

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009020356901**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: ACE Diversified Capital, Inc., Respondent
Member Firm
CRD No. 41768

Lynnwood Jen, Respondent
General Securities Representative
General Securities Principal
Equity Trader
CRD No. 2198343

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents ACE Diversified Capital, Inc. ("ACE" or the "Firm") and Lynnwood Jen ("Jen") (collectively, the "Respondents") submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

ACE has been a FINRA member firm since July 1997. The Firm conducts a general securities business and currently employs 25 associated persons. It has no relevant disciplinary history.

Jen first became registered with FINRA as a General Securities Representative ("GSR") in March 1995 through his association with a FINRA member firm. Subsequently, he was associated with several member firms and registered as a

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GSR and a General Securities Principal ("GSP"). Since August 1996, Jen has been associated with ACE. He is currently registered as a GSR, GSP, and an Equity Trader. He is the Firm's President and Chief Compliance Officer. He does not have relevant disciplinary history.

OVERVIEW

From August 2008 through December 2008, ACE, acting through Jen, failed to establish, maintain, and enforce a supervisory system and/or written supervisory procedures ("WSPs") that were reasonably designed to achieve compliance with applicable laws, rules and regulations concerning the sale of interests in private placements. Specifically, as a result of the Firm's deficient WSPs, ACE and Jen failed to conduct adequate due diligence in their sale of interests in Medical Capital Holdings, Inc. ("MedCap"). As a result, ACE and Jen violated NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010. Additionally, ACE violated Membership and Registration Rule 1017, NASD Conduct Rule 2110, and FINRA Rule 2010 when it sold interests in MedCap, as this constituted a material change in its business operations that was not permitted under the terms of its membership agreement.

FACTS AND VIOLATIVE CONDUCT

Medical Capital Holdings, Inc.

MedCap was a medical receivables financing company based in Anaheim, California. MedCap's core business was to provide financing to healthcare providers by purchasing their accounts receivable and making secured loans to the providers.

In 2001, MedCap began raising funds for its operations through the sales of promissory notes through FINRA-registered firms. These notes were securities that were not registered with the U.S. Securities and Exchange Commission ("SEC") but were sold under the registration exemption provided by Rule 506 of Regulation D of the Securities Act of 1933. Pursuant to the private placement memoranda for the offerings, the notes could be sold only to accredited investors.

From 2001 through 2009, MedCap raised approximately \$2.2 billion from over 20,000 investors through nine Regulation D private placements offered through FINRA firms and other sales avenues. Each investor purchased a minimum of \$25,000.00 in promissory notes with maturities ranging from one to seven years. The notes promised annual interest rates from 8.25% to 10.50%.

MedCap made all interest and principal payments on these Regulation D offerings until July 2008. At that time, MedCap began experiencing liquidity problems and stopped making payments on two of its earlier offerings. Nevertheless, MedCap proceeded with its last Regulation D offering, called Medical Provider Funding Corporation VI ("MPFC VI"), which it offered through an August 5, 2008 private placement memorandum (the "PPM"). In this offering, MedCap sought to sell up to \$400,000,000.00 of promissory notes with two, three and six-year terms, with interest rates ranging from 9% to 9.5%. MPFC VI differed from some of MedCap's earlier offerings in several respects, including allowing MedCap to use up to 40% of the proceeds raised to invest in businesses other than medical receivables and limiting the trustee's power to oversee MedCap's operations.

In July 2009, the SEC filed a civil injunctive action in federal district court in which it sought and was granted a preliminary injunction to stop all MedCap sales. The SEC alleged that MedCap and its executives defrauded investors in MPFC VI by misappropriating approximately \$18.5 million of investor funds. The SEC also alleged that MedCap had misrepresented that it had never defaulted on or had been late in making interest or principal payments, when in fact MedCap had defaulted or was late in paying nearly \$1 billion in principal and interest on the notes from its Regulation D offerings. The court appointed a receiver to gather and conduct an inventory of MedCap's remaining assets. The SEC action is pending.

The Firm's Sales of MedCap Notes

On July 31, 2008, ACE, acting through Jen, executed an agreement to market and sell the MPFC VI notes. Thereafter, from approximately August 20, 2008 through December 19, 2008, the Firm sold \$677,262.00 of MPFC VI notes to seven customers. These sales generated approximately \$30,476.00 in commissions, of which \$21,727.00 were received by the only two registered representatives who sold MedCap notes.

A. Membership Rule Violations

At the time of the MedCap sales, ACE's Membership Agreement did not permit it to engage in the sale of any private placements. By selling MPFC VI notes from August 2008 through December 2008, ACE effected a material change in its business operations without applying for FINRA's approval to do so. As a result, ACE violated Membership and Registration Rule 1017, NASD Conduct Rule 2110, and FINRA Rule 2010.

B. Supervisory Violations

As Chief Compliance Officer and the President of ACE throughout the relevant time period, Jen was responsible for ensuring that ACE established, maintained and enforced a supervisory system and/or WSPs reasonably designed to achieve compliance with applicable laws, rules, and regulations.

During the relevant period, although the Firm was not approved to sell interests in private placements, it maintained WSPs pertaining to the sales of private placements. These WSPs were inadequate, however, in the following respects:

- The Firm's WSPs required a designated supervisor to review and approve potential investors to ensure that "potential accredited investors meet established guidelines," but the procedures did not describe what constitutes "established guidelines";
- The Firm's WSPs contained a section for due diligence of private placement offerings but it did not specify what activities by Firm personnel were required to satisfy the due diligence requirement; and
- The Firm's WSPs contained a section for suitability under private placements that required each offering to have "specific suitability standards" but apart from describing investor's income and net worth, and the completion of subscription agreements in some instances, and a customer affirmation stating that the customer meets "minimum suitability standards" in other instances, the procedures did not include any other criteria for assessing customer suitability with regard to the sale of interests in private placements.

In addition to its deficient WSPs, the Firm, acting through Jen, failed to conduct adequate due diligence on the MedCap offering. For instance, Jen did not research the past performance of MedCap. He reasonably should have known that, in July 2008, MedCap had defaulted on two of its earlier notes offerings and that, therefore, the PPM misrepresented MedCap's past performance. Consequently, he failed to take reasonable steps to ensure that the Firm's registered representatives disclosed those missed payments to investors and prospective investors in the MPFC VI notes.

By failing to establish, maintain, and enforce a supervisory system and WSPs that were reasonably designed to achieve compliance with applicable laws, rules, and regulations, ACE and Jen violated NASD Conduct Rules 3010 and 2110, and FINRA Rule 2010.

B. Respondents also consent to the imposition of the following sanctions:

- Jen is suspended from association with any FINRA member in a principal capacity for 15 business days; and
- Jen and the Firm are jointly and severally fined \$25,000.00.

Respondents agree to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondents have submitted an Election of Payment form showing the method by which they propose to pay the fine imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

Respondent Jen understands that if he is suspended from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, he may not be associated with any FINRA member in a principal capacity during the period of the suspension (see FINRA Rules 8310 and 8311). Furthermore, because he is subject to a statutory disqualification during the suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against Respondents;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;

- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondents further specifically and voluntarily waive any right to claim that a person violated the *ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144*, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondents understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to *FINRA Rule 9216*;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents;
- C. If accepted:
 - 1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondents;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondents' disciplinary record;

3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. Respondents may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondents may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects my right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party; and

D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; Respondent Jen certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Respondents certify that they have agreed to its provisions voluntarily; and that no offer, threat or inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce Respondents to submit it.

02/14/2011
Date (mm/dd/yyyy)

Lynnwood Jen
Lynnwood Jen, Respondent

02/14/2011
Date

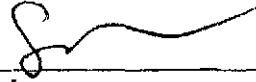
Lynnwood Jen
Ace Diversified, Respondent
By: Lynnwood Jen
President and Chief Compliance Officer

Accepted by FINRA:

4/6/2011

Date

Signed on behalf of the
Director of ODA, by delegated authority



Soo H. Im
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