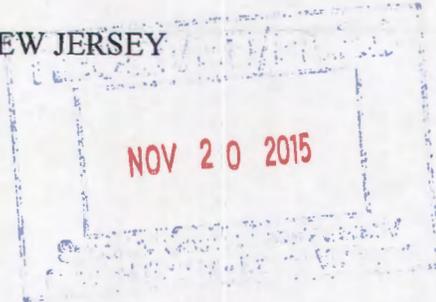


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SUPERIOR COURT OF NEW JERSEY
CHANCERY DIVISION: GENERAL EQUITY
ESSEX COUNTY
DOCKET NO. ESX-C-_____

JOHN J. HOFFMAN,
Acting Attorney General of New Jersey,
on behalf of LAURA H. POSNER,
Chief of the New Jersey Bureau of
Securities,

Plaintiff,

v.

CANTONE RESEARCH, INC.,
ANTHONY J. CANTONE,
CHRISTINE L. CANTONE,
CANTONE OFFICE CENTER, LLC,

Defendants.

Civil Action

COMPLAINT

John J. Hoffman, Acting Attorney General of New Jersey, on behalf of Plaintiff Laura H. Posner, Chief of the New Jersey Bureau of Securities ("Bureau Chief" or "Plaintiff"), having offices at 153 Halsey Street, Newark, New Jersey, by way of Complaint against the above-named Defendants and Nominal Defendants, says:

SUMMARY

1. This case arises from defendants' fraudulent sale of \$4.7 million in unregistered securities from 2005 through 2007 ("Relevant Time Period"). Specifically, defendant Cantone Office Center, LLC ("COC") issued certificates of participation in subordinated promissory notes that COC purchased from a Florida real estate developer. Cantone Research, Inc. ("CRI"), a registered broker-dealer, sold the certificates of participation to investors. Although the certificates of participation constitute securities under the New Jersey Uniform Securities Law (1997), N.J.S.A. 49:3-47 et seq. ("Securities Law"), defendants failed to register them with the New Jersey Bureau of Securities ("Bureau").

2. CRI and COC, through their owners, defendants Anthony J. Cantone and Christine L. Cantone, orchestrated the fraudulent scheme by making various misrepresentations to investors, including that the certificates of participation were guaranteed by COC and the Florida real estate developer. In actuality, neither COC nor the developer had the financial wherewithal to honor the guarantees. Defendants omitted to disclose this and other material information to investors. When the developer defaulted on his guaranty in 2006, defendants concealed it from investors and continued to issue and sell the securities in 2006 and 2007. As a result, investors lost \$3,687,114.

3. By this conduct, as explained further below, defendants violated the Securities Law and should be assessed civil monetary penalties and ordered to pay restitution.

JURISDICTION AND VENUE

4. John J. Hoffman, Acting Attorney General of New Jersey, is conferred with the power and duty of carrying out and enforcing the Securities Law pursuant to N.J.S.A. 52:17A-4(d).

5. The Bureau of Securities ("Bureau") in the Division of Consumer Affairs of the Department and Law and Public Safety is charged with the administration of the Securities Law pursuant to N.J.S.A. 49:3-66(a).

6. Plaintiff brings this action against defendants pursuant to the Securities Law for violations of:

- a. N.J.S.A. 49:3-52(b) (making materially false and misleading statements or omitting facts necessary to make the statements made not misleading);
- b. N.J.S.A. 49:3-60 (selling unregistered securities); and
- c. N.J.S.A. 49:3-59(b) (failing to maintain books and records).

7. Jurisdiction is proper over defendants pursuant to N.J.S.A. 49:3-51 for violations of the Securities Law that are subject of this Complaint because each violation originated from this State.

8. Venue is proper pursuant to R. 4:3-2(a) because it lies where the cause of action arose.

PARTIES AND RELEVANT NON-PARTIES

Parties

9. The Bureau Chief is the principal executive officer of the Bureau.

10. Defendant CRI, Central Registration Depository ("CRD") No. 26314, with a principal place of business in Tinton Falls, New Jersey, has been registered with the Bureau as a broker-dealer since 1990.

11. Defendant Anthony J. Cantone ("A.Cantone"), CRD NO. 1066139, residing in Thompson, Pennsylvania, is President and Chief Executive Officer of CRI and the Managing Member of Defendant COC. A.Cantone has an over 75% ownership interest in CRI. He also

has a 51% ownership interest in COC. A.Cantone is registered with the Bureau as an agent and investment adviser representative of CRI.

12. Defendant Christine L. Cantone ("C.Cantone"), CRD NO. 2687618, is A.Cantone's wife and also resides in Thompson, Pennsylvania. C.Cantone has a 49% ownership interest in COC and is Vice President and Chief Compliance Officer at CRI. C.Cantone is registered with the Bureau as an agent of CRI. At all relevant times, C.Cantone was responsible for CRI's compliance with the Securities Law and regulations as well as ensuring compliance of the agents affiliated with CRI.

13. Defendant COC was formed in 1998 as a New Jersey limited liability company. As discussed below, COC issued certificates of participation in subordinated promissory notes that it purchased.

Non-Parties

14. Non-party Esplanade Development LLC ("Esplanade Developer") is a Florida limited liability company whose "majority member" is Robert A. Crowder ("Crowder"). Esplanade Developer was formed on September 20, 2005, for the purpose of developing a condominium complex, the Esplanade at Millennia Condominiums ("Esplanade Condo Complex"), located at 5337 Esplanade Park Circle, Orlando, Florida.

15. Esplanade at Millennia LLC ("Esplanade Owner") is a Florida limited liability company whose "sole member" is Crowder. Esplanade Owner was formed on September 20, 2005, for the purpose of owning the Esplanade Condo Complex.

RELEVANT CONCURRENT AND HISTORICAL PROCEEDINGS

16. Contemporaneous with the filing of this Complaint, the Bureau Chief has signed a Summary Revocation Order revoking the agent and investment adviser registrations of

A.Cantone and the agent registration of C.Cantone under N.J.S.A. 49:3-58. The Bureau Chief has made findings of fact that are the same as the allegations in this Complaint, and the appropriate conclusions of law that are sufficient grounds for entry of the Summary Revocation Order. Through this Complaint, the Bureau Chief seeks a judgment for full restitution for the harmed investors from the Defendants and the assessment of civil monetary penalties for Defendants' violations of the registration and antifraud provisions of the Securities Law.

17. Contemporaneous with the filing of this Complaint, Financial Industry Regulatory Authority ("FINRA") filed a Complaint charging CRI and A.Cantone with fraud in connection with the sales and subsequent extensions of more than \$8 million of certificates of participation in five promissory notes, and charging C.Cantone with failing to supervise A.Cantone.

18. In February 2012, C.Cantone entered into an Offer of Settlement with FINRA in which she was suspended for three months in any principal capacity, fined \$10,000 jointly and severally with CRI, and ordered to pay \$200,000 in partial restitution to customers jointly and severally with CRI. Without admitting or denying the allegations, C.Cantone and CRI consented to the described sanctions and to the entry of findings that C.Cantone failed to reasonably supervise Maxwell Smith who sold fraudulent investments to firm customers and misappropriated more than \$1.6 million of customers' funds while a registered representative of CRI.

FACTUAL ALLEGATIONS

A. The Unregistered Esplanade Offerings

i) The 2005 Offering

19. In 2005, Esplanade Developer was developing the Esplanade Condo Complex, a 186-unit condominium complex in three seven-story buildings on 9.3 acres of land in Orlando, Florida.

20. In 2005, COC, through A.Cantone, purchased a \$2,600,000 subordinated promissory note ("2005 Note") issued by Esplanade Developer. As part of the transaction, Esplanade Developer was to repay the principal and pay 13% interest per annum to COC, "in arrears, semi-annually, on the first day of each May and November, beginning May 1, 2006, and contemporaneously with the final payment of the principal amount of the Note." The entire principal amount was due and payable on the earlier of the second anniversary date of the Note, or conveyance, by Esplanade Owner of all or substantially all of the Esplanade Owner's interest in the Esplanade Condo Complex.

21. COC then issued certificates of participation in the 2005 Note ("2005 Certificates of Participation") pursuant to a Confidential Disclosure Memorandum dated November 15, 2005 ("2005 CDM").

22. The 2005 Certificates of Participation were to mature on the earlier of: (a) November 21, 2007 or (b) the date on which there was a closing of the sale or other conveyance of the Esplanade Owner's ownership of the Esplanade Condo Complex.

23. Commencing on or about September 27, 2005, and continuing until on or about February 23, 2006, A.Cantone and CRI, through A.Cantone and other agents, sold 91 2005

Certificates of Participation to 84 investors, 22 of whom were New Jersey residents. More than 35 of these investors were non-accredited. CRI raised over \$1,200,000 from these sales.

24. CRI, through A.Cantone and other agents, failed to provide at least 22 of the 84 investors with the 2005 CDM prior to their investments in the 2005 Certificates of Participation.

25. The 2005 Certificates of Participation were neither registered with Bureau, nor exempt from registration, nor federally covered securities.

26. The 2005 CDM stated that funding for the Esplanade Condo Complex would be obtained from several sources besides COC, including a Senior Loan of approximately \$22,000,000 from Fremont Investment and Loan, and Mezzanine Financing of \$5,100,000 from Key Bank Real Estate Capital ("Key Bank"). Fremont and Key Bank had issued non-binding letters of commitment with respect to the funding.

27. In May 2006, shortly after CRI ceased selling the 2005 Certificates of Participation, Esplanade Developer defaulted on interest payments it owed to COC on the 2005 Note; Esplanade Developer defaulted again in November 2006. A.Cantone provided bridge loans to Esplanade Developer in May 2006 and November 2006 totaling \$1,000,000 at 14% interest. The purpose of A.Cantone's bridge loans was to enable Esplanade Developer to use the loaned funds to make the interest payments to COC, which COC would then use to pay interest to investors in the 2005 Certificates of Participation.

ii) **The 2007 Offering**

28. In 2006, COC, through A.Cantone, and Crowder agreed that instead of Esplanade Owner borrowing the \$5,100,000 mezzanine loan from Key Bank, Esplanade Developer would borrow the \$5,100,000 mezzanine loan from COC.

29. In 2007, COC, through A.Cantone, purchased a \$5,100,000 subordinated promissory note ("2007 Note") issued by Esplanade Developer. As part of the transaction, Esplanade Developer was to repay the principal and pay 11% interest per annum to COC, "in arrears, semi-annually, on the first day of each May and November, beginning May 1, 2007, and contemporaneously with the final payment of the principal amount of the Note." The entire principal amount was due and payable on the earlier of the second anniversary date of the Note, or conveyance, by Esplanade Owner of all or substantially all of the Esplanade Owner's interest in the Esplanade Condo Complex.

30. COC raised the funds for the mezzanine loan by issuing certificates of participation in the 2007 Note ("2007 Certificates of Participation"). As with the 2005 Offering, the details of the investment were outlined in a Confidential Disclosure Memorandum, which was dated February 20, 2007 ("2007 CDM").

31. A.Cantone and CRI, through A.Cantone and other agents, offered and sold the 2007 Certificates of Participation to investors.

32. The 2007 Certificates of Participation were to mature on the earlier of: (a) March 1, 2009; or (b) the date on which there was a closing of the sale or other conveyance of the Esplanade Owner's ownership in the Esplanade Condo Complex.

33. Commencing on or about April 20, 2006, and continuing until or about July 25, 2007, A.Cantone and CRI, through A.Cantone and other agents, sold 170 2007 Certificates of Participation to 117 investors, 33 of whom were New Jersey residents. CRI raised over \$3,500,000 from these sales. More than 35 of these investors were non-accredited. Among the purchasers of the 2007 Certificates of Participation were 31 investors who had also purchased 2005 Certificates of Participation.

34. COC, through A.Cantone, used the money raised from the sale of the 2007 Certificates of Participation to purchase a \$5,100,000 subordinated promissory note (“2007 Note”) issued by Esplanade Developer. As part of the transaction, Esplanade Developer was to repay the principal and pay interest to COC.

34. CRI, through A.Cantone and other agents, failed to provide at least 97 of the 117 investors with the 2007 CDM prior to their investment.

35. The 2007 Certificates of Participation were neither registered with Bureau, nor exempt from registration, nor federally covered securities.

36. On or about September 5, 2013, Respondents CRI, COC, A.Cantone and C.Cantone admitted in legal proceedings that they “failed” to register the 2005 and 2007 Certificates of Participation.

iii) **The 2005 and 2007 Confidential Disclosure Memoranda**

a) **Nature of Investment**

37. Although COC is the issuer of the 2005 and 2007 Certificates of Participation, the heading on the first page of the 2005 and 2007 CDMs refers in bold to a “**SUBORDINATED PROMISSORY NOTE Issued by ESPLANADE DEVELOPMENT LLC.**” (Emphasis in original.) Similarly, the first sentence on the first page of the 2005 and 2007 CDMs states in bold: “**The Subordinated Promissory Note ... will be issued by Esplanade Development, LLC....**” (Emphasis in original.)

38. Both CDMs contain information about the Esplanade Condominium Complex, including financing, the construction, the land, the units, competitor condominium complexes, and projected financial information. The CDMs are signed electronically by Crowder on behalf of Esplanade Developer and Esplanade Owner.

39. However, as set forth above, the 2005 and 2007 Certificates of Participation are investments in the 2005 and 2007 Notes purchased by COC; the certificates are not direct investments in the Esplanade Condo Complex.

b) Crowder's and COC's Guarantees to Investors

40. Pursuant to the 2005 and 2007 CDMs, interest on the principal amount of both the 2005 Certificates of Participation and the 2007 Certificates of Participation would be paid "in arrears," semi-annually.

41. Investors in the 2005 and 2007 Certificates of Participation had the option of purchasing Series A or Series B certificates.

42. Series B investors were to receive a higher annual interest rate than Series A investors. For the 2005 Certificates of Participation, Series A investors were to receive 10% annual interest, and Series B investors were to receive 13% annual interest. For the 2007 Certificates of Participation, Series A investors were to receive 8% annual interest, and Series B investors were to receive 11% annual interest.

43. For Series A certificates, as stated on page 2 of the 2005 and 2007 CDMs, COC would "guarantee the prompt payment, as and when due, of all principal of, and interest on, the Series A Certificates of Participation."

44. COC represented in the 2005 and 2007 CDMs that Series A certificates would be payable from: (a) payments made to COC by the Esplanade Developer pursuant to provisions of the 2005 Note and the 2007 Note, respectively; (b) payments made by Crowder pursuant to a Guaranty Agreement dated November 1, 2005 ("2005 Crowder Guaranty") and Guaranty Agreement dated March 1, 2007 ("2007 Crowder Guaranty"), respectively; and (c) payments

made by COC pursuant to its own guaranty of payment. However, investors were not given copies of the 2005 and 2007 Crowder Guaranty agreements.

45. A.Cantone testified that COC guaranteed the principal and interest on the Series A Certificates of Participation to address investor feedback about the risk of the Crowder Guaranty and to encourage them to purchase the certificates.

46. COC did not guarantee the principal or interest of the Series B certificates. According to the 2005 and 2007 CDMs, Series B certificates were supposed to be offered and sold to only accredited investors. But, CRI agents, including A.Cantone, sold Series B certificates to non-accredited investors.

47. COC represented in the 2005 and 2007 CDMs that the Series B certificates would be paid from: (a) payments made to COC by the Esplanade Developer pursuant to provisions of the 2005 and 2007 Notes, respectively; and (b) payments made by Crowder pursuant to the 2005 Crowder Guaranty and the 2007 Crowder Guaranty, respectively.

48. As set forth below, the 2005 CDM states on 15 separate occasions that the 2005 Note and the 2005 Certificates of Participation are “guaranteed” by Crowder:

a. **“Payment of the Note is Guaranteed by Robert A. Crowder, the majority member of the Developer.”** 2005 CDM at (i) (emphasis in original).

b. “The Series A Certificates of Participation will be payable from (a) payments made to Note Purchaser by the Developer pursuant to the provisions of the Note, (b) payments made by Robert A. Crowder (‘Crowder’) pursuant to his Guaranty Agreement, dated as of November 21, 2005 (the ‘Crowder Guaranty’). . . .” Id. at (ii) and 2.

c. “The respective abilities of . . . of Crowder to make the payments required by the Crowder Guaranty. . . .” Id. at (ii) and 2.

d. “The Certificates of Participation will be payable as to principal and interest solely from the following sources: (a) Payments made by the Developer pursuant to the Note. . . . (b) Payments made by Robert A. Crowder (‘Crowder’)

pursuant to his Guaranty Agreement, dated as of November 1, 2005 (the ‘Crowder Guaranty’).” Id. at 3.

e. “The Certificates of Participation will be equally and ratably secured by the following: (a) The Note; (b) The Crowder Guaranty....” Id.

f. “Mr. Crowder has personally guaranteed the full payment, as and when due, of all principal of and interest on the Note.” Id. at 5.

g. “[T]he Note Purchaser would need to rely upon the Crowder Guaranty.” Id. at 12.

h. “**Value of the Crowder Guaranty.** Although Robert A. Crowder will guarantee payment of debt service on the Note....” Id. at 14 (emphasis in original).

i. “[H]is obligations under the Crowder Guaranty Agreement.” Id.

49. The 2005 CDM also states that “Crowder[’s] ... personal financial statement shows a net worth in excess of \$30,000,000.”

50. A.Cantone and CRI through A.Cantone failed to disclose in the 2005 CDM that Crowder had already defaulted on a significant loan that was larger than Esplanade, and that Crowder’s creditor had taken legal action against him in connection with the default. A.Cantone admits that he knew that Crowder “was in default on a very large loan other than – a much larger loan than Esplanade.”

51. The 2005 CDM also did not disclose that Crowder was in the midst of a divorce proceeding that was likely to materially and negatively affect his net worth.

52. As set forth below, the 2005 CDM also states on 11 separate occasions that the 2005 Series A certificates are “guaranteed” by COC:

a. “The Note Purchaser will guarantee the prompt payment, as when due, of all principal of, and interest on, the Series A Certificates of Participation.” 2005 CDM at (i) and 2.

b. “The Series A Certificates of Participation will be payable from (a) payments made to the Note Purchaser by the Developer pursuant to the provisions

of the Note, (b) payments made by Robert A. Crowder ('Crowder') pursuant to his Guaranty Agreement, dated as of November 21, 2005 (the 'Crowder Guaranty'), and (c) payments made by the Note Purchaser pursuant to its guaranty of payment thereunder." Id. at (ii) and 2.

c. "The respective abilities ... of the Note Purchaser to make the payments required by its guaranty...." Id. at (ii) and 2.

d. "The Certificates of Participation will be payable as to principal and interest solely from the following sources: ... (c) **With respect to the Series A Certificates of Participation only, and not the Series B Certificates of Participation**, payments made by the Note Purchaser pursuant to its guaranty of payment of the principal of, and interest on, the Series A Certificates of Participation." Id. at 3 (emphasis in original).

e. "The Certificates of Participation will be equally and ratably secured by the following: ... (e) **With respect to the Series A Certificates of Participation only, and not the Series B Certificates of Participation**, the Note Purchaser's guaranty of payment of the principal of, and interest on, the Series A Certificates of Participation." Id. at 3-4 (emphasis in original).

f. "**Value of the Note Purchaser's Guaranty.** Although the Note Purchaser will guarantee payment of all principal of, and interest on, the Series A Certificates of Participation...." Id. at 14 (emphasis in original).

g. Note Purchaser's "obligations under its guaranty." Id. at 15.

53. The 2005 CDM states under the paragraph titled "Value of the Note Purchaser's Guaranty," that the financial statements of COC showed "a total equity in excess of \$1,875,000." But, COC did not disclose to investors that more Series A Certificates of Participation could be sold than the equity value of COC's guaranty.

54. The 2007 CDM similarly states that the 2007 Note and the 2007 Certificates of Participation are "guaranteed" by Crowder, and that the 2007 Series A certificates are "guaranteed" by COC. The "Crowder Guaranty" is mentioned in bold in the first paragraph on the first page of the 2007 CDM and a total of 18 times throughout the document, as follows:

a. "**Payment of the Note will be guaranteed by Robert A. Crowder, the majority member of the Developer.**" 2007 CDM at (i) (emphasis in original).

b. “The Series A Certificates of Participation will be payable from (a) payments made to the Note Purchaser by the Developer pursuant to the provisions of the Note, (b) payments made by Robert A. Crowder (‘Crowder’) pursuant to his Guaranty Agreement, dated as of March 1, 2007 (the ‘Crowder Guaranty’)....” Id. at (ii) and 2.

c. “The respective abilities ... of Crowder to make the payments required by the Crowder Guaranty....” Id. at (ii) and 2.

d. “Crowder will secure the Developer’s obligations in respect of the Note, and his obligations under the Crowder Guaranty, by a Pledge Agreement, dated as of March 1, 2007 (the ‘Pledge Agreement’), pursuant to which Crowder, who is the majority member of the Developer, will pledge all of his equity and interest in the Developer. The Note Purchaser will hold the Crowder Guaranty and the Pledge Agreement in trust for the equal and ratable benefit of the purchasers of the Certificates of Participation.” Id. at (ii) and 2.

e. “The Certificates of Participation will be payable as to principal and interest solely from the following sources: ... (b) Payments made by Crowder pursuant to the Crowder Guaranty....” Id. at 3.

f. “The Certificates of Participation will be equally and ratably secured by the following: ... (b) The Crowder Guaranty and the Pledge agreement, which the Note Purchaser will also hold in trust for the equal and ratable benefit of the holders of the Certificates of Participation....” Id. at 4.

g. “The Crowder Guaranty and the Pledge Agreement.” Id. at 7.

h. “**Value of the Crowder Guaranty.** Although Robert A. Crowder will guarantee payment of debt service on the Note....” Id. at 16 (emphasis in original).

i. “[A]ll of his obligations under the Crowder Guaranty.” Id.

j. “Crowder’s obligations under the Crowder Guaranty[] will be secured by a pledge of all of Crowder’s equity interests in the Developer.” Id.

55. The 2007 CDM states that Crowder’s “personal financial statement, as of August 25, 2006, shows a net worth in excess of \$22,000,000.”

56. The 2007 CDM did not disclose that Crowder had already defaulted on a “very large loan,” or that Crowder was in the midst of a divorce proceeding that was likely to materially and negatively affect his net worth.

57. COC's guaranty is mentioned on the first two pages of the 2007 CDM and a total of 11 times throughout the document, as follows:

a. "The Note Purchaser will guarantee the prompt payment, as and when due, of all principal of, and interest on, the Series A Certificates of Participation." 2007 CDM at (i) and 2.

b. "The Series A Certificates of Participation will be payable from (a) payments made to the Note Purchaser by the Developer pursuant to the provisions of the Note, (b) Payments made by Robert A. Crowder ('Crowder') pursuant to his Guaranty Agreement, dated as of March 1, 2007 (the 'Crowder Guaranty'), and (c) Payments made by the Note Purchaser pursuant to its guaranty of payment thereunder." Id. at (ii) and 2.

c. "The respective abilities of ... the Note Purchaser to make the payments required by its guaranty...." Id. at (ii) and 2.

d. "The Certificates of Participation will be payable as to principal and interest solely from the following sources: ... (c) **With respect to the Series A Certificates of Participation only, and not the Series B Certificates of Participation**, payments made by the Note Purchaser pursuant to its guaranty of payment of the principal of, and interest on, the Series A Certificates of Participation." Id. at 3 (emphasis in original).

e. "The Certificates of Participation will be equally and ratably secured by the following: ... (c) **With respect to the Series A Certificates of Participation only, and not the Series B Certificates of Participation**, the Note Purchaser's guaranty of payment of the principal of, and interest on, the Series A Certificates of Participation." Id. at 4 (emphasis in original).

f. "**Value of the Note Purchaser's Guaranty.** Although the Note Purchaser will guarantee payment of all principal of, and interest on, the Series A Certificates of Participation...." Id. at 15 (emphasis in original).

g. Note Purchaser's "obligations under its guaranty." Id.

58. The 2007 CDM failed to disclose that A.Cantone's bridge loans were used to pay interest to the 2005 CDM investors.

59. A.Cantone and COC, through A.Cantone, knew but did not disclose that, if called upon, COC lacked the assets necessary to satisfy COC's guarantees to all 2005 Series A and 2007 Series A investors. The 2007 CDM states that "as of March 31, 2006," COC's financial

statement shows “total equity in excess of \$2,100,000.” But COC did not disclose to investors that the total amount of the 2005 and 2007 Series A certificates sold impaired the value of COC’s guaranty to Series A investors. By 2007, COC issued and CRI sold, through A.Cantone and others, 2005 Series A and 2007 Series A certificates totaling more than \$3,000,000, which was well in excess of the stated equity value of COC’s guaranty.

c) **Crowder’s Significant Financial Problems**

60. As set forth above, in May 2006 and November 2006, Esplanade Developer defaulted on interest payments owed to COC. When Crowder failed to honor his guaranty to make these interest payments, A.Cantone provided bridge loans to Esplanade Developer and those funds were used to pay COC, which then paid interest to the 2005 Certificate of Participation investors. A.Cantone’s bridge loans had the effect of hiding Esplanade Developer’s and Crowder’s defaults from investors.

61. The 2007 CDM did not disclose that Esplanade Developer and Crowder defaulted on interest due in May 2006 and November 2006 on the 2005 Note. The 2007 CDM also failed to disclose that funds from A.Cantone’s bridge loans to Esplanade Developer, rather than funds from Esplanade Developer or Crowder, were used to make the May 2006 and November 2006 interest payments.

62. Esplanade Developer and Crowder ultimately failed to pay the interest and principal it owed to COC on the 2005 and 2007 Notes.

63. In June 2012, an involuntary Chapter 7 bankruptcy petition was filed against Crowder by one of his creditors in U.S. Bankruptcy Court for the Southern District of Florida.

64. In the bankruptcy case, Crowder disclosed that he had no real estate assets, no cash and \$2,065 worth of personal property. He also listed a total of over \$23,000,000 in

liabilities including, among other things: (a) a \$10,000,000 debt owed to COC based on a “personal guarantee in default”; (b) a \$12,000,000 debt owed to Suntrust Bank based on “Guaranty Obligations 1997-2003”; and (c) \$410,000 owed to his former spouse as a domestic support obligation pursuant to “marital arrangement [of] \$10,000 per month.”

65. On June 21, 2013, the Bankruptcy Court granted Crowder a discharge of his debts.

iv) **False and Misleading Statements**

66. A.Cantone, COC through A.Cantone, and CRI through A.Cantone made numerous false and misleading statements in connection with the offer and sale of the 2005 and 2007 Certificates of Participation including, but not limited to, the following:

- a. The 2005 Certificates of Participation were fully guaranteed investments;
- b. The 2007 Certificates of Participation were fully guaranteed investments;
- c. If called upon, COC had sufficient assets to satisfy the guarantees it made in the 2005 CDM to Series A investors;
- d. If called upon, COC had sufficient assets to satisfy the guarantees it made in the 2007 CDM to Series A investors;
- e. According to the 2005 CDM, \$190,000 was held back by COC from Esplanade Developer as “transactional costs” in connection with the 2005 Certificates of Participation;
- f. According to the 2007 CDM, \$316,200 was held back by COC from Esplanade Developer as “a commitment fee” in connection with the 2007 Certificates of Participation; and

g. Although COC is the issuer of the 2005 and 2007 Certificates of Participation, the heading on the first page of the 2005 and 2007 CDMs refers in bold to a “**SUBORDINATED PROMISSORY NOTE Issued by ESPLANADE DEVELOPMENT LLC.**” (Emphasis in original.) Similarly, the first sentence on the first page of each CDM states in bold: “**The Subordinated Promissory Note ... will be issued by Esplanade Development, LLC....**” (emphasis in original). The CDMs contain abundant information about the Esplanade Condominium Complex, including financing, the construction, the land, the units, competitor condominium complexes, and projected financial information. And the CDMs are signed electronically by Crowder on behalf of Esplanade Developer and Esplanade Owner.

v) **Omission of Material Information**

67. A.Cantone, COC through A.Cantone, and CRI through A.Cantone omitted to disclose material information to investors in connection with the offer and sale of the 2005 and 2007 Certificates of Participation including, but not limited to, the following:

- a. The 2005 CDM did not disclose that more Series A Certificates of Participation could be sold than the equity value of COC’s guaranty;
- b. The 2005 Note was not provided to any investors;
- c. The 2007 Note was not provided to any investors;
- d. The 2007 CDM did not disclose that Esplanade Developer defaulted on interest payments due in May 2006 and November 2006 due on the 2005 CDM;

- e. The 2007 CDM did not disclose that Crowder failed to honor his guaranty to make interest payments due in May 2006 and November 2006;
- f. The 2007 CDM did not disclose that funds from A.Cantone's bridge loans to Esplanade Developer in May 2006 and November 2006, rather than funds from Esplanade Developer or Crowder, were used to make the May 2006 and November 2006 interest payments to investors;
- g. The 2007 CDM did not disclose that the combined value of the 2005 and 2007 Series A certificates sold impaired the value of COC's guaranty to Series A investors;
- h. Series A investors were not told that COC issued and CRI sold 2005 Series A and 2007 Series A certificates totaling more than \$3,000,000, which was well in excess of the stated equity value of COC's guaranty;
- i. The 2005 CDM fails to disclose that the \$190,000 of "transactional costs" actually included 4% - 5% commissions earned by CRI agents in connection with each sale of the 2005 Certificates of Participation;
- j. The 2007 CDM fails to disclose that the \$316,200 "commitment fee" actually included 4% - 5% commissions earned by CRI agents in connection with each sale of the 2007 Certificates of Participation;
- k. The 2005 CDM fails to disclose a 3% "Facility Fee" earned by COC;
- l. The 2005 and 2007 CDMs fail to disclose with adequate specificity and clarity that the 2005 and 2007 Certificates of Participation were not direct investments in the Esplanade Condo Complex; rather the certificates were

investments in notes purchased by COC that were themselves investments in the Esplanade Condo Complex;

- m. The 2005 CDM did not disclose that Crowder owed a \$12,000,000 debt to Suntrust Bank on “Guaranty obligations” from 1997-2003;
- n. The 2007 CDM did not disclose that Crowder owed a \$12,000,000 debt to Suntrust Bank on “Guaranty obligations” from 1997-2003; The 2005 CDM did not disclose that Crowder had been going through a divorce that was likely to materially affect his net worth; and
- o. The 2007 CDM did not disclose that Crowder had been going through a divorce that was likely to materially affect his net worth.

B. Books and Records

68. Pursuant to N.J.S.A. 49:3-59(b) and N.J.A.C. 13:47A-1.10, broker-dealers registered with the Bureau are required to make and keep books, records, and accounts as required by the U.S. Securities and Exchange Commission.

69. 17 C.F.R. § 240.17a-4(e)(5) requires that all account record information required pursuant to 17 C.F.R. § 240.17a-3(a)(17) 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.

70. CRI’s Written Supervisory Procedures Manual dated February 18, 2009 (“WSPM”) includes Section 1.1 titled “List Of Supervisors,” which states “[t]his section includes the Firm’s designated supervisors responsible for supervision of the areas of business indicated.” C.Cantone is listed as the Chief Compliance Officer who is responsible for “books and records maintenance and explanations.”

71. The WSPM also includes Section 6.9.1 titled "Designation Of Responsibilities," which lists those responsible for the Firm's Business Continuity Plan, and states the "Compliance Officer" is responsible for "maintain[ing] and updat[ing] [the] Books and Records Chart."

72. The WSPM also includes Section 6.9.7.1 titled "Clearing Firm Back-Up And Recovery," which refers to recovery of records from a clearing firm as part of CRI's disaster recovery plan. "Compliance (or another person designated to review critical third party plans) will review the clearing firm plan or a summary of the plan at least annually when the Firm's Plan is reviewed."

73. The WSPM at Section 12.4 titled "Office Records" provides that "All questions regarding books and records should be referred to Compliance."

74. C.Cantone as Chief Compliance Officer of CRI was responsible for virtually all aspects of the firm's book and records, including CRI's books and records maintenance.

75. Since at least June 21, 2010, the Bureau made repeated requests to CRI and C.Cantone through their counsel for certain books, records and accounts that CRI was required to maintain. CRI failed to provide many such books, records, and accounts and, in some instances, produced books, records and accounts that contain unsubstantiated client information

76. As Chief Compliance Officer and FINOP for CRI during the relevant period, C.Cantone was responsible for WSPM compliance, including being responsible for CRI's failure to create and/or maintain accurate account records including clients' personal information, financial information, investment objectives and signature for all CRI clients.

COUNT I

**OFFER AND SALE OF UNREGISTERED
SECURITIES IN VIOLATION OF
N.J.S.A. 49:3-60
(As to Defendants CRI, COC and A.Cantone)**

77. The preceding paragraphs are incorporated by reference as though set forth herein.

78. The 2005 Certificates of Participation and the 2007 Certificates of Participation issued by COC and sold by A.Cantone, CRI through A.Cantone and other agents, and COC through A. Cantone, were securities as defined in N.J.S.A. 49:3-49(m) of the Securities Law.

79. The 2005 Certificates of Participation and the 2007 Certificates of Participation issued by COC and sold by A.Cantone, CRI through A.Cantone and other agents, and COC through A. Cantone, were neither registered with the Bureau, nor exempt from registration, nor federally covered securities.

80. Each offer and sale by COC, CRI and A.Cantone of the unregistered securities is a separate violation of N.J.S.A. 49:3-60 and is a basis for assessing civil monetary penalties under N.J.S.A 49:3-70.1.

COUNT II

**MAKING UNTRUE STATEMENTS OF A MATERIAL FACT OR OMITTING
TO STATE A MATERIAL FACT NECESSARY IN ORDER TO MAKE THE
STATEMENTS MADE IN LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY
ARE MADE, NOT MISLEADING IN VIOLATION OF N.J.S.A. 49:3-52(b)
(As to Defendants COC, CRI, A.Cantone and C.Cantone)**

81. The preceding paragraphs are incorporated by reference as though set forth herein.

82. COC, CRI, A.Cantone and C.Cantone made materially false and misleading statements to investors in connection with the offer and sale of the 2005 and 2007 Certificates of Participation.

83. The false and misleading statements, as more fully described above, included, but were not limited to:

- a. The 2005 Certificates of Participation were fully guaranteed investments;
- b. The 2007 Certificates of Participation were fully guaranteed investments;
- c. If called upon, COC had sufficient assets to satisfy the guarantees it made in the 2005 CDM to Series A investors;
- d. If called upon, COC had sufficient assets to satisfy the guarantees it made in the 2007 CDM to Series A investors;
- e. According to the 2005 CDM, \$190,000 was held back by COC from Esplanade Developer as “transactional costs” in connection with the 2005 Certificates of Participation;
- f. According to the 2007 CDM, \$316,200 was held back by COC from Esplanade Developer as “a commitment fee” in connection with the 2007 Certificates of Participation;
- g. Although COC is the issuer of the 2005 and 2007 Certificates of Participation, the heading on the first page of the 2005 and 2007 CDMs refers in bold to a **“SUBORDINATED PROMISSORY NOTE Issued by ESPLANADE DEVELOPMENT LLC.”** (emphasis in original). Similarly, the first sentence on the first page of each CDM states in bold: **“The Subordinated Promissory Note ... will be issued by Esplanade**

Development, LLC....” (emphasis in original). The CDMs contain abundant information about the Esplanade Condominium Complex, including financing, the construction, the land, the units, competitor condominium complexes, and projected financial information. And the CDMs are signed electronically by Crowder on behalf of Esplanade Developer and Esplanade Owner.

84. COC, CRI, A.Cantone and C.Cantone omitted to state material facts necessary in order to make statements made, in the light of the circumstances under which they were made, not misleading, in connection with the offer and sale of the 2005 and 2007 Certificates of Participation.

85. The omissions of material fact, as more fully described above, included, but were not limited to:

- a. The 2005 CDM did not disclose that more Series A Certificates of Participation could be sold than the equity value of COC’s guaranty;
- b. The 2005 Note was not provided to any investors;
- c. The 2007 Note was not provided to any investors;
- d. The 2007 CDM did not disclose that Esplanade Developer defaulted on interest payments due in May 2006 and November 2006 on the 2005 Note;
- e. The 2007 CDM did not disclose that Crowder failed to honor his guaranty to make interest payments due in May 2006 and November 2006 on the 2005 Note;
- f. The 2007 CDM did not disclose that funds from A.Cantone’s bridge loans to Esplanade Developer in May 2006 and November 2006, rather than

- funds from Esplanade Developer or Crowder, were used to make the May 2006 and November 2006 interest payments on the 2005 Note;
- g. The 2007 CDM did not disclose that the combined value of the 2005 and 2007 Series A certificates sold impaired the value of COC's guaranty to Series A investors;
 - h. Series A investors were not told that COC issued and CRI sold 2005 Series A and 2007 Series A certificates totaling more than \$3,000,000, which was well in excess of the stated equity value of COC's guaranty;
 - i. The 2005 CDM fails to disclose that the \$190,000 of "transactional costs" actually included 4% - 5% commissions earned by CRI agents in connection with each sale of the 2005 Certificates of Participation;
 - j. The 2007 CDM fails to disclose that the \$316,200 "commitment fee" actually included 4% - 5% commissions earned by CRI agents in connection with each sale of the 2007 Certificates of Participation;
 - k. The 2005 CDM fails to disclose a 3% "Facility Fee" earned by COC;
 - l. The 2005 and 2007 CDMs fail to disclose with adequate specificity and clarity that the 2005 and 2007 Certificates of Participation were not direct investments in the Esplanade Condo Complex; rather the certificates were investments in notes purchased by COC that were themselves investments in the Esplanade Condo Complex;
 - m. The 2005 CDM did not disclose that Crowder owed a debt of approximately \$12,000,000 to Suntrust Bank on "Guaranty obligations" from 1997-2003;

- n. The 2007 CDM did not disclose that Crowder owed a debt of approximately \$12,000,000 to Suntrust Bank on “Guaranty obligations” from 1997-2003;
- o. The 2005 CDM did not disclose that Crowder had been going through a divorce that was likely to materially affect his net worth;
- p. The 2007 CDM did not disclose that Crowder had been going through a divorce that was likely to materially affect his net worth.

86. Each material omission or materially false or misleading statement made by COC, CRI, A.Cantone and C.Cantone is a separate violation of N.J.S.A. 49:3-52(b) and is a basis for assessing civil monetary penalties pursuant to N.J.S.A. 49:3-70.1.

COUNT III

CRI AND C.CANTONE FAILED TO MAINTAIN CRI’S BOOKS AND RECORDS AS REQUIRED UNDER N.J.S.A. 49:3-59(b) (As to Defendants CRI and C.Cantone)

87. The preceding paragraphs are incorporated by reference as though set forth herein.

88. CRI and C.Cantone, as the Chief Compliance Officer and FINOP of CRI, were responsible to maintain the books and records of CRI, among other things, as set forth in the WSPM and as required under N.J.S.A. 49:3-59(b) and N.J.A.C. 13:47A-1.10.

89. Despite repeated requests from the Bureau since at least April 20, 2009, to CRI for the production of certain account and other documents, CRI and C.Cantone failed to create and/or maintain CRI’s account records and other documents containing the customer’s personal information, financial information, investment objectives and signature.

90. By failing to make and keep such accounts records, CRI and C.Cantone violated CRI's own books and records maintenance procedures set forth in the WSPM.

91. CRI and C.Cantone's failure to make and keep books and records required by law and CRI's own WSPM is a separate violation of N.J.S.A. 49:3-59(b) and is a basis for assessing civil monetary penalties pursuant to N.J.S.A. 49:3-70.1.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully requests the entry of a judgment pursuant to the Securities Law:

- A. Finding that defendants engaged in the acts and practices alleged above;
- B. Ruling that such acts and practices constitute violations of the Securities Law;
- C. Affording each purchaser of the securities issued by or on behalf of defendants, the option of rescinding such purchase and obtaining a refund of monies paid, plus interest and expenses incident to effecting the purchase and rescission;
- D. Affording each purchaser of the securities issued by or on behalf of defendants, the option of receiving restitution of losses incurred on disposition of the securities, plus interest and expenses incident to effecting the purchase and restitution;
- E. Assessing civil monetary penalties against defendants, for each violation of the Securities Law in accordance with N.J.S.A. 49:3-70.1;
- F. Requiring defendants to pay restitution and disgorge all profits and/or funds gained through violations of the Securities Law;

G. Affording Plaintiff and affected third parties any additional relief the court may deem just and equitable.

JOHN J. HOFFMAN
ACTING ATTORNEY GENERAL OF NEW JERSEY
Counsel for Plaintiff

By: 
Victoria A. Manning (ID #006371991)
Deputy Attorney General

Dated: 11/20/15

RULE 4:5-1 CERTIFICATION

Pursuant to Rule 4:5-1, the undersigned certifies that the matter in controversy may be the subject of the following action other than this one:

The New Jersey Bureau of Securities will issue a Summary Revocation Order against Anthony J. Cantone and Christine L. Cantone pursuant to the administrative powers under the New Jersey Uniform Securities Law (1997), N.J.S.A. 49:3-47 et seq.

I further certify that the matter in controversy in this action is not the subject of any action pending in any court or in a pending arbitration proceeding in this State, nor is any other action or arbitration proceeding contemplated.

I certify that confidential personal identifiers have been redacted from documents now submitted to the court, and will be redacted from all documents submitted in the future in accordance with Rule 1:38-7(b).

I certify that the foregoing statements made by me are true. I am aware that if any of those statements are willfully false, I am subject to punishment.

JOHN J. HOFFMAN
ACTING ATTORNEY GENERAL OF NEW JERSEY
Counsel for Plaintiff

By:


Victoria A. Manning (ID #006371991)
Deputy Attorney General

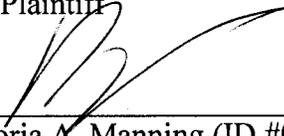
Dated: 11/20/15

DESIGNATION OF TRIAL COUNSEL

Deputy Attorneys General Victoria A. Manning and Joshua I. Sherman (Attorney Id. #023432004) are hereby designated as trial counsel for this matter.

JOHN J. HOFFMAN
ACTING ATTORNEY GENERAL OF NEW JERSEY
Counsel for Plaintiff

By:


Victoria A. Manning (ID #006371991)
Deputy Attorney General

Dated:

11/20/15