Spartan Securities Group, Ltd., Island Capital Management LLC, Carl E. Dilley, Micah J. Eldred and David D. Lopez

SEC Charges Broker-Dealer and Transfer Agent in Microcap Shell Factory Fraud

Litigation Release No. 24405 / February 21, 2019

Securities and Exchange Commission v. Spartan Securities Group, Ltd., Island Capital Management LLC, Carl E. Dilley, Micah J. Eldred and David D. Lopez, No. 19-civ-00448 (M.D. Fla. Filed February 20, 2019)

The Securities and Exchange Commission today announced charges against a broker-dealer, a transfer agent, and three individuals for their roles in the creation of over a dozen undisclosed "blank check" companies from 2009 to 2014.

In its complaint, the SEC alleges that broker-dealer Spartan Securities Group, Ltd. and transfer agent Island Capital Management LLC, which does business as Island Stock Transfer, helped create and sell at least 19 purportedly legitimate public companies that

were in fact shams. To effectuate the scheme, the complaint alleges that Spartan Securities filed fraudulent applications with Financial Industry Regulatory Authority (FINRA) to publicly list the companies' common stock and ultimately enable the shares to become free-trading and available to public investors. The complaint also alleges that Spartan Securities' principals, Carl E. Dilley and Micah J. Eldred, signed the false applications even though they knew or at least were reckless that the companies were fake and David D. Lopez failed to investigate red flags raised by FINRA or even familiarize himself with the companies. The SEC further alleges that Island Stock Transfer and Dilley facilitated the public sale of the stock of at least 12 of the sham companies through the bulk issuance and transfer of the "free-trading" securities.

The SEC alleges that: (1) Spartan Securities violated Section 15(c)(2) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 15c2-11 thereunder, and that Dilley, Eldred and Lopez aided and abetted those violations; (2) Spartan Securities, Island Stock Transfer, Dilley and Eldred violated, and aided and abetted violations of, Section 17(a) of the Securities Act of 1933 ("Securities Act") and Section 10(b) and Rule 10b-5 of the Exchange Act; and (3) Spartan Securities, Island Stock Transfer, and Dilley violated Sections 5(a) and 5(c) of the Securities Act of 1933 ("Securities Act").

Between 2015 and 2018, the SEC filed multiple (https://www.sec.gov/news/pressrelease/2015-69.html) enforcement (https://www.sec.gov/news/pressrelease/2016-190.html) actions (https://www.sec.gov/litigation/litreleases/2018/lr24122.htm) in related schemes to sell "blank check" companies. Broker-dealers that initiate or resume the publication of quotations in over-the-counter securities should be mindful of their obligations under the SEC rules, including Rule 15c2-11. For further guidance on the scope of the relevant rules, including a discussion of red flags, please see the Appendix to Publication or Submission of Quotations Without Specified Information, 64 FR 11124, 11145 (March 8, 1999). (https://www.govinfo.gov/content/pkg/FR-1999-03-08/pdf/99-5299.pdf)

The SEC's investigation was conducted by Jeffrey Cook and supervised by Eric Busto and Glenn Gordon in the Miami Regional Office. The SEC's litigation will be led by Christine Nestor and Wilfredo Fernandez.

- SEC Complaint (/litigation/complaints/2019/comp24405.pdf)

RESOURCES

- **SEC Complaint**