

STATE OF NEW JERSEY  
BUREAU OF SECURITIES  
153 Halsey Street  
P.O. Box 47029  
Newark, New Jersey 07101

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IN THE MATTER OF

Anthony J. Cantone (CRD # 1066139),  
Christine L. Cantone (CRD # 2687618),  
Cantone Research, Inc. (CRD # 26314), and  
Cantone Office Center, LLC.

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: ADMINISTRATIVE  
: CONSENT ORDER  
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This matter was commenced on November 20, 2015 through the entry of a Summary Revocation Order by Laura H. Posner, Chief of the New Jersey Bureau of Securities (“Bureau Chief”)<sup>1</sup> against Anthony J. Cantone (“A. Cantone”) and Christine L. Cantone, (“C. Cantone”). The Summary Revocation Order set forth numerous violations of the New Jersey Uniform Securities Law (1997), N.J.S.A. 49:3-47 et seq. (“Securities Law”), revoked the agent and investment adviser representative registrations of A. Cantone pursuant to N.J.S.A. 49:3-58; revoked the agent registration of C. Cantone pursuant to N.J.S.A. 49:3-58; denied A. Cantone and C. Cantone all exemptions in N.J.S.A. 49:3-50 subsection (a) paragraphs 9, 10 and 11 and subsection (b); and revoked A. Cantone’s and C. Cantone’s exemptions to the registration requirements provided by N.J.S.A. 49:3-56(b), N.J.S.A. 49:3-56(c) and N.J.S.A. 49:3-56(g).

In response to the Summary Order, on November 30, 2015, A. Cantone and C. Cantone submitted a Notice and Application to Vacate Summary Revocation Order (“Motion to Vacate”). The New Jersey Bureau of Securities (“Bureau”) transmitted the contested case to the Office of Administrative Law (“OAL”). The parties thereafter fully briefed the Motion to Vacate. On

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<sup>1</sup> The current Deputy Chief of the New Jersey Bureau of Securities is Amy G. Kopleton (also referred to herein as “Bureau Chief”).

January 11, 2016, Administrative Law Judge (“ALJ”) Ellen Bass held a preliminary hearing on the Motion to Vacate. On January 22, 2016, ALJ Bass issued an Order denying the Motion to Vacate. On February 6, 2016, A. Cantone and C. Cantone sought an interlocutory review of ALJ Bass’s decision. On February 12, 2016, A. Cantone and C. Cantone submitted an Answer to Summary Revocation Order and Request for Hearing (“Answer”). On February 23, 2016, the Agency Head denied the request for interlocutory review. ALJ Bass thereafter placed the proceeding (the “Proceeding”) on the inactive list pursuant to N.J.A.C. 1:1-9.7, and the Summary Revocation Order has remained in effect.

After careful review and due consideration of the facts, the Bureau Chief hereby finds that there is good cause, it is in the public interest, and it will preserve resources, to resolve the Proceeding and settle with A. Cantone, C. Cantone, Cantone Research, Inc. (“CRI”), and Cantone Officer Center, LLC (“COC”) (collectively, “Respondents”).

Respondents also desire to settle with the Bureau.

Accordingly, the Bureau and Respondents hereby agree that: (1) A. Cantone’s and C. Cantone’s Answer to the Summary Revocation Order is withdrawn; (2) the Proceeding shall be returned from the OAL to the Bureau since it is no longer a contested case; (3) this Administrative Consent Order shall supersede the Summary Revocation Order; and (4) pursuant to N.J.A.C. 1:1-19.1, this matter is resolved under the full terms of settlement in this Administrative Consent Order, which shall be deemed the final decision as to Respondents. Furthermore, Respondents consent to entry of this Administrative Consent Order, voluntarily waive the opportunity for a hearing after reasonable notice within the meaning of N.J.S.A. 49:3-

58(c)(2), and waive any rights to seek judicial review, or otherwise challenge or contest, the validity of this Administrative Consent Order.

The Bureau Chief makes the following findings of fact and conclusions of law, which Respondents neither admit nor deny:

### FINDINGS OF FACT

#### A. Background

1. Respondent Anthony J. Cantone (“A. Cantone”), CRD No. 1066139, residing in Cape Coral, Florida, is President and Chief Executive Officer of Cantone Research, Inc., CRD No. 26314, and the Managing Member of Cantone Office Center LLC (“COC”). A. Cantone has an over 75% ownership interest in CRI. He also has a 51% ownership interest in COC. A. Cantone had been registered with the Bureau as an agent and investment adviser representative of CRI until the Bureau revoked his registrations on November 20, 2015.

2. Respondent Christine L. Cantone (“C. Cantone”), CRD No. 2687618, is A. Cantone’s wife and also resides in Cape Coral, Florida. C. Cantone has a 49% ownership interest in COC. At all relevant times, C. Cantone was CRI’s Vice President and Chief Compliance Officer. C. Cantone was responsible for CRI’s compliance with the Securities Law and regulations as well as ensuring compliance by the agents affiliated with CRI, including A. Cantone to whom she reported. C. Cantone had been registered with the Bureau as an agent of CRI until the Bureau revoked her registration on November 20, 2015.

3. Respondent CRI, 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.

4. Respondent 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.

5. 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.

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

7. Maxwell B. Smith, III (“Smith”), CRD NO. 600012, was registered with the Bureau as an agent with various firms from July 1974 through April 2009. Smith was registered with the Bureau as an agent of CRI from January 7, 2005 until his termination by CRI on April 3, 2009 (as discussed in more detail below).

**B. The Unregistered Esplanade Offerings**

**1. The 2005 Issuance**

8. 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.

9. 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 this 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.

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

11. In connection with the 2005 COPs and 2005 CDMs, Respondents were advised by an attorney who was responsible for drafting the 2005 COPs and 2005 CDMs.

12. The 2005 COPs 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.

13. 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 COPs to 83 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.

14. The 2005 COPs were neither registered with Bureau, nor exempt from registration, nor federally covered securities.

15. 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 ("Fremont"), and Mezzanine Financing of

approximately \$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.

16. In May 2006, shortly after CRI ceased selling the 2005 COPs, 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. The purpose of A. Cantone's bridge loans, among other things, 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 COPs.

## 2. The 2007 Issuance

17. By January 2007, the sources of financing for the Esplanade Condo Complex had changed. The Senior Loan amount had increased to \$25,000,000 and the funds were to be borrowed by Esplanade Owner from CSE Mortgage LLC ("CSE Mortgage") rather than Fremont.

18. Additionally, 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.

19. 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 March and September, beginning March 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 this Note, or conveyance, by Esplanade Owner of all or substantially all of the Esplanade Owner's interest in the Esplanade Condo Complex.

20. COC raised the funds for the mezzanine loan by issuing certificates of participation in the 2007 Note ("2007 COPs"). As with the 2005 issuance, the details of the investment were outlined in a Confidential Disclosure Memorandum, which was dated February 20, 2007 ("2007 CDM"). In connection with the 2007 COPs and 2007 CDM, Respondents were again advised by the same attorney who drafted the 2005 COPs and 2005 CDM.

21. A. Cantone and CRI, through A. Cantone and other agents, offered and sold the 2007 COPs to investors.

22. The 2007 COPs 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.

23. 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 COPs to 117 investors, 33 of whom were New Jersey residents. More than 35 of these investors were non-accredited. CRI raised over \$3,500,000 from these sales. Among the purchasers of the 2007 COPs were 31 investors who had also purchased 2005 COPs.

24. A number of CRI customers invested money in the 2007 CDMs before the 2007 CDM had been issued and the Senior Loan had closed.

25. The 2007 COPs were neither registered with Bureau, nor exempt from registration, nor federally covered securities.

### 3. Crowder's and COC's Guarantees to Investors

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

27. According to the 2005 and 2007 CDMs, investors in the 2005 and 2007 COPs had the option of purchasing Series A or Series B COPs. The 2005 and 2007 CDMs provide that principal and interest payments on the Series A COPs were guaranteed by both COC and Crowder. Principal and interest payment on the Series B COPs were guaranteed by only Crowder.

28. Specifically, COC represented in the 2005 and 2007 CDMs that interest and principal on the Series A COPs 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 Guaranty Agreements dated November 21, 2005 and March 1, 2007, respectively; and (c) payments made by COC pursuant to its own guaranty of payment.

29. COC represented in the 2005 and 2007 CDMs that interest and principal on the Series B COPs 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 and 2007 Crowder guarantees, respectively.

30. A. Cantone testified that COC guaranteed the principal and interest on the Series A COPs to address investors' feedback about the risk of the Crowder guaranty and to encourage them to purchase the COPs.

31. Since COC's guaranty applied only to Series A COPs and not to Series B COPs, Series B investors were to receive a higher annual interest rate than Series A investors. For the 2005 COPs, Series A investors were to receive 10% annual interest, and Series B investors were to receive 13% annual interest. For the 2007 COPs, Series A investors were to receive 8% annual interest, and Series B investors were to receive 11% annual interest.

32. According to the 2005 and 2007 CDMs, Series B certificates were supposed to be offered and sold to only accredited investors.

33. Crowder's guaranty is mentioned numerous times throughout the 2005 and 2007 CDMs.

34. COC's guaranty to Series A investors is also mentioned numerous times throughout the 2005 and 2007 CDMs.

#### 4. Crowder's Net Worth

35. The 2005 and 2007 CDMs both contained a paragraph titled "Value of Crowder's Guaranty." Within that paragraph, the 2005 CDM stated that Crowder's "personal financial statement shows a net worth in excess of \$30,000,000," and 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."

36. Although Crowder provided his personal financial statement to A.Cantone and COC, they did not in turn provide it to investors. Crowder's personal financial statement revealed that his "net worth" included \$9.6 million of projected net income that Crowder speculated he could earn on the Esplanade deal, as well as other real estate assets that were already subject to personal guarantees Crowder had given in other transactions. Although the

CDMs disclosed that Crowder was “highly leveraged” and might not be able to meet his obligations, they did not expressly disclose that Crowder had given his personal guarantee in other transactions.

37. The financial statement also reflected that Crowder owned an 85% interest in the Esplanade project. However, by the time the 2007 CDM was issued, that percentage had been reduced to 65%. According to the 2007 CDM, Crowder’s estimated net income on the Esplanade project was only \$3,346,000.

38. Crowder’s personal financial statement also showed that his “net worth” included real property located at 3671 Tuxedo Road in Atlanta worth \$3.9 million. But the financial statement also revealed that Crowder owned only 50% of this property and that it was subject to a \$3.3 million mortgage, leaving Crowder with equity of \$600,000. And Georgia tax records revealed that Crowder had owned this property with his then-wife.

39. Both CDMs also failed to disclose that Crowder had already defaulted on a significant loan.

#### **5. COC’s Finances**

40. The 2005 and 2007 CDMs both contained a paragraph titled “Value of the Note Purchaser’s Guaranty.” The 2005 CDM states that the financial statements of COC showed “total equity in excess of \$1,875,000” and the 2007 CDM states that COC’s “financial statement shows, as of March 31, 2006, total equity in excess of \$2,100,000.”

41. COC did not disclose to investors that more Series A COPs could be sold than the equity value of COC’s guaranty.

42. COC did not disclose to investors that the total amount of the 2005 and 2007 Series A COPs sold impaired the value of COC's guaranty to Series A investors.

43. By 2007, COC issued and CRI sold, through A. Cantone and others, 2005 Series A and 2007 Series A COPs totaling more than \$3,000,000.

**6. Use of Proceeds**

44. According to the 2005 CDM, Esplanade Developer was to use the approximately \$2,410,000 of net proceeds raised from the 2005 COP investors as follows: (a) "\$1,000,000 to make a loan" to Esplanade Owner "to make [an] equity investment" in the project; (b) "\$410,000 to partially fund certain reserves" in connection with the construction; and (c) "\$1,000,000 for general working capital purposes not necessarily connected to the construction of the Condominium Complex."

45. According to the 2007 CDM, Esplanade Developer was to use the approximately \$4,477,800 of net proceeds raised from the 2007 COP investors to "pay the costs of constructing the Condominium Complex."

46. However, the 2007 COP investor funds were used for purposes other than construction. First, COC used over \$39,000 to pay interest to COP investors. Second, CRI used \$25,000 to pay legal fees for COC's outside counsel. Third, COC used over \$82,000 to pay A. Cantone 14% interest on his bridge loans. The potential use of investor funds in this manner was not disclosed in the CDM.

**7. Condominium Construction and Sales**

47. The 2007 CDM stated that "171 of the Condominium Complex's Units had been sold," and deposits had been received and escrowed.

48. But the 2007 CDM failed to disclose that the deposits had to be returned if the condominiums were not completed within two years, and that the majority of these sales were to real estate investors and second home purchasers.

**8. Crowder's Defaults**

49. 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 COP investors.

50. 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.

51. The Florida real estate market collapsed in 2008. Esplanade Owner and Crowder ultimately defaulted on the \$25,000,000 Senior Loan. CSE Mortgage foreclosed on the Esplanade project and sold the condominiums in 2010 for a mere \$9.5 million.

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

53. 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.

54. 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 guaranty 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.”

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

**C. Maxwell Smith**

56. For more than 17 years, from November 1992 until April 2009, including the four years he worked at CRI (from 2005 to 2009), Smith promoted and sold a purported tax exempt interest bearing investment, “Health Care Financial Partnership Direct Municipal Loan” (“HCFP Loan”).

57. The HCFP Loan was neither registered with the Bureau, nor exempt from registration, nor a federally covered security.

58. Smith solicited and sold the HCFP Loan to more than 10 people who invested a total of approximately \$10,000,000 in HCFP Loans. While employed at CRI, Smith sold the HCFP Loan to at least one CRI client referred to herein as “L.F.”

59. In reality and unbeknownst to the investors, the HCFP Loan was fictitious, and the entire investment was a fraudulent scheme. In some instances, Smith repaid early investors with their own money or with funds belonging to subsequent investors in a Ponzi scheme.

60. Without admitting or denying the findings contained therein, Smith entered into a Consent Order with the Bureau on November 18, 2009, that included findings of violations of the antifraud provisions of the Securities Law for misappropriation of customer assets. Based on

his Ponzi scheme, Smith was also prosecuted by the U.S. Attorney's Office for mail fraud and by the State of New Jersey, Office of the Attorney General, Division of Criminal Justice, for money laundering. He pled guilty to those crimes and in 2013 was sentenced to seven years for mail fraud and 15 years for money laundering. He is currently incarcerated.

61. While he was employed by CRI, Smith sent letters to investors confirming their investments on fictitious Health Care Financial letterhead that included fabricated direct loan investment numbers, interest rates and maturity dates of the loans.

62. In addition to these letters, Smith emailed his customers regarding their HCFP Loans. On several occasions, Smith directed Karen Richard ("Richard"), a CRI office secretary, to type his handwritten HCFP communications and information into emails.

63. Richard sent the emails from her CRI email address to Smith's clients directly, sending a copy of the email to Smith at his personal email address. For example, on December 22, 2008, Richard emailed Smith's customer L.F. concerning the fair market value of the HCFP Loan ("December 2008 Email"). L.F. was also a client of CRI.

64. In accordance with CRI's policy and procedures, C. Cantone reviewed the December 2008 email and questioned Smith.

65. Smith operated his fraud through a personal securities account he opened at Merrill Lynch, Pierce, Fenner & Smith, Inc. ("Merrill Lynch"). Smith instructed investors who wished to purchase the HCFP Loan to make their investment checks payable to "Merrill Lynch A/C 36641," his personal securities account.

66. Smith deposited the investor checks into his personal securities account at Merrill Lynch. He then used their money for his personal benefit and to repay investors, among other things.

67. From 2005 through 2008, Smith failed to properly respond to CRI's annual compliance certification. The form asked: "Do you or your spouse have any personal securities accounts at any other brokerage firm or other financial institution?" Smith falsely answered "No" in each instance. But C. Cantone was aware of Smith's personal Merrill Lynch securities account and corrected each of Smith's annual compliance certifications, indicating that Smith had a personal securities account at another brokerage firm. In fact, on the November 13, 2008 Annual Employee Certification, C. Cantone acknowledged that CRI received copies of statements for Smith's Cash Management Account at Merrill Lynch by making the notation, "We already receive CMA copies."

68. C. Cantone testified that she reviewed Smith's Merrill Lynch statement for the period of July 30, 2005 through August 31, 2005, in which there was an entry for August 23, 2005, noting a withdrawal due to returned deposit for \$300,000. This statement entry refers to a returned deposit for a check deposited on August 18, 2005 for \$300,000 from L.F. for the purchase of a HCFP Loan. L.F.'s check dated August 1, 2005 had bounced.

69. C. Cantone also received a copy of the correspondence from Merrill Lynch to Smith regarding L.F.'s check that was returned for insufficient funds. Enclosed with the correspondence was a copy of L.F.'s check with the memo "HCare Fin. Pt. Loan #348."

70. C. Cantone testified that when she questioned Smith about his deposits, Smith explained that the deposits and withdrawals were for personal real estate property transactions.

71. Even though L.F. was a client of CRI, C. Cantone failed to contact L.F. to ask why L.F. gave \$300,000 to Smith directly.

72. In February 2009, CRI received a letter from attorney Edward G. D'Alessandro Jr., Esq., on behalf of Smith's 90-plus year old customer L.F. concerning the HCFP Loan. Mr. D'Alessandro requested additional information and documents about HCFP and loans involving L.F., and an accounting of L.F. He also questioned the liquidity and suitability of the purported investment and dividend reinvestment, among other things. C. Cantone did not speak directly with Smith about the HCFP Loan until about a month later.

73. On April 3, 2009, Smith admitted to C. Cantone that the HCFP Loan was a "scam." C. Cantone immediately fired Smith.

74. In addition, Smith received customer funds and converted them for his own use.

75. Smith conducted HCFP loan-related activity from CRI's office. As set forth above, Smith had Richard type up certain HCFP Loan documents for customers. Smith also stored HCFP Loan documents in his personal CRI-issued filing cabinet located in his CRI office.

76. Despite the red flags, C. Cantone and CRI through C. Cantone failed to detect or prevent Smith's selling away. Smith's files were not examined until March 2009, when Smith's office was moved to a different floor due to CRI's relocation to a different space within the same office building. C. Cantone and CRI through C. Cantone failed to examine Smith's computer prior to Smith's admission that the HCFP Loans were a "scam." In addition, C. Cantone and CRI through C. Cantone failed to examine Richard's computer and files.

**D. Failure to Supervise**

77. CRI's Written Supervisory Procedures Manual dated February 18, 2009 ("WSPM") includes Section 11.2 titled "Responsibility" and states that "Responsibility for the Firm's supervisory system, policies, and controls includes the following: . . . [t]he Chief Compliance Officer (CCO) is responsible for establishing and maintaining the supervisory system, policies and procedures for all areas of the firm[;]. . . establishing and maintaining the supervisory system, policies and procedures other than financial and operations procedures[;] . . . establishing and maintaining systems, policies and controls regarding operations procedures."

78. It further provides that the "The ... CCO [is] responsible for developing and evaluating risk management procedures...."

79. C. Cantone was CRI's Chief Compliance Officer during the relevant period.

80. Accordingly, C. Cantone was responsible for approving the products sold by CRI and supervising the CRI agents, including her husband, A. Cantone, who offered and sold the unregistered 2005 and 2007 COPs to investors.

81. Based on the conduct above including, the offer and sale of the unregistered 2005 and 2007 COPs, C. Cantone failed to reasonably supervise CRI's agents who sold the certificates.

82. Based on the conduct above, C. Cantone also failed to reasonably supervise Smith, an agent of CRI, for whom she had supervisory responsibility.

**E. Books and Records**

83. 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.

84. Pursuant to 17 C.F.R. § 240.17a-3(a)(17), broker-dealers are required to maintain account record information that includes a customer's name, tax identification number, address, telephone number, date of birth, employment status (including occupation and whether the customer is an associated person of a member, broker or dealer), annual income, net worth, and the account's investment objectives.

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

86. 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."

87. 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."

88. 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."

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

90. 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.

91. As Chief Compliance Officer 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.

92. CRI and C. Cantone did not maintain the required books and records for a number of the COP investors.

#### **CONCLUSIONS OF LAW**

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

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

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

96. A. Cantone, CRI, and COC sold the unregistered 2005 COPs and 2007 COPs in violation of N.J.S.A. 49:3-60.

97. A. Cantone's, CRI's and COC's sale of the unregistered COPs constitute willful violations of the Securities Law under N.J.S.A. 49:3-58(a)(2)(ii).

98. C. Cantone failed to reasonably supervise agents for whom she had supervisory responsibility and to enforce procedures necessary to detect and prevent such conduct as enumerated in N.J.S.A. 49:3-58(a)(2)(xi).

99. C. Cantone and CRI failed to maintain books and records as required under N.J.S.A. 49:3-59(b).

100. C. Cantone's and CRI's violation of N.J.S.A. 49:3-59(b) constitutes a willful violation of the Securities Law under N.J.S.A. 49:3-58(a)(2)(ii).

101. A. Cantone, C. Cantone, and CRI violated N.J.A.C. 13:47A-6.3(a)(10), 13:47A-6.3(a)(16), 13:47A-6.3(a)(51), and 13:47A-6.3(a)(55), all of which constitute dishonest or unethical practices in the securities business under N.J.S.A. 49:3-58(a)(2)(vii).

102. The activities set forth herein are grounds, pursuant to N.J.S.A. 49:3-58(a), for the initiation of administrative proceedings.

THEREFORE, it is on this 13<sup>th</sup> day of June 2017, **ORDERED AND AGREED** that:

103. Anthony J. Cantone, Christine L. Cantone, Cantone Research, Inc., and Cantone Office Center, LLC shall hereby cease and desist from violating the Securities Law or any regulation or order under the Securities Law.

104. The agent and investment adviser representative registrations of Anthony J. Cantone are hereby suspended pursuant to N.J.S.A. 49:3-58 from November 20, 2015 through the execution of this Administrative Consent Order by all parties. Anthony J. Cantone may initiate the process of reinstating his agent and investment adviser representative registrations by filing Form U4. However, Anthony J. Cantone agrees not to apply with the Bureau in any capacity: (1) while he is the subject of a denial, suspension, revocation or the substantial equivalent of the Financial Industry Regulatory Authority ("FINRA") that is final in nature and not subject to appeal; and (2) until he pays any fines, penalties, and/or costs assessed against him by FINRA pursuant to a decision or order that is final in nature. None of the Findings of Fact or Conclusions of Law set forth in this Administrative Consent Order shall cause the Bureau to deny or unduly delay the application so long as Anthony J. Cantone has complied with and is not violating this Administrative Consent Order.

105. The agent registration of Christine L. Cantone is hereby suspended pursuant to N.J.S.A. 49:3-58 from November 20, 2015 through the execution of this Administrative Consent Order. Christine L. Cantone may initiate the process of reinstating her agent registration by filing Form U4. However, Christine L. Cantone agrees not to apply with the Bureau in any capacity: (1) while she is the subject of a denial, suspension, revocation or the substantial equivalent by FINRA that is final in nature and not subject to appeal; and (2) until she pays any fines, penalties, and/or costs assessed against her by FINRA pursuant to a decision or order that is final in nature. None of the Findings of Fact or Conclusions of Law set forth in this Administrative Consent Order shall cause the Bureau to deny or unduly delay the application so

long as Christine L. Cantone has complied with and is not violating this Administrative Consent Order.

#### ENGAGEMENT OF INDEPENDENT CONSULTANT

106. Respondents agree to engage an independent consultant (“Consultant”) for CRI to whom the Bureau does not object within seven days of the execution of this Administrative Consent Order. For purposes of this Section (which is entitled “Engagement of Independent Consultant”), “CRI” shall include any successor entity to CRI and any other broker-dealer owned, controlled by or affiliated with A. Cantone or C. Cantone.

107. The Consultant shall be made available to speak or meet with or provide any reports or documents to the Bureau upon request.

108. CRI will compensate the Consultant and persons engaged by the Consultant to assist at their reasonable and customary rates for services rendered.

109. To ensure the independence of the Consultant, Respondents agree that: (a) the Consultant shall not be a current or former an employee of CRI; (b) the Consultant shall not be in or have an attorney-client or agency relationship with CRI, COC, A. Cantone, C. Cantone or any of their agents (excluding attorneys), partners, employees, associates, successors, assigns, executors and/or administrators; (c) CRI, COC, A. Cantone, and C. Cantone shall not have the authority to terminate the Consultant prior to June 30, 2019; and (d) during the period of the Consultant’s engagement and for a period of two (2) years following the engagement, the Consultant shall not enter into any employment, customer, consultant, attorney-client, auditing, or other professional relationship with CRI, COC, A. Cantone, or C. Cantone.

110. The Consultant's responsibilities shall be to review, assess and provide recommendations as to the following aspects of CRI's business:

- (a) the compliance function;
- (b) policies and procedures;
- (c) the supervisory system; and
- (d) private placements or public offerings of securities being underwritten,

offered or sold by CRI. For private placements, the Consultant shall focus on the due diligence that is required by CRI's policies and procedures, and any determinations made as to the accreditation status of investors purchasing any such securities. Respondents agree that any CRI customers, clients and investors who are purchasing securities through any private placements, will be accredited as defined by 17 C.F.R. § 230.501. As to other offerings, such as registered public offerings or municipal bond offerings, the Consultant shall focus on the due diligence that is required by CRI's policies and procedures including any revisions thereto as recommended by the Consultant, and any determinations as to the suitability of that investment for that particular investor.

111. The Consultant shall document the results of the reviews, assessments and recommendations described above in a report ("Consultant Report") within three months of the signing of this Administrative Consent Order. The Consultant shall issue subsequent Consultant Reports as the Consultant deems appropriate but at a minimum on an annual basis until June 30, 2019. All Consultant Reports shall be made available to the Bureau upon request.

112. Within thirty (30) days of receipt of any Consultant Report, CRI shall respond in writing and identify to the Consultant the specific recommendations it accepts and agrees to

implement, as well as any recommendations that it considers to be unduly burdensome. For any recommendation in the Consultant Report that CRI considers to be unduly burdensome, CRI may make an alternative proposal designed to achieve the same objective or purpose.

113. CRI shall attempt in good faith to reach agreement with the Consultant with respect to any recommendation that CRI considers to be unduly burdensome. If CRI and the Consultant are unable to agree on a recommendation or an alternative proposal within sixty (60) days of CRI's receipt of any Consultant Report, the Consultant shall submit the Consultant Report to the Bureau, and CRI shall submit in writing to the Bureau any alternative proposal it made to the Consultant. The Bureau may at its option review the submissions and take any such action that it deems appropriate.

#### **SUPERVISION RESTRICTIONS**

114. A. Cantone and C. Cantone agree not to act in a supervisory capacity as to any compliance functions. A. Cantone is still permitted to act as owner and Chief Executive Officer of CRI and perform any supervisory functions that may be required by law and/or regulation in fulfillment of those positions.

115. A. Cantone and C. Cantone agree not to act in any supervisory capacity as to any individual acting as or registered as an agent and/or investment adviser representative. A. Cantone is still permitted to act as owner and Chief Executive Officer of CRI and perform any supervisory functions that may be required by law and/or regulation in fulfillment of those positions.

### ADDITIONAL PROVISIONS

116. The Bureau Chief also filed a Verified Complaint in Superior Court (“Complaint”) on November 20, 2015 against CRI, A. Cantone, C. Cantone and COC. The Bureau case was assigned Docket No. ESX-C-252-15 (“Superior Court Action”). The Superior Court Action is being settled concurrently with this matter by way of a separate Consent Order and Final Judgment (“Final Judgment”) that is incorporated by reference. Respondents agree that any violation of the Final Judgment will constitute a violation of this Administrative Consent Order.

117. Upon entry of the Final Judgment in the Superior Court and the execution of this Administrative Consent Order, the Final Judgment and the Administrative Consent Order shall supersede the handwritten Settlement Term Sheet (“Term Sheet”) that was entered into by the Bureau Chief, CRI, COC, A. Cantone and C. Cantone at mediation on February 27, 2017.

118. This Administrative Consent Order shall supersede the Summary Revocation Order and, pursuant to N.J.A.C. 1:1-19.1(d), this Administrative Consent Order shall be deemed the final decision as to Respondents. A. Cantone’s and C. Cantone’s Answer to the Summary Revocation Order is deemed withdrawn.

119. If A. Cantone and/or C. Cantone fails to comply with or violates any provision of this Administrative Consent Order or the Final Judgment, the Bureau Chief may take action permitted by law including, but not limited to, entering a summary order: revoking or suspending the agent and investment adviser representative registrations of A. Cantone pursuant to N.J.S.A. 49:3-58; revoking or suspending the agent registration of C. Cantone pursuant to N.J.S.A. 49:3-58; denying Respondents all exemptions in N.J.S.A. 49:3-50 subsection (a) paragraphs 9, 10 and

11 and subsection (b); and/or revoking and Respondents' exemptions to the registration requirements provided by N.J.S.A. 49:3-56(b), N.J.S.A. 49:3-56(c) and N.J.S.A. 49:3-56(g). In that event, Respondents' right(s) to answer, oppose, contest, move to vacate, assert defenses, seek judicial review, appeal, request a hearing or otherwise challenge such action by the Bureau Chief are deemed waived.

120. This Administrative Consent Order is fully integrated. This Administrative Consent Order and the Final Judgment and contain the entire settlement terms between A. Cantone, C. Cantone, CRI, COC and the Bureau Chief. No employee, attorney, official or representative of the Bureau or the State of New Jersey has made any additional promise or representation to Respondents regarding this Consent Order.

121. This Administrative Consent Order is to be filed with the Clerk of the Office of Administrative Law, as required by N.J.A.C. 1:1-19.1(c)(2), as soon as practicable after it is executed.

122. This Administrative Consent Order does not bind or affect the rights of any person or entity not a party hereto. Nothing in this Administrative Consent Order shall limit or affect a claim by any third party against Respondents.

123. Respondents agree that for purposes of this matter or future proceedings to enforce this Administrative Consent Order that this Administrative Consent Order shall have the same effect as if proven and ordered after a full hearing pursuant to N.J.S.A. 52:14B-1 et seq.

124. New Jersey law shall govern this Administrative Consent Order and enforcement thereof. All proceedings arising out of this Administrative Consent Order shall be held in New Jersey.

125. Respondents represent that: they have read this Administrative Consent Order, they understand it, they understand its practical and legal effects, and they agree to be bound by its terms. Respondents represent that they have consulted with counsel before entering into this Administrative Consent Order.

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

127. In consideration of Respondents' desire to resolve the issues herein and having full opportunity to consult with counsel, Respondents hereby consent to the jurisdiction of the Bureau and to the entry of this Administrative Consent Order. Respondents also voluntarily waive any right to assert any defenses or to raise any challenge that they otherwise may have had to this Administrative Consent Order. Furthermore, Respondents voluntarily waive an opportunity for a hearing after reasonable notice within the meaning of N.J.S.A. 49:3-58(c)(2).

128. If any portion of this Administrative Consent Order is held invalid or unenforceable by operation of law or court order, the remaining terms of this Administrative Consent Order shall remain in full force and effect.

129. This Administrative Consent Order is not intended by the Bureau to subject any Respondent to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands including, without limitation, any disqualification from relying upon the state or federal registration exemptions or safe harbor provisions.

130. This Administrative Consent Order may be modified or amended only by a written instrument signed by Respondents and the Bureau Chief and/or their respective counsel.

131. Respondents shall not represent or imply that any act or practice hereinafter used or engaged in by Respondents has been required or approved, in whole or part, by the State of New Jersey, the Attorney General of New Jersey, the Division of Law, the Bureau or any New Jersey agencies, agents, employees or subdivisions.

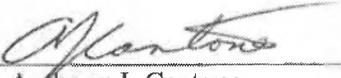
132. This Administrative Consent Order may be signed in counterparts and/or by facsimile, each of which shall be deemed an original.



Amy G. Kopieton  
Deputy Chief, New Jersey Bureau of Securities

Consent to the Form, Content and  
Entry of this Administrative Consent Order

ANTHONY J. CANTONE  
766 Shrewsbury Ave.  
Tinton Falls, New Jersey 07724

By:   
Anthony J. Cantone

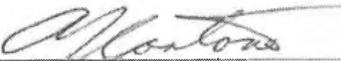
Dated: June 9, 2017

CHRISTINE L. CANTONE  
766 Shrewsbury Ave.  
Tinton Falls, New Jersey 07724

By:   
Christine L. Cantone

Dated: June 9, 2017

CANTONE RESEARCH, INC.  
766 Shrewsbury Ave.  
Tinton Falls, New Jersey 07724

By:   
Anthony J. Cantone  
President and Chief Executive Officer

Dated: June 9, 2017

CANTONE OFFICE CENTER LLC  
766 Shrewsbury Ave.  
Tinton Falls, New Jersey 07724

By:   
Anthony J. Cantone  
Managing Member

Dated: June 9, 2017

CHIESA, SHAHINIAN & GIANTOMASI, P.C.  
One Boland Drive  
West Orange, New Jersey 07052

*Counsel to Respondents Anthony J. Cantone, Christine L. Cantone,  
Cantone Research, Inc. and Cantone Office Center, LLC*

By:   
A. Ross Pearlson, Esq.  
(Attorney Id. # 041851994)

Dated: June 8, 2017

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ATTORNEY GENERAL OF NEW JERSEY  
Division of Law  
124 Halsey Street, 5th Floor  
P.O. Box 45029  
Newark, New Jersey 07101

*Counsel for the New Jersey Bureau of Securities*

By:   
Joshua I. Sherman  
Deputy Attorney General  
(Attorney Id. # 023432004)

Dated: June 13, 2017