

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS
AUSTIN DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

JENNIFER L. DODGE,
GRANT M. CARROLL,
TAMARA M. DAVIS,
and THE CORNERSTONE TKD, LLC

Defendants.

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: **Civil Action No. 1:10-CV-913**
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COMPLAINT

Plaintiff Securities and Exchange Commission (“Commission”) alleges:

INTRODUCTION

1. This is an offering fraud case. From April 2007 through at least May 2008, Jennifer L. Dodge (“Dodge”), Grant M. Carroll (“Carroll”), Tamara M. Davis (“Davis”), and The Cornerstone TKD, LLC (“Cornerstone”) (collectively, the “Defendants”) raised approximately \$9 million by offering and selling interests in a high-yield investment scheme to approximately 20 investors. Defendants made the unregistered offering through defunct Lakeway, Texas-based Quantum Funding Strategies, LLC (“Quantum Funding”).

2. While offering and selling the investments, Dodge promised investors that they would realize weekly returns of 25% to 100% without risk of losing their principal investment. Dodge also made material misrepresentations and omitted material information regarding her alleged experience and past success in conducting similar transactions. Carroll falsely told

investors, as well as Dodge, that he was a licensed securities broker and that he had verified the validity of the transactions. Davis and Cornerstone solicited investors in the unregistered offering.

3. In reality, Defendants' conduct fed a Prime Bank scam. Prime Bank schemes lure investors with the promise of astronomical profits and the chance to be a part of an exclusive, international investing program.

4. Of the \$9 million raised, Defendants: misappropriated approximately \$1.8 million; refunded approximately \$2.5 million to certain investors; and sent \$4.5 million to the Prime Bank scam operators, who claimed the funds would be forwarded to a "trader" who would generate the promised returns.

5. By reason of the foregoing: Defendants Dodge and Carroll violated Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)], Sections 10(b) and 15(a)(1) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b) and 78o(a)(1)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder; and Defendants Davis and Cornerstone violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)] and Section 15(a)(1) of the Exchange Act [15 U.S.C. § 78o(a)(1)].

6. The Commission, in the interest of protecting the public from further such fraudulent activities and harm, brings this action seeking permanent injunctive relief, disgorgement of ill-gotten gains, plus prejudgment interest, and civil monetary penalties.

JURISDICTION AND VENUE

7. The Court has jurisdiction over this action under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78(aa)].

8. Defendants, directly or indirectly, made use of the means or instruments of transportation and communication, and the means or instrumentalities of interstate commerce, or

of the mails, in connection with the transactions, acts, practices, and courses of business alleged herein.

9. Venue is proper under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78(aa)] because certain of the transactions, acts, practices, and courses of business alleged herein took place in the Western District of Texas.

DEFENDANTS

10. **Jennifer L. Dodge**, a/k/a Jennifer Lewis-Dodge, 48, of Lakeway, Texas, was the managing partner of Quantum Funding. She has never held a securities license or been associated with a registered broker-dealer.

11. **Grant M. Carroll**, 31, of Midland, Texas, was Quantum Funding's "Director of Securities." In fact, Carroll never held a securities license nor has he been associated with a registered broker-dealer. Since June 2007, he has been the sole officer and director of Marshall Global Holdings, LLC, a defunct company that received commissions from Quantum Funding.

12. **Tamara M. Davis**, 38, of Los Angeles, California, is a managing member of Cornerstone. She has never held a securities license or been associated with a registered broker-dealer.

13. **The Cornerstone TKD, LLC**, is a Nevada company formed in March 2006. Cornerstone has never registered with the Commission as a broker or dealer.

RELEVANT ENTITY

14. **Quantum Funding Strategies, LLC**, a Texas limited liability company formed in November 2006, was located in Lakeway, Texas. The company has been voluntarily dissolved. Quantum Funding has never registered an offering of securities under the federal

securities laws.

STATEMENT OF FACTS

I. The High-Yield Offering

15. Beginning in April 2007, Defendants offered and sold high-yield investments to investors in multiple states. The investment opportunity was essentially a Prime Bank scheme.

16. Dodge learned of the Prime Bank scheme from Carroll. Carroll discovered the purported investment program through the Internet and word-of-mouth. Without conducting due diligence on the purported investment program, Defendants marketed it to investors, offering investors the “opportunity” to pool their funds with other investors and obtain an interest in the purported high-yield trading program.

17. In a typical transaction, investors were told: (a) that their funds would be pooled with other investor moneys and forwarded to an “escrow agent;” (b) the escrow agent would transfer the funds to high-net worth individuals and companies known as “funders;” (c) the funders would keep the funds in a secure “blocked funds account,” ensuring that the investors would not lose their principal; (d) “traders” would use the funds in the blocked funds accounts as collateral to obtain loans for trading “medium-term notes” and other instruments; and (e) the trading strategy would generate huge weekly returns.

18. In fact, investors never earned any returns on their investment. Investors either lost their entire principal or received a full or partial refund after demanding a return of their funds.

II. The Selling Efforts

Misrepresentations and Omissions by Dodge and Carroll

19. Dodge and Carroll pitched the investments to potential investors in emails and during telephone calls. In the communications, Dodge claimed: (a) she was experienced with and

been repeatedly successful in high-yield investment transactions; (b) investors' money would be put into an escrow account and used only when note trading began; (c) the transactions were safe, "secured," and "no risk," and if anything went wrong, investors could get their money back, minus a small wiring fee; and (d) investors would earn weekly returns between 25% and 100% within 45 days to two months after their investment.

20. These claims were false. Specifically: Dodge never executed a successful transaction--either the investor lost his/her investment or the investor's funds were returned; investor funds were transferred out of the escrow account before note trading began; the transactions were unsecured and high risk, resulting in investors' loss of their entire investment; and investors never received the promised returns.

21. In communications with investors, as well as Dodge, Carroll falsely claimed to be a licensed securities broker. Carroll also falsely claimed to have verified the veracity of the transactions. In fact, Carroll did no due diligence whatsoever. He did not check into how the purported profits were being generated. He did not do any research into the companies involved. And he did not verify that the purported, astronomical returns were real.

Davis and Cornerstone Solicit Investors

22. Davis, acting on behalf of Cornerstone, solicited investors to invest in Quantum Funding's high-yield investment program. Davis delivered at least ten investors who invested approximately \$4.2 million of the \$9 million raised. Davis enticed the investors by repeating the false and misleading claims of huge returns and no risk.

Defendants Acted as Unregistered Brokers

23. None of the Defendants were registered with the Commission as a broker or dealer.

24. Nevertheless, Defendants effected transactions in the bogus high-yield investment opportunity. Defendants forwarded investment application documents to prospective investors, helped prospective investors complete investment agreements and other documents, participated in discussions and negotiations between prospective investors and Quantum Funding; and routed completed investment agreements and other documents to Quantum Funding.

25. Carroll received “commissions” for soliciting investors and effecting the transactions. Similarly, Dodge, through Quantum Funding, received transaction-based compensation.

26. In exchange for raising funds for Quantum Funding, Cornerstone was to be compensated by receiving a percentage (typically 5%) of the weekly gross profit earned on the investment. The compensation arrangement was memorialized in agreements executed by Dodge, on behalf of Quantum Funding, and Davis, on behalf of Cornerstone.

IV. Misapplication of Investor Funds

27. During the course of the unregistered offering, Defendants raised approximately \$9 million from approximately 20 investors. The majority of funds were deposited into Quantum Funding accounts controlled by Dodge.

28. Of the \$9 million raised from investors: (a) Dodge retained approximately \$1.45 million as “fees,” which she used for travel, luxury items, and to pay personal expenses and the personal expenses of her significant other; (b) Carroll received approximately \$363,000 in commissions; (c) Dodge refunded approximately \$2.5 million to certain investors; and (d) Dodge sent \$4.5 million to “escrow agents” and third parties who operated the bogus high-yield trading programs.

FIRST CLAIM

Violations of Section 5 of the Securities Act

29. Plaintiff Commission re-alleges and incorporates paragraphs 1 through 28 of this Complaint by reference as if set forth *verbatim*.

30. Defendants Dodge, Carroll, Davis, and Cornerstone, directly or indirectly, singly and in concert with others, have been offering to sell, selling, and delivering after sale, certain securities, and have been, directly and indirectly: (a) making use of the means and instruments of transportation and communication in interstate commerce and of the mails to sell securities, through the use of written contracts, offering documents and otherwise; (b) carrying and causing to be carried through the mails and in interstate commerce by the means and instruments of transportation, such securities for the purpose of sale and for delivery after sale; and (c) making use of the means or instruments of transportation and communication in interstate commerce and of the mails to offer to sell such securities.

31. As described above, the investments described herein have been offered and sold to the public. No registration statements were ever filed with the Commission or otherwise in effect with respect to these securities.

32. For these reasons, the Defendants Dodge, Carroll, Davis, and Cornerstone have violated and, unless enjoined, will continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

SECOND CLAIM

Violations of Section 17(a) of the Securities Act

33. Plaintiff Commission re-alleges and incorporates paragraphs 1 through 28 of this

Complaint by reference as if set forth *verbatim*.

34. Defendants Dodge and Carroll, directly or indirectly, singly or in concert with others, in the offer or sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails have: (a) employed devices, schemes, and artifices to defraud; (b) obtained money or property by means of untrue statements of a material fact and omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in transactions, practices, and courses of business which operate or would operate as a fraud and deceit upon the purchasers.

35. As a part of and in furtherance of his scheme, Defendants Dodge and Carroll, directly and indirectly, prepared, disseminated, or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material facts and misrepresentations of material facts, and which omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

36. With respect to violations of Sections 17(a)(2) and (3) of the Securities Act, Defendants Dodge and Carroll were negligent in their actions regarding the representations and omissions alleged herein. With respect to violations of Section 17(a)(1) of the Securities Act, Defendants Dodge and Carroll made the referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth.

37. For these reasons, Defendants Dodge and Carroll have violated and, unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

THIRD CLAIM

Violations of Section 10(b) of the Exchange Act

38. Plaintiff Commission re-alleges and incorporates paragraphs 1 through 28 of this Complaint by reference as if set forth *verbatim*.

39. Defendants Dodge and Carroll, directly or indirectly, singly or in concert with others, in connection with the purchase or sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails have: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of a material fact and omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices, and courses of business which operate or would operate as a fraud and deceit upon purchasers, prospective purchasers, and any other persons.

40. As a part of and in furtherance of his scheme, Defendants Dodge and Carroll, directly and indirectly, prepared, disseminated, or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material facts and misrepresentations of material facts, and which omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, including, but not limited to, those set forth above.

41. Defendants Dodge and Carroll made the above-referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth.

42. For these reasons, Defendants Dodge and Carroll violated and, unless enjoined,

will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

FOURTH CLAIM

Violations of Section 15(a)(1) of the Exchange Act

43. Plaintiff Commission re-alleges and incorporates paragraphs 1 through 28 of this Complaint by reference as if set forth *verbatim*.

44. Defendants Dodge, Carroll, Davis, and Cornerstone, by engaging in the conduct described above, directly or indirectly, made use of the mails or means or instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce, the purchase or sale of securities, without being registered as a broker or dealer, or being associated with a registered broker or dealer in accordance with Section 15(a) (1) of the Exchange Act [15 U.S.C. § 78o(a) (1)].

45. Accordingly, Defendants Dodge, Carroll, Davis, and Cornerstone were brokers within the definition of that term in Section 3(a)(4) of the Exchange Act which defines “broker” as any person “engaged in the business of effecting transactions in securities for the account of others.” Defendants Dodge, Carroll, Davis, and Cornerstone were never so registered and, acted as brokers.

46. For these reasons, Defendants Dodge, Carroll, Davis, and Cornerstone violated and, unless enjoined, will continue to violate Section 15(a) (1) of the Exchange Act [15 U.S.C. § 78o(a)].

RELIEF REQUESTED

Plaintiff Commission respectfully requests that the Court:

(1) Permanently enjoin Defendants Dodge and Carroll from violating Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)], Sections 10(b)

and 15(a)(1) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78o(a)(1)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder;

(2) Permanently enjoin Defendants Davis and Cornerstone from violating Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)] and Section 15(a)(1) of the Exchange Act [15 U.S.C. § 78o(a)(1)];

(3) Order Defendants Dodge and Carroll to disgorge an amount equal to the funds and benefits obtained illegally, or to which they are otherwise not entitled, as a result of the violations alleged, plus prejudgment interest on that amount;

(4) Order each Defendant to pay civil monetary penalties in an amount determined appropriate by the Court pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)] for the violations alleged herein;

(5) Order such further relief as this Court may deem just and proper.

Dated: November 29, 2010

Respectfully submitted,

s/ Robert Long
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Arizona Bar No. 019180

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