

BEFORE THE NATIONAL ADJUDICATORY COUNCIL  
FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the Association of Alex J. Drost as a Non-Registered Fingerprinted Individual with Cascade Partners BD, LLC	<u>Notice Pursuant to Rule 19h-1 Securities Exchange Act of 1934</u>  SD-2078  September 13, 2017
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**I. Introduction**

On September 4, 2015, Cascade Partners BD, LLC (the “Firm”) filed a Membership Continuance Application (“MC-400” or “Application”) with FINRA’s Department of Registration and Disclosure (“RAD”), seeking to permit the association of Alex J. Drost (“Drost”), a person subject to a statutory disqualification, as a non-registered fingerprinted individual. A hearing was not held in this matter. Rather, pursuant to FINRA Rule 9523(a), Member Regulation recommended that the Chair of the Statutory Disqualification Committee, acting on behalf of the National Adjudicatory Council, approve Drost’s proposed association with the Firm pursuant to the terms and conditions set forth below.

We approve the Application to permit Drost to associate with the Firm as a non-registered fingerprinted individual. As set forth below, we agree with Member Regulation that, although Drost’s statutorily disqualifying felony conviction involved serious misconduct, approval of the Application is appropriate because: (1) almost nine years have elapsed since Drost’s felony conviction; (2) Drost’s felony conviction occurred when he was a teenager and since that time, he has successfully completed five years’ of probation, graduated from college with honors, became a licensed accountant, and is currently pursuing a masters in finance; (3) the record does not show any misconduct by Drost since his felony conviction; (4) Drost’s proposed activities at the Firm will be limited; (5) the Firm and Drost’s proposed supervisors can adequately supervise him and have clean histories; and (6) the Firm has agreed to a stringent heightened supervisory plan for Drost.

## II. Drost's Statutorily Disqualifying Event

Drost is statutorily disqualified because on August 15, 2008, he pleaded guilty in Michigan to one felony count of Accosting, Enticing or Soliciting Child for Immoral Purpose.<sup>1</sup> In connection with this conviction, the court ordered Drost to pay \$3,552 in charges and fees and \$2,432 in restitution to the victim. The court also sentenced him to nine months in jail and to five years of probation.<sup>2</sup> Drost successfully completed his probation in July 2013 (which included counseling), and he has paid all costs, fees, and restitution.

Drost's felony conviction stems from his October 2007 arrest for having relations of a sexual nature with a 14 year-old female while he was 18 years old. Drost was charged with three felonies, and at his plea hearing he testified that he kissed the victim and touched her buttocks. In the Application, Drost states that he was offered a plea bargain "which would allow me to finally put all of these issues in the past. . . . While this outcome wasn't preferable, it was finally the end to what is arguably the worse [sic] chapter in my life." Drost further states that his history after the felony conviction (described below) demonstrates that the events underlying his statutory disqualification "do not define who I am as a person, both personally and professionally."

## III. Drost's Background and Employment History

Drost has never maintained a securities industry registration and he has never worked for a broker-dealer.

Drost states that he opened his first business, a paintball center that grew from a small backyard operation into a year-round operation specializing in group rentals and special events, when he was 14 years old. Drost sold his business in 2010 and enrolled at Northwood University. Drost graduated *magna cum laude* with a degree in business administration in May 2013. He became a licensed accountant in Michigan in June 2015, and is currently enrolled in a masters in finance program at Walsh College.

In May 2014, Drost began working for Cascade Partners, LLC ("Cascade Partners"). Cascade Partners is a private equity firm engaging in divestitures, mergers and acquisitions, financings, and recapitalizations. It is the parent company of the Firm and is not a registered broker-dealer. Cascade Partners has three offices (including one in Southfield, Michigan that it

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<sup>1</sup> FINRA's By-Laws provide that a person is subject to "disqualification," and thus must seek and obtain FINRA's approval prior to associating with a member firm, if he is disqualified under Section 3(a)(39) of the Securities Exchange Act of 1934 ("Exchange Act"). See FINRA By-Laws, Article III. Exchange Act Section 3(a)(39)(F) provides that a person is subject to a statutory disqualification if he has been convicted of any felony within 10 years of the date of the filing of an application to associate with a member firm.

<sup>2</sup> Drost was incarcerated for 183 days in connection with his sentence. He was also required under Michigan law to register as a sex offender for 25 years. Drost is currently in compliance with his registration requirements under Michigan law.

shares with the Firm). Drost's current activities at Cascade Partners consist of financial modeling, analytics, and data analysis to support Cascade Partners' business. Specifically, the Firm represents that in connection with his activities for Cascade Partners, Drost creates financial models based upon institutional clients' financial documents to develop an understanding of business trends and the financial dynamics of each client's business. The Firm further represents that Drost provides services for the sale of assets or businesses and not the sale of securities or financing activities of the Firm (and that Drost's activities at Cascade Partners do not relate to transactions or services that require securities registration). The Firm represents that Drost is paid by Cascade Partners and that none of the compensation he receives is connected to any securities-related activities.

Other than Drost's disqualifying felony conviction, the record shows no other criminal, disciplinary or regulatory proceedings, complaints, or arbitrations against him.

#### **IV. The Firm**

##### **A. Background**

The Firm is based in Southfield, Michigan and has been a FINRA member since May 2009. It is a limited broker-dealer approved to engage in private placements and merger and acquisition advisory services, and Member Regulation states that it does not service retail customers. The Firm has one registered office, which also functions as its Office of Supervisory Jurisdiction ("OSJ"). The Firm employs seven registered representatives and two registered principals. The Firm does not employ any other statutorily disqualified individuals.

##### **B. The Firm's Regulatory History**

FINRA has examined the Firm twice in the past five years. In December 2015, in connection with FINRA's 2015 cycle examination of the Firm, FINRA issued it a Cautionary Action. FINRA cited the Firm for failing to evidence its evaluation of the outside business activities of three of its registered representatives. The Firm responded in writing that it corrected this deficiency and changed its supervisory procedures.

In 2011, FINRA conducted a cycle examination of the Firm. No exceptions were noted during this examination.

#### **V. Drost's Proposed Business Activities and Supervision**

##### **A. Drost's Activities and Supervisors**

The Firm proposes that Drost will associate with it as a non-registered fingerprinted individual in its Southfield, Michigan office. Drost will essentially provide the same services that he currently provides for Cascade Partners for the Firm by providing support to the Firm in preparing financial models for private equity funds and banks to be used by the Firm's registered individuals in connection with securities and broker-dealer-related transactions. Drost will remain an employee of Cascade Partners, and will continue to be paid a salary by Cascade Partners plus a discretionary bonus based upon Cascade Partners' overall profitability and

Drost's personal performance. Member Regulation states that Drost will not receive commissions tied to the sale of securities.

The Firm proposes that Drost will be supervised on-site by Rajesh Kothari ("Kothari"). Kothari owns Cascade Partners (which in turn owns the Firm), and he serves as the Firm's chief executive officer, chief compliance officer, chief financial officer, financial operations principal, and Anti-Money Laundering Compliance Officer. Kothari entered the securities industry in 2007 when he registered with the predecessor to the Firm (Seneca Partners BD, LLC). He registered as a general securities representative in July 2008, as a general securities principal in August 2008, and as an introducing broker-dealer financial and operations principal in December 2008. Kothari also passed the uniform securities agent state law examination in August 2008. The record shows no criminal, disciplinary or regulatory proceedings, complaints, or arbitrations against Kothari.

The Firm represents that Kothari currently supervises eight individuals at the Firm (four managing directors, two directors, one senior associate, and one administrative assistant), and that he supervises Drost's activities at Cascade Partners. Kothari's Uniform Application for Securities Industry Registration or Transfer ("Form U4") lists several outside business activities, which include serving as the chief executive officer and managing director of Cascade Partners (to which he devotes 75% of his time).

The Firm also represents that when Kothari is out of the office, Kenneth Marblestone ("Marblestone") will serve as Drost's supervisor. Marblestone works from a non-registered location in Pepper Pike, Ohio, and the Firm represents that he has more than 25 years of experience in the financial industry. Marblestone qualified as an investment company and variable contracts products limited representative in March 2000, as a general securities representative in July 2001 (and requalified in August 2015), and as a general securities principal in November 2001 (and requalified in June 2017). He also passed the uniform combined state law examination in February 2002 and the uniform securities agent state law examination in June 2015. Marblestone joined the Firm in March 2015 and he was previously registered with one other firm. Marblestone lists on his Form U4 three outside business activities to which he devotes approximately nine hours per month. The record shows no criminal, disciplinary or regulatory proceedings, complaints, or arbitrations against Marblestone.

B. Proposed Plan of Supervision

The Firm proposes the following plan of heightened supervision for Drost:

\* \* \*

1. The written supervisory procedures for the Firm will be amended to state that Kothari will be Drost's primary supervisor;
2. Drost will not act in a supervisory capacity;
3. Drost will operate from the Firm's OSJ (29100 Northwestern Hwy., Suite 405, Southfield, MI 48034) under the direct supervision of Kothari;

4. Drost will not be permitted to solicit investors;
5. If Kothari is to be on vacation or out of the office for an extended period, Marblestone will act as Drost's interim supervisor;
6. All complaints pertaining to Drost, whether verbal or written, will be immediately referred to Kothari. Kothari will prepare a memorandum to the file as to what measures he took to investigate the merits of the complaint (e.g., contact with customer) and the resolution of the matter. Documents pertaining to these complaints should be kept segregated for ease of review during any statutory disqualification examination;
7. For the duration of Drost's statutory disqualification, the Firm will obtain prior approval from Member Regulation if it wishes to change Drost's responsible supervisor from that supervisor to another person;
8. For the duration of Drost's statutory disqualification, Kothari and Drost will meet monthly to discuss and review Drost's work product from the preceding month that is to be used by the Firm's registered representatives. Kothari will prepare a memorandum of each such meeting and preserve it in a readily accessible place for review during any statutory disqualification examination;
9. Kothari will review all of Drost's incoming and outgoing written correspondence (which will include e-mail communications) monthly;
10. For the duration of Drost's statutory disqualification, Drost will not be permitted to participate in verbal communications with the Firm's clients concerning the business of the broker-dealer without Kothari being present, or if Kothari is unavailable, another registered representative of the Firm;
11. For the purposes of client communication, Drost will only be allowed to use an e-mail account that is held at the Firm, with all emails being filtered through the Firm's e-mail system. If Drost receives a business-related e-mail message in another e-mail account outside the Firm, he will immediately deliver that message to the Firm's e-mail account. Also, Drost will inform the Firm of all outside e-mail accounts which he maintains and will provide the Firm access to the accounts upon request. The e-mail messages are to be preserved and kept segregated for ease of review during any statutory disqualification examination;
12. For the duration of Drost's statutory disqualification, Drost will certify that he is in compliance with any statutory requirements that Drost may be subject to pursuant to Michigan Sex Offender Registration Act. The certifications are to be preserved and kept segregated for ease of review during any statutory disqualification examination;

13. Drost will certify, monthly that he is complying with the Firm's procedures and processes-including the Firm's WSPs addressing the use and handling of confidential client information. Additionally, the Firm will restrict Drost's access to information concerning public company clients so that he will need specific permission for access to this type of information from Kothari or the alternate supervisor; and
14. Kothari will certify on a quarterly basis (i.e., March 31st, June 30th, September 30th, and December 31st), that the Firm is in compliance with all the above conditions of heightened supervision to be accorded to a disqualified individual. Additionally, Drost will certify on a quarterly basis (i.e., March 31st, June 30th, September 30th, and December 31st), that he is in compliance with all the above conditions of heightened supervision.

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## **VI. Member Regulation's Recommendation**

Member Regulation recommends that the Application be approved, subject to the specified terms and conditions of heightened supervision over Drost described above.

## **VII. Discussion**

### **A. The Legal Standard**

In reviewing this type of application, we consider whether the particular felony at issue, examined in light of the circumstances related to the felony, and other relevant facts and circumstances, creates an unreasonable risk of harm to the market or investors. We assess the totality of the circumstances in reaching a judgment about Drost's future ability to associate with a FINRA firm in a manner that comports with FINRA's requirements for high standards of commercial honor and just and equitable principles of trade in the conduct of his business. In so doing, we recognize that the sponsoring firm has the burden of demonstrating that the proposed association of the statutorily disqualified individual is in the public interest and does not create an unreasonable risk of harm to the market or investors. *See Continued Ass'n of X*, SD06003, slip op. at 5 (NASD NAC 2006) (redacted decision), [http://www.finra.org/sites/default/files/NACDecision/p036480\\_0.pdf](http://www.finra.org/sites/default/files/NACDecision/p036480_0.pdf). Factors that bear on our assessment include the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, whether the person has engaged in any intervening misconduct, and the potential for future regulatory problems. We also consider whether the sponsoring firm has demonstrated that it understands the need for, and has the capability to provide, adequate supervision over the statutorily disqualified person.

B. The Firm Has Satisfied its Burden

After carefully reviewing the entire record in this matter, including the representations made by the Firm and Member Regulation, we find that the Firm has met its burden and we conclude that Drost's association with the Firm in a non-registered capacity will not present an unreasonable risk of harm to the market or investors. Accordingly, we approve the Application, subject to the supervisory terms and conditions detailed herein.

We recognize that Drost's disqualifying event involved a felony and troubling misconduct. However, we agree with Member Regulation that a number of factors support approval of the Application notwithstanding the seriousness of Drost's felony conviction, which is not related to securities or the financial services industry. Drost was convicted almost nine years ago as an 18 year-old, and in the time since his conviction he has not engaged in any intervening misconduct and has taken positive steps to improve his life. Indeed, since his conviction, Drost has graduated from college with honors, obtained his accountant's license in Michigan, started a master's program, and worked at Cascade Partners for three years without incident.<sup>3</sup> Moreover, Drost successfully completed the terms of his probation in 2013 and he remains in compliance with the sex offender registration requirement.<sup>4</sup> These factors, when combined with the plan of heightened supervision proposed by the Firm, Drost's proposed supervisors, and Drost's limited role and responsibilities at the Firm, lead us to conclude that Drost's proposed association with the Firm does not create an unreasonable risk of harm to the investing public. *Cf. Timothy P. Pedregon, Jr.*, Exchange Act Release No. 61791, 2010 SEC LEXIS 1164, at \*26 (Mar. 26, 2010) (affirming FINRA's denial of an application to employ a disqualified individual based upon, among other things, the recency of individual's felony conviction and his failure to show that he had rehabilitated himself).

We have also considered that the scope of Drost's activities at the Firm and that his contact with Firm customers will be limited. As described above, Drost will be involved with financial modeling, and his contact with the Firm's customers will be limited to collecting information and financial documents from the Firm's institutional customers to be used in connection with preparing financial models. Under the circumstances, we do not believe that Drost's association with the Firm would pose any undue risk of harm to investors or the marketplace.

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<sup>3</sup> Member Regulation represents that in order to become licensed as an accountant in Michigan, an applicant must demonstrate good moral character and that felony convictions are considered when making that assessment.

<sup>4</sup> We have also considered Member Regulation's assertion that the sentence imposed by the court in connection with Drost's felony was "a fraction of what could have been imposed," but we give no significance to this observation.

Finally, we find that the Firm has no disciplinary history and amended its procedures to cure the one deficiency noted as a result of its 2015 examination. Kothari and Marblestone are qualified to supervise Drost pursuant to the proposed heightened supervisory plan. They both have records without disciplinary history and sufficient experience to supervise a statutorily disqualified individual such as Drost.<sup>5</sup> The Firm represents that both Kothari and Marblestone have “more than 20 years of experience conducting and completing financial analysis and models for merger and acquisition transactions and financing, including building financial models” and that both currently review financial models for all members of the Firm as part of their duties at the Firm. The Firm has proposed a comprehensive supervisory plan to supervise Drost’s activities at the Firm.

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FINRA certifies that: (1) Drost meets all applicable requirements for the proposed employment; (2) the Firm does not employ any other statutorily disqualified individuals; and (3) the Firm represents that Drost and Kothari, and Drost and Marblestone, are not related by blood or marriage.

### VIII. Conclusion

Accordingly, we approve the Firm’s Application for Drost to associate with it as a non-registered fingerprinted individual, subject to the above-mentioned heightened supervisory procedures. In conformity with the provisions of Exchange Act Rule 19h-1, the association of Drost as a non-registered employee with the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the Commission.

On Behalf of the National Adjudicatory Council,



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Jennifer Mitchell Piorko  
Vice President and Deputy Corporate Secretary

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<sup>5</sup> Although Kothari supervises eight other individuals at the Firm and has a number of duties in his various roles at the Firm and Cascade Partners, Member Regulation has represented that under the circumstances it believes that he can adequately supervise Drost (which he has been doing since Drost joined Cascade Partners) notwithstanding Kothari’s other roles and duties. Member Regulation has also represented that it believes that Marblestone can adequately supervise Drost when Kothari is unavailable from an off-site location. Generally, supervisors of statutorily disqualified individuals must be in close physical proximity to the disqualified individual. See *Timothy H. Emerson, Jr.*, Exchange Act Release No. 60328, 2009 SEC LEXIS 2417, at \*19 (July 17, 2009). However, under the facts and circumstances of this case and given Drost’s limited proposed role at the Firm, we find that Marblestone can adequately serve as Drost’s backup supervisor.





**Andrew J. Love**  
Associate General Counsel

Direct: (202) 728-8281  
Fax: (202) 728-8264

September 13, 2017

**VIA MESSENGER**

Brent J. Fields, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Room 10915  
Washington, DC 20549

**RE: SD-2078: In the Matter of the Association of Alex J. Drost with Cascade Partners BD, LLC**

Dear Mr. Fields:

Enclosed please find notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 in the matter of the association of Alex J. Drost with Cascade Partners BD, LLC.

Very truly yours,

Andrew J. Love

Enclosures

cc: Ann-Marie Mason, Esq.  
Lorraine Lee-Stepney  
Rajesh Kothari  
Raymond Henney, Esq.  
Brennan Love



Financial Industry Regulatory Authority

Andrew J. Love  
Associate General Counsel

Direct: (202) 728-8281  
Fax: (202) 728-8264

September 13, 2017

**VIA First Class Mail And Certified Mail**

Rajesh Kothari  
Cascade Partners BD, LLC  
29100 Northwestern Hwy., Suite 405  
Southfield, MI 48034

Raymond W. Henney  
Honigman Miller Schwartz & Cohn, LLP  
2290 First National Building  
660 Woodard Avenue  
Detroit, MI 48226

RE: **SD-2078: In the Matter of the Association of Alex Drost with Cascade Partners BD, LLC**

Dear Parties:

Enclosed please find notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934. Subject to FINRA Rule 9524(b)(3), the notice approves Cascade Partners BD, LLC's application to associate with Alex J. Drost as described therein.

**Please note that pursuant to FINRA Rule 9524(b)(3), the notice shall be effective only after the Securities and Exchange Commission issues an acknowledgement letter.** You will receive separate notification of any subsequent acknowledgement letter.

Very truly yours,

A blue ink signature of Andrew Love, consisting of a stylized, cursive "A" followed by "Love".

Andrew Love

cc: Lorraine Lee-Stepney  
Brennan Love

**List of Attachments to Notice Pursuant to Rule 19h-1**

**In the Matter of the Association of**

**Alex J. Drost  
with  
Cascade Partners BD, LLC**

**SD-2078**

<b>TAB</b>	<b>DESCRIPTION</b>
<b>A</b>	<b><u>APPLICATION DOCUMENTS</u></b>
	Membership Continuance Application (Form MC-400), dated September 4, 2015
<b>B</b>	<b><u>REGISTRATION RECORDS</u></b>
	CRD snapshot for Alex J. Drost, printed September 12, 2017 CRD snapshot for Rajesh Kothari, printed September 12, 2017 CRD snapshot for Cascade Partners BD, LLC, printed September 12, 2017
<b>C</b>	<b><u>DISQUALIFICATION DOCUMENTS</u></b>
	Order of Probation and Motion & Order for Discharge from Probation for Alex J. Drost, 55 <sup>th</sup> Circuit Court – Clare County, State of Michigan, Case No. 07003291-FH, dated August 18, 2008 and July 18, 2013
<b>D</b>	<b><u>FINRA PROCEEDINGS</u></b>
	Memorandum from Member Regulation to Andrew Love attaching their proposed Rule 19h-1 Notice and Exhibits 1-22, dated March 28, 2017
	Communications with FINRA Member Regulation (with attachments), various dates