

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF FLORIDA**

**CASE NO.**

**SECURITIES AND EXCHANGE COMMISSION,** )  
)  
**Plaintiff,** )  
**v.** )  
)  
**ROBERT L. COTTON and** )  
**COTTON & WESTERN MINING, INC.,** )  
)  
**Defendants.** )  
\_\_\_\_\_ )

**COMPLAINT**

Plaintiff Securities and Exchange Commission alleges as follows:

**I. INTRODUCTION**

1. From February through March 2010, Defendants Robert L. Cotton and Cotton & Western Mining, Inc. engaged in a fraudulent market manipulation scheme involving Cotton & Western's stock.

2. Through a middleman, the Defendants paid a bribe to a purported corrupt broker to induce the broker to purchase shares of Cotton & Western stock in the open market.

3. The Defendants engaged in the scheme to generate the appearance of market interest in Cotton & Western, induce public purchases of the stock, and artificially increase its trading price and volume.

4. Unbeknownst to the Defendants, the purported corrupt broker was a creation of the FBI, did not in fact exist, and the middleman was a witness cooperating with the FBI.

5. As a result of the conduct described in this Complaint, the Defendants violated Section 17(a)(1) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. § 77q(a)(1); and Section 10(b) and Rule 10b-5(a) and (c) of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5(a) and (c). Unless restrained and enjoined, they are reasonably likely to continue to violate the federal securities laws.

6. The Commission respectfully requests that the Court enter: (a) a permanent injunction restraining and enjoining the Defendants from violating the federal securities laws; (b) an order directing the Defendants to disgorge their ill gotten gains, plus prejudgment interest; (c) an order directing the Defendants to pay civil money penalties; and (d) a penny stock bar against Cotton.

## **II. DEFENDANTS**

7. During the relevant time period, Cotton was the president and chief executive officer of Cotton & Western. He resides in Houston, Texas.

8. Cotton & Western is a Nevada corporation with its principal place of business in Humble, Texas. The company purports to be an iron ore mining company engaging in the production and sale of iron ore. During the relevant time period, its common stock was quoted on OTC Link operated by OTC Markets Group, Inc. under the symbol “CWRN.” Its securities have never been registered with the Commission.

9. Cotton & Western’s stock is a “penny stock” as defined by the Exchange Act. At all times relevant to this Complaint, the stock’s shares traded at less than \$.004 per share. During the same time period, Cotton & Western’s stock did not meet any of the exceptions to penny stock classification pursuant to Section 3(a)(51) and Rule 3a51-1

of the Exchange Act. For example, the company's stock: (a) did not trade on a national securities exchange; (b) was not an "NMS stock," as defined in 17 C.F.R. § 242.242.600(b)(47); (c) did not have net tangible assets (i.e., total assets less intangible assets and liabilities) in excess of \$5,000,000; and (d) did not have average revenue of at least \$6,000,000 for the last three years. *See* Exchange Act, Rule 3a51-1(g).

### **III. JURISDICTION AND VENUE**

10. The Court has jurisdiction over this action pursuant to Sections 20(d) and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(d) and 77v(a); and Sections 21(d) and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d) and 78aa.

11. This Court has personal jurisdiction over the Defendants, and venue is proper in the Southern District of Florida, because many of the Defendants' acts and transactions constituting violations of the Securities Act and the Exchange Act occurred in the District. For example, on February 25, 2010, Cotton met with the cooperating witness in Broward County to finalize the scheme.

12. The Defendants, directly or indirectly, made use of the means or instruments of transportation or communication in interstate commerce, or of a means or instrumentality of interstate commerce, or of the mails, in connection with the conduct alleged in this Complaint.

### **IV. THE FRAUDULENT SCHEME**

#### **Market Manipulation and Bribe**

13. In February 2010, Cotton and the cooperating witness discussed having a purported friend and business associate of the cooperating witness buy Cotton &

Western's common stock to create the false impression the stock was developing an active public market and pump up the stock price.

14. The cooperating middleman told Cotton that his friend and business associate, the corrupt broker, would use money held in his customers' discretionary accounts to buy shares of Cotton & Western stock in the open market over a period of approximately four weeks. The stock purchases would be "coordinated" with press releases Cotton would issue on behalf of the company.

15. In exchange, Cotton agreed to pay the broker Cotton & Western shares worth one third the value of the company's stock the broker purchased in the open market. The middleman told Cotton that before the broker would begin buying stock, Cotton would have to provide the broker a deposit of either \$3,000 or \$5,000 of free-trading shares of Cotton & Western stock, to be issued in the name of the broker's girlfriend. Cotton agreed.

16. During one of their telephone conversations, the cooperating witness told Cotton the broker wanted ". . . to make sure that at least the beginning of the program is coordinated with press releases." Cotton responded, "I have plenty of news. That's not a problem." During another conversation, Cotton assured the cooperating witness that ". . . we'll be pumping it with news."

17. When the cooperating witness asked Cotton where he thought the price of the stock would go, Cotton responded that if the broker bought \$300,000 worth of Cotton & Western stock, the buying would "push it up in the teens at least." Cotton said it would be fine with him if the broker could get the stock price to between three and five cents a share.

18. On February 25, 2010, Cotton met with the cooperating witness in Broward County to finalize the scheme. At that time, they agreed the broker would purchase \$300,000 worth of Cotton & Western stock in the open market over the course of a month.

19. The cooperating witness told Cotton that after two weeks, the broker would provide him with a reconciliation of the broker's stock purchases, which he would then forward to Cotton. The cooperator also told Cotton the broker would expect Cotton to compensate him by issuing free trading shares of Cotton & Western in the name of the broker's girlfriend. Two weeks later, the broker would provide a second reconciliation of his stock purchases, and then would expect to receive additional shares of Cotton & Western stock.

20. Ultimately, Cotton and the cooperating witness agreed the broker would begin purchasing Cotton & Western stock on March 8. They also agreed Cotton would have the company issue a press release that day to coincide with the inception of the stock purchasing scheme. Cotton agreed to provide the press release to the cooperating witness before March 8 to show it to the broker.

21. On March 3, as he had agreed to do, Cotton wired \$3,000 as a down payment to the cooperating witness, with the understanding the cooperating witness would forward it to the broker. The same day, Cotton sent a copy of a press release -- to be issued on March 8 -- to the cooperating witness to give the broker.

22. On March 8, the FBI purchased 500,000 shares of Cotton & Western stock in the open market at \$.003 and \$.0029 per share, for a total cost of approximately \$1,472.

23. That same day, Cotton & Western issued the press release Cotton had provided to the cooperating witness five days earlier. Cotton issued this press release to create the false impression the increased buying activity was spurred by the positive news about Cotton & Western in the press release.

### **COUNT I**

#### **Fraud In Violation of Section 17(a)(1) of the Securities Act**

24. The Commission realleges and incorporates paragraphs 1 through 23 of its Complaint.

25. From February through March 2010, the Defendants directly and indirectly, by use of the means or instruments of transportation or communication in interstate commerce and by use of the mails, in the offer or sale of securities, as described in this Complaint, knowingly, willfully or recklessly employed devices, schemes or artifices to defraud.

26. By reason of the foregoing, the Defendants, directly and indirectly, violated and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(1) of the Securities Act, 15 U.S.C. §77q(a)(1).

### **COUNT II**

#### **Fraud in Violation of Section 10(b) and Rule 10b-5(a) and (c) of the Exchange Act**

27. The Commission realleges and incorporates paragraphs 1 through 23 of its Complaint.

28. From February through March 2010, the Defendants, directly and indirectly, by use of the means or instrumentalities of interstate commerce, and of the

mails in connection with the purchase or sale of securities, knowingly, willfully or recklessly:

(a) employed devices, schemes or artifices to defraud; or

(b) engaged in acts, practices and courses of business which have operated, are now operating and will operate as a fraud upon the purchasers of such securities.

29. By reason of the foregoing, the Defendants directly or indirectly violated and, unless enjoined, are reasonably likely to continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5(a) and (c), 17 C.F.R. § 240.10b-5(a) and (c).

### **RELIEF REQUESTED**

**WHEREFORE**, the Commission respectfully requests that the Court:

#### **I.**

#### **Declaratory Relief**

Declare, determine, and find that the Defendants have committed the violations of the federal securities laws alleged in this Complaint.

#### **II.**

#### **Permanent Injunctive Relief**

Issue a Permanent Injunction restraining and enjoining the Defendants, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Section 17(a)(1) of the Securities Act and Section 10(b) and Rule 10b-5(a) and (c) of the Exchange Act, as indicated above.

**III.**

**Disgorgement**

Issue an Order directing all Defendants to disgorge all ill-gotten gains, including prejudgment interest, resulting from the acts or courses of conduct alleged in this Complaint.

**IV.**

**Penalties**

Issue an Order directing the Defendants to pay civil money penalties 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. § 78(d)(3).

**V.**

**Penny Stock Bar**

Issue an Order barring Cotton from participating in any offering of penny stock, pursuant to Section 20(g) of the Securities Act, 15 U.S.C. § 77t(g), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d), for the violations alleged in this Complaint.

**VI.**

**Further Relief**

Grant such other and further relief as may be necessary and appropriate.

**VII.**

**Retention of Jurisdiction**

Further, the Commission respectfully requests that the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees

that it may enter, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

Respectfully submitted,

June 4, 2012

By:



\_\_\_\_\_  
Edward D. McCutcheon  
Senior Trial Counsel  
Florida Bar No. 683841  
Direct Dial: (305) 982-6380  
E-mail: [mccutcheone@sec.gov](mailto:mccutcheone@sec.gov)  
**Lead Attorney**

Trisha D. Sindler  
Senior Counsel  
Florida Bar # 0773492  
Direct Dial: (305) 982-6352  
E-mail : [FuchsT@sec.gov](mailto:FuchsT@sec.gov)

**ATTORNEYS FOR PLAINTIFF  
SECURITIES AND EXCHANGE COMMISSION  
801 Brickell Avenue, Suite 1800  
Miami, Florida 33131  
Telephone: (305) 982-6300  
Facsimile: (305) 536-4154**