

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73225 / September 25, 2014

INVESTMENT COMPANY ACT OF 1940
Release No. 31265 / September 25, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16174

In the Matter of

David C. Sorrells,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS
PURSUANT TO SECTIONS 15(b) AND 21C
OF THE SECURITIES EXCHANGE ACT OF
1934 AND SECTION 9(b) OF THE
INVESTMENT COMPANY ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against David C. Sorrells (“Sorrells” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Exchange Act Sections 15(b) and 21C and Investment Company Act Section 9(b), Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ the following:

1. This proceeding arises from a multi-million dollar investment scheme orchestrated by Gary Snisky ("Snisky"). From August 2011 to January 2013, Snisky raised approximately \$4.3 million from at least 40 investors across at least eight states through the sale of membership interests in Arete, LLC ("Arete") and other LLCs he controlled. Snisky recruited active insurance agents to solicit prospective investors. These salespeople promised investors no-risk, profitable alternatives to traditional annuities by offering investments in government agency bonds that were backed by the full faith and credit of the United States Government. However, Snisky never made any legitimate investments with investor funds. Instead, Snisky misappropriated approximately \$2.8 million of investor funds, mostly through cash withdrawals. He also used these funds to pay commissions to the salespeople and for his personal expenditures.

2. One of the most active salespeople was Sorrells, who raised more than \$2.4 million from investors to invest with Snisky, and received more than \$207,000.00 in commissions for his efforts. Sorrells directly solicited current and prospective insurance clients for investments, advised prospective investors on the specific details and merits of the investments, received transaction-based compensation for bringing in money from investors, and participated at key points in the investment chain. Sorrells was not registered with the Commission as a broker or associated with a registered broker-dealer during this time. Accordingly, Sorrells violated Section 15(a) of the Exchange Act by effecting transactions as an unregistered broker.

RESPONDENT

3. Sorrells, age 59, is a resident of Linden, Texas. Since 2006, Sorrells has held an insurance producer license with the state of Arizona. From mid-2011 through April 2012, Sorrells solicited current and prospective insurance clients to invest with Snisky. Sorrells previously held Series 6 (since 1997), 26 (since 1998), 63 (since 1997), and 65 (since 1999) licenses through April 2010, at which time he separated voluntarily from his most recent broker-dealer employer and the licenses lapsed. Sorrells has no disciplinary history.

OTHER RELEVANT PARTIES

4. Snisky, age 46, was a resident of Longmont, Colorado. He was the sole managing member of Arete, along with four LLCs which made offerings as a part of his scheme: (1) CMG Offering – 12PO5i, LLC; (2) CMG Offering – 12PO10i, LLC; (3) Summit Offering – 12PO5i, LLC; and (4) Summit Offering – 12PO10i, LLC (collectively "Snisky PIVs").² For orchestrating

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

² Snisky gave the Snisky PIVs names that were personalized for the insurance firm or self-directed IRA company associated with or engaged in offering the membership interests. "GMC" was an abbreviation for Cornerstone Marketing Group LLC, and "Summit" was short for Summit Trust Company. The Snisky PIVs shared the following characteristics: (1) all had principal place of business in Longmont, CO; (2) Snisky was the sole and

the scheme described herein, Snisky was indicted by a federal grand jury on November 19, 2013 on charges of mail fraud and money laundering. The next day, he was arrested. Additionally, on February 28, 2013, Colorado's Department of Regulatory Agencies, Division of Securities ("DORA") filed a Complaint for Injunctive and Other Relief against Snisky, Colony Capital, Colony Capital Group, Colony Capital Investments, Colony Capital Holdings, and others alleging various violations of the Colorado Securities Act on the basis that Snisky and others carried out a "private equity fund" scheme to defraud dozens of investors of at least \$3.2 million. Trial is set for February 2015 in this matter. Furthermore, Snisky formerly held an ownership interest in Arete, Ltd., a/k/a Sky Peak Capital Management (SEC No. 801-77422), a Cheyenne, Wyoming-based investment adviser registered with the Commission. Snisky formerly held Series 7, 62, and 63, licenses, which all expired in 1999.

5. Arete was a Colorado limited liability company with its principal place of business in Longmont, Colorado. Snisky was Arete's sole and managing member. Arete functioned both as the entity through which Snisky engaged in his overall business operations and as the primary issuer, or pooled investment vehicle, whose interests were offered and sold to investors. Snisky formed Arete in June 2011 and voluntarily dissolved the entity in late April 2012. Arete has never registered an offering of securities under the Securities Act of 1933 or a class of securities under the Exchange Act. Arete has never been registered with the Commission in any capacity.

FACTS

6. From August 2011 through January 2013, Snisky offered and sold membership interests in LLCs he created, managed and controlled (Arete, LLC and the Snisky PIVs) to investors across the country. Investors were promised that once they made their membership purchase in Arete or the Snisky PIVs, their money would then be pooled together to purchase Ginnie Mae agency bonds.

7. In order to entice the investors to invest their money in Arete and the Snisky PIVs, Snisky instructed his salespeople to communicate the following information to investors: (1) these investments would purportedly generate a guaranteed annual return of 6% or 7% annually; (2) Snisky could use his status as an "institutional trader" to engage in overnight banking sweeps to generate even larger returns for the investors; (3) investors would receive a 10% bonus to compensate them for any early withdrawal penalties from their existing investments; (4) investors received assurances that their investments would be "safe" and "guaranteed" because the investments in the bonds were backed by the "full faith and credit" of the United States Government and the investments were structured in a way that permitted withdrawal of principal and interest much earlier than traditional annuities. Relying on the promises of a purportedly safe and more profitable alternative to annuities, individuals from across the country invested approximately \$4.3 million in the scheme.

managing member of all the entities; (3) all were formed in April 2012 as "placement LLC" or pooled investment vehicle by which investors invested funds for the Arete investment; (4) none of the Snisky PIVs were ever registered as an offering of securities under the Securities Act or as a class of securities under the Exchange Act; and (5) none of the Snisky PIVs have ever been registered with the Commission in any capacity.

8. These representations were false. Snisky did not purchase any agency bonds, nor did he engage in any overnight banking sweeps. Rather, he misappropriated approximately \$2.8 million of investor funds, mostly through cash withdrawals. He then used these funds to pay commissions to his sales staff, as well as make personal expenditures (such as mortgage payments).

9. Snisky did not personally solicit the investments from the investors. Rather, he recruited and trained veteran insurance salespersons across the country to solicit investments from the current and prospective client bases of these salespersons. The salespeople then parroted many of Snisky's representations about the investments to the investors. The salespeople were actively involved in the recommendation and advising process concerning the investments, and participated in the order taking process to initiate the purchases. In exchange for soliciting the investors, the sales people were promised transaction-based compensation, which amounted to a percentage of the funds invested with Snisky through his companies.

10. Sorrells represented to investors that his company, Cornerstone Financial used a six-step process to help investors protect assets and get out of debt. In 2011, Sorrells met with Snisky multiple times in Colorado to learn more about the Arete investment. Through a July 7, 2011 Memorandum of Understanding with Arete, Sorrells agreed to sell the investments in Arete and the Snisky PIVS. Additionally, Sorrells agreed to provide insurance agents through his company, Cornerstone Financial, to market and sell the investments to pre-existing and prospective clients in the insurance industry.

11. From August 2011 to April 2012, Sorrells individually solicited current and prospective clients to invest with Snisky. Using methods such as phone and email, Sorrells individually sold Arete to eight investors, securing \$1,404,019.10 in investment funds. During the same period, Sorrells jointly sold Arete with another Cornerstone Financial insurance agent to 10 additional investors, securing an additional \$1,058,686.19. The 18 investors included residents of Arizona, Montana, and Washington. Sorrells received 8% commission from Arete for every dollar placed individually, and a 4% for every sale he split with the other Cornerstone agent. Sorrells ultimately received \$207,213.34 in commissions from these sales.

12. In the course of his solicitation, Sorrells: (1) directly and regularly solicited current and prospective insurance clients for investments in Arete and the Snisky PIVs; (2) advised prospective investors on the specific details and merits of the investments; (3) received transaction-based compensation for bringing in money from investors; and (4) participated at key points in the investment chain.

13. At no point between August 2011 and April 2012 was Sorrells registered with the Commission as a broker, nor was he associated with a registered broker-dealer at the time of these activities.

VIOLATIONS

14. Section 15(a) of the Exchange Act, among other things, prohibits a broker or a natural person not associated with a broker (other than such a broker whose business is

exclusively intrastate and who does not make use of any facility of a national securities exchange) to make use of the mails or any means or instrumentality of interstate commerce to effect any transactions in, or to induce or attempt to induce the purchase or sale of, any security (other than an exempted security or commercial paper, bankers' acceptances, or commercial bills) unless such broker is registered in accordance with Section 15(b) of the Exchange Act. Scienter is not an element of a violation of Section 15(a). SEC v. Rabinovich & Assocs., LP, 2008 U.S. Dist. LEXIS 93595, at *14 (S.D.N.Y. 2008).

15. As a result of the conduct described above, Sorrells willfully³ violated Section 15(a) of the Exchange Act.

IV.

Pursuant to this Order, Respondent agrees to additional proceedings in this proceeding to determine what, if any, civil penalties are in the public interest pursuant to Section 21B(a) of the Exchange Act. In connection with such additional proceedings: (a) Respondent agrees that he will be precluded from arguing that he did not violated the federal securities laws described in this Order; (b) Respondent agrees that he may not challenge the validity of this Order; (c) solely for the purposes of such additional proceedings, the allegations of this Order shall be accepted as and deemed true by the hearing officer; and (d) the hearing officer may determine the issues raised in the additional proceedings on the basis of affidavits, declarations, excerpts of sworn deposition or investigative testimony, and documentary evidence.

V.

In view of the foregoing, the Commission deems it appropriate, in the public interest, to impose the sanctions agreed to in Respondent Sorrells's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act, it is hereby ORDRED that:

A. Respondent Sorrells cease and desist from committing or causing any violations and any future violations of Section 15(a) of the Exchange Act;

B. Respondent Sorrells be, and hereby is:

barred from being associated with a broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization;

barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a

³ A willful violation of the securities laws means merely “that the person charged with the duty knows what he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

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; and

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

C. Sorrells shall pay disgorgement in the amount of \$207,213.34. Sorrells is currently the subject of ongoing forfeiture proceedings instituted by the United States Attorney's Office ("USAO") for the District of Colorado to recoup the commissions he earned based on the conduct set forth above. (Civil Action No. 1:13-cv-00567-REB-KLM). On January 13, 2014, the USAO filed a Consent Agreement ("January 13, 2014 Consent Agreement") entered into with Sorrells whereby Sorrells voluntarily turned over to the government a 2011 Toyota Tacoma (owned free and clear of any liens) and cash (approximately \$4,000.00). Sorrells also agreed to pay \$190,000 to satisfy the full amount sought in the civil forfeiture proceedings. The \$190,000 is to be paid out of proceeds from the sale of property owned by Sorrells, his ex-wife Pamela Sorrells and Sorrells' company Frontier Group. The disgorgement amount shall be deemed satisfied based on the terms of the January 13, 2014 Consent Agreement. The Division of Enforcement ("Division") may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent complied with the terms of the January 13, 2014 Consent Agreement; and (2) seek an order directing payment of disgorgement and pre-judgment interest.

By the Commission.

Brent J. Fields
Secretary