

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

James Van Doren (CRD No. 5048067),

Respondent.

DISCIPLINARY PROCEEDING
No. 20130367071

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between September 2008 and January 2009, James Van Doren ("Van Doren") participated in a scheme to defraud creditors of his friend and business associate, BB, by concealing BB's assets from them. Van Doren – whose outside business had invested in several real estate deals with BB and his company, the B Group – knew that BB and the B Group were unable to meet their obligations and that creditors were after their assets. Despite this knowledge, Van Doren helped conceal \$94,000 from BB's and the B Group's creditors and distributed those funds back to BB and others at BB's direction, while also retaining some funds to cover losses his outside business had incurred through its investments with BB and the B Group.

2. On August 20, 2013, Van Doren pleaded guilty in the U.S. District Court for the Western District of Arkansas to one count of money-laundering, in violation of 18 U.S.C. § 1957, for depositing a check from BB into Van Doren's account and wiring funds to an account controlled by BB.
3. Van Doren's participation in this illicit scheme was inconsistent with just and equitable principles of trade and violated FINRA Rule 2010.

RESPONDENT AND JURISDICTION

4. Van Doren entered the securities industry in October 2005 as a registered representative at a FINRA-regulated firm. Between 2008 and 2011, Van Doren worked at another FINRA-regulated firm. On January 7, 2011, Van Doren became registered with Citigroup Global Markets Inc. ("Citigroup"), where he remained until April 19, 2013, when he was permitted to resign. On April 19, 2013, Citigroup filed a Uniform Termination Notice for Securities Industry Registration reporting that Van Doren was permitted to resign after a "loss of confidence in light of disclosed criminal charges."
5. Although Van Doren is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the effective date of termination of Respondent's registration with Citigroup, namely, April 19, 2013, and (2) the Complaint charges him with misconduct while he was registered with a FINRA member.

FACTS

VAN DOREN'S BUSINESS DEALINGS WITH BB AND THE B GROUP

6. Van Doren and BB were friends and business associates who grew up together in Arkansas.
7. From 2004 to 2008, BB owned the B Group, which engaged in real estate development in Northwest Arkansas.
8. In addition to working as an investment banker, Van Doren was a fifty-percent owner of a company called Epsilon Investments, LLC ("Epsilon"), which he formed to invest in Arkansas real estate.
9. Van Doren disclosed Epsilon as an outside business to his prior member firms.
10. Beginning in May 2007 and continuing through 2008, Epsilon invested in at least three real estate deals with the B Group.
11. One of these deals involved the construction of homes in an Arkansas neighborhood known as Timber Trails. In or around May 2007, BB approached Van Doren about financing the construction of four homes on lots the B Group owned in Timber Trails. The homes were to be speculative investments in which the B Group would act as general contractor, build the homes without a buyer and then market them upon completion.
12. Epsilon purchased four lots in Timber Trails from the B Group and financed the construction of homes on each of these lots. Epsilon obtained four construction loans totaling \$600,000 from two banks for the project, which were personally guaranteed by Van Doren and his Epsilon partner. Each loan was for approximately \$150,000

and those funds covered the purchase price of each lot and related construction costs of the home.

13. As the general contractor, the B Group obtained payment for each phase of the homes' construction by requesting draws on the construction loans.

**VAN DOREN'S AWARENESS OF BB'S AND THE B GROUP'S
FINANCIAL DIFFICULTIES AND CREDITORS' CLAIMS ON THEIR ASSETS**

14. By August 2007, Van Doren knew that BB and the B Group were having financial difficulties and experiencing short-term liquidity issues, and that the Timber Trails project was facing construction delays and falling behind the original timetable for completion.
15. Van Doren asked BB and BB's business partner, BR, to explain the construction delays. BB told Van Doren that he had been drawing funds from the Timber Trails construction loans and depositing them in the B Group's general fund rather than paying the subcontractors working on the Timber Trails homes.
16. Around the same time, Van Doren noticed that BB was scaling back his personal spending and selling his boats and homes. BB also asked Van Doren to loan him money and Van Doren loaned him \$10,000.
17. In December 2007, BB and BR told Van Doren that the construction loans held on the Timber Trails homes had been fully drawn, but the construction on the homes was not complete.
18. During the same month, BR also told Van Doren that the B Group had failed to pay some of the subcontractors on the Timber Trails homes and several subcontractors had placed liens on the homes.

19. At that time, Van Doren received formal notice of the construction liens on the Timber Trails homes. BB told Van Doren that he did not have the money to pay the subcontractors. As a result, Epsilon had to pay approximately \$25,000 to remove the liens from the homes.
20. BB also told Van Doren that he needed to borrow more money and Van Doren loaned BB another \$10,000.
21. In early 2008, BB, his wife and BR told Van Doren that several banks had foreclosed on properties owned by the B Group.
22. In February 2008, BB confided to Van Doren that he was broke and experiencing financial difficulties. BB again asked Van Doren for a loan and Van Doren loaned BB an additional \$12,000.
23. BB also informed Van Doren that he was going to dissolve the B Group.
24. By March 2008, the B Group was insolvent and had been dissolved.

EPSILON'S LOSSES FROM ITS INVESTMENTS WITH BB AND THE B GROUP

25. Between April 2008 and October 2009, Epsilon sold each of the four Timber Trails homes at a loss. Epsilon had to provide money at the closings of the Timber Trails homes for unpaid construction expenses, buyers' concessions and other closing costs. Van Doren and his Epsilon partner each contributed approximately \$25,000 to Epsilon to cover these costs.
26. The Timber Trails properties sold for approximately \$628,150, which resulted in a loss to Epsilon of at least \$22,091.

27. Beginning in December 2007, BB solicited Van Doren to invest in additional real estate transactions as a way to recoup the money that BB owed Epsilon on the Timber Trails homes. Epsilon invested in two of these deals in April 2008.
28. These additional investments with BB were not successful. Not only did Epsilon fail to recover its losses on the Timber Trails homes, it incurred further losses totaling over \$135,000 on the two transactions.

**VAN DOREN PARTICIPATED IN THE SCHEME TO
DEFRAUD BB'S AND THE B GROUP'S CREDITORS**

29. Between September 2008 and January 2009, BB, together with Van Doren and others, engaged in a scheme to defraud BB's and the B Group's creditors by concealing funds from the creditors, which allowed BB to use the funds for BB's personal expenses.
30. As part of BB's scheme to defraud BB's and the B Group's creditors, Van Doren agreed to receive funds from BB into Van Doren's personal bank account and a bank security deposit box and then distribute them according to BB's instructions. This allowed BB to retain the funds for BB's personal use and benefit.
31. Specifically, on September 29, 2008, BB requested that Van Doren deposit a third-party check for \$64,000 in an account controlled by Van Doren. BB then asked Van Doren to transfer funds to individuals and an account controlled by BB. BB explained to Van Doren that his banks had seized his funds and closed his personal accounts.
32. As agreed with BB, Van Doren deposited the \$64,000 check into a bank account in Van Doren's name.

33. As instructed by BB, on October 10, 2008, Van Doren wired \$4,500 from his bank account to SM, a real estate broker with whom BB had worked.
34. As instructed by BB, on October 20, 2008, Van Doren wired \$10,000 from his bank account to BB's lawyers, the KK Law Firm.
35. As instructed by BB, on October 29, 2008, Van Doren wired \$22,000 from his bank account to an account that BB controlled at FS Bank in Fayetteville, Arkansas, in the name of the B Group.
36. At the time he deposited the \$64,000 check and made the three wire transfers, Van Doren knew that BB was broke, the B Group had become insolvent and had been dissolved, banks had seized and closed BB's bank accounts and foreclosed on properties owned by the B Group and unpaid creditors were trying to recover BB's assets.
37. At the time he deposited the \$64,000 check and made the three wire transfers, Van Doren also knew that BB was transferring the money for the purpose of defrauding BB's and the B Group's creditors and Van Doren agreed to deposit and transfer the funds for that purpose.
38. By depositing the \$64,000 check and making the three transfers, Van Doren made it appear that some of these funds belonged to Van Doren, when in fact, Van Doren knew and agreed that funds would be used by BB for his benefit, including BB's personal living expenses.

39. After making the three wire transfers, approximately \$27,500 remained of BB's \$64,000 check. Van Doren kept that money as partial payment of the money that BB owed Epsilon on the Timber Trails homes and the other two investments.
40. In October 2008, BB asked Van Doren to take possession of a briefcase containing approximately \$30,000.
41. Van Doren placed the briefcase and its contents in a safety deposit box that was held in Van Doren's name.
42. BB periodically contacted Van Doren and asked for money from the briefcase. Between October 2008 and January 2009, Van Doren met BB on approximately six to eight occasions and gave him cash from the briefcase. Van Doren ultimately distributed all of the \$30,000 back to BB.
43. At the time he took possession of the \$30,000 and distributed the funds back to BB, Van Doren knew that BB was broke, the B Group had become insolvent and had been dissolved, banks had seized and closed BB's bank accounts and foreclosed on properties owned by the B Group and unpaid creditors were trying to recover BB's assets.
44. At the time he took possession of the \$30,000 and distributed the funds back to BB, Van Doren knew that BB was accepting cash distributions from the briefcase for the purpose of defrauding his creditors by concealing his income and assets from them and Van Doren agreed to hold and distribute the money for that purpose.
45. By taking possession of the \$30,000 and distributing the funds to BB, Van Doren made it appear that some of these funds belonged to Van Doren, when in fact, Van

Doren knew and agreed that funds would be used by BB for his benefit, including BB's personal living expenses.

46. In July 2013, BB pleaded guilty to money laundering, conspiracy to commit bank fraud and conspiracy to commit bankruptcy fraud for transactions that included the \$64,000 transaction with Van Doren.

47. On August 20, 2013, Van Doren pleaded guilty in the U.S. District Court for the Western District of Arkansas to one count of money laundering in violation of 18 U.S.C § 1957 for depositing the \$64,000 check from BB into his account and wiring funds to an account controlled by BB.

CAUSE OF ACTION

Van Doren Engaged in a Scheme to Defraud BB's and the B Group's Creditors (FINRA Rule 2010)

48. The Department realleges and incorporates by reference paragraphs 1-47 above.

49. Van Doren was engaged in business with BB and the B Group through joint investments in real estate through Epsilon.

50. During the period September 2008 through January 2009, Van Doren participated in a scheme to defraud BB's and the B Group's creditors by concealing BB's funds from the creditors and allowing BB to improperly use the money for BB's personal benefit.

51. FINRA Rule 2010 states that "[a] member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade."

52. Van Doren's participation in BB's illicit scheme to defraud BB's and the B Group's creditors was inconsistent with just and equitable principles of trade and violated FINRA Rule 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the 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.
- 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: 10.3.14



Richard R. Best
Chief Counsel
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street, 11th Floor
New York, NY 10281-1003
646-315-7308 (Phone); 202-689-3424 (Fax)
E-mail: Richard.Best@finra.org

Janice Payne
Director
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street, 11th Floor
New York, NY 10281-1003
646-315-7387 (Phone); 202-689-3462 (Fax)
E-mail: Janice.Payne@finra.org

Jennifer Mennella
Senior Counsel
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street, 11th Floor
New York, NY 10281-1003
646-315-7423 (Phone); 202-689-3456 (Fax)
E-mail: Jennifer.Mennella@finra.org

Aaron Mendelsohn
Senior Counsel
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street, 11th Floor
New York, NY 10281-1003
646-315-7344 (Phone); 301-407-4542 (Fax)
E-mail: Aaron.Mendelsohn@finra.org