

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

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

PAUL E. TABOADA,
CRD No. 2033981,

RESPONDENT.

DISCIPLINARY PROCEEDING
No. 2012034719701

COMPLAINT

The Department of Enforcement alleges:

INTRODUCTION

1. Respondent Paul E. Taboada ("Taboada") misappropriated funds from certain investors in CMS FB LLC ("CMS FB" or the "Company"), a special purpose entity he created to acquire pre-initial public offering shares in Facebook, Inc. ("Facebook"). As CMS FB's manager, Taboada was required to allocate the Company's expenses among its investors pursuant to the terms of CMS FB's Operating Agreement (the "Operating Agreement"). Taboada, however, caused CMS FB to incur more expenses than many of its investors could cover with their capital contributions. Taboada used funds belonging to certain CMS FB investors, without their knowledge or consent, to pay expenses owed by other investors with capital shortfalls. Some of the misappropriated funds were used to pay placement fees owed to Taboada's broker-dealer, Charles Morgan Securities, Inc. (BD No. 138887) ("Charles Morgan"), and to complete transactions on which Charles Morgan received "sales concessions" from another broker-dealer ("Firm A"). Taboada concealed his misappropriation by providing investors with false and misleading documents and information.

2. Taboada also failed to disclose to some investors the sales concessions that Charles Morgan received on CMS FB's purchases of interests in Firm A's special purpose entities that held or had the right to receive Facebook securities. The amount of Charles Morgan's sales concession on each of these transactions depended on the fee that CMS FB paid to Firm A.

3. In one instance, Taboada caused CMS FB to pay an excessive fee to Firm A – twice the amount provided in the applicable offering documents – in order to increase Charles Morgan's sales concession on the transaction. Taboada concealed the excessive fee by providing investors with false and misleading documents and information.

4. When the time came for CMS FB to distribute its Facebook securities to its investors, Taboada failed to distribute the shares in the manner required under the Operating Agreement. Taboada allocated too few Facebook shares to some investors and allocated too many shares to other investors.

5. Taboada then provided FINRA staff with false and misleading testimony and documents. In February 2013, pursuant to Rule 8210, FINRA asked Taboada to provide an invoice for a payment CMS FB made to Charles Morgan in October 2012, ostensibly for rent and office-related expenses. In March 2013, Taboada provided an invoice dated January 2011. During his sworn, on-the-record testimony in April 2013, Taboada stated that he created the invoice in January 2011. In fact, the invoice was created in March 2013 – on the very same day Taboada mailed it to FINRA.

6. As a result of the foregoing, and as alleged in more detail below, Taboada violated FINRA Rules 2010, 2150, and 8210.

RESPONDENT AND JURISDICTION

7. Taboada entered the securities industry in February 1990. Between 1990 and 2005, he was registered with nine different FINRA-member firms. From October 2005 to September 2012, he was registered with Charles Morgan. While there, Taboada was registered as a General Securities Representative, General Securities Principal, Operations Professional, and Investment Banking Representative. Taboada currently holds the same registrations with Blackwall Capital Markets, Inc. (BD No. 144404) ("Blackwall"). He is subject to FINRA's jurisdiction under Article IV, Section 1 of FINRA's By-Laws.

NON-RESPONDENT ENTITIES

8. CMS FB is a special purpose entity Taboada created in 2011 to pool investor funds to invest in, acquire, hold, and/or sell Facebook securities. CMS FB is managed by CMS FB Management Associates, LLC. Taboada is the manager of CMS FB Management Associates, LLC, and has complete control over CMS FB.

9. Charles Morgan was a FINRA-registered broker-dealer from October 2005 to November 2012. Charles Morgan was owned by CMS Global Securities, Inc. ("CMS Global"). Taboada was the majority owner of CMS Global and was Charles Morgan's Chairman and Chief Executive Officer. Charles Morgan was CMS FB's exclusive placement agent, and CMS FB had a brokerage account at the firm. At least 22 CMS FB investors were Charles Morgan customers.

10. Charles Morgan received at least \$407,551 in placement fees from CMS FB.

11. Blackwall is a FINRA-member broker-dealer. Taboada registered with Blackwall in October 2012, around the time Charles Morgan stopped conducting business, and thereafter he managed CMS FB from Blackwall's office at 100 Wall Street. The Facebook securities that CMS FB purchased were held in and distributed to CMS FB's investors from CMS FB's

brokerage account at Blackwall. Blackwall assisted Taboada with managing CMS FB's affairs, including, among other things, helping him distribute Facebook shares to CMS FB's investors and helping him respond to FINRA's requests for information. At least 12 CMS FB investors were Blackwall customers.

12. Firm A is a FINRA-member broker-dealer that manages or otherwise controls several special purpose entities that held, or had the right to acquire, Facebook securities. Taboada caused CMS FB to purchase ownership interests in several of Firm A's special purpose entities, referred to herein as SPE-1, SPE-2, SPE-3, and SPE-4. Charles Morgan received a sales concession on each of these transactions.

13. Charles Morgan received at least \$92,711 in sales concessions as a result of the transactions Taboada caused CMS FB to enter into with Firm A's special purpose entities.

FACTUAL ALLEGATIONS

CMS FB's Organization and Structure

14. CMS FB is organized as a series limited liability company pursuant to Section 18-215 of the Delaware Limited Liability Company Act. Under the Operating Agreement and Delaware law, each series must be treated, for most purposes, as if it were a separate limited liability company, with its own investors, books and records, assets, and liabilities.

15. CMS FB has seven series of investors. Taboada caused these series to be formed on a rolling basis in 2011 and 2012 as CMS FB received capital contributions from investors and used the funds to purchase ownership interests in Facebook securities.

16. CMS FB purchased ownership interests in Facebook securities through either direct or indirect purchases. In a direct purchase, Taboada caused CMS FB to purchase Facebook securities from a Facebook shareholder. In an indirect purchase, Taboada caused

CMS FB to purchase an ownership interest in an entity that owned or had the right to acquire Facebook securities. All of CMS FB's indirect purchases of Facebook securities were through Firm A's special purpose entities (SPE-1, SPE-2, SPE-3, and SPE-4).

17. Attachment A, hereto, shows, on a series-by-series basis, (i) placement fees paid to Charles Morgan, (ii) securities purchases, and (iii) sales concessions paid to Charles Morgan, if any, on securities purchases.

Allocation of Expenses to Investors

18. Under the Operating Agreement, CMS FB is required to establish and maintain a separate capital account for each investor in each series and to allocate the Company's expenses among these capital accounts.

19. The initial opening capital balance of each investor's capital account is equal to the investor's initial capital contribution less the investor's share of any expenses incurred in the organization and operation of the Company. As additional expenses are incurred, Taboada, as CMS FB's manager, must allocate the expenses to the capital accounts of its investors.

20. CMS FB incurred three types of expenses: (a) placement fees paid to Charles Morgan on behalf of each series ("Placement Fees"); (b) costs associated with the purchase of Facebook securities for each series (including any fees paid to Firm A) ("Securities Purchase Expenses"); and (c) expenses related to organizing and operating the Company ("General Expenses").

21. Under the Operating Agreement, Taboada was required to allocate any Placement Fee or Securities Purchase Expense to the series on whose behalf the expense was incurred, and within that series, among all of its investors pro rata based on each investor's capital contribution to the series.

22. Taboada represented to investors, either directly or through his Charles Morgan brokers, that any General Expense would be allocated to all CMS FB investors pro rata based on their capital contributions to the Company.

Taboada Misappropriated Funds From First and Second Series Investors to Pay Expenses Owed by Investors In the Third Through Seventh Series

23. The lockup period on most Facebook securities ended on November 14, 2012.

24. Around that time, CMS FB investors were asking Taboada and his firm about delivery of their Facebook shares.

25. Taboada assured CMS FB investors that they would receive their shares and an accounting of CMS FB's expenses.

26. As of November 30, 2012, Taboada had caused CMS FB to spend, or set aside for anticipated expenses, \$6,051,738 – the same amount contributed in capital by CMS FB's investors. Of that amount, \$407,551.61 had been spent on Placement Fees; \$5,552,700.81 had been spent on Securities Purchase Expenses; and \$91,485.58 had been spent, or set aside to pay, General Expenses.

27. Had the Company's expenses been allocated properly, according to the Operating Agreement and Taboada's representations to investors, investors in the First and Second Series would have excess capital balances totaling \$43,575.18 (\$14,737.05 and \$28,838.13, respectively), as shown on Attachment B, Table B.1. Third through Seventh Series investors would have negative capital balances totaling \$43,575.18 (\$3,342.05; \$17,607.38; \$10,345.92; \$3,646.04; and \$8,633.79, respectively) as shown on Attachment B, Table B.1.

28. In total, when Placement Fees, Securities Purchase Expenses, and General Expenses are properly allocated, Fourth and Seventh Series investors have capital deficits of \$17,607.38 and \$8,633.79, respectively, as shown on Attachment B, Table B.1.

29. Third, Fifth, and Sixth Series investors did not have sufficient capital to cover their pro rata shares of General Expenses. When General Expenses are properly allocated, Third, Fifth, and Sixth Series investors have capital deficits of \$3,342.05; \$10,345.92; and \$3,646.04, respectively, as shown on Attachment B, Table B.1.

30. Taboada improperly used \$43,575.18 in funds belonging to First and Second Series investors, without their knowledge or consent, to make up the deficits in the capital accounts of Third through Seventh Series investors:

- (a) Taboada used \$15,628.87 belonging to First and Second Series investors, without their knowledge or consent, to pay Placement Fees to Charles Morgan and/or Securities Purchase Expenses owed by Fourth and Seventh Series investors; and
- (b) Taboada used an additional \$27,946.31 belonging to First and Second Series investors, without their knowledge or consent, to pay General Expenses owed by Third through Seventh Series investors.

**Taboada Concealed His Misappropriation
By Creating a False and Misleading Spreadsheet**

31. In or around November 2012, Taboada created or, as CMS FB's manager, caused to be created, a spreadsheet that purported to show how CMS FB's expenses had been allocated among its investors (the "Share Calculation Spreadsheet").

32. A summary of the information presented on the Share Calculation Spreadsheet is shown on Table B.2 on Attachment B.

33. The Share Calculation Spreadsheet misrepresented the expenses incurred by each CMS FB series in order to conceal Taboada's misappropriation.

34. The Share Calculation Spreadsheet falsely stated that First and Second Series investors had Securities Purchase Expenses totaling \$2,285,300.87 (including fees paid to Firm A).

35. In reality, First and Second Series investors had Securities Purchase Expenses totaling \$2,241,725.69 (including fees paid to Firm A).

36. The Share Calculation Spreadsheet falsely stated that Third through Seventh Series investors had Securities Purchase Expenses totaling \$3,267,399.94 (including fees paid to Firm A).

37. In reality, Third through Seventh Series investors had Securities Purchase Expenses totaling \$3,310,975.12.

Table 1: Amounts Paid to Purchase Interests in Facebook Securities By Series

Series	Taboada's Representation of Securities Purchase Expenses	Actual Securities Purchase Expenses	Difference Between Taboada's Representation and Actual Purchase Expenses
First	\$878,237.05	\$863,500	+\$14,737.05
Second	\$1,407,063.82	\$1,378,225.69	+\$28,838.13
Subtotal	\$2,285,300.87	\$2,241,725.69	\$43,575.18
Third	\$243,954.20	\$247,296.25	-\$3,342.05
Fourth	\$554,821.49	\$572,428.87	-\$17,607.38
Fifth	\$1,999,654.08	\$2,010,000	-\$10,345.92
Sixth	\$402,603.96	\$406,250	-\$3,646.04
Seventh	\$66,366.21	\$75,000	-\$8,633.79
Subtotal	\$3,267,399.94	\$3,310,975.12	-43,575.18
Total	\$5,552,700.81	\$5,552,700.81	\$0.00

38. By inflating the Securities Purchase Expenses for the First and Second Series by \$43,575.18, and deflating the Securities Purchase Expenses for the Third through Seventh Series by the same amount, Taboada, through the Share Calculation Spreadsheet, concealed that he had

used \$43,575.18 in funds belonging to First and Second Series investors to pay expenses owed by Third through Seventh Series investors.

Taboada Provided False and Misleading Information to Investors

39. Taboada sent, via email, substantively identical versions of the Share Calculation Spreadsheet to numerous CMS FB investors, including S.K. (Investor No. 20, 24, 31, 34, 44 on Attachment C, hereto); M.P. (Investor No. 14 on Attachment C); M.A. (Investor No. 27 on Attachment C); A.B. (Investor No. 35 on Attachment C); and H.C. (Investor No. 100 on Attachment C).

40. By providing the false and misleading Share Calculation Spreadsheet to investors, Taboada misrepresented to shareholders how CMS FB's expenses had been allocated among its investors.

41. Taboada further misrepresented to CMS FB investors that the Company's expenses actually had been paid by all investors pro rata based on their capital contributions.

42. For example, on December 5, 2012, Taboada sent an email to M.P. (Investor No. 14 on Attachment C), stating, in part, that "the LLC is a finite instrument and the numbers cannot be changed. [T]hese are the direct cost[s] of investing in an llc [*sic*] and they have been shared with all members based on their respective investments."

43. Taboada sent emails containing similar misrepresentations to G.F. (Investor No. 33 on Attachment C) on December 13, 2012; R.L. (Investor No. 62 on Attachment C) on December 13, 2012; and C.S. (Investor No. 108 on Attachment C) on January 10, 2013.

44. Taboada's representations to M.P., G.F., R.L., and C.S. were false.

45. In reality, First and Second Series investors paid a disproportionately larger share of CMS FB's expenses, while investors in other series paid a disproportionately smaller share.

**Taboada Failed to Properly
Distribute Facebook Shares to Investors**

46. Under the Operating Agreement, CMS FB was required to distribute to each CMS FB series the Facebook shares acquired on their behalf through CMS FB's purchase(s) of ownership interests in Facebook securities.

47. Within each series, CMS FB was required to distribute the shares among investors pro rata based on their capital contributions.

48. Taboada did not adhere to the Operating Agreement when he allocated CMS FB's Facebook shares for distribution to its investors.

49. As a result, many CMS FB investors received fewer shares than they should have under the Operating Agreement.

50. Between December 11, 2012, and April 16, 2013, CMS FB received a total of 164,392 Facebook shares as a result of the transactions it entered into on behalf of CMS FB's investors.

51. Taboada caused CMS FB to begin distributing Facebook shares to investors on or around December 11, 2012.

52. From the outset, Taboada caused CMS FB to distribute too many Facebook shares to some investors and too few Facebook shares to other investors.

53. By April 30, 2013, CMS FB had fewer shares on hand than it owed to its investors.

54. In July and August 2013, Taboada caused CMS FB to purchase an additional 900 Facebook shares through its brokerage account. Taboada paid for these shares using funds he

deposited into CMS FB's account. 879 of these shares eventually were distributed to CMS FB investors (or liquidated on their behalf).

55. These extra shares, however, were not enough. Many CMS FB investors did not receive all of the shares to which they were entitled.

56. Attachment C, hereto, shows the total capital contributed by each investor (Column C); the investor's pro rata interest in the series (Column D); the investor's capital balance after all expenses have been properly allocated, i.e., the capital that either should have been returned to the investor or the investor's capital deficit (Column E); the number of shares the investor should have received based on (i) the investor's capital contribution to the series, and (ii) the number of shares delivered to CMS FB by either Firm A's special purpose entity (or entities) or the direct seller (Column F); the number of shares the investor actually received (Column G); and the difference between what the investor should have received and what the investor actually received (Column H).

57. As shown on Attachment C, in addition to misappropriating funds from them, Taboada distributed fewer shares to several First and Second Series investors than they were entitled to under the Operating Agreement.

**Taboada Failed to Disclose Sales Concessions to Certain Investors;
Caused Fourth Series Investors to Pay More Fees In Order to Increase Sales Concession**

58. Charles Morgan received a sales concession from Firm A each time CMS FB purchased an interest in one of Firm A's special purpose entities.

59. Charles Morgan's sales concession was equal to one-half of the fee that Firm A charged CMS FB on the transaction.

60. Taboada (a) caused CMS FB to pay a higher fee to Firm A on one transaction in order to increase Charles Morgan's sales concession; (b) misrepresented to investors the amount of the fee paid on the transaction; (c) and failed to disclose to Fourth and Seventh Series investors the sales concessions that Charles Morgan received on CMS FB's purchase of interests in SPE-3 and SPE-4.

Taboada Caused CMS FB to Pay a Higher Fee to Firm A

61. On or around December 19, 2011, Taboada received from Firm A the offering documents for SPE-3. The offering documents disclosed that Firm A would receive a 5% fee on funds raised by SPE-3.

62. On or around December 20, 2011, Taboada executed a Selected Dealers Agreement with Firm A on behalf of Charles Morgan (the "December 2011 Dealer Agreement"). Under the December 2011 Dealer Agreement, Charles Morgan would receive a sales concession from Firm A equal to 50% of the fee that Firm A received for any investment that Charles Morgan referred to SPE-3.

63. In or around January 2012, Taboada directed CMS FB to pay a total of \$572,428 to purchase an interest in SPE-3 for Fourth Series investors.

64. On or around February 1, 2012, Firm A notified Taboada by email that Charles Morgan would receive half of Firm A's 5% fee on CMS FB's transaction with SPE-3.

65. In response, via email, Taboada asked Firm A to charge a 10% fee on the purchase instead of the 5% fee provided under SPE-3's offering documents.

66. Taboada wanted Firm A to charge a higher fee so that Taboada, through Charles Morgan, would receive a larger sales concession on the transaction.

67. Firm A agreed to Taboada's request and charged Fourth Series investors a 10% fee on the transaction instead of the 5% fee provided under SPE-3's offering documents.

68. As a result, Charles Morgan's sales concession on the transaction doubled from \$14,310.50 to \$28,621.

69. On or around February 6, 2012, Charles Morgan received a \$28,621 sales concession from Firm A on the transaction.

Taboada Misrepresented the Amount of the Placement Fee and Failed to Disclose to Fourth Series Investors Charles Morgan's Sales Concession

70. Taboada did not disclose to Fourth Series investors his role in causing Firm A to charge CMS FB a higher fee on the transaction or the sales concession Charles Morgan received on the transaction.

71. To the contrary, Taboada affirmatively misrepresented to investors the amount of the fee CMS FB paid to Firm A on the transaction.

72. On January 8, 2013, S.K. (Investor No. 34 on Attachment C), a Fourth Series investor, complained to Taboada that he had been charged "a ridiculous 22 percent" in expenses on his \$94,000 investment in CMS FB.

73. Taboada responded by email on January 8, 2013, providing to S.K. a version of the Share Calculation Spreadsheet that purported to show the allocation of expenses among CMS FB's investors (the "S.K. Share Calculation Spreadsheet"). In his email to S.K., Taboada stated: "You are mistaken when you say that there is 22 percent in commissions. You have to review the paper work so that you see all the expenses."

74. The S.K. Share Calculation Spreadsheet represented that CMS FB paid a total of \$554,821.49 to Firm A to acquire the Fourth Series's interest in SPE-3, and that \$28,621.44 (5%) of that amount was used to pay Firm A's fee.

75. In reality, S.K. and the other Fourth Series investors paid a total of \$572,428.87 to Firm A to acquire the Fourth Series's interest in SPE-3. Of that amount, \$57,242.89 (10%) was used to pay Firm A's fee. Firm A's 10% fee was in addition to the 10% placement fee that Fourth Series investors already had paid to Charles Morgan.

*Taboada Failed to Disclose to the
Seventh Series Investor Charles Morgan's Sales Concession*

76. On or around April 25, 2012, Taboada executed a Selected Dealers Agreement with Firm A on behalf of Charles Morgan (the "April 2012 Dealer Agreement"). Under the April 2012 Dealer Agreement, Charles Morgan would receive a sales concession from Firm A equal to 50% of the fee Firm A received for any investment in SPE-4 that Charles Morgan referred.

77. On or around April 26, 2012, Taboada received from Firm A offering documents for SPE-4. The offering documents disclosed that Firm A would receive a 5% fee on funds raised by SPE-4.

78. On or around May 8, 2012, Taboada directed CMS FB to pay \$75,000 to purchase an interest in SPE-4 for the Seventh Series investor.

79. On or around May 30, 2012, Charles Morgan received a \$1,875 sales concession (one-half of Firm A's 5% fee) from Firm A on the transaction.

80. Taboada did not disclose to the Seventh Series investor the sales concession that Charles Morgan received on the transaction.

**Taboada Provided False and Misleading
Testimony and Documents to FINRA**

81. Taboada provided false and misleading testimony and documents to FINRA in response to FINRA's Rule 8210 requests.

82. On February 4, 2013, FINRA sent Taboada a request for information, pursuant to Rule 8210, seeking documents and information relating to CMS FB. The request was sent via certified, First-Class U.S. Mail to Taboada at the address he provided to FINRA's Central Registration Depository. In paragraph 12 of its request, FINRA asked whether Charles Morgan had "provided some type of service for CMS FB LLC," and if so, requested "invoices or other documents that evidence the work performed."

83. As of March 14, 2013, Taboada had not responded to paragraph 12 of FINRA's February 4, 2013 letter. On that date, FINRA sent Taboada another letter, pursuant to Rule 8210, again requesting "invoices or other documents that evidence" work performed for CMS FB by Charles Morgan.

84. On March 22, 2013, Taboada sent, via electronic mail, his response to FINRA's March 14, 2013 letter. In his electronic mail message, Taboada stated that he had "placed the package with supporting documentat[i]on in a Fed Ex for Monday delivery."

85. On March 25, 2013, FINRA received the Fed Ex package from Taboada referenced in his March 22, 2013 electronic mail message.

86. Included in the package was a \$5,000 invoice from Charles Morgan to CMS FB dated January 2011 (the "January 2011 Invoice"). The January 2011 Invoice reads, in relevant part:

Let this notice serve that Charles Morgan Securities will charge a fee of 5000.00 per year to CMS FB LLC for the use of office

space, mailing address, staff, printing, postage and all applicable services provided in an executive office suite. This is for the use of 120 wall St. [sic] as an address of record and all professional services mentioned above. This fee is per year. This is a professional courtesy on behalf of Paul E Taboada, CEO/ President of Charles Morgan Securities and manager of the CMS FB LLC fund. This is to lower the cost of creating a domicile for the fund and getting its own staff and is a professional courtesy that is being provided until such time that it remains practical.

87. On April 29 and April 30, 2013, Taboada provided sworn testimony to FINRA staff pursuant to Rule 8210.

88. Taboada testified that he created the January 2011 Invoice in January 2011.

89. Taboada's testimony that the January 2011 invoice was created in January 2011 was false.

90. The January 2011 Invoice actually was created on March 22, 2013, the date of Taboada's response to FINRA's March 14, 2013 letter.

CMS FB's Finances as of November 14, 2013

91. CMS FB does not have sufficient assets to return the excess capital belonging to First and Second Series investors that Taboada misappropriated.

92. As of November 14, 2013, CMS FB had a balance of \$(18.90) in its checking account and held no Facebook securities or other assets.

93. Attachment D, hereto, shows how funds flowed into and out of CMS FB from the time of its inception through November 14, 2013, and its financial condition as of that date.

FIRST CAUSE OF ACTION

Misappropriating Funds and Securities

(FINRA Rule 2010)

94. The allegations in paragraphs 1 through 93, above, are realleged and incorporated herein.

95. FINRA Rule 2010 requires a registered person to observe high standards of commercial honor and just and equitable principles of trade.

96. Taboada used \$15,628.87 belonging to First and Second Series investors, without their knowledge or consent, to pay Placement Fees and/or Securities Purchase Expenses owed by Fourth and Seventh Series investors.

97. Taboada used \$27,946.31 belonging to First and Second Series investors, without their knowledge or consent, to pay General Expenses owed by Third through Seventh Series investors.

98. Taboada failed to distribute to certain CMS FB investors Facebook shares to which they were entitled under CMS FB's Operating Agreement.

99. Taboada misappropriated funds and securities from investors.

100. Accordingly, Taboada violated FINRA Rule 2010.

SECOND CAUSE OF ACTION

Misusing Customer Funds and Securities

(FINRA Rules 2150 and 2010)

101. The allegations in paragraphs 1 through 93, above, are realleged and incorporated herein.

102. FINRA Rule 2150 prohibits a registered person from making improper use of a customer's funds or securities.

103. Taboada used \$15,628.87 belonging to First and Second Series investors, several of whom were customers of Charles Morgan and/or Blackwall, without their knowledge or consent, to pay Placement Fees and/or Securities Purchase Expenses owed by Fourth and Seventh Series investors.

104. Taboada used \$27,946.31 belonging to First and Second Series investors, several of whom were customers of Charles Morgan and/or Blackwall, without their knowledge or consent, to pay General Expenses owed by Third through Seventh Series investors.

105. Taboada failed to distribute to certain CMS FB investors, several of whom were customers of Charles Morgan and/or Blackwall, Facebook shares to which they were entitled under CMS FB's Operating Agreement.

106. Taboada misused customer funds and securities.

107. Accordingly, Taboada violated FINRA Rules 2150 and 2010.

THIRD CAUSE OF ACTION

**Providing False and Misleading Information to Investors;
Causing Firm A to Charge CMS FB Excess Placement Fees;
Misrepresenting Placement Fees; and Failing to Disclose Sales Concessions**

(FINRA Rule 2010)

108. The allegations in paragraphs 1 through 93, above, are realleged and incorporated herein.

109. Taboada provided false and misleading information to investors to conceal his misappropriation.

110. Taboada caused Firm A to charge CMS FB a higher fee on CMS FB's purchase of an interest in SPE-3 in order to increase the amount of Charles Morgan's sales concession on the transaction.

111. Taboada misrepresented the amount of the fee CMS FB paid to Firm A on CMS FB's purchase of an interest in SPE-3.

112. Taboada failed to disclose to Fourth and Seventh Series investors the sales concessions Charles Morgan received from Firm A on CMS FB's purchase of interests in SPE-3 and SPE-4.

113. Accordingly, Taboada violated FINRA Rule 2010.

FOURTH CAUSE OF ACTION

FINRA Rules 8210 and 2010

(Providing False Documents and Testimony)

114. The allegations in paragraphs 1 through 93, above, are realleged and incorporated herein.

115. FINRA Rule 8210 requires a registered person to respond fully, completely, and truthfully to a request for information from FINRA made pursuant to the rule.

116. In response to FINRA's Rule 8210 request for information, Taboada provided the January 2011 Invoice, which falsely represented that it had been created in January 2011.

117. In response to FINRA's Rule 8210 request for information, Taboada falsely testified, under oath, that he created the January 2011 Invoice in January 2011.

118. Accordingly, Taboada violated FINRA Rules 8210 and 2010.

RELIEF REQUESTED

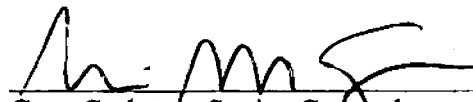
WHEREFORE, the Department of Enforcement respectfully requests that the Hearing

Panel:

- (a) make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- (b) order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed, including that Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- (c) order that Respondent 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: May 6, 2014



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Attachment A

Capital Contributions, Placement Fees, Securities Purchases, and Sales Concessions by Series

Series	Capital Contributed	Placement Fee to Charles Morgan	Total Paid to Seller in Securities Purchase	Sales Concession to Charles Morgan
First	\$914,942.00 Contributed between Mar. 22, 2011, and Apr. 11, 2011.	\$22,873.55 (2.5%)	\$863,500.00 In Mar. and Apr. 2011 for 41.37% of SPE-2 Series N.	\$21,587.50
Second	\$1,465,870.50 Contributed between Apr. 14, 2011 and Jun. 20, 2011.	\$36,646.76 (2.5%)	\$1,378,225.69 In May and Jun. 2011 for 2.28% of SPE-1 Series A; 1.44% of SPE-2 Series D; and 12.03% of SPE 2 Series S.	\$34,445.64
Third	\$254,150.00 Contributed between Jun. 24, 2011, and Jul. 14, 2011.	\$6,353.75 (2.5)	\$247,296.25 In Jul. 2011 for 5.06% of SPE-2 Series S.	\$6,182.40
Fourth	\$627,000.00 Contributed between Nov. 23, 2011, and Jan. 19, 2012.	\$62,700 (10%)	\$572,428.87 In Jan. 2012 for 100% of SPE-3 Series F-10.17.	\$28,621.44
Fifth	\$2,259,795.50 Contributed between Jan. 25, 2012, and Feb. 9, 2012.	\$225,979.55 (10%)	\$2,010,000.00 In Mar. 2012 for 60,000 shares of Facebook stock in direct purchase from T.H.	n/a
Sixth	\$454,980.00 Contributed between Feb. 10, 2012, and Feb. 29, 2012.	\$45,498 (10%)	\$406,250.00 In Apr. 2012 for 10,350 shares of Facebook stock in direct purchase from J.M. and L.M.	n/a
Seventh	\$75,000.00 Contributed on Feb. 29, 2012.	\$7,500 (10%)	\$75,000.00 In May 2012 for 100% of SPE-4 Series F-10.4(B).	\$1,875
Total	\$6,051,738.00	\$407,551.61		\$92,711.98

Attachment B

¶ 27
+43,575.18
Capital Surplus
(First and Second
Series)

Table B.1: Proper Allocation of Expenses¹

Series	Capital In	Placement Fee (2.5% or 10%)	Securities Purchase Expense	Capital Remaining After Placement Fee and Purchase Expense	General Expense	Capital Remaining After All Expenses
First	\$914,942.00	\$22,873.55	\$863,500.00	\$28,568.45	\$13,831.40	\$14,737.05
Second	\$1,465,870.50	\$36,646.76	\$1,378,225.69	\$50,998.05	\$22,159.92	\$28,838.13
Third	\$254,150.00	\$6,353.75	\$247,296.25	\$500.00	\$3,842.05	\$3,342.05
Fourth	\$627,000.00	\$62,700.00	\$572,428.87	\$8,128.87	\$9,478.51	\$17,607.38
Fifth	\$2,259,795.50	\$225,979.55	\$2,010,000.00	\$23,815.95	\$34,161.87	\$10,345.92
Sixth	\$454,980.00	\$45,498.00	\$406,250.00	\$3,232.00	\$6,878.04	\$3,046.04
Seventh	\$75,000.00	\$7,500.00	\$75,000.00	\$7,500.00	\$1,133.79	\$8,633.79
Total	\$6,051,738.00	\$407,551.61	\$5,552,700.81	\$91,485.58	\$91,485.58	\$0.00

¶ 28
-\$15,628.87
Capital Deficit
(Fourth and
Seventh Series)

¶ 29
\$10,612.30
General Expenses
Added to Existing
Deficit
(Fourth and
Seventh Series)

¶ 30
-\$17,334.01
Capital Deficit
After General
Expenses
(Third, Fifth, Sixth
Series)

¶ 27
-\$43,575.18
Capital Deficit
(Third through
Seventh
Series)

Table B.2: Taboada's Allocation of Expenses on Share Calculation Spreadsheet

Series	Capital In	Placement Fee (2.5% or 10%)	Securities Purchase Expense	Capital Remaining After Placement Fee and Purchase Expense	General Expense	Capital Remaining After All Expenses
First	\$914,942.00	\$22,873.55	\$878,237.05	\$13,831.40	\$13,831.40	\$0.00
Second	\$1,465,870.50	\$36,646.76	\$1,407,063.82	\$22,159.92	\$22,159.92	\$0.00
Third	\$254,150.00	\$6,353.75	\$243,954.20	\$3,842.05	\$3,842.05	\$0.00
Fourth	\$627,000.00	\$62,700.00	\$554,821.49	\$9,478.51	\$9,478.51	\$0.00
Fifth	\$2,259,795.50	\$225,979.55	\$1,999,654.08	\$34,161.87	\$34,161.87	\$0.00
Sixth	\$454,980.00	\$45,498.00	\$402,603.96	\$6,878.04	\$6,878.04	\$0.00
Seventh	\$75,000.00	\$7,500.00	\$66,366.21	\$1,133.79	\$1,133.79	\$0.00
Total	\$6,051,738.00	\$407,551.61	\$5,552,700.81	\$91,485.58	\$91,485.58	\$0.00

¶ 35
Deflated by
\$43,575.18
(Third through
Seventh Series)

¶ 35
Inflated by
\$43,575.18
(First and Second
Series)

¹ CMS FB paid additional expenses and received additional cash deposits that it did not account for in its allocation of expenses. These items are not included in the tables on Attachment B. They are accounted for in the table on Attachment D.

Attachment C

Distribution of Facebook Shares²

A	B	C	D	E	F	G	H
	Investor	Capital In	Series %	Capital That Should Have Been Returned to Investor	Shares Each Investor Should Have Received ³	Shares Each Investor Actually Received ⁴	Difference Between What Investor Should Have Received and Actually Received
First Series	1	\$37,000.00	4.04%	\$595.96	1,060	1,089	+29
	2	\$63,000.00	6.89%	\$1,014.75	1,805	1,854	+49
	3	\$155,000.00	16.94%	\$2,496.60	4,442	4,431	-11
	4	\$100,000.00	10.93%	\$1,610.71	2,866	2,944	+78
	5-6	\$99,000.00	10.82%	\$1,610.71	2,837	2,572	-265
		\$1,000.00	0.11%		29	286	+257
	7	\$155,000.00	16.94%	\$2,496.60	4,442	4,431	-11
	8	\$49,972.00	5.46%	\$804.90	1,432	1,471	+39
	9	\$55,000.00	6.01%	\$885.89	1,576	1,572	-4
	10	\$199,970.00	21.86%	\$3,220.93	5,731	5,673	-58
	Series Total	\$914,942.00	100.00%	\$14,737.05	26,221	26,323	+102
Second Series	11	\$100,000.00	6.82%	\$1,967.30	2,882	2,875	-7
	12	\$150,000.00	10.23%	\$2,950.96	4,323	4,277	-46
	13	\$100,000.00	6.82%	\$1,967.30	2,882	2,811	-71
	14	\$165,900.00	11.32%	\$3,263.76	4,781	4,975	+194
	15	\$250,000.00	17.05%	\$4,918.26	7,205	7,497	+292
	16	\$110,000.00	7.50%	\$2,164.03	3,170	3,299	+129
	17	\$100,000.00	6.82%	\$1,967.30	2,882	2,999	+117
	18	\$100,000.00	6.82%	\$1,967.30	2,882	2,999	+117
	19	\$100,000.00	6.82%	\$1,967.30	2,882	2,999	+117
	20	\$40,000.00	2.73%	\$786.92	1,153	1,199	+46
	21	\$25,000.00	1.71%	\$491.83	721	718	-3
	22	\$62,000.00	4.23%	\$1,219.73	1,787	1,783	-4
	23	\$49,970.50	3.41%	\$983.07	1,440	1,498	+58
	24	\$20,000.00	1.36%	\$393.46	576	599	+23

² Investor Nos. 5 and 6 are the same investor. The investor received a net of 8 fewer Facebook shares than he was entitled to under the Operating Agreement.

³ Based on (i) shares delivered to the applicable series from a Felix special purpose entity (or entities) or the direct seller, and (ii) each investor's capital contribution. Does not include additional 879 shares purchased in July-August 2013 and distributed to investors.

⁴ Includes 879 additional shares that CMS FB purchased in July-August 2013 and distributed to investors.

A	B	C	D	E	F	G	H
	Investor	Capital In	Series %	Capital That Should Have Been Returned to Investor	Shares Each Investor Should Have Received ³	Shares Each Investor Actually Received ⁴	Difference Between What Investor Should Have Received and Actually Received
	25	\$50,000.00	3.41%	\$983.65	1,441	1,499	+58
	26	\$43,000.00	2.93%	\$845.94	1,239	1,289	+50
	Series Total	\$1,465,870.50	100.00%	\$28,838.13	42,248	43,316	1068
Third Series	27	\$34,000.00	13.38%	-\$447.10	1,009	999	-10
	28	\$20,150.00	7.93%	-\$264.97	598	592	-6
	29	\$50,000.00	19.67%	-\$657.49	1,483	1,469	-14
	30	\$50,000.00	19.67%	-\$657.49	1,483	1,469	-14
	31	\$50,000.00	19.67%	-\$657.49	1,483	1,469	-14
	32	\$50,000.00	19.67%	-\$657.49	1,483	1,469	-14
	Series Total	\$254,150.00	100.00%	-\$3,342.05	7,539	7,467	-72
Fourth Series	33	\$100,000.00	15.95%	-\$2,808.19	2,572	2,622	+50
	34	\$94,000.00	14.99%	-\$2,639.70	2,417	2,412	-5
	35	\$100,000.00	15.95%	-\$2,808.19	2,572	2,622	+50
	36	\$20,000.00	3.19%	-\$561.64	514	513	-1
	37	\$63,000.00	10.05%	-\$1,769.16	1,620	1,652	+32
	38	\$85,000.00	13.56%	-\$2,386.97	2,186	2,229	+43
	39	\$40,000.00	6.38%	-\$1,123.28	1,029	1,026	-3
	40	\$10,000.00	1.59%	-\$280.82	257	256	-1
	41	\$15,000.00	2.39%	-\$421.23	386	393	+7
	42	\$100,000.00	15.95%	-\$2,808.19	2,572	2,622	+50
	Series Total	\$627,000.00	100.00%	-\$17,607.38	16,124	16,347	223
Fifth Series	43	\$320,000.00	14.16%	-\$1,465.04	8,496	8,452	-44
	44	\$21,000.00	0.93%	-\$96.14	558	554	-4
	45	\$96,000.00	4.25%	-\$439.51	2,549	2,535	-14
	46	\$96,000.00	4.25%	-\$439.51	2,549	2,535	-14
	47	\$96,000.00	4.25%	-\$439.51	2,549	2,535	-14
	48	\$39,000.00	1.73%	-\$178.55	1,035	1,030	-5
	49	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	50	\$40,000.00	1.77%	-\$183.13	1,062	1,056	-6
	51	\$32,500.00	1.44%	-\$148.79	863	862	-1
	52	\$30,000.00	1.33%	-\$137.35	797	792	-5
	53	\$20,000.00	0.89%	-\$91.57	531	528	-3
	54	\$24,970.50	1.10%	-\$114.32	663	659	-4
	55	\$25,000.00	1.11%	-\$114.46	664	660	-4
	56	\$20,000.00	0.89%	-\$91.57	531	531	0
	57	\$5,000.00	0.22%	-\$22.89	133	132	-1

A	B	C	D	E	F	G	H
	Investor	Capital In	Series %	Capital That Should Have Been Returned to Investor	Shares Each Investor Should Have Received ³	Shares Each Investor Actually Received ⁴	Difference Between What Investor Should Have Received and Actually Received
	58	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	59	\$5,000.00	0.22%	-\$22.89	133	132	-1
	60	\$11,125.00	0.49%	-\$50.93	295	293	-2
	61	\$7,200.00	0.32%	-\$32.96	191	190	-1
	62	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	63	\$30,000.00	1.33%	\$137.35	797	792	-5
	64	\$12,000.00	0.53%	-\$54.94	319	316	-3
	65	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	66	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	67	\$25,000.00	1.11%	-\$114.46	664	660	-4
	68	\$25,000.00	1.11%	-\$114.46	664	660	-4
	69	\$25,000.00	1.11%	-\$114.46	664	660	-4
	70	\$20,000.00	0.89%	-\$91.57	531	528	-3
	71	\$75,000.00	3.32%	-\$343.37	1,991	1,981	-10
	72	\$18,000.00	0.80%	-\$82.41	478	475	-3
	73	\$10,000.00	0.44%	-\$45.78	266	264	-2
	74	\$20,000.00	0.89%	-\$91.57	531	528	-3
	75	\$30,000.00	1.33%	-\$137.35	797	792	-5
	76	\$10,000.00	0.44%	-\$45.78	266	264	-2
	77	\$30,000.00	1.33%	-\$137.35	797	792	-5
	78	\$15,000.00	0.66%	-\$68.67	398	396	-2
	79	\$75,000.00	3.32%	-\$343.37	1,991	1,981	-10
	80	\$10,000.00	0.44%	-\$45.78	266	264	-2
	81	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	82	\$15,000.00	0.66%	-\$68.67	398	396	-2
	83	\$20,000.00	0.89%	-\$91.57	531	528	-3
	84	\$10,000.00	0.44%	-\$45.78	266	264	-2
	85	\$10,000.00	0.44%	-\$45.78	266	264	-2
	86	\$10,000.00	0.44%	-\$45.78	266	264	-2
	87	\$20,000.00	0.89%	-\$91.57	531	528	-3
	88	\$20,000.00	0.89%	-\$91.57	531	528	-3
	89	\$40,000.00	1.77%	-\$183.13	1,062	1,056	-6
	90	\$40,000.00	1.77%	-\$183.13	1,062	1,056	-6
	91	\$30,000.00	1.33%	-\$137.35	797	792	-5
	92	\$20,000.00	0.89%	-\$91.57	531	528	-3
	93	\$36,000.00	1.59%	-\$164.82	956	950	-6
	94	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	95	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	96	\$20,000.00	0.89%	-\$91.57	531	528	-3

A	B	C	D	E	F	G	H
	Investor	Capital In	Series %	Capital That Should Have Been Returned to Investor	Shares Each Investor Should Have Received ³	Shares Each Investor Actually Received ⁴	Difference Between What Investor Should Have Received and Actually Received
	97	\$10,000.00	0.44%	-\$45.78	266	264	-2
	98	\$10,000.00	0.44%	-\$45.78	266	264	-2
	99	\$10,000.00	0.44%	-\$45.78	266	264	-2
	100	\$10,000.00	0.44%	-\$45.78	266	264	-2
	101	\$30,000.00	1.33%	-\$137.35	797	792	-5
	102	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	103	\$20,000.00	0.89%	\$91.57	531	531	0
	104	\$10,000.00	0.44%	-\$45.78	266	264	-2
	105	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	106	\$50,000.00	2.21%	-\$228.91	1,328	1,320	-8
	Series Total	\$2,259,795.50	100.00%	-\$10,345.92	60,000	59,674	-326
Sixth Series	107	\$199,980.00	43.95%	-\$1,602.57	4,549	4,508	-41
	108	\$200,000.00	43.96%	-\$1,602.73	4,550	4,508	-42
	109	\$8,000.00	1.76%	-\$64.11	182	180	-2
	110	\$47,000.00	10.33%	-\$376.64	1,069	1,069	0
	Series Total	\$454,980.00	100.00%	-\$3,646.04	10,350	10,265	-85
Seventh Series	111	\$75,000.00	100.00%	-\$8,633.79	1,910	1,879	-31
	Series Total	\$75,000.00	100.00%	-\$8,633.79	1,910	1,879	-31
	Grand Total	\$6,051,738.00	-	\$0.00	164,392	165,271	-

Attachment D

CMS FB's Cash Flows and Condition as of Nov. 14, 2013

Description	Cash In	Cash Out	Ending Balance
Capital From Investors	\$6,051,738.00		
Other Cash Contributed	\$28,766.96		
Cash from Liquidated Securities	\$65,103.54		
Brokerage Dividends	\$0.13		
Securities Purchases With Investor Funds		\$5,552,700.81	
Securities Purchases With Outside Funds		\$28,691.96	
Allocated General Expenses		\$91,485.58	
Unallocated Expenses		\$178.02	
Placement Fees to Charles Morgan		\$407,551.61	
Unexplained Payments to Charles Morgan		\$1,114.15	
Cash to Investors from Liquidated Securities		\$63,905.40	
Total	\$6,145,608.63	\$6,145,627.53	\$(18.90)