

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

CHARLES ROBERT COBB
(CRD No. 1505020),

and

CURTIS MICHAEL WORRELL
(CRD No. 1084980),

RESPONDENTS.

DISCIPLINARY PROCEEDING
No. 2012032740401

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. From in or about November 2007 through in or about October 2008, while registered with FINRA member firm Madison Avenue Securities, Inc. ("Madison Avenue" or the "Firm"), and acting outside the scope of his employment with the Firm, Respondent Charles Robert Cobb ("Cobb") participated in five private securities transactions totaling \$486,168 in sales, from which he received \$20,736 in selling compensation, without providing prior notice to Madison Avenue of his proposed roles in, or the selling compensation that he may receive from, the transactions. Furthermore, on his 2007 and 2008 Annual Compliance Acknowledgements, Cobb falsely stated that he had not engaged in any private securities transactions away from Madison Avenue. As a result of the foregoing, Cobb violated NASD Conduct Rules 3040 and 2110 and FINRA Rule 2010.

2. From in or about January 2008 through in or about October 2008, while registered with Madison Avenue, and acting outside of the scope of his employment with the Firm, Respondent Curtis Michael Worrell ("Worrell") participated in nine private securities transactions totaling \$1,179,885 in sales, from which he received \$46,492 in selling compensation, without providing prior notice to Madison Avenue of his proposed roles in, or the selling compensation that he may receive from, the transactions. Furthermore, on his 2008 Annual Compliance Acknowledgement, Worrell falsely stated that he had not engaged in any private securities transactions away from Madison Avenue. As a result of the foregoing, Worrell violated NASD Conduct Rules 3040 and 2110 and FINRA Rule 2010.

RESPONDENTS AND JURISDICTION

3. Cobb first became registered with FINRA as a General Securities Representative in May 1986. Between November 2007 and October 2008, Cobb was registered in that capacity through Madison Avenue. On July 2, 2012, Madison Avenue filed a Uniform Termination Notice for Securities Industry Registration ("Form U5") terminating Cobb's registration for recommending "products to customers that were not on the firm's list of approved products without notifying the firm or receiving approval prior to conducting this activity." Since August 2012, Cobb has been registered with FINRA through other member firms.
4. Worrell first became registered with FINRA as an Investment Company Products/Variable Contracts Representative in January 1983 and additionally as a Direct Participation Programs Representative in September 1983. Between January 2008 and October 2008, Worrell was registered in those capacities through Madison Avenue. On June 29, 2012, Madison Avenue filed a Form U5 terminating Worrell's registration for recommending "products to customers that were not on the firm's list of approved products without notifying the firm or receiving

approval prior to conducting this activity.” Since August 2012, Worrell has been registered with FINRA through other member firms.

5. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Cobb and Worrell for purposes of this proceeding because: (a) they currently are associated with a member firm and registered with FINRA through that firm; and (b) the Complaint charges them with misconduct committed while they were registered with FINRA and associated with another FINRA member.

BACKGROUND

DLG

6. Diversified Lending Group, Inc. (“DLG”) was a California corporation, formed in or about May 2004, that purported to be in the business of acquiring and operating income-producing properties.
7. DLG offered promissory notes in the form of one-year or five-year “Secured Investment Notes” that guaranteed rates of return of 9% or 12% per year (the “DLG notes”).
8. Each DLG note was sold through a uniquely numbered contract, which specified the investment amount, the issue date, the end date, the “guaranteed period” of one or five years, and the “guaranteed rate” of return over that period.
9. The DLG notes are securities.
10. DLG was a multi-million dollar Ponzi scheme. On or about March 4, 2009, the Securities and Exchange Commission (the “SEC”) filed a lawsuit in the United States District Court for the Central District of California (the “District Court”) entitled, *Securities and Exchange Commission v. Diversified Lending Group, Inc., et al.*, Case No. CV 09-01533-R-JTLx, alleging that DLG was a securities fraud involving the diversion of a substantial amount of

investor money by DLG to undisclosed ventures and the misappropriation of millions of dollars for the personal use of DLG's principal, Bruce Friedman.

11. On the same day that the SEC filed its Complaint, the District Court froze DLG's assets and appointed a Receiver.
12. On August 24, 2009, Bruce Friedman submitted a signed consent agreement in the matter of *Securities and Exchange Commission v. Diversified Lending Group, Inc., et al.*, in which Friedman agreed that DLG was precluded from arguing that it did not violate the federal securities laws as alleged in the SEC Complaint. On August 25, 2009, the District Court ordered a Judgment of Permanent Injunction and Other Relief against Friedman reflecting the contents of his signed agreement.

CMC

13. Carr Miller Capital, LLC ("CMC") was a New Jersey limited liability company ("LLC") formed in 2006.
14. Carr Miller Capital Investments, LLC ("CMCI"), also a New Jersey LLC, was a state-regulated investment advisor firm that CMC used to solicit and refer investors to CMC.
15. CMCI, its agents, and others offered and sold promissory notes entitled "Commercial Notes" ("CMC notes") to investors. The CMC notes each had a term of nine months and offered rates of return ranging from 4% to 20%.

16. The CMC notes are securities.
17. CMC was a multi-million dollar Ponzi scheme and investment fraud. On December 15, 2010, in the Superior Court of New Jersey, Essex County (the "Superior Court"), the New Jersey State Bureau of Securities filed suit against CMC, CMCI, and its three principals for their alleged use of a Ponzi scheme and other methods to defraud investors of over \$40 million.
18. On October 3, 2013, the Superior Court found that CMC was operated as a Ponzi scheme and that CMC employed a device, scheme, or artifice to defraud investors. The Superior Court granted summary judgment against CMC and, among other rulings, found CMC jointly liable for \$29.8 million in restitution to victim investors.

**FIRST CAUSE OF ACTION
(Private Securities Transactions – DLG Notes)
Respondent Cobb
(NASD Conduct Rules 3040 and 2110)**

19. The Department realleges and incorporates by reference paragraphs 1-18 above.
20. NASD Conduct Rule 3040 states, in pertinent part, that "[p]rior to participating in any private securities transaction, an associated person shall provide written notice to the member with which he is associated describing in detail the proposed transaction and the person's role therein and stating whether he has received or may receive selling compensation in connection with the transaction."

*Cobb Participated in Sales of DLG Notes to Investors and
Received Commissions for Such Sales*

21. Cobb participated in the following sales of DLG notes to investors:
- a. On or about November 13, 2007, Cobb participated in the sale of a DLG note to JM, a customer of the Firm, in the amount of \$98,134, and Cobb received a commission in

the amount of \$4,661 for that sale. Cobb participated in the sale of this note by, among other things, introducing the investment to JM and recommending it to her.

- b. On or about November 13, 2007, Cobb participated in the sale of a DLG note to BS in the amount of \$66,000, and Cobb received a commission in the amount of \$3,135 for that sale. Cobb participated in the sale of this note by, among other things, introducing the investment to BS and recommending it to him.
- c. On or about January 31, 2008, Cobb participated in the sale of a DLG note to RC in the amount of \$50,000, and Cobb received a commission in the amount of \$3,325 for that sale. Cobb participated in the sale of this note by, among other things, introducing the investment to RC and recommending it to him.

22. In addition, on or about November 1, 2007, Cobb personally invested \$122,034 in a DLG note and received a commission in the amount of \$8,115 for that investment.

*Cobb Failed to Provide Madison Avenue
with Prior Written Disclosure of His Sales of DLG Notes*

23. DLG notes were not approved for sale by Madison Avenue and were not available for sale through the Firm.
24. Cobb did not give prior written notice, or any notice at all, to Madison Avenue of his intention to participate in the sales of DLG notes.
25. Cobb did not notify Madison Avenue in any manner that he had participated in the sale of DLG notes.
26. In sum, Cobb, acting outside the course and scope of his employment with his employing member firm Madison Avenue, participated in the foregoing private securities transactions involving DLG notes for which he received selling compensation without providing prior written notice to the Firm of his proposed role in, or the selling compensation that he may

receive from, the transactions. Further, Cobb never received written approval from the Firm to participate in private securities transactions involving DLG notes.

27. By reason of the foregoing, Cobb violated NASD Conduct Rules 3040 and 2110.

**SECOND CAUSE OF ACTION
(Private Securities Transaction – CMC Note)
Respondent Cobb
(NASD Conduct Rules 3040 and 2110)**

28. The Department realleges and incorporates by reference paragraphs 1-18 and 20 above.

*Cobb Participated in the Sale of a CMC Note to an Investor and
Received a Commission for Such Sale*

29. On or about October 1, 2008, Cobb participated in the sale of a CMC note to JC, a customer of the Firm, in the amount of \$150,000, and Cobb received a commission in the amount of \$1,500 for that sale. Cobb participated in the sale of this note by, among other things, introducing the investment to JC and recommending it to her.

*Cobb Failed To Provide Madison Avenue
with Prior Written Notice of His Sale of a CMC Note*

30. CMC notes were not approved for sale by Madison Avenue and were not available for sale through the Firm.

31. Cobb did not give prior written notice, or any notice at all, to Madison Avenue of his intention to participate in the sale of a CMC note.

32. Cobb did not notify Madison Avenue in any manner that he had participated in the sale of a CMC note.

33. In sum, Cobb, acting outside the course and scope of his employment with his employing member firm Madison Avenue, participated in the foregoing private securities transaction involving a CMC note from which he received selling compensation without providing prior written notice to the Firm of his proposed role in, or the selling compensation that he may

receive from, the transaction. Further, Cobb never received written approval from the Firm to participate in a private securities transaction involving a CMC note.

34. By reason of the foregoing, Cobb violated NASD Conduct Rules 3040 and 2110.

**THIRD CAUSE OF ACTION
(Material Misrepresentations)
Respondent Cobb
(NASD Conduct Rule 2110 and FINRA Rule 2010)**

35. The Department realleges and incorporates by reference paragraphs 1-34 above.

36. On or about December 27, 2007, Cobb completed a 2007 Annual Compliance Acknowledgement for Madison Avenue and submitted it to the Firm.

37. On the 2007 Annual Compliance Acknowledgement, Cobb falsely stated that he had not engaged in any private securities transactions away from Madison Avenue. Cobb failed to report to Madison Avenue that he had sold DLG notes away from the Firm.

38. On or about December 18, 2008, Cobb completed a 2008 Annual Compliance Acknowledgement for Madison Avenue and submitted it to the Firm.

39. On the 2008 Annual Compliance Acknowledgement, Cobb falsely stated that he had not engaged in any private securities transactions away from Madison Avenue. Cobb failed to report to Madison Avenue that he had sold DLG and CMC notes away from the Firm.

40. By making material misrepresentations to Madison Avenue in his 2007 and 2008 Annual Compliance Acknowledgements, Cobb violated NASD Conduct Rule 2110 (for misconduct before December 15, 2008) and FINRA Rule 2010 (for misconduct after December 14, 2008).

**FOURTH CAUSE OF ACTION
(Private Securities Transactions – DLG Notes)
Respondent Worrell
(NASD Conduct Rules 3040 and 2110)**

41. The Department realleges and incorporates by reference paragraphs 1-18 and 20 above.

*Worrell Participated in Sales of DLG Notes to Investors and
Received Commissions for Such Sales*

42. Worrell participated in the following sales of DLG notes to investors:

- a. On or about January 10, 2008, Worrell participated in the sale of a DLG note to SW, a customer of the Firm, in the amount of \$175,000, and Worrell received a commission in the amount of \$8,313 for that sale. Worrell participated in the sale of this note by, among other things, introducing the investment to SW and recommending it to him.
- b. On or about January 25, 2008, Worrell participated in the sale of a DLG note to GJ, a customer of the Firm, in the amount of \$100,000, and Worrell received a commission in the amount of \$4,750 for that sale. Worrell participated in the sale of this note by, among other things, introducing the investment to GJ and recommending it to her.
- c. On or about February 4, 2008, Worrell participated in the sale of a DLG note to JB, a customer of the Firm, in the amount of \$200,000, and Worrell received a commission in the amount of \$9,500 for that sale. Worrell participated in the sale of this note by, among other things, introducing the investment to JB and recommending it to him.
- d. On or about February 4, 2008, Worrell participated in the sale of a DLG note to DD, a customer of the Firm, in the amount of \$60,000, and Worrell received a commission in the amount of \$2,850 for that sale. Worrell participated in the sale of this note by, among other things, introducing the investment to DD and recommending it to him.

- e. On or about February 19, 2008, Worrell participated in the sale of a DLG note to GG, a customer of the Firm, in the amount of \$50,000, and Worrell received a commission in the amount of \$2,375 for that sale. Worrell participated in the sale of this note by, among other things, introducing the investment to GG and recommending it to him.
 - f. On or about March 3, 2008, Worrell participated in the sale of a DLG note to HH in the amount of \$287,610, and Worrell received a commission in the amount of \$13,661 for that sale. Worrell participated in the sale of this note by, among other things, introducing the investment to HH and recommending it to him.
43. In addition, on or about January 25, 2008, Worrell personally invested \$49,000 in a DLG note and received a commission in the amount of \$2,328 for that investment.

*Worrell Failed to Provide Madison Avenue
with Prior Written Notice of His Sales of DLG Notes*

44. DLG notes were not approved for sale by Madison Avenue and were not available for sale through the Firm.
45. Worrell did not give prior written notice, or any notice at all, to Madison Avenue of his intention to participate in the sales of DLG notes.
46. Worrell did not notify Madison Avenue in any manner that he had participated in the sales of DLG Notes.
47. In sum, Worrell, acting outside the course and scope of his employment with his employing member firm Madison Avenue, participated in the foregoing private securities transactions involving DLG notes from which he received selling compensation without providing prior written notice to the Firm of his proposed role in, or the selling compensation that he may receive from, the transactions. Further, Worrell never received written approval from the Firm to participate in private securities transactions involving DLG notes.

48. By reason of the foregoing, Worrell violated NASD Conduct Rules 3040 and 2110.

**FIFTH CAUSE OF ACTION
(Private Securities Transactions – CMC Notes)
Respondent Worrell
(NASD Conduct Rules 3040 and 2110)**

49. The Department realleges and incorporates by reference paragraphs 1-18 and 20 above.

*Worrell Participated in the Sale of CMC Notes to Investors and
Received Commissions for Such Sales*

50. In or about September or October 2008, Worrell participated in the sale of a CMC note to GG, a customer of the Firm, in the amount of \$50,000, and Worrell received a commission in the amount of \$525 for that sale. Worrell participated in the sale of this note by, among other things, introducing the investment to GG and recommending it to him.

51. On or about October 1, 2008, Worrell participated in the sale of a CMC note to JB, a customer of the Firm, in the amount of \$208,275, and Worrell received a commission in the amount of \$2,190 for that sale. Worrell participated in the sale of this note by, among other things, introducing the investment to JB and recommending it to him.

*Worrell Failed to Provide Madison Avenue
with Prior Written Notice of His Sales of CMC Notes*

52. CMC Notes were not approved for sale by Madison Avenue and were not available for sale through the Firm.

53. Worrell did not give prior written notice, or any notice at all, to Madison Avenue of his intention to participate in sales of CMC notes.

54. Worrell did not notify Madison Avenue in any manner that he had participated in the sale of CMC notes.

55. In sum, Worrell, acting outside the course and scope of his employment with his employing member firm Madison Avenue, participated in the foregoing private securities transactions

involving CMC notes from which he received selling compensation without providing prior written notice to the Firm of his proposed role in, or the selling compensation that he may receive from, the transactions. Further, Worrell never received written approval from the Firm to participate in private securities transactions involving CMC notes.

56. By reason of the foregoing, Worrell violated NASD Conduct Rules 3040 and 2110.

**SIXTH CAUSE OF ACTION
(Material Misrepresentations)
Respondent Worrell
(FINRA Rule 2010)**

57. The Department realleges and incorporates by reference paragraphs 1-18, 20, and 41-56 above.

58. On or about December 22, 2008, Worrell completed a 2008 Annual Compliance Acknowledgement for Madison Avenue and submitted it to the Firm.

59. On the 2008 Annual Compliance Acknowledgement, Worrell falsely stated that he had not engaged in any private securities transactions away from Madison Avenue. Worrell failed to report to Madison Avenue that he had sold DLG and CMC notes away from the Firm.

60. By making material misrepresentations to Madison Avenue in his 2008 Annual Compliance Acknowledgement, Worrell violated FINRA Rule 2010.

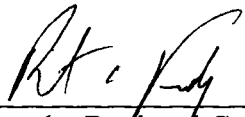
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondents be required to disgorge fully any and all ill-gotten gains and make full and complete restitution, together with interest; and
- C. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: September 3, 2015



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