Spartan Securities Group, Ltd., et al.

Gatekeepers Ordered to Pay Nearly $1 Million in Monetary Remedies for Microcap Shell Factory Fraud

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Securities and Exchange Commission v. Spartan Securities Group, Ltd., et al., No. 8:19-cv-00448 (M.D. Fla. filed February 20, 2019)

On August 10th, broker-dealer Spartan Securities Group, LTD., transfer agent, Island Capital Management LLC, d/b/a Island Stock Transfer and two of their principals, Carl E. Dilley and Micah J. Eldred, were ordered to pay nearly $1 million in monetary remedies in connection with their roles in the creation of at least 19 purportedly legitimate public companies that were in fact sham, blank check shells. Concluding that "the evidence demonstrated that defendants abused their 'gatekeeper' role," the District Court also ordered injunctive relief as to Island Stock Transfer and the two individuals, and imposed penny stock bars against Spartan Securities, Dilley and Eldred, prohibiting them from participating in the issuance, trading, offer or sale of a penny stock.

In July 2021, after a three week trial, a jury returned a unanimous verdict finding Spartan Securities, Island Stock Transfer, Dilley and Eldred liable for fraud by violating Section

10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), and Rule 10b-5(b) thereunder. Evidence at trial showed that Spartan Securities, Dilley and Eldred, made misrepresentations and omissions in the filing of 15c2-11 applications and submissions 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 evidence also showed that Island Stock Transfer and Dilley, its President, made misrepresentations and omissions regarding the designation of the securities as free trading and when effectuating the bulk issuance and transfer of securities, including stock certificates without restrictive legends. The evidence also revealed that Spartan Securities, Island Stock Transfer and Dilley initiated and provided false information for applications filed with the Depository Trust Company (DTC), including misrepresenting the shell status of issuers.

The relief awarded against defendants was decided by the District Court after a two-day evidentiary hearing on July 20-21. The Court ordered permanent injunctive relief against Island Stock Transfer, and 5-year injunctions against Dilley and Eldred. The Court declined to order injunctive relief against Spartan Securities because it was defunct and faced a substantial capitalization barrier. However, the Court imposed a permanent penny stock bar against Spartan Securities and 10-year penny stock bars against Dilley and Eldred. As for monetary relief, the court imposed civil money penalties in the amount of $250,000 each for Spartan Securities and Island Stock Transfer, $150,000 each against Dilley and Eldred, and ordered Island Stock Transfer to pay disgorgement and prejudgment interest in the amount of $154,394.05.

The SEC's litigation is being conducted by Christine Nestor, Alice Sum, Alise Johnson, and supervised by Teresa Verges of the Miami Regional Office. The investigation that led to the SEC's action was conducted by Jeffrey Cook and supervised by Eric Busto and Glenn Gordon in the Miami Regional office.

- Order (/litigation/litreleases/2022/order25486.pdf)

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