

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

JASON M. GENET,

Defendant.

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: **Case No. 09-CV-4215 (JS)**
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COMPLAINT

Plaintiff Securities and Exchange Commission (“Commission”) alleges as follows:

SUMMARY

1. Defendant Jason M. Genet (“Genet”), in concert with other, perpetrated an illegal “pump and dump” manipulation of the common stock of China Energy Savings Technology, Inc. (“China Energy”), a now defunct company. As part of the manipulation, Genet: (i) helped China Energy falsely obtain a listing on the Nasdaq National Market System by helping China Energy to give away shares to hundreds of persons, and thereby created the false and misleading impression that China Energy had a bona fide and active shareholder base; (ii) engaged in unregistered distributions of securities; and (iii) entered into secret arrangements to give away China Energy stock to persons who agreed to purchase China Energy stock in the market, and thereby created the false and misleading impression of active trading and interest in China Energy. Genet thereby employed various devices, schemes, or artifices to defraud, and he engaged in acts, practices or courses of business that operated as a fraud on the purchasers of China Energy securities.

2. Genet acted in concert with Chiu Wing Chiu (“Chiu”), a Chinese national who controlled China Energy. In a separate action, plaintiff Commission sued China Energy, Chiu, and his associates, and obtained final judgments finding violations of the antifraud and registration provisions of the securities laws and ordering substantial relief.

3. In payment for his fraudulent activities, Genet received from Chiu thousands of shares of China Energy stock, which he later sold into the artificially inflated market. Genet realized in excess of \$1,700,000 from his sales of China Energy shares.

4. By virtue of this conduct, Defendant Genet violated Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder, and Sections 5 (a), 5(c) and 17(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77e(a), 77e(c) and 77q(a)] and unless enjoined, will continue to engage in transactions, acts, practices, and courses of business similar to those alleged in this Complaint.

JURISDICTION

5. The Commission brings this action pursuant to authority conferred by Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)] and Section 20 of the Securities Act [15 U.S.C. § 77t] seeking permanently to enjoin the Defendant from engaging in the wrongful conduct alleged in this Complaint. The Commission also seeks a final judgment ordering Defendant to pay disgorgement, prejudgment interest, civil money penalties and other relief pursuant to Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)]. The Commission also seeks a penny stock bar.

6. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§78u(d), 77u(e) and 78aa]. Genet, directly

or indirectly, singly or in concert, has made use of the means or instrumentalities of transportation or communication in, or the instrumentalities of, interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

7. Venue lies in this district pursuant to Section 27 of the Exchange Act [15 U.S.C. §78aa]. Certain of the transactions, acts, practices, and courses of business constituting the violations alleged herein occurred within the Eastern District of New York.

DEFENDANT

8. Defendant Genet, age 37, resides in Phoenix, Arizona. From at least 2004 through 2006, Genet claimed to provide consulting and investor relations services to private and public companies through his company, Market Advantages, Inc.

FACTUAL ALLEGATIONS

9. From at least 2004 through early 2006, Genet, acting as a consultant and promoter for China Energy, employed devices, schemes, or artifices to defraud investors, and engaged in acts, practices or courses of business that operated as a fraud on the purchasers of China Energy securities. Genet received more than 300,000 shares of China Energy stock, including at least 65,000 shares which were falsely claimed to be “free-trading.”

Genet Assists in the Formation of China Energy

10. In early 2004, Chiu directed Genet to find a publicly traded U.S. shell company to use in a reverse merger with a Chinese company secretly controlled by Chiu. In the spring of 2004, Genet located RIM Holdings, Inc. (“RIM”), a public shell

company, for Chiu and helped Chiu gain control of the shell. Genet received 500,000 shares of RIM stock for these services.

11. In August 2004, Chiu changed RIM's name to China Energy and executed a reverse 20-1 stock split which caused the company's share price to increase from \$0.80 to \$16. Then, from at least August 2004 through at least July 2005, Chiu caused China Energy to transfer tens of millions of shares of China Energy stock to entities and nominees he controlled. For his role, Defendant Genet received over 300,000 additional shares of China Energy stock at Chiu's direction.

The Scheme to List China Energy on the Nasdaq National Market System

12. In furtherance of the fraud, Genet and Chiu sought to have China Energy listed on the Nasdaq National Market System ("NMS"). However, the company lacked the number of shareholders needed to satisfy the minimum shareholder requirement for listing on the NMS. In order to create the appearance of a larger shareholder base, Genet, acting in concert with Chiu and others, devised a plan to give away China Energy stock in 100 share lots to at least 400 people ("the Stock Giveaway").

13. In furtherance of the Stock Giveaway scheme, in the fall of 2004, Genet solicited friends, business associates, and Internet acquaintances and asked them to provide the names of friends, family members, and acquaintances willing to receive free China Energy stock. In approximately mid-November of 2004, Genet provided China Energy's transfer agent with the names of approximately 400 individuals drawn almost entirely from the lists he had received in response to his solicitations. Genet gave the transfer agent a share certificate for 40,000 shares and instructed the transfer agent to distribute approximately 100 shares to each of the names on the list. The Stock

Giveaway recipients provided no consideration for the stock, had no economic interest in the stock, and in some cases, were not even aware that stock certificates had been issued in their names.

14. On November 19, 2004, Genet received 145,483 restricted shares of China Energy stock. In furtherance of the fraudulent scheme, Genet used a portion of these shares to make two additional unregistered distributions of stock in December 2004, distributing approximately 61,000 restricted shares to 93 people. As in the first distribution, Genet provided the transfer agent with a list of names drawn from his solicitation of various friends and internet acquaintances. Genet also gifted China Energy stock to two people who had provided him with names for the Stock Giveaway, giving them 12,000 and 25,000 shares of China Energy stock, respectively.

15. Genet directed these stock distributions when no registration statement was in effect and when no exemption from registration was available.

16. On or about December 2, 2004, China Energy filed a listing application with NMS to have its stock quoted on the NMS. The application was purportedly signed by China Energy's Chief Executive Officer and identified Genet as China Energy's "Investor Relations Officer" and "Chief Representative - USA." The application represented that as of November 18, 2004, China Energy had 467 shareholders, when, as Defendant Genet knew or was reckless in not knowing, China Energy's shareholder base had been contrived through a stock giveaway and most of the company's "shareholders" had no economic interest in China Energy.

17. On December 3, 2004, China Energy issued a press release announcing its NMS application. Defendant Genet controlled the public relations firm responsible for

China Energy's press releases. The press release stated that the Company met all of the listing requirements, which Defendant Genet knew, or was reckless in not knowing, was false.

18. To compensate Genet for his participation in the Stock Giveaway scheme, Chiu improperly caused China Energy to issue Genet 40,000 shares of stock registered on Form S-8 ("S-8 stock"). The federal securities laws explicitly prohibit the use of S-8 stock to compensate advisers or consultants for any capital raising or stock promotion.

Genet's Participation in the One-for-One Stock Scheme

19. In the spring of 2005, Genet, acting in concert with Chiu and others, devised a scheme to increase the trading volume and price of China Energy shares. Genet offered to give certain China Energy investors one share of restricted China Energy stock for every share of China Energy they purchased on the open market (the "One-for-One Stock Scheme"). Through this manipulative device, Defendant Genet "primed the pump" to create the false and misleading impression of active trading and interest in the stock.

20. To implement this scheme, in May 2005, Genet offered to give certain existing shareholders (including some of those who had become shareholders through the Stock Giveaway) one restricted share of stock for every share they purchased in the open market. Genet communicated this offer through e-mail, instant messaging and other means of interstate commerce and also directed other business associates to communicate the offer. He required investors to send in proof of their purchases in order to receive their free shares. At least twenty shareholders purchased shares in the open market and received restricted shares of China Energy stock equal to the shares they had purchased.

21. Genet did not disclose this One-for-One Stock Scheme to the public in any press release, filings with the Commission, or in any other fashion.

Genet Profited from the Fraud

22. As described above, Genet profited from his participation in the China Energy fraud by receiving over 300,000 shares of China Energy stock and 500,000 shares of RIM stock (issued prior to the 20-1 reverse stock split). Genet sold at least 275,000 of the RIM shares from at least June through at least July 2004 at prices ranging from \$0.19 to \$0.51, profiting by at least \$125,500. From at least November 2004 until the NMS halted trading in early 2006, Genet sold over 168,000 shares of China Energy shares into the artificially inflated market. In total, Defendant Genet's ill-gotten gain exceeded \$1.7 million.

The Fraudulent Scheme Caused Substantial Investor Losses

23. On February 15, 2006, the NMS halted trading of China Energy's stock, and ultimately delisted the stock on May 19, 2006, based upon certain of the fraudulent acts described herein. The day before the delisting, China Energy announced the resignation of all its officers and directors, as well as its independent auditor. China Energy's legal counsel withdrew the same day. Shortly thereafter, the company closed its Hong Kong headquarters, disconnected its phone and fax numbers, and shut down its website.

24. During the fraud, China Energy's stock traded as high as \$28 a share. Immediately prior to the February 15, 2006 NMS trading halt, China Energy's stock traded in the \$7 a share range, representing approximately \$170,000,000 in U.S. market capitalization. After the NMS delisted China Energy's stock, the price of the company's

stock dropped to under \$0.50 a share, representing a loss to investors of approximately \$150,000,000.

CLAIMS FOR RELIEF

COUNT I

**Violations of Section 17(a) of the Securities Act
[15 U.S.C. § 77q(a)]**

25. Paragraphs 1 through 24 are hereby realleged and incorporated by reference.

26. Defendant, by engaging in the conduct described above, directly or indirectly, singly or in concert with others, by use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, in the offer or sale of securities, knowingly or recklessly:

- (a) employed devices, schemes or artifices to defraud;
- (b) obtained money or property by means of untrue statements of material facts and omissions to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- (c) engaged in transactions, practices, or courses of business which operated or would have operated as a fraud or deceit upon the purchasers.

27. By reason of the foregoing, Defendant, directly or indirectly, violated, and unless restrained and enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

COUNT II

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 [15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5]

28. Paragraphs 1 through 24 are hereby realleged and incorporated by reference.

29. Defendant, by engaging in the conduct described above, directly or indirectly, singly or in concert with others, by use of the means or instruments of transportation or communication in interstate commerce, or by use of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of securities, knowingly or recklessly:

- (a) employed devices, schemes or artifices to defraud;
- (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- (c) engaged in acts, practices, or courses of business which operated or would have operated as a fraud or deceit upon the purchasers.

30. By the reason of the foregoing, Defendant, directly or indirectly, violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder [15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5].

COUNT III

Violations of Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §77e]

31. Paragraphs 1 through 24 are hereby realleged and incorporated by reference.

32. Defendant, by engaging in the conduct described above, directly or indirectly, singly or in concert with others, made use of the means or instruments of transportation or communication in interstate commerce, or of the mails, to offer and sell securities through the use or medium of a prospectus or otherwise when no registration statement had been filed or was in effect as to such securities and no exemption from registration was available.

33. By reason of the foregoing, Defendant violated, and unless restrained and enjoined will continue to violate, Sections 5 (a) and 5 (c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c).

PRAYER FOR RELIEF

WHEREFORE, Plaintiff the Securities and Exchange Commission, respectfully requests that this Court:

- (a) Enter a final judgment:
 - i. permanently restraining and enjoining Defendant, and his agents, servants, employees, attorneys, and all persons in active concert or participation with him, from violating directly or indirectly Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§77e(a), 77e(c), and 77q(a)] and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder [15 U.S.C. §78j(b); 17 C.F.R. §240.10b-5];
 - ii. ordering Defendant to disgorge the ill-gotten gains obtained through his violative conduct plus prejudgment interest thereon;

iii. ordering Defendant to pay civil penalties pursuant to

Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u-1];

- (b) Enter an order permanently barring Defendant from participating in any offering of a penny stock; and
- (c) Grant such other and further relief as this Court deems just and proper.

By: _____

Alan M. Lieberman (AL-6517)

Telephone: (202) 551-4474

Fax: (202) 772-9245

liebermana@sec.gov

U.S. Securities and Exchange Commission

100 F Street, N.E.

Washington, DC 20549-4030

September 30, 2009

Washington, D.C.

Of Counsel:

Antonia Chion, Associate Director

Kara Brockmeyer, Assistant Director

Robert Wilson, Branch Chief

L. Delane Olson, Senior Counsel

Patrick Feeney, Senior Counsel