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7  
8 **UNITED STATES DISTRICT COURT**  
9 **CENTRAL DISTRICT OF CALIFORNIA**

10 SECURITIES AND EXCHANGE  
COMMISSION,

11 Plaintiff,

12 vs.

13 JOHN THORNES,

14 Defendant,

15 and

16 CHRISTOPHER BURNELL; KYLE  
17 LARICK; and DOREEN THORNES,

18 Relief Defendants.  
19

Case No.

**COMPLAINT FOR VIOLATIONS  
OF THE FEDERAL SECURITIES  
LAWS**

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

21 **JURISDICTION AND VENUE**

22 1. This Court has jurisdiction over this action pursuant to Sections 20(b),  
23 20(d)(1) and 22(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C.  
24 §§ 77t(b), 77t(d)(1) & 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27 of  
25 the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1),  
26 78u(d)(3)(A), 78u(e) & 78aa. The defendant has, directly or indirectly, made use of  
27 the means or instrumentalities of interstate commerce, of the mails, or of the  
28 facilities of a national securities exchange in connection with the transactions, acts,

1 practices and courses of business alleged in this complaint.

2 2. Venue is proper in this district pursuant to Section 22(a) of the  
3 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C.  
4 § 78aa, because certain of the transactions, acts, practices and courses of conduct  
5 constituting violations of the federal securities laws occurred within this district, and  
6 the defendant and the relief defendants reside in the district.

7 **SUMMARY**

8 3. This case involves repeated misappropriation of funds by John T.  
9 Thornes (“Thornes”), the former owner of a registered broker-dealer and investment  
10 adviser firm, Thornes & Associates, Inc. Investment Securities (the “Firm”), from  
11 two trust brokerage accounts at the Firm. From December 2010 through January  
12 2013, Thornes misappropriated a combined total of \$4.4 million from the Shultz  
13 Trust account, for which he was the trustee of the trust (as well as the registered  
14 representative on the trust’s brokerage account), and the Harbison Scholarship Trust  
15 (“Harbison Trust”) account, a non-discretionary brokerage account for which he was  
16 the registered representative, and for which his mother, relief defendant Doreen K.  
17 Thornes, (“Doreen”) was the trustee of the trust.

18 4. Thornes exercised control over the Shultz Trust brokerage account in his  
19 capacity as the trustee of that trust. With respect to the Harbison Trust brokerage  
20 account, Thornes usurped control from his mother and engaged in unauthorized  
21 trading in the account as the registered representative. Thornes used this control to  
22 misappropriate and transfer more than \$4.1 million from these accounts to his friends,  
23 relief defendants Christopher L. Burnell (“Burnell”) and Kyle W. Larick (“Larick”),  
24 for improper and unauthorized purposes, including \$2.9 million to Burnell for, among  
25 other things, payment of Burnell’s gambling debts and tax liens, and more than \$1.2  
26 million to Larick for, among other things, the purchase of a vacation home and a  
27 luxury vehicle. As a result of Thornes’ actions, the two accounts lost substantial  
28 portions of their value and incurred unnecessary margin interest and brokerage fees.

1 In addition, Thornes caused the Harbison Trust account to pay more than \$85,000 in  
2 unauthorized and excessive trustee fees to Doreen.

3 5. Through this Complaint, the SEC seeks a permanent injunction  
4 prohibiting Thornes from future federal securities laws violations, disgorgement with  
5 prejudgment interest of all ill-gotten gains, including the monies obtained by the  
6 relief defendants via Thornes' fraudulent conduct, and civil penalties against Thornes.

7 **DEFENDANT**

8 6. **John T. Thornes**, age 47, resides in Redlands, California. Thornes was  
9 formerly the President, Chief Compliance Officer, Director, and Secretary of the  
10 Firm, and he worked there throughout the relevant period.

11 **RELIEF DEFENDANTS**

12 7. **Kyle W. Larick**, age 45, resides in Redlands, California. Larick is  
13 Thornes' longtime close friend.

14 8. **Christopher L. Burnell**, age 43, resides in Highland, California.  
15 Burnell was a friend and business associate of Larick, who introduced Burnell to  
16 Thornes in the fall of 2010.

17 9. **Doreen K. Thornes**, age 83, resides in Rialto, California. Doreen is  
18 Thornes' mother. She was listed as a director of the Firm throughout the relevant  
19 period.

20 **RELEVANT ENTITY**

21 10. **Thornes & Associates, Inc. Investment Securities (doing business as**  
22 **Thornes & Associates, Inc.)**, based in Redlands, California, was registered with the  
23 SEC as a broker-dealer from August 1996 to November 2013. The Firm was also  
24 registered as an investment adviser with the State of California from December 2001  
25 to September 2013. Since approximately 2004, Thornes was the sole owner of the  
26 Firm. The Financial Industry Regulatory Association ("FINRA") filed an  
27 administrative action against Thornes and the Firm in May 2013. On July 18, 2013,  
28 the Firm offered to settle the matter on terms that included the Firm's expulsion from

1 FINRA membership. As of that date, the Firm's accounts were taken over by another  
2 broker-dealer/investment adviser.

3 **THE FRAUDULENT SCHEME**

4 **A. Thornes' Misappropriation From The Shultz Trust Account**

5 11. From August 1996 until May 2013, Thornes was the registered  
6 representative for the brokerage account of the Shultz Trust, which had been established  
7 for the health, support and maintenance of an 80-year old homemaker. The beneficiary,  
8 a dementia patient, has lived at home with 24-hour nursing care since April 2007. In  
9 May 2007, Thornes replaced the beneficiary as trustee, giving him control over the  
10 Shultz Trust brokerage account.

11 12. From August 1996 to February 2012, the investment objective/risk  
12 tolerance for the Shultz Trust account was listed as "Conservative Growth & Income."  
13 As of March 2011, about 76% of the Shultz Trust account's assets were held in mutual  
14 fund shares, and 19% in fixed income securities. The Firm moved to a new clearing  
15 broker in February 2012, at which time Thornes designated the account's investment  
16 objective as "Balanced/Conservative growth." Thornes revised the designation in June  
17 2012 to "Balanced Growth," with a "Low Risk" tolerance.

18 13. From April 2011 to March 2013, Thornes abused his position as trustee for  
19 the Shultz Trust by misappropriating the trust's funds, improperly transferring a total of  
20 \$1.7 million from the Shultz Trust to his friend, Burnell.

21 14. To facilitate the transfer of funds out of the Shultz Trust account, Thornes  
22 sold securities from the account in at least 25 separate trades.

23 15. Thornes transferred money from the Shultz Trust to Burnell for a variety of  
24 purposes unrelated to the purpose of the trust, including satisfying Burnell's tax lien  
25 liability, purportedly chartering a private jet to transport Burnell's supposedly sick wife  
26 for medical care, and to pay for Burnell's gambling and/or gambling debts at a nearby  
27 casino.

28 16. Burnell did not have a legitimate claim to the funds that Thornes

1 transferred to him from the Shultz Trust account. Thornes knew or was reckless in not  
2 knowing that none of the payments to Burnell advanced the purposes of the trust, which  
3 was established for Shultz's health, support, and maintenance, and that Burnell did not  
4 have a legitimate claim to the funds. Neither Burnell nor Thornes ever repaid the funds  
5 that Thornes misappropriated from the Shultz Trust account.

6 17. Using his control over the Shultz Trust as the trustee, Thornes converted  
7 the Shultz Trust brokerage account to a margin account to obtain margin funds.  
8 Subsequently, he sold securities in the account to generate additional funds to avoid a  
9 margin call and to cover additional transfers to Burnell. Thornes' trading on margin  
10 was inconsistent with the low risk tolerance for the account.

11 18. Between April 2011 and March 2013, Thornes caused the Shultz Trust to  
12 pay the Firm margin interest in the amount of \$49,000 and brokerage commissions of  
13 \$11,422. As the sole owner of the Firm, Thornes benefited from these payments.

14 19. As a result of Thornes' actions, the Shultz Trust account balance was  
15 depleted from over \$2.08 million in March 2011 to approximately \$384,000 as of April  
16 30, 2013.

17 **B. Thornes' Misappropriation From The Harbison Trust Account**

18 20. From August 1996 until May 2013, Thornes was the registered  
19 representative for the Harbison Trust account, a non-discretionary brokerage account  
20 held at the Firm. The Harbison Trust was created by the will of a Thornes family friend  
21 who died in 1993. The purpose of the trust was to fund college scholarships for local  
22 high school graduates, with the recipients to be selected by a committee designated by  
23 the trustee. The will named as the initial trustee Thornes' father, who was succeeded in  
24 1996 by Thornes' mother, Doreen. Because Doreen had no training in finance,  
25 accounting, or the duties of a trustee, she relied upon Thornes to make all decisions  
26 related to the Harbison Trust account, including all decisions regarding trading of  
27 securities in the Harbison Trust account.

28 21. From August 1996 through January 2012, the investment objective/risk

1 tolerance of the Harbison Trust account was designated as “Long Term Growth &  
2 Income.” Thornes changed the designation in February 2012 to “Preservation of  
3 Principal/Income,” and in June 2012 to “Preservation of Principal/Income,” with a  
4 “Minimal Risk” tolerance. As of November 2010, the Harbison Trust account value  
5 was \$3.05 million.

6 22. From December 2010 to March 2013, Thornes misappropriated funds from  
7 the Harbison Trust account, transferring \$1.2 million in twenty-two separate transfers to  
8 Burnell. Thornes periodically had Doreen sign blank checks, through which Thornes  
9 transferred funds to the trust’s bank account, from which he obtained cashier’s checks  
10 made out to Burnell. To make the Harbison Trust account’s assets available for  
11 transfer, Thornes sold securities from the account in at least 25 separate unauthorized  
12 trades.

13 23. Thornes transferred substantial funds from the Harbison Trust account to  
14 Burnell for a variety of purposes unrelated to the purpose of the trust, including  
15 purported “bridge loans” to Burnell, the payment of Burnell’s tax liens, and other  
16 personal expenses of Burnell. Thornes knew or was reckless in not knowing that none  
17 of the payments to Burnell advanced the purposes of the Harbison Trust.

18 24. Thornes also transferred more than \$1.2 million from the Harbison Trust  
19 account to Larick in three separate disbursements in late 2010 and early 2011. Of those  
20 funds, \$800,000 was used by Larick for the purchase of a vacation home in Big Bear,  
21 California, and \$93,000 was used for a luxury vehicle for Larick.

22 25. Neither Burnell nor Larick had a legitimate claim to the funds that Thornes  
23 transferred to them from the Harbison Trust account. Thornes knew or was reckless in  
24 not knowing that none of the transfers to Burnell or Larick advanced the purposes of the  
25 Harbison Trust, and that neither Burnell nor Larick had a legitimate claim to the funds.  
26 Neither Burnell, Larick, nor Thornes ever repaid the funds that Thornes  
27 misappropriated from the Harbison Trust account.

28 26. Beginning in 2010, Thornes converted the Harbison Trust brokerage

1 account to a margin account to obtain margin funds. Subsequently, he sold securities in  
2 the Harbison Trust brokerage account, without authorization, to generate additional  
3 funds to avoid a margin call and to cover additional transfers to Burnell. Converting the  
4 Harbison Trust brokerage account to a margin account was inconsistent with the low  
5 risk tolerance for the account.

6 27. Thornes knew or was reckless in not knowing that he did not have the  
7 authority to sell securities in the Harbison Trust account without the approval of the  
8 trustee.

9 28. From December 1, 2010 through March 31, 2013, Thornes caused the  
10 Harbison Trust to pay the Firm \$74,507 in margin interest, and \$42,091 in brokerage  
11 commissions on securities transactions in the account, including sales conducted  
12 primarily to avoid a margin call. As the sole owner of the Firm, Thornes benefited from  
13 these payments.

14 29. Thornes also paid Doreen excessive fees for serving as the trustee of the  
15 Harbison Trust. The will that established the Harbison Trust provided for a trustee fee  
16 equal to “one percent of the average net value of the principal of the trust estate during  
17 each calendar year for all ordinary services rendered by the trustee and to reasonable  
18 additional compensation for any extraordinary services rendered.” Nonetheless, even  
19 while the securities in the Harbison Trust account were being sold off, and the value of  
20 the trust assets rapidly declined, Thornes caused the Harbison Trust to pay Doreen a  
21 purported fee of \$4,000 per month through March 2013. Based on the value of the  
22 Harbison Trust account, Thornes overpaid Doreen \$85,570 during the period from  
23 December 1, 2010 through March 31, 2013. Doreen did not have a legitimate claim to  
24 those funds.

25 30. As a result of Thornes’ actions, the Harbison Trust account was depleted  
26 from \$3 million in November 2010 to approximately \$155,000 by April 2013, with  
27 minimal funds used for the educational purposes for which the trust was established.

28 ///

1 **FIRST CLAIM FOR RELIEF**

2 **FRAUD IN THE OFFER AND SALE OF SECURITIES**

3 **Violations Of Section 17(a)(1) Of The Securities Act**

4 **(Against Thornes)**

5 31. The SEC realleges and incorporates by reference paragraphs 1 through  
6 30 above.

7 32. Defendant Thornes, by engaging in the conduct described above, in the  
8 offer or sale of securities by the use of means or instruments of transportation or  
9 communication in interstate commerce or by use of the mails, directly or indirectly,  
10 with scienter, employed devices, schemes, or artifices to defraud.

11 33. By engaging in the conduct described above, defendant Thornes  
12 violated, and unless restrained and enjoined will continue to violate, Section 17(a)(1)  
13 of the Securities Act, 15 U.S.C. § 77q(a)(1).

14 **SECOND CLAIM FOR RELIEF**

15 **FRAUD IN CONNECTION WITH THE**

16 **PURCHASE OR SALE OF SECURITIES**

17 **Violations Of Section 10(b) Of The Exchange Act and**

18 **Rules 10b-5(a) and (c) Thereunder**

19 **(Against Thornes)**

20 34. The SEC realleges and incorporates by reference paragraphs 1 through  
21 30 above.

22 35. Defendant Thornes, by engaging in the conduct described above, directly  
23 or indirectly, in connection with the purchase or sale of a security, by the use of  
24 means or instrumentalities of interstate commerce, of the mails, or of the facilities of  
25 a national securities exchange, with scienter:

26 a. employed devices, schemes, or artifices to defraud; or

27 b. engaged in acts, practices, or courses of business which operated  
28 or would operate as a fraud or deceit upon other persons.



1 36. By engaging in the conduct described above, defendant Thornes  
2 violated, and unless restrained and enjoined will continue to violate, Section 10(b) of  
3 the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5(a) and (c) thereunder, 17  
4 C.F.R. § 240.10b-5(a) & (c).

5 **THIRD CLAIM FOR RELIEF**

6 **RELIEF DEFENDANTS RECEIVED ILL-GOTTEN GAINS**

7 **(Against All Relief Defendants)**

8 37. The SEC realleges and incorporates by reference paragraphs 1 through  
9 30 above.

10 38. In the manner described above, each relief defendant received ill-gotten  
11 gains for which they gave no consideration and to which they have no legitimate  
12 claim.

13 **PRAYER FOR RELIEF**

14 WHEREFORE, the SEC respectfully requests that the Court:

15 **I.**

16 Issue findings of fact and conclusions of law that defendant Thornes committed  
17 the alleged violations.

18 **II.**

19 Issue a judgment, in a form consistent with Fed. R. Civ. P. 65(d), permanently  
20 enjoining defendant Thornes, and his agents, servants, employees, and attorneys, and  
21 those persons in active concert or participation with any of them, who receive actual  
22 notice of the judgment by personal service or otherwise, and each of them, from  
23 violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and Section 10(b) of  
24 the Exchange Act, 15 U.S.C. §§ 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. §  
25 240.10b-5.

26 **III.**

27 Order defendant Thornes to disgorge all ill-gotten gains from his illegal  
28 conduct, together with prejudgment interest thereon, and order relief defendants

1 Burnell, Larick, and Doreen to disgorge all ill-gotten gains from defendant Thornes'  
2 illegal conduct to which the relief defendants do not have a legitimate claim, together  
3 with prejudgment interest thereon.

4 **IV.**

5 Order defendant Thornes to pay civil penalties under Section 20(d) of the  
6 Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15  
7 U.S.C. § 78u(d)(3).

8 **V.**

9 Retain jurisdiction of this action in accordance with the principles of equity and  
10 the Federal Rules of Civil Procedure in order to implement and carry out the terms of  
11 all orders and decrees that may be entered, or to entertain any suitable application or  
12 motion for additional relief within the jurisdiction of this Court.

13 **VI.**

14 Grant such other and further relief as this Court may determine to be just and  
15 necessary.

16  
17 Dated: August 4, 2014

*/s/ David J. Van Havermaat*  
\_\_\_\_\_  
David J. Van Havermaat  
Attorney for Plaintiff  
Securities and Exchange Commission

## Complaints and Other Initiating Documents

[2:14-cv-06088 Securities and Exchange Commission v. Thornes et al](#)

UNITED STATES DISTRICT COURT for the CENTRAL DISTRICT OF CALIFORNIA

### Notice of Electronic Filing

The following transaction was entered by Van Havermaat, David on 8/4/2014 at 10:31 AM PDT and filed on 8/4/2014

**Case Name:** Securities and Exchange Commission v. Thornes et al

**Case Number:** [2:14-cv-06088](#)

**Filer:** Securities and Exchange Commission

**Document Number:** [1](#)

### Docket Text:

**COMPLAINT No Fee Required - US Government, filed by Plaintiff Securities and Exchange Commission. (Attorney David J Van Havermaat added to party Securities and Exchange Commission(pty:pla))(Van Havermaat, David)**

### 2:14-cv-06088 Notice has been electronically mailed to:

David J Van Havermaat vanhavermaatd@sec.gov, berryj@sec.gov, cavallones@sec.gov, irwinma@sec.gov, LAROFiling@sec.gov

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