INITIAL DECISION RELEASE NO. 568
ADMINISTRATIVE PROCEEDING
FILE NO. 3-15558

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

In the Matter of	:	INITIAL DECISION OF DEFAULT
	:	February 21, 2014
CORBIN JONES	:	

APPEARANCES: Sam S. Puathasnanon and David J. VanHavermaat for the Division of Enforcement, Securities and Exchange Commission

BEFORE: Cameron Elliot, Administrative Law Judge

SUMMARY

This Initial Decision of Default grants the Motion for Sanctions Against Respondent Corbin Jones filed by the Division of Enforcement (Division) and bars Corbin Jones (Jones) from association with a broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization (NRSRO), and from participating in an offering of penny stock.

PROCEDURAL HISTORY

On October 9, 2013, the Securities and Exchange Commission (Commission) issued an Order Instituting Administrative Proceedings (OIP), pursuant to Section 15(b) of the Securities Exchange Act of 1934 (Exchange Act). The OIP alleges that on August 28, 2013, the U.S. District Court for the District of Arizona (District Court) entered a final judgment against Jones, permanently enjoining him from future violations of Section 17(a) of the Securities Act of 1933 (Securities Act), Sections 10(b), 13(d), and 15(a) of the Exchange Act, and Exchange Act Rules 10b-5, 13d-1, and 13d-2 in SEC v. Stebbins, No. 13-cv-755. OIP at 2.

Jones was served with the OIP on October 15, 2013, in accordance with Rule 141(a)(2)(i) of the Commission's Rules of Practice. See Corbin Jones, Admin. Proc. Rulings Release No. 1008, 2013 SEC LEXIS 3419 (Oct. 30, 2013); 17 C.F.R. § 201.141(a)(2)(i). An Answer to the OIP was due within twenty days after service of the OIP. OIP at 2; 17 C.F.R. §§ 201.160(b), .220(b). Jones did not file an Answer. On November 8, 2013, Jones was ordered to show cause, by November 18, 2013, why he should not be deemed in default and have this proceeding determined against him for failing to file an Answer. Corbin Jones, Admin. Proc. Rulings Release No. 1030, 2013 SEC LEXIS 3507. Jones did not respond to the Order to Show Cause.

Accordingly, on November 20, 2013, I deemed Jones in default. Corbin Jones, Admin. Proc. Rulings Release No. 1054, 2013 SEC LEXIS 3649; see 17 C.F.R. §§ 201.155(a)(2), .220(f).

On December 16, 2013, the Division filed a Motion for Sanctions Against Jones (Motion), attaching a copy of the Complaint in SEC v. Stebbins, filed on April 16, 2013, and a copy of the Judgment of Permanent Injunction and Other Relief by Default Against Defendant Jones (Judgment of Permanent Injunction), filed on August 29, 2013.[1] Jones did not respond to the Motion.

The Division's Motion is granted. This proceeding will be determined upon consideration of the record, including the OIP, the allegations of which are deemed true. See 17 C.F.R. § 201.155(a). Additionally, because the District Court entered a default against Jones in SEC v. Stebbins, the well-pleaded factual allegations of the Complaint are taken as true, except for those allegations relating to damages.[2] See Judgment of Permanent Injunction at 1; TeleVideo Sys., Inc. v. Heidenthal, 826 F.2d 915 (9th Cir. 1987).

FINDINGS OF FACT

Jones was a 37 year-old resident of Gilbert, Arizona, at the time the Complaint was filed. OIP at 1; Complaint at 3. From June 2002 through June 2007, Jones was a registered representative associated with Times Securities, Inc. (Times Securities), and Berry-Shino Securities, broker-dealers registered with the Commission. OIP at 1; Complaint at 4. Jones stopped being associated with a registered broker-dealer on June 8, 2007, when Times Securities ceased its registration. OIP at 1; Complaint at 4. Jones nonetheless acted as an unregistered broker-dealer through at least August 2009 through his active and continuous solicitation, offer, and sale of several entities, including Noble Innovations, Inc. (Noble Innovations), which is a penny stock. OIP at 1; Complaint at 6.

From April 2006 through mid-2009, Jones and another individual (Person A) perpetrated a multi-faceted fraudulent scheme in connection with investments in a tankless water heater venture. OIP at 2; Complaint at 4, 7. Jones and Person A misappropriated investor funds for their own benefit and falsely told investors that their investments would be used to develop a tankless water heater venture or would be used for working capital. OIP at 2; Complaint at 7. In total, Jones and Person A misappropriated at least $1.8 million of investor funds, representing approximately 29% of the $6.3 million they helped to raise through the solicitation and sale of investments in certain companies from 2006 through 2009. Complaint at 8.

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[1] I take official notice of the Complaint and Judgment of Permanent Injunction, as well as the Docket Sheet in Stebbins, pursuant to Rule 323 of the Commission's Rules of Practice. See 17 C.F.R. § 201.323.

[2] The Judgment of Permanent Injunction does not necessarily have preclusive effect, however. Don Warner Reinhard, Exchange Act Release No. 63720 (Jan. 14, 2011), 100 SEC Docket 36940, 36945-46 & n.17 (quoting Don Warner Reinhard, Exchange Act Release No. 61506 (Feb. 4, 2010), 97 SEC Docket 25269, 25273).

In April 2008, Jones and Person A also induced investors to enter into a fraudulent share swap by exploiting the complaints of some shareholders to deceive them into exchanging their stock for stock that Jones and Person A knew would soon drop in value. OIP at 2; Complaint at 8. Jones and Person A did not tell the shareholders that the stock they received in the swap was going to conduct a 20:1 reverse split, reducing the number of shares they owned. Complaint at 9. Shareholders received 11,525 shares of stock, but they would have received 860,200 shares of stock if Jones and Person A had not deceived them. Id. at 10. Shareholders lost approximately $6 million based on the $7.50 closing price of the stock. Id.

Jones and Person A also engaged in an outright misappropriation of stock from investors by failing to make a pro rata distribution of stock following a merger and instead transferring shares to an entity they controlled and giving shares to other individuals. OIP at 2; Complaint at 11. Finally, Jones and Person A used investor accounts to engage in self-interested trading in stock that generated profits, and they failed to disclose their beneficial interest in a company that had stock registered with the Commission. OIP at 2; Complaint at 11-13.

On August 28, 2013, the District Court entered the Judgment of Permanent Injunction by default, permanently enjoining Jones from violating Section 17(a) of the Securities Act, Sections 10(b), 13(d), 15(a), and 16(a) of the Exchange Act, and Exchange Act Rules 10b-5, 13d-1, 13d-2, and 16a-3.[3] Judgment of Permanent Injunction at 1-3. The District Court also ordered Jones to pay disgorgement, prejudgment interest, and a civil penalty in an amount to be determined upon motion of the Commission. Id. at 3. No such motion has yet been filed. See Dkt. Sheet, SEC v. Stebbins, No. 13-cv-755 (D. Ariz.).

CONCLUSIONS OF LAW

Exchange Act Section 15(b)(6) authorizes the Commission to bar Jones from association with a broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or NRSRO, and from participating in an offering of penny stock, if: 1) at the time of the alleged misconduct, he was associated with a broker or dealer; 2) he has been enjoined from any action, conduct, or practice specified in Exchange Act Section 15(b)(4)(C); and 3) the sanction is in the public interest. 15 U.S.C. § 78*o*(b)(4)(C), (b)(6)(A)(iii).

Jones is permanently enjoined from engaging in or continuing certain conduct or practices in connection with acting as a broker or dealer, or in connection with the purchase or sale of securities, within the meaning of Section 15(b)(4)(C) of the Exchange Act. During his misconduct, Jones was associated with a registered broker-dealer or was acting as an unregistered broker-dealer. See Vladislav Steven Zubkis, Exchange Act Release No. 52876 (Dec. 2, 2005), 86 SEC Docket 2618, 2627 (noting that Exchange Act Section 15(b) applies to persons acting as a broker or dealer), recon. denied, Exchange Act Release No. 53651 (Apr. 13, 2006), 87 SEC Docket 2584. Accordingly, a sanction will be imposed on Jones if it is in the public interest.

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[3] The OIP did not allege that the District Court permanently enjoined Jones from violating Exchange Act Section 16(a) or Rule 16a-3 thereunder; however, the Judgment of Permanent Injunction reflects that Jones was in fact enjoined from violating those provisions.

SANCTION

The Division requests that Jones be permanently barred from association with a broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or NRSRO, and from participating in an offering of penny stock. Motion at 5-6. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted on July 21, 2010, added collateral bar sanctions to Exchange Act Section 15(b) and Section 203(f) of the Investment Advisers Act of 1940 (Advisers Act). The Commission has held that Dodd-Frank's collateral bars "are prospective remedies whose purpose is to protect the investing public from future harm," and therefore applying the bars in a follow-on proceeding addressing pre-Dodd-Frank conduct is "not impermissibly retroactive." John W. Lawton, Advisers Act Release No. 3513 (Dec. 13, 2012), 105 SEC Docket 61722, 61737. Accordingly, the imposition of collateral bars against Jones, despite the fact that his misconduct ended in 2009, is an appropriate sanction if it is in the public interest. Also, a penny stock bar is warranted, if in the public interest, because Jones acted as a broker of a penny stock. James E. Franklin, Exchange Act Release No. 56649 (Oct. 12, 2007), 91 SEC Docket 2708, 2711, pet. denied, 285 F. App'x 761 (D.C. Cir. 2008).

The appropriate remedial sanction is guided by the well-established public interest factors listed in Steadman v. SEC, 603 F.2d 1126, 1140 (5th Cir. 1979), aff'd on other grounds, 450 U.S. 91 (1981); Vladimir Boris Bugarski, Exchange Act Release No. 66842 (Apr. 20, 2012), 103 SEC Docket 53374, 53378. They include: 1) the egregiousness of the respondent's actions; 2) the isolated or recurrent nature of the infraction; 3) the degree of scienter involved; 4) the sincerity of the respondent's assurances against future violations; 5) the respondent's recognition of the wrongful nature of his conduct; and 6) the likelihood of future violations. Steadman, 603 F.2d at 1140. Deterrence should also be considered. Steven Altman, Exchange Act Release No. 63306 (Nov. 10, 2010), 99 SEC Docket 34405, 34435. The inquiry into the appropriate remedial sanction is flexible and no one factor is controlling. Chris G. Gunderson, Exchange Act Release No. 61234 (Dec. 23, 2009), 97 SEC Docket 24040, 24048; Conrad P. Seghers, Advisers Act Release No. 2656 (Sept. 26, 2007), 91 SEC Docket 2293, 2298, aff'd, 548 F.3d 129 (D.C. Cir. 2008).

The Steadman factors weigh in favor of imposing permanent collateral bars. Jones' conduct was egregious, recurrent, and involved scienter. Over the course of three years, he made misrepresentations to investors, misappropriated at least $1.8 million of investors' funds, misappropriated investors' stock, engaged in self-interested transactions, and failed to disclose his beneficial ownership in accordance with Commission regulations. OIP at 2; Complaint at 7-13. The egregiousness of Jones' conduct is further illustrated by the approximately $6 million in investor losses sustained as a result of Jones' deceptive conduct in connection with the fraudulent share swap. Complaint at 10. Jones' scienter was high, as he acted knowingly, or at least recklessly, in carrying out this fraudulent scheme. Id. at 8, 10-11, 13. Furthermore, the Commission has noted that "the fact that a person has been enjoined from violating antifraud provisions 'has especially serious implications for the public interest.'" Michael T. Studer, 57 S.E.C. 890, 898 (2004), reconsid. denied, Exchange Act Release No. 50600 (Oct. 28, 2004), 83 SEC Docket 3944, aff'd, 148 F. App'x 58 (2d Cir. 2005) (unpublished) (quoting Marshall E.

Melton, 56 S.E.C. 695, 713 (2003)). Jones defaulted in District Court and in this proceeding and thereby has failed to offer assurances against future violations and to recognize the wrongful nature of his conduct.

ORDER

It is ORDERED that the Division of Enforcement's Motion for Sanctions Against Respondent Corbin Jones is GRANTED.

It is FURTHER ORDERED, pursuant to Section 15(b) of the Securities Exchange Act of 1934, that Corbin Jones is BARRED from association with a broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization.

It is FURTHER ORDERED that, pursuant to Section 15(b) of the Securities Exchange Act of 1934, Corbin Jones is permanently BARRED from participation in an offering of penny stock, including acting as any promoter, finder, consultant, agent, or other person who engages in activities with a broker, dealer, or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

This Initial Decision shall become effective in accordance with and subject to the provisions of Rule 360 of the Commission's Rules of Practice. See 17 C.F.R. § 201.360. Pursuant to that Rule, a party may file a petition for review of this Initial Decision within twenty-one days after service of the Initial Decision. A party may also file a motion to correct a manifest error of fact within ten days of the Initial Decision, pursuant to Rule 111 of the Commission's Rules of Practice. See 17 C.F.R. § 201.111. If a motion to correct a manifest error of fact is filed by a party, then that party shall have twenty-one days to file a petition for review from the date of the undersigned's order resolving such motion to correct manifest error of fact.

The Initial Decision will not become final until the Commission enters an order of finality. The Commission will enter an order of finality unless a party files a petition for review or motion to correct manifest error of fact or the Commission determines on its own initiative to review the Initial Decision as to a party. If any of these events occurs, the Initial Decision shall not become final as to that party.

Respondent is notified that he may move to set aside the default in this case. Rule 155(b) of the Commission's Rules of Practice permits the Commission, at any time, to set aside a default for good cause, in order to prevent injustice and on such conditions as may be appropriate. 17 C.F.R. § 201.155(b). A motion to set aside a default shall be made within a reasonable time, state the reasons for the failure to appear or defend, and specify the nature of the proposed defense in the proceeding. Id.

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Cameron Elliot
Administrative Law Judge