

**UNITED STATES DISTRICT COURT  
DISTRICT OF MARYLAND**

**SECURITIES AND EXCHANGE  
COMMISSION,**

**Philadelphia Regional Office  
1617 JFK Blvd., Suite 520  
Philadelphia, PA 19103,**

**Plaintiff,**

**v.**

**DAWN J. BENNETT,  
26 Rancho Alegre  
Santa Fe, NM 87508,**

**and**

**DJB HOLDINGS, LLC,  
d/b/a DJBennett and DJBennett.com  
5335 Wisconsin Avenue, NW  
Suite 501  
Washington, DC 20015,**

**Defendants.**

**Civil Action No.**

**Jury Demand**

**COMPLAINT**

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

**SUMMARY OF THE ACTION**

1. This matter involves an offering fraud orchestrated by Defendant Dawn J. Bennett (“Bennett”), founder and owner of Defendant DJB Holdings, LLC (“DJBennett”), a Washington D.C.-based retail sports apparel business.
2. From December 2014 through at least July 2017, Defendants raised more than \$20 million from at least 46 investors through the unregistered offering of DJBennett convertible and

promissory notes (collectively, the “Notes”) by making materially false and misleading statements and omissions concerning, among other things, DJBennett’s financial condition and operating performance, the risks associated with the investment, and the intended use of investor proceeds.

3. Bennett, a former registered representative associated with Broker Dealer 1, and former radio host of “Financial Myth Busting with Dawn Bennett,” for years operated a financial advisory business. By the outset of the fraud, however, Bennett had lost a significant portion of her financial advisory clientele and DJBennett was not profitable. As her financial condition rapidly deteriorated, Bennett began accumulating a variety of personal financial obligations, but nonetheless continued to spend considerable sums to fund her extravagant life style.

4. To finance DJBennett, Bennett turned to the fraudulent sale of the Notes. Bennett largely targeted elderly and financially unsophisticated investors by materially misrepresenting the company’s profitability and by claiming the company had the resources to pay annual rates of return as high as 15%. Bennett also lied about DJBennett’s extensive liabilities and the risks associated with the investment. Although Bennett claimed the funds would be used for corporate purposes, she used the proceeds for a variety of improper purposes, including payments to earlier investors in the nature of Ponzi scheme, to service debt, and a variety of luxuries, such as jewelry, high-end clothing, mystics, and a \$500,000 annual lease for a luxury suite at AT&T Stadium in Dallas.

5. Bennett also employed a variety of other fraudulent devices to further the scheme and to avoid detection. Among other things, Bennett lied to Broker Dealer 1 and a regulator about her ongoing note sales; fraudulently obtained several loans by submitting fabricated brokerage statements that inflated her net worth and then used the proceeds, in part, to make interest and redemption payments;

and replaced previously sold convertible notes with nine-month promissory notes in an apparent attempt to have the promissory notes deemed loans.

6. As a result of the conduct described in this Complaint, Defendants violated, and unless restrained and enjoined will continue to violate, 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 Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R §240.10b-5].

### **JURISDICTION AND VENUE**

7. The Commission brings this action pursuant to Sections 20(b) and 20(d) of the Securities Act [15 U.S.C. §§ 77t(b) and 77t(d)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], to enjoin such acts, practices, and courses of business, and to obtain disgorgement, prejudgment interest, civil money penalties and such other and further relief as the Court may deem just and appropriate.

8. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Sections 21(d) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d) and 78aa].

9. Venue is proper in this judicial district pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Among other things, certain of the acts, transactions, practices, and courses of business constituting the violations of the federal securities laws alleged herein occurred within the District of Maryland.

### **DEFENDANTS**

10. **Dawn J. Bennett**, age 55, is a long-time resident of Chevy Chase Maryland and, as of May 2017, maintains a residence in Santa Fe, New Mexico. Bennett was a registered representative affiliated with various brokerage firms from 1987 until November 24, 2015, when she was permitted to

resign from Broker Dealer 1 after the firm discovered she had been issuing the instant notes to firm customers without the firm's knowledge or approval. Beginning in approximately 2009, until her resignation from Broker Dealer 1, Bennett serviced Broker Dealer 1 customers through her firm, Bennett Group Financial Services, LLC ("BGFS"). Bennett founded and was 100% owner of DJBennett described more fully below.

11. **DJB Holdings, LLC ("DJBennett")**, is a private limited liability company founded by Bennett in approximately 2010. DJBennett is wholly owned by Bennett, who also acts as the company's CEO. DJBennett was incorporated in Delaware, but operates a brick-and-mortar retail sporting goods and luxury sports apparel business known as DJBennett in Washington, D.C., as well as an online store located at the web address DJBennett.com. The company also has two subsidiaries, DJBennett Singapore Trading Pte. Ltd. ("DJB-Singapore") and DJBennett Trade (Shanghai) Ltd. ("DJB-Shanghai").

12. At all times relevant to the facts alleged in this Complaint, DJBennett acted by and through Bennett, who exercised complete control over the operations of the company and the disposition of investor funds.

## **FACTS**

### **I. BACKGROUND**

#### **A. Bennett's Business Failures and Extravagant Lifestyle Leads to Financial Distress and the Desperate Need for Cash**

13. This offering fraud, which began in December 2014, was precipitated by the rapid decline of BGFS, and the near exhaustion of Bennett's personal wealth, which she had for years relied upon to fund her extravagant lifestyle and to subsidize her struggling and unprofitable retail business, DJBennett.

14. For many years, Bennett earned millions of dollars annually in commissions from her financial advisory business, BGFS, where she managed as much as \$350 million in customer assets.

15. Beginning in approximately 2012, however, and continuing through 2015, large numbers of Bennett's BGFS customers began terminating her as their registered representative. By year-end 2014, she managed only \$42 million in assets with her total commissions dropping to less than \$1.6 million; by 2015, Bennett earned only approximately \$100,000 in commissions.

16. Meanwhile, her retail business, DJBennett, also struggled. Bennett was aware that since its inception in approximately 2010, DJBennett never turned a profit and recorded millions of dollars in losses year over year.

17. In December 2014, DJBennett recorded annual revenue of approximately \$800,000, but incurred expenses of approximately \$1.8 million while owing at least \$2.6 million in outstanding liabilities. By December 2016, DJBennett's revenue declined to approximately \$400,000, and its liabilities ballooned to approximately \$15.6 million.

18. As Bennett's personal financial condition continued its rapid deterioration, she continued to spend lavishly and beyond her means.

19. By late 2014, Bennett lacked sufficient income from BGFS or DJBennett to defray her mounting debt and to maintain her personal lifestyle. To create a new source of income, Bennett engaged in a fraudulent scheme that raised more than \$20 million through the fraudulent sale of DJBennett convertible and promissory notes.

## **B. Securities Used in the Offering Fraud**

### **1. The Convertible Notes**

20. In approximately January 2015, Bennett and Person A, a registered representative associated with Broker Dealer 1 and a long-time confidant of Bennett, began preparing offering documents for the general solicitation of investors through the purchase of three-year convertible notes (the “Convertible Note”).

21. These offering documents included, among other materials, a Convertible Promissory Note Term Sheet (“Term Sheet”), an Investor Questionnaire, and a DJBennett Business Plan (“Business Plan”), the latter of which was revised several times between January 2015 and August 2016 to reflect updated financial information.

22. The Term Sheet set forth the details of the prospective investment, which included a 15% interest rate, a 36-month term, and an option to convert the note principal into shares of DJBennett common stock. The Term Sheet also represented to investors that their funds would be used for “prototype and product development, patent filings, engineering services and other operating expenses.”

23. The Business Plan provided an overview of the company’s retail business and products, and set forth the company’s goal of raising \$15 million in capital. It advised prospective investors that funds raised in the offering would be divided between “inventory/product build out” and “marketing, technical support and development of the DJBennett Private Label,” while also representing that funds may be used for “systems upgrades.” Significantly, the Business Plan also incorporated financial statements that materially overstated DJBennett’s annual sales and net income, made implausible revenue projections, and omitted substantial expenses and corporate liabilities.

24. The offering materials clearly stated that the Convertible Note was an investment. Among other things, the Business Plan set forth certain considerations purchasers should take into account when "...Investing in this Investment"; certain purchasers were required to fill out an "Investor Questionnaire"; and the term sheet identified purchasers of the Convertible Notes as "the Investors." Bennett also described the notes as investments to Broker Dealer 1 when first disclosing her intent to market them. Investors also viewed the Convertible Note as an investment, frequently referring to it as such in communications with Bennett.

25. In late February 2015, Bennett submitted the Convertible Note offering documents to Broker Dealer 1 for review and approval; in her email disclosing the proposed offering, she assured Broker Dealer 1 that she would not solicit investment from Broker Dealer 1 customers.

26. In her disclosure to Broker Dealer 1, Bennett failed to mention, however, that she had already begun to solicit investors and had, in fact, already sold Convertible Notes to at least two investors without approval, one of whom was a customer of Broker Dealer 1.

27. While Broker Dealer 1 reviewed the offering materials, Bennett continued to broadly solicit investors for the Convertible Notes. To prevent Broker Dealer 1 from learning that the proposed offering was actually ongoing, and that she was soliciting investment from Broker Dealer 1 customers, she took various steps to impede Broker Dealer 1's surveillance system, described below in Section III.A.

28. Defendants ultimately raised more than \$6.4 million from the sale of Convertible Notes to approximately 31 individuals between February 2015 and November 2015. Most of the purchasers were Broker Dealer 1 customers, some of whom lived in Maryland and many others who lived in other states. Most received their offering documents and Notes from Bennett via email or mail, returned their

executed forms and Notes through similar means, and wired their investment funds to DJBennett accounts. None of the sales was disclosed to or approved by Broker Dealer 1.

29. Many of the purchasers of the Convertible Notes were elderly and financially unsophisticated individuals, many of whom invested all or a substantial portion of their life savings into DJBennett Convertible Notes.

30. No registration statement was ever filed or in effect with respect to the Convertible Note offering.

## **2. The Promissory Notes**

31. In November 2015, facing regulatory scrutiny, Defendants abruptly ceased their sale of the Convertible Notes in favor of short-term promissory notes carrying an annual interest rate of 15%, a nine-month term of maturity, and no express provision for conversion of the note principal into shares of DJBennett common stock (the “Promissory Note”).

32. Bennett and Person A reviewed a November 2012 blog posting entitled “Is Our Promissory Note A Security?” She accordingly sought to re-characterize the Convertible Note investments as nine-month Promissory Notes in an attempt to remove the fraudulent scheme from regulatory oversight.

33. Bennett first undertook to replace the previously issued Convertible Notes with Promissory Notes that were, in effect, backdated to the day that the Convertible Note holders made their original investment in DJBennett. As set forth below in Section III.C., Bennett subsequently bolstered this “backdating” scheme by directing the preparation of false affidavits and by making false statements to a regulator that supported the fabrication that Promissory Notes—not Convertible Notes—were sold between February and November 2015.



34. Despite renaming the investments, by their terms and characterization by Bennett, the Promissory Notes were essentially the same as the Convertible Notes. She routinely encouraged investors not to redeem their Promissory Notes. Bennett admitted to at least one investor that the nine-month term was a pretext, and that the actual term of the Promissory Note was to extend beyond nine months.

35. Beginning in December 2015, Defendants began broadly marketing the Promissory Notes to new investors as well as to previous purchasers of the Convertible Notes.

36. When marketing the Promissory Notes, Bennett represented to investors that, notwithstanding the absence of an express equity conversion option on the face of Promissory Notes, investors were entitled to convert their note principal to equity.

37. Bennett also provided prospective Promissory Note investors with a Business Plan and Profit & Loss statement that contained many or all of the same misrepresentations made in connection with the Convertible Note sales. These Business Plans also represented to prospective investors that their funds would be used to expand the business; specifically, “grow sales,” “build a private label,” “expand DJBennett’s photography business,” and develop a side business related to the support of “other global businesses.”

38. Purchasers of the Promissory Notes believed that they were investing in DJBennett.

39. Between about December 2015 through July 2017, Defendants promoted the Promissory Notes to a large number of individuals, ultimately raising approximately \$14 million from the sale of Promissory Notes to approximately 27 individuals, at least 14 of whom were new investors. As was the case with the Convertible Notes, many of the purchasers were Broker Dealer 1 customers, some of whom lived in Maryland and many others who lived in other states. Most received their offering

documents and Notes from Bennett via email or mail, returned their executed forms and Notes through similar means, and wired their investment funds to DJBennett accounts. None of the sales was disclosed to or approved by Broker Dealer 1.

40. As with the Convertible Note sales, many of the purchasers of the Promissory Notes were elderly and financially unsophisticated individuals, many of whom invested all or a substantial portion of their life savings into the Promissory Notes.

41. No registration statement was ever filed or in effect with respect to the Promissory Note offering.

## **II. Misrepresentations in the Offer and Sale of the Notes**

### **A. Defendants Misrepresented DJBennett's Financial Condition and Operating Performance**

42. From at least December 2014 through July 2017, Defendants, materially misrepresented the financial condition and operating performance of DJBennett (and its ability to repay investors), the risk of the Notes, and the intended use of investor proceeds.

43. Defendants misrepresented DJBennett's profitability by inflating, among other things, the company's annual sales, gross profit, and net income in the profit and loss statements that she incorporated into the company's Business Plan. As described above, DJBennett never turned a profit.

44. According to DJBennett's own internal accounting records, the 2014 profit and loss statements included in the 2015 Business Plan radically and materially overstated total sales, gross profit, and net income, and understated expenses as described below:

- Overstated sales by over \$1 million, or 174%;
- Overstated gross profit by over \$800,000, or 376%;
- Understated expenses by \$354,000, or 29%; and
- Overstated net income by \$1.2 million, or 122%, and inaccurately reflected a profit rather than the actual loss of almost \$1 million.

45. The 2016 versions of the DJ Bennett Business Plan likewise materially misrepresented the company's 2015 profitability. For investors solicited in 2016, some received profit and loss statements for the eight-month period ending August 31, 2015, and others received statements reflecting the entire year. Both versions materially overstated sales, gross profit, and net income and materially understated expenses. The year-end 2015 financial information was misrepresented as described below:

- Overstated sales by over \$3.8 million, or 424%;
- Overstated gross profit by nearly \$2.5 million, or 3,382%;
- Understated expenses by over \$3.6 million, or 73%; and
- Overstated net income by over \$6.1 million, or 124%, and again inaccurately reflected a profit of \$1.1 million rather than the actual loss of nearly \$5 million.

46. Defendants also misrepresented the operating performance of DJB Holdings both orally and in email communications. During in person meetings, telephone calls and in emails with current and prospective investors, Bennett falsely touted, among other things, DJB Holdings' financial condition and operating performance. In emails to two investors in Maryland in 2016, Bennett repeated certain misrepresentations from the Business Plan, claiming DJBennett recorded revenue of \$1.1 million for 2013, \$2.2 million for 2014 and \$5.7 million for 2015, and projecting revenue of \$8-\$9 million for 2016. In one email, regarding 2016 projections, Bennett stated, "Even without our private brand out in the market place...our revenue will be close to approx \$9 to \$10 million worldwide!"

47. The balance sheets that Bennett incorporated into the various versions of DJBennett's Business Plan also materially misrepresented the financial health of DJBennett in at least two other respects.

48. First, beginning no later than 2014, Defendants made substantial use of factoring arrangements to enable DJBennett to meet its regular expenses. As part of these arrangements, Bennett

sold the future revenue of DJBennett to more than 10 non-bank lenders in exchange for upfront cash advances.

49. These lenders had direct access to the DJBennett bank accounts, and at times withdrew more than \$2,000 a day from the company accounts in repayment of their advances. Defendants failed to disclose these factoring arrangements or that these lenders had a right of priority to a substantial portion of DJBennett's future revenue; accordingly, at the time the first Business Plan was provided to investors, investors were unaware that a substantial portion of DJBennett's future revenue was already pledged to a variety of lenders.

50. Second, none of the balance sheets incorporated into later versions of the Business Plans disclosed as liabilities any portion of the Notes issued between 2014 and 2016. For example, by September 2015, the company had issued over \$5 million in Convertible Notes; however, the balance sheet provided to prospective investors in the 2015 version of the Business Plan omitted any reference to that liability. Had such information been included, investors would have learned that in 2015 the company's liabilities exceeded its assets by nearly \$1 million.

51. In each of the Business Plans provided to investors, Defendants also made materially false and misleading statements in the form of unreasonable and unsubstantiated predictions of future revenues and profit. For example, early versions of the Business Plan projected that revenue would increase from \$5 million in 2015 to \$100 million in 2020. Gross margin percentage was projected to jump to 88% in 2015 (from a reported 67% in 2014), and thereafter grow to an implausible 99% by 2019, largely on the strength of an absurd premise: that DJB Holdings' product and other costs would remain flat at \$1 million per year between 2017 and 2019 despite sales more than tripling over the same timeframe.

52. Bennett was intimately aware of the true state of DJ Bennett's actual finances, but nonetheless knowingly and intentionally materially misrepresented DJ Bennett's financial condition by falsifying the company's profit and loss statements, by concealing a significant portion of the DJBennett's extensive short- and long-term liabilities, and by making inflated and wholly unsubstantiated revenue projections when she knew, and deliberately failed to disclose, that the company lacked the means to achieve the projected revenue.

**B. Defendants Misrepresented the Risk of Investing**

53. Defendants falsely claimed that the Notes were a safe and liquid investment while soliciting investors, a critical misrepresentation given that many of the investors were elderly and financially unsophisticated. For example, on June 16, 2015, Bennett wrote an email to an investor residing in Georgia, which read in part: "this is fully liquid in the first year of the bond so if you...[need] liquidity, since the company, the inventory and I are backing it, you will receive your principal back plus accrued 15% interest to the date you pull it out." In another e-mail dated October 22, 2015, Bennett wrote to an investor residing in Nevada: "The investment is a 15% convertible debt obligation that is highly liquid the first year and backed/guaranteed by the company which is 100% owned by me, the inventory, key man insurance and intellectual property."

54. Bennett's statements concerning the safety and liquidity of the Notes were materially false and misleading since the investments were not liquid and were extremely risky. Moreover, Bennett's claims that the company's inventory would guarantee the DJBennett investment were likewise false and misleading since the value of the inventory was a fraction of the liability DJBennett owed on the Notes; moreover, the inventory was previously pledged as collateral with respect to other liabilities.

**C. Defendants Misrepresented the Use of Investor Proceeds**

55. Bennett used at least \$10.3 million of the approximately \$20 million raised from the sale of Notes for improper and undisclosed purposes.

56. The Convertible Note Term Sheet stated that investor proceeds were to be used for “prototype and product development, patent filings, engineering services and other operating expenses.” The Business Plan likewise stated variously that the proceeds would be divided between “product development” and “installation of ecommerce technology in Asian operations” as well as “marketing, technical support and development of the DJBennett Private Label,” or would be used to “grow sales,” “build a private label,” “expand DJBennett’s photography business,” and develop a side business related to the support of “other global businesses.”

57. However, contrary to what was represented to investors, Bennett improperly used Note proceeds for, among other things, \$3.3 million in interest and redemption payments to earlier investors in the nature of a Ponzi scheme; approximately \$2.1 million to various law firms for legal expenses unrelated to DJBennett’s retail business; and at least \$1.45 million to the Dallas Cowboys for back rent due on a luxury suite leased by Bennett personally at AT&T Stadium.

58. Bennett also spent more than \$500,000 during the period of the fraud on high-end, luxury clothing, jewelry, and other personal items, far in excess of the legitimate income she earned over that time frame

59. Defendants made all of the above misrepresentations knowingly, with reckless disregard to the fact that they were false, or when they should have known that the statements were false, that their statements had omitted material facts necessary to make their statements not misleading. Defendants were aware of DJBennett’s precarious financial condition.

### **III. OTHER DECEPTIVE ACTS**

#### **A. Bennett Circumvented Broker Dealer 1's Controls**

60. As stated above, in early 2015, after the sale of the Convertible Notes had commenced, Bennett submitted a draft of DJBennett offering documents to Broker Dealer 1 in an effort to seek its approval of their sale of the Convertible Notes. Broker Dealer 1 commented on the offering materials but never gave its approval to move forward with the offering.

61. Because they were selling the Convertible Notes, without approval and to Broker Dealer 1 customers, Bennett and Person A took various steps to circumvent the firm's surveillance system.

62. For example, when a Broker Dealer 1 customer agreed to invest in a Convertible Note, Bennett caused the liquidation of some or all of the customer's securities holdings, the wiring of the proceeds to the customer's personal bank account, and then directed the customer to immediately wire the funds to a DJBennett bank account to complete his or her investment.

63. This unnecessarily circuitous funding procedure was designed to avoid triggering Broker Dealer 1's surveillance system, which enabled Defendants to continue the offering fraud. They knew that Broker Dealer 1 had yet to approve the Note sales and that large transfers of funds from Broker Dealer 1 customer accounts directly to a bank account in the name of DJBennett would greatly increase the risk of detection.

64. Defendants used this procedure to sell the Convertible Notes and Promissory Notes to numerous Broker Dealer 1 customers.

65. On November 24, 2015, after a regulator's investigation brought to light the Defendants' unauthorized Convertible Note offering, Bennett was permitted to resign from Broker Dealer 1. Despite her resignation, Bennett continued to solicit her former Broker Dealer 1 customers through Person A.

**B. Bennett Fraudulently Obtained Loans to Perpetuate the Scheme**

66. On at least five separate occasions between July 2014 and September 2015, Bennett submitted or caused to be submitted fabricated brokerage statements to prospective lenders in support of loan applications.

67. The doctored brokerage statements overstated Bennett's personal securities holdings at Broker Dealer 1 by as much as \$4.2 million and facilitated Bennett's approval for more than \$3.5 million in loan proceeds. For example, in late April 2015, in support of a \$750,000 line of credit application with a bank, Bennett caused to be submitted to Broker Dealer 1 a brokerage statement claiming that she, as of March 31, 2015, possessed \$4,246,057 in securities holdings held in three investment accounts. In reality, those three accounts contained only \$250 in holdings cumulatively. Most of the fabricated statements were altered versions of genuine statements issued by Broker Dealer 1 to Bennett in 2011, when Bennett's securities holdings were much larger.

68. These fraudulently obtained loans furthered Defendant's offering fraud scheme by providing DJBennett with funds necessary to satisfy investor demands for timely redemption and interest payments, which encouraged investors to purchase additional Notes, or to roll over existing investments.

69. Use of the fraudulently obtained loans also mitigated the possibility that the offering fraud would be detected. For example, the bank described above granted Bennett's application for a \$750,000 line of credit and, on May 21, 2015, permitted Bennett to draw down approximately \$240,000 from the line of credit. Later that same day, Bennett used a portion of the \$240,000 to repay an investor, who had been pressing for repayment of his \$175,000 DJBennett investment. Bennett was able to



satisfy the investor's demand only by virtue of her fraudulent procurement of the \$750,000 line of credit.

**C. The "Backdating" Scheme**

70. As described above, following a regulator's unannounced onsite exam on November 6, 2015, Defendants devised a scheme to cover-up their Convertible Note sales, enabling them to continue their offering fraud.

71. Bennett sought to evade the regulator's scrutiny by establishing that the three-year Convertible Notes issued to investors before that point were short-term loans rather than securities.

72. On November 16, 2015, Bennett provided false information to the regulator regarding her role in the Convertible Note sales.

73. Shortly after providing the false information, Bennett emailed Person A a draft promissory note. Approximately 20 minutes later, she emailed Person A a link to a blog posting entitled "Is Our Promissory Note A Security?," which described certain circumstances in which a promissory note might not be deemed a "security," and thus supposedly would not be subject to the anti-fraud provisions of federal and state securities laws.

74. Approximately one hour later, Person A began emailing Bennett a series of draft Promissory Notes corresponding to the Convertible Note sales made earlier that year. These notes were prepared for all or most of the Convertible Note holders, including for at least one investor whose investment already had been redeemed. The draft Promissory Notes reflected the amounts invested in the Convertible Notes earlier in 2015, and claimed to mature after nine months, on a specified date that was, in fact, nine months from the date the Convertible Note had been purchased.

75. In an effort to create the illusion that they were not securities, the Promissory Notes also included a disclaimer stating that “This is not an offering or investment” and, unlike the Convertible Notes, made no provision for a future equity interest in the company. Nonetheless, Bennett represented to Promissory Note investors, both orally and in writing, that they still could elect to receive an equity interest in the company in lieu of repayment of their investment funds.

76. In further support of this scheme, Bennett emailed the draft Promissory Notes to the DJBennett Convertible Note holders and requested their signature. She also emailed the investors draft affidavits which included a variety of false statements designed to bolster the “backdating” scheme. For example, the affidavits uniformly stated that investors “engaged in a short-term promissory note” on a specified date earlier in 2015 when, in fact, investors had purchased a long-term, 36-month Convertible Note on the specified date and, more to the point, could not have purchased a Promissory Note on the date provided in the affidavit because the Promissory Notes were first created by Person A only one week earlier.

77. Bennett also made false statements to a regulator. Bennett, for example, stated that the Promissory Notes were issued earlier in 2015, at the time investors purchased the Convertible Notes.

#### **IV. BENNETT AND DJBENNETT VIOLATED THE FEDERAL SECURITIES LAWS**

78. During the relevant period, Bennett owned, operated, and controlled DJBennett.

79. The Convertible and Promissory Notes offered and sold by Bennett and DJBennett to investors are securities within the meaning of both the Securities Act and the Exchange Act.

80. Bennett and DJBennett offered to sell and sold the Convertible and Promissory Notes when no registration statement was filed with the Commission or in effect as to the Convertible and Promissory Notes.

81. The Convertible and Promissory Notes were not exempt from the registration requirements of the Securities Act.

82. In connection with these sales or offers to sell, Bennett and DJBennett made use of the means and instruments of transportation or communication in interstate commerce or of the mails, including the use of the internet, interstate phone calls, and the United States mail.

83. In connection with these sales or offers to sell, Bennett and DJBennett carried or caused to be carried through the mails or in interstate commerce, by the means or instruments of transportation, securities for the purpose of sale or for delivery after sale when no registration statement was filed or was in effect as to the securities.

84. During the period from December 2014 through July 2017, Bennett and DJBennett continuously sold the Convertible and Promissory Notes, and there was no period of six months or more between the Convertible and Promissory Notes sales.

85. The Convertible and Promissory Notes were offered and sold to investors in multiple states, and the offering exceeded \$1 million.

86. The Convertible and Promissory Notes were sold to many unaccredited investors.

87. Many of the DJBennett investors were financially unsophisticated and did not have access to the kind of information that would have been available in a registration statement.

88. Bennett and DJBennett did not distribute the required financial statements to investors prior to the sale of Convertible and Promissory Notes.

89. The offering was public in that it raised approximately \$20 million from approximately 46 of Bennett's friends, family, business colleagues, and current/former brokerage customers.

90. The misrepresentations and omissions set forth herein, individually and in the aggregate, are material, and were made in connection with and in the offer, purchase, or sale of securities. There is a substantial likelihood that a reasonable investor would consider the misrepresented facts and omitted information—including, among other items, misrepresentations and omissions about the nature of DJBennett’s business and business operations, DJBennett’s income, the profitability and projected revenue of DJBennett, and the use of investor funds—important in deciding whether or not to purchase the Convertible and Promissory Notes, and that the accurate facts would alter the “total mix” of information available to investors.

91. In connection with the conduct described herein, Defendants acted knowingly, recklessly, or negligently. Among other things, Defendants knew, were reckless, or should have known that they were making material misrepresentations and omitting to state material facts necessary to make certain statements not misleading under the circumstances in connection with the sale or offer of the promissory notes.

92. Bennett and DJBennett were the makers of the false and misleading statements made in writing and orally regarding DJBennett. Bennett spoke to the investors, signed the Convertible and Promissory Notes sold to investors when requested, and directed the preparation of the offering documents, financial statements, and revenue and profit projections provided to investors on behalf of DJBennett.

93. Through their material misrepresentations and omissions, Defendants obtained money or property from investors. Defendants obtained over \$20 million from investors, of which Bennett misappropriated over \$10 million for her own benefit.

94. Defendants used devices, schemes, and artifices to defraud investors, and engaged in acts, transactions, practices, or courses of business that operated as a fraud or deceit upon offerees, purchasers and prospective purchasers of the Convertible and Promissory Note investments.

**CLAIMS FOR RELIEF**

**FIRST CLAIM FOR RELIEF**  
**Violations of Section 5(a) and 5(c) of the Securities Act**  
**(Against All Defendants)**

95. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 94, inclusive, as if they were fully set forth herein.

96. Defendants, by engaging in the conduct described above, directly or indirectly, with respect to a security for which no registration statement was filed or in effect, and in the absence of any applicable exemption from registration: made use of a means or instrument of transportation or communication in interstate commerce or of the mails to sell such security through the use or medium of any prospectus or otherwise;

- a. carried or caused to be carried through the mails or in interstate commerce, by any means or instruments of transportation, such security for the purpose of sale and/or for delivery after sale; and
- b. made use of a means or instrument of transportation or communication in interstate commerce or of the mails to offer to sell such security through the use or medium of a prospectus or otherwise.

97. By engaging in the foregoing conduct, Defendants 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)].

**SECOND CLAIM FOR RELIEF**  
**Violations of Section 17(a) of the Securities Act**  
**(Against All Defendants)**

98. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 94, inclusive, as if they were fully set forth herein.

99. From at least December 2014 through July 2017, as a result of the conduct alleged herein, Defendants in the offer and sale of securities, directly or indirectly, by the use of the means or instruments of transportation or communication in interstate commerce, or by use of the mails:

- a. knowingly or recklessly employed devices, schemes or artifices to defraud;
- b. knowingly, recklessly, or negligently obtained money or property by means of an untrue statement of a material fact or an omission of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- c. knowingly, recklessly, or negligently engaged in transactions, practices, or courses of business that operated as a fraud or deceit upon offerees, purchasers, and prospective purchasers of securities.

100. By engaging in the foregoing conduct, Defendants violated, and unless restrained and enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

**THIRD CLAIM FOR RELIEF**  
**Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**  
**(Against All Defendants)**

101. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 94, inclusive, as if they were fully set forth herein.

102. From at least December 2014 through July 2017, as a result of the conduct alleged herein, Defendants knowingly or recklessly, in connection with the purchase or sale of securities, directly or indirectly, by use of a means or instrumentality of interstate commerce or of the mails, or of a facility of a national securities exchange:

- a. employed devices, schemes, or artifices to defraud;
- b. made untrue statements of material fact, or omitted to state material facts necessary in order to make the statements made, in 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 operate as a fraud or deceit upon any person.

103. By engaging in the foregoing conduct, Defendants violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

**PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that this Court enter a final judgment:

**I.**

Permanently restraining and enjoining Defendants from, directly or indirectly, violating 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 [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R §240.10b-5];

**II.**

Ordering Defendants to disgorge all ill-gotten gains derived from their illegal conduct, together with prejudgment interest thereon;

**III.**

Ordering Defendants to pay civil penalties under Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)];

**IV.**

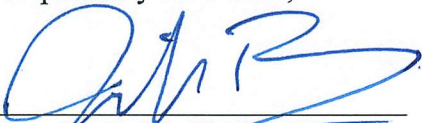
Retaining jurisdiction of this action for purposes of enforcing any final judgment and orders; and

**V.**

Granting such other and further relief as this Court may determine to be just and necessary.

Respectfully submitted,

Dated: August 25, 2017



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