securities, LLC ("Spartan") is a broker-dealer with headquarters in New York. Spartan has a Financial Industry Regulatory Authority ("FINRA") Central

Registration Depository (“CRD”) number of 146251. Spartan has been registered with Massachusetts since July 18, 2008.

7. Dean J. Kajouras (“Kajouras”) is a resident in the state of New Jersey. Kajouras has a FINRA CRD number of 1436548. Kajouras was registered in Massachusetts as a broker-dealer agent at various times between July 5, 1999 and September 19, 2014. Kajouras was a registered broker-dealer agent of Spartan from February 1, 2008 to September 19, 2014. Between February 1, 2008 and September 19, 2014, Kajouras was an indirect owner of Spartan and held the titles of CEO and Managing Member.

VI. OTHER RELEVANT INDIVIDUALS AND ENTITIES

8. Agent is a deceased individual with a last known address in New Jersey. Agent was registered in Massachusetts as a broker-dealer agent from March 19, 2009 to November 18, 2009 and from March 31, 2010 to June 16, 2011. Agent was a registered broker-dealer agent of Spartan in various jurisdictions from February 2, 2009 to November 18, 2009 and from October 6, 2010 to June 16, 2011.
9. John D. Lowry (“Lowry”) is a resident in the state of New York. Lowry has a FINRA CRD number of 4336146. Lowry has been registered in Massachusetts as a broker-dealer agent since February 6, 2001. Lowry has been a registered representative with Spartan since February 25, 2008. At all times during the Relevant Time Period, Lowry has been an indirect owner of Spartan and has held the titles of CEO and Managing Member.
10. Chief Compliance Officer was the Chief Compliance Officer of Spartan from September 2009 to August 2012. Chief Compliance Officer was registered as a general securities principal with Spartan from September 4, 2009 to August 21, 2012.

VII. STATEMENT OF FACTS

A. Retired Investor had limited investment experience.

11. Retired Investor, 72, is a resident of Carlisle, Massachusetts.
12. Retired Investor worked full-time until retiring in approximately 2002.
13. Prior to opening any accounts at Spartan, Retired Investor's investment experience consisted of an individual retirement account held at another investment firm (the "Third-Party IRA").
14. Retired Investor had very limited, if any, experience trading stocks, primarily investing in mutual funds in the Third-Party IRA.
15. In the Third-Party IRA, Retired Investor's investment objective was "growth," with a corresponding risk tolerance of "moderate."
16. Retired Investor was inexperienced in securities trading and relied on a financial adviser to make investment decisions in the Third-Party IRA.
17. Retired Investor also held some insurance and bank products, including an annuity and certificates of deposit.

B. Spartan solicited Retired Investor by cold calling and convinced him to open a securities investment account.

18. In early 2009, Agent cold called Retired Investor to open a securities investment account with Spartan.
19. Retired Investor declined to open an account with Spartan at that time.
20. On or around April 14, 2009, Retired Investor opened an individual brokerage account at Spartan (the "Brokerage Account") after receiving continued calls from Agent.
21. Despite the fact that Retired Investor was retired at the time he opened the Brokerage Account and had never been an aggressive investor before, Spartan opened the Brokerage

Account with an investment objective of “speculation” and a corresponding risk tolerance of “very aggressive.”

22. On information and belief, Agent filled out an Account Work Sheet prior to the Brokerage Account being opened.
23. The Account Work Sheet for the Brokerage Account contains handwritten information about Retired Investor, including his investment objective and risk tolerance.
24. On the Account Work Sheet, Retired Investor’s investment objective and risk tolerance were each initially listed as “mod[erate].”
25. On information and belief, Agent crossed out “mod[erate]” in both fields, and handwrote “spec[ulation]” as Retired Investor’s investment objective.
26. Nobody at Spartan reviewed the Account Work Sheet for the Brokerage Account.
27. On information and belief, Retired Investor never discussed speculation as a strategy with Agent.
28. On or around April 14, 2009, Spartan sent Retired Investor a Client Account Information form to sign, along with a letter instructing Retired Investor to “*sign [the enclosed documents] where indicated.*” (Emphasis in original.)
29. The Client Account Information form was prepared by Spartan and contained information about Retired Investor, including his investment objective and risk tolerance.
30. On the Client Account Information form, Retired Investor’s investment objective was electronically indicated as “speculation,” with a corresponding risk tolerance of “very aggressive.”
31. Retired Investor trusted that Spartan had accurately and truthfully recorded the necessary information to open the Brokerage Account.

32. Like most customers, Retired Investor did as he was instructed and signed the Client Account Information form on April 16, 2009.
33. Between April 20, 2009 and June 12, 2009, Retired Investor deposited a total of \$222,653.25 into the Brokerage Account by check and wire transfer.
34. In or around July 2009, Agent began soliciting Retired Investor to transfer his Third-Party IRA to Spartan.
35. In an email on July 1, 2009, Retired Investor told Agent that “I cannot guarantee I will transfer the account. **As I am now retired, I have become more conservative about what I want to invest in.**” (Emphasis added.)
36. On at least one occasion, Lowry spoke with Retired Investor on the telephone.
37. During this conversation, Lowry advised Retired Investor that mutual funds had high “hidden fees” and that Retired Investor would save on costs by investing in individual stocks through Spartan instead.
38. Based on Lowry’s claim that he would save on costs by investing in stocks through Spartan, Retired Investor opened an individual retirement account with Spartan (the “Spartan IRA”) on or around August 6, 2009.
39. On August 14, 2009, Retired Investor funded the Spartan IRA by transferring \$162,207.65 in assets, primarily mutual funds, from the Third-Party IRA.
40. At all times during the Relevant Time Period, the investment objective of the Spartan IRA was “growth,” with a corresponding risk tolerance of “moderate.”
41. The amounts that Retired Investor deposited into the Brokerage Account and the Spartan IRA together (collectively, “Retired Investor’s accounts”) constituted nearly all of his liquid assets.

C. Agent fraudulently and unsuitably churned Retired Investor's accounts.

42. Between April 14, 2009 and November 10, 2009, Agent excessively and unsuitably traded Retired Investor's accounts in a manner that was inconsistent with his investment objectives, financial situation, and investment needs.
43. After the accounts were opened, Agent called Retired Investor approximately every two to three days to sell him more securities. These calls would often last up to a full hour.
44. With one exception in each account, all of the trades entered by Agent in Retired Investor's accounts were marked as "solicited" trades.
45. Retired Investor was unsophisticated in securities trading and he relied heavily on Agent's expertise and recommendations in making investment decisions in his accounts at Spartan.
46. Agent exercised *de facto* control over Retired Investor's accounts until Agent left Spartan in November 2009.
47. While Agent exercised control over Retired Investor's accounts, Retired Investor paid approximately \$124,842.06 to Spartan in the form of commissions and fees between the two accounts.
 1. Agent engaged in excessive trading in the Brokerage Account (April 14, 2009 – November 10, 2009)
48. For approximately seven months Agent churned the Brokerage Account, trading the account assets excessively while generating commissions and fees for Spartan that substantially diminished the gains realized as a result of his trading.
49. From April 14, 2009 to November 10, 2009, Agent placed seventy-four trades in the Brokerage Account, excluding cancelled purchases and sales.

50. Agent also engaged in active trading² with short-term holding periods in the Brokerage Account.
51. On twenty-eight occasions, Agent purchased and sold out of a particular position within twenty-one days or less.
52. On fourteen of those twenty-eight occasions, Agent purchased and sold out of a particular position within eight days or less.
53. From April 14, 2009 to November 10, 2009, Retired Investor paid \$105,101.06 in commissions in the Brokerage Account.
54. From April 14, 2009 to November 10, 2009, Retired Investor paid \$2,829.32 in miscellaneous fees in the Brokerage Account.
55. Overall, the commissions and other transaction costs resulting from Agent's trading in the Brokerage Account constituted approximately 48% of Retired Investor's initial investment of \$222,653.25.
56. The annualized turnover rate³ for the period was approximately 24.47.
57. The annualized cost-to-equity ratio⁴ for the period was approximately 94%.
58. The trading activity in the Brokerage Account was excessive in light of Retired Investor's age, financial resources, investment needs, and retirement status.

² Active trading is the act of buying and selling securities based on short-term movements to profit from the price movements on a short-term stock chart.

³ The annualized turnover rate is the number of times per year a customer's securities are replaced by new securities. It is derived by dividing the gross amount of securities purchased in a customer's account during a given period by the average value of the account during that same period (calculated using the month-end account value from the account statements) and annualizing the resulting number.

⁴ The annualized cost-to-equity ratio (or breakeven percentage) represents the rate of return that an account would have had to earn on an annual basis, given the rate and nature of the activity during the relevant period, in order to cover transaction costs, and thus to break even. It is derived by dividing the total amount of commissions, markups, mark downs, and other costs and fees during a given period by the average value of the account and annualizing that number.

ii. Agent engaged in excessive trading in the Spartan IRA (August 14, 2009 – November 10, 2009)

59. For approximately three months Agent churned the Spartan IRA, trading the account assets excessively while generating commissions and fees for Spartan that substantially diminished the gains realized as a result of his trading.
60. Between August 14, 2009 and November 10, 2009, Agent placed 104 trades in the Spartan IRA, excluding cancelled purchases and sales.
61. Agent also engaged in active trading with short-term holding periods in the Spartan IRA.
62. On seventeen occasions, Agent purchased and sold out of a particular position within twenty-one days or less.
63. On nine of those seventeen occasions, Agent purchased and sold out of a particular position within eight days or less.
64. From August 14, 2009 to November 10, 2009, Retired Investor paid \$10,690.63 in commissions in the Spartan IRA.
65. From August 14, 2009 to November 10, 2009, Retired Investor paid \$6,221.05 in miscellaneous fees in the Spartan IRA.
66. By November 10, 2009, commissions and fees in the Spartan IRA had depleted the Retired Investor's initial investment from \$162,207.65 to a balance of approximately \$152,995.29.
67. The annualized turnover rate for the period was approximately 9.77.
68. The annualized cost-to-equity ratio for the period was approximately 45.37%.
69. The trading activity in the Spartan IRA was excessive in light of Retired Investor's age, financial resources, investment needs and objectives, and retirement status.

D. Kajouras made unsuitable recommendations to Retired Investor.

70. Agent voluntarily resigned from Spartan on November 18, 2009.
71. On or around November 18, 2009, Kajouras took over responsibility for servicing Retired Investor's accounts.
72. At all relevant times, Kajouras held the title of CEO and was a control person of Spartan.
73. Between March 7, 2011 and April 7, 2011, Kajouras bought a combined 27,800 shares of Sandridge Energy Inc. ("Sandridge") common stock in Retired Investor's accounts.
74. Sandridge is an oil and natural gas company headquartered in Oklahoma City, Oklahoma, with its principal focus on exploration and production activities in the United States.
75. Retired Investor paid \$2,171.70 in commissions for these transactions.
76. At the end of April 2011, the market value of Sandridge held in the Brokerage Account constituted approximately 59.6% of the Brokerage Account's month-end value and the market value of Sandridge held in the Spartan IRA was approximately 80.98% of the Spartan IRA's month-end value.
77. At the end of April 2011, the market value of Sandridge held in the Brokerage Account and the Spartan IRA together was \$343,608 – approximately 68.6% of the combined value of Retired Investor's accounts at Spartan.
78. As a result of the extent to which Retired Investor's accounts at Spartan were concentrated in Sandridge, the value of his accounts became dependent on the price of Sandridge.
79. Kajouras failed to diversify Retired Investor's accounts to mitigate the risk of Retired Investor's investments in Sandridge.

80. Between April 30, 2011 and June 30, 2016, the market price of Sandridge declined from \$12.36 per share to less than two cents per share, devastating the value of Retired Investor's accounts, as demonstrated in the following table⁵:

Month-Year	Sandridge Market Price	Total Value of Sandridge Holdings	Combined Month-end Account Value	Percent in Sandridge
Apr-11	\$12.360	\$343,608.00	\$501,054.07	68.58%
May-11	\$11.320	\$314,696.00	\$460,895.57	68.28%
Jun-11	\$10.660	\$296,348.00	\$437,169.58	67.79%
Jul-11	\$11.520	\$320,256.00	\$455,051.48	70.38%
Aug-11	\$7.340	\$204,052.00	\$312,672.50	65.26%
Sep-11	\$5.560	\$154,568.00	\$224,443.52	68.87%
Dec-11	\$8.160	\$226,848.00	\$299,983.73	75.62%
Mar-12	\$7.830	\$217,674.00	\$285,423.97	76.26%
May-12	\$6.350	\$176,530.00	\$225,983.90	78.12%
Jun-12	\$6.690	\$185,982.00	\$239,971.98	77.50%
Jul-12	\$6.820	\$189,596.00	\$239,336.60	79.22%
Aug-12	\$6.570	\$169,506.00	\$234,407.39	72.31%
Sep-12	\$6.975	\$179,955.00	\$253,131.39	71.09%
Oct-12	\$6.220	\$160,476.00	\$232,990.99	68.88%
Dec-12	\$6.350	\$163,830.00	\$236,133.99	69.38%
Jan-13	\$7.080	\$182,664.00	\$264,835.14	68.97%
Mar-13	\$5.270	\$135,966.00	\$225,039.77	60.42%

⁵ The numbers in the table were derived using the respective month-end values in the account statements for each of Retired Investor's accounts. Months in which Spartan did not generate a month-end statement for one or both accounts were omitted.

May-13	\$5.170	\$133,386.00	\$229,212.63	58.19%
Jun-13	\$4.760	\$122,808.00	\$213,713.99	57.46%
Aug-13	\$5.150	\$132,870.00	\$221,075.73	60.10%
Sep-13	\$5.860	\$151,188.00	\$241,609.75	62.58%
Dec-13	\$6.070	\$156,606.00	\$238,203.13	65.74%
Mar-14	\$6.140	\$158,412.00	\$235,913.71	67.15%
May-14	\$6.670	\$172,086.00	\$254,028.76	67.74%
Jun-14	\$7.150	\$184,470.00	\$266,418.78	69.24%
Sep-14	\$4.290	\$110,682.00	\$176,914.35	62.56%
Dec-14	\$1.820	\$46,956.00	\$135,272.78	34.71%
Mar-15	\$1.780	\$45,924.00	\$124,218.23	36.97%
Jun-15	\$0.877	\$22,626.60	\$96,560.32	23.43%
Sep-15	\$0.270	\$6,966.00	\$74,024.73	9.41%
Dec-15	\$0.200	\$5,160.00	\$71,570.55	7.21%
Jan-16	\$0.034	\$877.20	\$72,932.47	1.20%
Mar-16	\$0.056	\$1,447.38	\$70,908.03	2.04%
Jun-16	\$0.019	\$479.88	\$77,116.49	0.62%

81. In a series of emails to Kajouras in 2011, 2012, and 2013, Retired Investor expressed his concerns about his investment in Sandridge and repeatedly asked Kajouras for advice regarding the stock.

82. Kajouras consistently advised Retired Investor to hold his stock, assuring Retired Investor that the value of the company's "assets in the ground" was higher than its stock price.
83. On at least one occasion, Kajouras told Retired Investor to "fire [him]" if he told Retired Investor to sell Sandridge before it reached \$15.00 per share.
84. In an email to Kajouras on May 9, 2011, Retired Investor asked Kajouras for "guidance/confidence going forward with [Sandridge]." In the same email, Retired Investor said that he had "looked at some info on the internet and Zacks move[d] [Sandridge] from a strong buy to hold, [and] the highest target price I could find was \$14."
85. Kajouras replied, "I am still highly confident in the stock. We [Spartan] think the asset value on Sandridge is at least **18\$ a share. I am holding.**" (Emphasis added.)
86. However, on May 19, 2011 Kajouras began actively buying and selling Sandridge stock for his own accounts and the account of one of his family members at Spartan.
87. On August 20, 2012, Kajouras sold 1,000 shares of Sandridge from each of Retired Investor's accounts at a loss.
88. On August 19, 2013, Kajouras sold the last remaining shares of Sandridge stock from his own accounts.
89. On March 6, 2014, Kajouras sold the last remaining shares of Sandridge stock from his family member's account at Spartan.
90. Aside from the August 20, 2012 sales, Kajouras did nothing to adjust Retired Investor's exposure to the continued decline of Spartan's stock price.

91. Concentrating so much of Retired Investor's accounts in Sandridge was unsuitable in light of Retired Investor's age, financial resources, retirement status, and investment needs and experience.
92. Kajouras' repeated recommendations to Retired Investor to maintain his position in Sandridge were unsuitable in light of Retired Investor's age, financial resources, retirement status, and investment needs and experience, as well as the continued decline of Sandridge's stock price.
93. On or around September 14, 2014, Kajouras was terminated from Spartan after Spartan discovered that Kajouras had breached a commission agreement with another client.
94. In or around October 2014, Lowry took over responsibility for servicing Retired Investor's accounts.

E. Spartan failed reasonably to supervise its agents.

95. At all relevant times, Spartan supervised Agent and had the authority to supervise how Agent did his job as a registered broker-dealer agent of Spartan.
96. At all relevant times, Spartan supervised Kajouras in his capacity as a registered representative and had the authority to supervise how Kajouras did his job as a registered broker-dealer agent of Spartan.

i. Spartan failed reasonably to supervise Agent (April 2009 – November 2009)

97. Spartan's Written Supervisory Policies and Procedures Manual that was in effect from 2008 to approximately November 2, 2009 (the "2008 WSP") states that "[c]hurning a client's account . . . is STRICTLY PROHIBITED. Uncovered churning activities will result in, minimally, suspension of trading activities for a specified period of time and, in severe or repeat instances, termination." (Emphasis in original.)

98. The 2008 WSP acknowledges that “churning is generally characterized by short-term holding periods and high turnover ratios,” and requires supervisors to “ensure that all transactions undertaken by individuals under their direct supervision are reviewed in such a manner to reasonably deter and detect any instances of illegal churning in customer accounts.”
99. In response to a Division subpoena, Spartan stated that “all trade tickets are approved by a principal of the firm prior to order entry.” However, Spartan produced no documentation of any review or approval of Agent’s trade tickets for Retired Investor’s accounts.
100. Between February 2, 2009 and November 18, 2009, Kajouras was the only person designated with supervisory authority over Agent.
101. Spartan did not begin reviewing Agent’s trades in the Spartan IRA and the Brokerage Account until on or around September 9, 2009.
102. When Spartan did review Agent’s trades in Retired Investor’s accounts, Spartan relied on the review of daily trade blotters listing Agent’s trades for a given day.
103. The review of daily trade blotters was evidenced by the date and the initials of the reviewer.
104. Spartan did not review Agent’s daily trade blotter on a daily basis.
105. On multiple occasions, Chief Compliance Officer reviewed Agent’s daily trade blotter.
106. Between April 14, 2009 and November 10, 2009, neither Kajouras nor any other person at Spartan reviewed Retired Investor’s account statements.

107. Other than daily trade blotters, neither Kajouras nor any other person at Spartan generated any reports specifically concerning Agent's trades in Retired Investor's accounts.
108. Between April 14, 2009 and November 10, 2009, Spartan did not obtain any exception reports from its clearing broker identifying potential unusual activity in Retired Investor's accounts.
109. Despite periodic review of Agent's trades, Spartan never flagged the short-term trading activity, high turnover, and high costs in the Brokerage Account as potentially indicating illegal churning.
110. Despite periodic review of Agent's trades, Spartan never flagged the short-term trading activity, high turnover, and high costs in the Spartan IRA as potentially indicating illegal churning.
111. The 2008 WSP also states that "accounts seeming to generate a disproportionately high amount of commissions relative to the size of the investment will be singled out for further review and possible investigation."
112. On information and belief, neither the Brokerage Account nor the Spartan IRA were ever "singled out for further review and possible investigation" in connection with the commissions generated in either account as a result of Agent's trading.
113. The 2008 WSP further states that "[i]f it is suspected or believed that churning is occurring, the [registered representative] will be called in for a face-to-face meeting (with either an appropriate supervising principal or with Compliance) and given a chance to explain the particular activity in question."

114. On information and belief, Agent was never called to attend such a meeting regarding either of Retired Investor's accounts.

115. Thus, Spartan failed to reasonably implement and enforce its policies and procedures in order to detect and prevent churning by Agent.

ii. Spartan failed reasonably to supervise Kajouras (2011-2014)

116. Section 1.2 of Spartan's written policies and procedures in effect as of March 7, 2011 (the "2011 WSP") state that

[registered representatives] must have a reasonable basis for recommending securities transactions and consider information disclosed by the customer including other securities holdings and the customer's financial situation and needs.

Supervisors are responsible for reviewing customer transactions for suitability, where appropriate. There are a number of considerations that may assist the designated supervisor when reviewing the suitability of recommendations or determining suitability requirements. One or more of the following may be appropriate:

- Information included on customer new account forms
- Other securities held in the customer's account
- The [registered representative's] record of the customer's transactions
- Other information regarding the account such as whether the account is managed by an investment adviser or uses other advisers or consultants in making investment decisions
- Transaction information from daily transaction reports and monthly statements
- Information obtained from the [registered representative]
- Information obtained by contacting the customer.

117. The 2011 WSP is silent on the issue of concentration of a client's portfolio in a particular investment.

118. At various times between October 5, 2010 and September 19, 2014, six different people were designated with supervisory responsibility over Kajouras, including three separate Spartan compliance executives and three separate branch managers.

119. From January 5, 2011 through August 17, 2012, Chief Compliance Officer was the only person at Spartan designated with supervisory responsibility over Kajouras.
120. In reviewing Kajouras' trades in Retired Investor's accounts, Spartan relied on the review of daily trade blotters listing Kajouras' trades for a given day.
121. Between November 10, 2009 and September 14, 2014, Spartan did not review Retired Investor's account statements.
122. Other than daily trade blotters, Spartan did not generate any reports specifically concerning the investment positions in Retired Investor's accounts between November 10, 2009 and September 14, 2014.
123. Between November 10, 2009 and September 14, 2014, Spartan did not obtain any exception reports identifying red flags related to overconcentration in Retired Investor's accounts.
124. In response to a Division subpoena, Spartan stated that "all trade tickets are approved by a principal of the firm prior to order entry." However, Spartan produced no documentation of any review or approval of Kajouras' trade tickets for Retired Investor's accounts.
125. On information and belief, Kajouras recommended Sandridge to approximately thirty of his clients at Spartan.
126. A registered representative's recommendation that a customer with limited means purchase a large position in a security should raise a red flag regarding the suitability of the investment.
127. Neither Spartan nor Chief Compliance Officer ever flagged the concentration of Retired Investor's accounts in Sandridge as potentially unsuitable for Retired Investor.

128. Thus, Spartan failed to reasonably implement and enforce its policies and procedures in order to detect and prevent potential violations of law by Kajouras.

F. Spartan charged unreasonably and inequitably excessive fees to Retired Investor.

129. In addition to commissions, Spartan charged Retired Investor a handling fee in the Brokerage Account and the Spartan IRA.

130. On the trade confirmations provided to Retired Investor, the handling fee was disclosed as a portion of an amount labeled "Commission/Handling."

131. Between April 14, 2009 and approximately February 2010, the handling fee was \$40.00 per executed transaction.

132. On February 1, 2010, Spartan increased the handling fee to \$55.00 per executed transaction.

133. On May 1, 2011, Spartan increased the handling fee to \$65.00 per executed transaction.

134. On August 1, 2012, Spartan increased the handling fee to \$75.00 per executed transaction.

135. The handling fee was a flat fee that did not vary based on the size of the transaction.

136. On information and belief, the handling fee was actually a supplemental commission to Spartan.

137. A portion of the handling fee was used to pay for transaction costs, and Spartan kept the rest as remuneration to the firm.

138. At \$40.00, the amount of the handling fee was not reasonably related to any direct handling-related expenses incurred by the firm in processing transactions.

139. At \$55.00 and up, the amount of the handling fee was not reasonably related to any direct handling-related expenses incurred by the firm in processing transactions.

140. Spartan's transaction costs, including postage and handling, decreased between February 2008 and November 2013.
141. Spartan first referred to the handling fee as a "supplemental commission" on customers' July 2012 account statements when it notified customers of the increase from \$65.00 to \$75.00.
142. Spartan improperly and inaccurately characterized the charge as a "handling" fee on customer trade confirmations until approximately August 2012.
143. By characterizing the charge as a "handling" fee on Retired Investor's trade confirmations, Spartan understated the amount of total commissions charged to Retired Investor until approximately August 2012.

G. Spartan omitted required information on its trade confirmations to Retired Investor.

144. Spartan's trade confirmations provided to Retired Investor (the "Trade Confirmations") included the date, but not the time of transactions.
145. The Trade Confirmations did not disclose that the time of the transaction would be furnished upon written request.
146. The Trade Confirmations did not indicate whether Spartan was acting as an agent for Retired Investor or any other person.
147. Spartan acted in an agency capacity for substantially all of the trades in Retired Investor's accounts.
148. The Trade Confirmations did not include the name of the person from whom the security was purchased or to whom it was sold.
149. The Trade Confirmations did not disclose that the name of the person from whom the security was purchased or to whom it was sold would be furnished upon written request.

VIII. VIOLATIONS OF LAW

A. COUNT I – Violations of MASS. GEN. LAWS ch. 110A, § 101(3)

150. Section 101(3) of the Act provides:

It is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly . . . (3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

MASS. GEN. LAWS ch. 110A, § 101.

151. The Enforcement Section realleges and incorporates the allegations of paragraphs 1 through 149 above.

152. The conduct of Respondent Spartan, as described above, constitutes multiple violations of MASS. GEN. LAWS ch. 110A, § 101(3).

B. COUNT II – Violations of MASS. GEN. LAWS ch. 110A, § 204(a)(G)

153. Section 204(a)(G) of the Act provides:

The secretary may by order impose an administrative fine or censure or deny, suspend, or revoke any registration or take any other appropriate action if he finds (1) that the order is in the public interest and (2) that the applicant or registrant or, in the case of a broker-dealer or investment adviser, any partner, officer, or director, any person occupying a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer or investment adviser: --

[...]

(G) has engaged in any unethical or dishonest conduct or practices in the securities, commodities or insurance business[.]

MASS. GEN. LAWS ch. 110A, § 204(a)(G).

154. Section 12.204 of the Regulations provides, in pertinent part:

(1) Dishonest and Unethical Practices in the Securities Business.

(a) Broker-dealers. Each broker-dealer shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of its business. Acts and practices, including, but not limited to the following, are considered contrary to such standards and constitute dishonest or unethical practices which are grounds for imposition of an administrative fine, censure, denial, suspension or revocation of a registration, or such other appropriate action:

[...]

4. Recommending to a customer the purchase, sale or exchange of any security without reasonable grounds to believe that such transaction or recommendation is suitable for the customer based upon reasonable inquiry concerning the customer's investment objectives, financial situation and needs, and any other relevant information known by the broker-dealer.

[...]

12. Charging unreasonable and inequitable fees for services performed, including miscellaneous services such as collection of monies due for principal, dividends or interest, exchange or transfer of securities, appraisals, safekeeping, or custody of securities and other services related to its securities business.

[...]

28. Failing to comply with any applicable provision of FINRA member conduct rules or any applicable fair practice or ethical standard promulgated by the SEC or by a self-regulatory organization approved by the SEC.

(b) Agents. Each agent shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of his or her business. Acts and practices, including, but not limited to, the following, are considered contrary to such standards and constitute dishonest or unethical practices in the securities industry and are thereby grounds for imposition of an administrative fine, censure, denial, suspension or revocation of a registration or such other action as is appropriate:

[...]

8. Engaging in conduct specified in 950 MASS. CODE REGS. 12.204(1)(a) . . . (4)

950 MASS. CODE REGS. 12.204(1)(a), (b).

155. Securities and Exchange Commission Rule 10b-10 provides, in pertinent part:

(a) *Disclosure requirement.* It shall be unlawful for any broker or dealer to effect for or with an account of a customer any transaction in, or to induce the purchase or sale by such customer of, any security (other than U.S. Savings Bonds or municipal securities) unless such broker or dealer, at or before completion of such transaction, gives or sends to such customer written notification disclosing:

(1) The date and time of the transaction (or the fact that the time of the transaction will be furnished upon written request to such customer) and the identity, price, and number of shares or units (or principal amount) of such security purchased or sold by such customer; and

(2) Whether the broker or dealer is acting as agent for such customer, as agent for some other person, as agent for both such customer and some other person, or as principal for its own account; and if the broker or dealer is acting as principal, whether it is a market maker in the security (other than by reason of acting as a block positioner; and

(i) If the broker or dealer is acting as agent for such customer, for some other person, or for both such customer and some other person:

(A) The name of the person from whom the security was purchased, or to whom it was sold, for such customer or the fact that the information will be furnished upon written request of such customer[.]

17 CFR 240.10b-10.

156. The Enforcement Section realleges and incorporates the allegations of paragraphs 1 through 149 above.

157. The conduct of Respondents, as described above, constitutes multiple violations of MASS. GEN. LAWS ch. 110A, § 204(a)(G).

C. COUNT III – Violations of MASS. GEN. LAWS ch. 110A, § 204(a)(J)

158. Section 204(a)(J) of the Act provides:

The secretary 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

(J) has failed reasonably to supervise agents, investment adviser representatives or other employees to assure compliance with this chapter[.]

MASS. GEN. LAWS ch. 110A, § 204(a)(J).

159. The Enforcement Section realleges and incorporates the allegations of paragraphs 1 through 149 above.

160. The conduct of Respondent Spartan, as described above, constitutes multiple violations of MASS. GEN. LAWS ch. 110A, § 204(a)(J).

IX. STATUTORY BASIS FOR RELIEF

Section 407A of the Act provides, in pertinent part:

(a) If the secretary determines, after notice and opportunity for hearing, that any person has engaged in or is about to engage in any act or practice constituting a violation of any provision of this chapter or any rule or order issued thereunder, he may order such person to cease and desist from such unlawful act or practice and may take such affirmative action, including the imposition of an administrative fine, the issuance of an order for an accounting, disgorgement or rescission or any other such relief as in his judgment may be necessary to carry out the purposes of [the Act].

MASS. GEN. LAWS ch. 110A, § 407A.

Section 204(a) of the Act provides, in pertinent part:

The secretary may by order impose an administrative fine or censure or deny, suspend, or revoke any registration or take any other appropriate action if he finds (1) that the order is in the public interest and (2) that the applicant or registrant or, in the case of a broker-dealer or investment adviser, any partner, officer, or director, any person occupying a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer or investment adviser:--

[...]

(G) has engaged in any unethical or dishonest conduct or practices in the securities, commodities or insurance business.

MASS. GEN. LAWS ch. 110A, § 204(a)(2)(G).

The secretary 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

(J) has failed reasonably to supervise agents, investment adviser representatives or other employees to assure compliance with this chapter.

MASS. GEN. LAWS ch. 110A, § 204(a)(2)(J).

X. PUBLIC INTEREST

For any and all of the reasons set forth above, it is in the public interest and will protect Massachusetts investors for the Director to enter an order finding that such “action is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of this chapter [MASS. GEN. LAWS ch. 110A].”

XI. RELIEF REQUESTED

The Enforcement Section of the Division requests that an order be entered:

- A. Finding as fact all allegations set forth in paragraphs 1 through 149, inclusive, of the Complaint;
- B. Finding that all the sanctions and remedies detailed herein are in the public interest and necessary for the protection of Massachusetts investors;
- C. Requiring Respondents to permanently cease and desist from violations of Sections 101 and 204 of the Act and Regulations in the Commonwealth;

- D. Revoking Spartan Capital's registration as a broker-dealer in the Commonwealth of Massachusetts;
- E. Permanently barring Respondents from associating with or registering in the Commonwealth as a broker-dealer, broker-dealer agent, or as a partner, officer, director, or control person of a broker-dealer;
- F. Permanently barring Respondents from associating with or registering in the Commonwealth with any state-registered investment adviser, Securities and Exchange Commission registered investment adviser, and investment adviser excluded from the definition of investment adviser;
- G. Permanently barring Respondents from associating with or registering in the Commonwealth with any issuer of securities in the Commonwealth;
- H. Requiring Respondents to compensate investors for those losses attributable to the alleged wrongdoing;
- I. Imposing an administrative fine on Respondents for each violation of the Act in an amount and upon such terms and conditions as the Director or Presiding Officer may determine;
- J. Requiring Respondents to provide an accounting for all profits and other direct and indirect remuneration received in connection with the alleged wrongdoing;
- K. Requiring Respondents to disgorge all profits and other direct or indirect remuneration received in connection with the alleged wrongdoing;
- L. Censuring Respondents; and

- M. Taking any such further action which may be in the public interest and necessary and appropriate for the protection of Massachusetts investors.

**MASSACHUSETTS SECURITIES DIVISION
ENFORCEMENT SECTION**

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