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11 **UNITED STATES DISTRICT COURT**  
12 **SOUTHERN DISTRICT OF CALIFORNIA**

13 **SECURITIES AND EXCHANGE**  
14 **COMMISSION,**

15 **Plaintiff,**

16 **vs.**

17 **LEROY “LEE” YOUNG AND**  
18 **YOUNG CAPITAL MANAGEMENT,**  
19 **LLC**

20 **Defendants.**

Case No. '18CV2170 CAB MDD

**COMPLAINT**

21  
22 Plaintiff Securities and Exchange Commission (“SEC”) alleges:

23 **SUMMARY**

24 1. Defendants Leroy “Lee” K. Young and Young Capital Management  
25 LLC (“YCM”) orchestrated the fraudulent and unregistered sale of securities. From  
26 January 2013 through December 2017, Defendants illegally raised at least \$362,000  
27 from at least 32 investors through false promises of high returns on their principal  
28 investment.



1 Beach, California, and Defendant YCM's principal place of business is in Carlsbad,  
2 California.

3 **THE DEFENDANTS**

4 8. **Defendant Leroy "Lee" K. Young** of Solana Beach, California is the  
5 sole member and owner of YCM. Since 2014, Young's only employment and source  
6 of income has been raising money from investors. Young is not currently registered  
7 or associated with any entity registered with the Commission.

8 9. **Defendant Young Capital Management, LLC** is a Delaware limited  
9 liability company with its principal place of business in Carlsbad, California. YCM  
10 has never been registered with the Commission in any capacity.

11 **STATEMENT OF FACTS**

12 10. From January 2013 through December 2017, Young and YCM obtained  
13 a total of at least \$362,000 from at least 32 investors by engaging in a fraudulent  
14 scheme that included material misrepresentations and other deceptive conduct.  
15 Young and YCM sold investors securities and falsely promised investors a return of  
16 ten times their initial investment in sixty days.

17 11. Young and YCM broadly solicited investors from multiple states  
18 through, among other means, emails, phone calls, and the Internet. Young identified  
19 one investor using the social network LinkedIn. The majority of Young's investors  
20 were referred to him by two individuals who also invested personally. Young did not  
21 ask potential investors about their income, net worth, or prior investment experience.

22 12. To induce individuals to invest, Young knowingly or recklessly made  
23 numerous materially false statements in telephone conversations and e-mails. Young  
24 promised investors a return of ten times their principal in sixty days. Young told  
25 investors that he would use their money for legal fees or other expenses associated  
26 with a bond or hedge fund offering (which he sometimes called the "Young Capital  
27 Management Bond" or "Young Capital Management" fund), and that he would pay  
28 investors' returns from the proceeds of the offering. In fact, Young never conducted

1 a bond or hedge fund offering. Instead, Young spent nearly all of the investors' funds  
2 on personal expenses, such as dining, shopping, and entertainment.

3 13. Young further lied to investors about the bond or hedge fund offering.  
4 He falsely claimed to investors that he had partnered with large broker-dealers to  
5 conduct the offering. In fact, Young never partnered with any broker-dealer in  
6 connection with any securities offering.

7 14. Young also frequently told potential investors that he had extensive  
8 experience with the type of investment he was offering and that it could not fail.  
9 These statements were false and misleading because Young had no prior experience  
10 conducting bond or hedge fund offerings.

11 15. For example, on August 12, 2016, Young met with Investor A. Young  
12 told Investor A that he was raising money to pay legal fees for a \$100 million bond  
13 offering called the "Young Capital Management Bond." Young identified three large  
14 broker-dealers as "administrators of the bond." Young told Investor A that if he  
15 invested \$20,000, he would receive a return of \$200,000 in sixty days. Young said  
16 that Investor A's principal would be held in an escrow account and would be returned  
17 to him if the bond offering did not occur. Young also told Investor A that he had  
18 done many of these types of bond offerings in the past.

19 16. In another example, on June 23, 2017, Young spoke with Investor B  
20 over the phone. Young told Investor B that he had recently left a large broker-dealer  
21 and was conducting bond offerings with his former colleagues. Young told Investor  
22 B that if he invested \$5,000, he would receive a return of \$50,000 in sixty days.

23 17. After soliciting their investments through material misrepresentations,  
24 Young provided contracts to each investor. The contracts also falsely stated that  
25 investors would receive a ten times return on their investment in sixty days "in regard  
26 to a transaction or transactions," without further explanation. For example, for one  
27 individual who invested \$15,000, the agreement stated: "Client will be paid  
28 \$150,000 (One Hundred Fifty Thousand Dollars) in sixty (60) days in regard to a

1 transaction or transactions.”

2 18. Young’s promise of “ten times” returns in sixty days was false. Young  
3 did not provide investors with any returns within sixty days of their investments and  
4 knew or was reckless in not knowing that these representations were false at the time  
5 that he made them. Such returns would have been impossible because, rather than  
6 investing investors’ funds in any security that could have potentially provided a  
7 return, Young simply spent the money on himself. To date, Young has not returned  
8 any money to investors.

9 19. Based on Young’s (and through Young, YCM’s) material  
10 misrepresentations, investors agreed to invest in securities that took the form of  
11 investment contracts. Sales of securities must be registered with the SEC unless an  
12 exemption from the registration requirements applies.

13 20. During all relevant times, Young’s and YCM’s offering of investment  
14 contracts was required to be registered under the securities laws. Young and YCM’s  
15 offering was not registered with the SEC and was not subject to any relevant  
16 exemption from registration.

17 21. Young and YCM obtained \$362,000 from investors by means of their  
18 materially false statements and the illegal, unregistered sales of investment contracts  
19 to them.

20 22. To some investors, Young held himself out as an investment adviser to a  
21 purported hedge fund, YCM.

22 23. Young and YCM engaged in additional deceptive conduct in furtherance  
23 of the scheme by funneling investors’ funds through a self-employed attorney  
24 working with Young. Young directed investors to wire their investment funds to a  
25 trust account maintained by the attorney. Young told investors that their principal  
26 would safely remain in escrow until the bond or hedge fund offering was complete.

27 24. Young’s representation that investors’ money would remain in escrow  
28 was also false. At Young’s instruction, the attorney transferred the investors’ money

1 to Young's personal bank account either on the day of receipt or the next day. Young  
2 then immediately began spending the investors' money on his personal expenses.

3 25. Young's misrepresentations to investors about his relevant experience  
4 and industry access, the safety of the investment, and the high returns of the  
5 investment were material to investors.

6 26. When pressed by investors for promised returns, repayment of their  
7 initial investment, or status updates on their investments, Young concealed his  
8 misappropriation of their money by making more false statements. Young sent  
9 emails to investors stating variously that he was "in a lawsuit to refund [their]  
10 money," "getting very close to getting a refund on [their] investment," "doing a 144A  
11 Bond Offering in the next 30-60 days which will return 9X your money," and "going  
12 to start selling the bonds [him]self to institutional investors" in a "bond offering now  
13 scheduled for January 8." At the time he made these statements, Young knew that  
14 they were false. In fact, there was no lawsuit, there was no planned bond offering,  
15 and Young was never "close" to refunding investors' money.

16 **FIRST CLAIM FOR RELIEF**

17 **Fraud in Connection with the Purchase and Sale of Securities**

18 **Violations of Section 17(a) of the Securities Act**

19 **(Against All Defendants)**

20 27. The SEC realleges and incorporates by reference paragraphs 1 through  
21 26 above.

22 28. As a result of the conduct alleged herein, Defendants Young and YCM  
23 knowingly or recklessly, in the offer or sale of securities, directly or indirectly, by the  
24 use of the means or instruments of transportation or communication in interstate  
25 commerce, or the mails:

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

28 b. Knowingly, recklessly, or negligently obtained money or property by

1 means of any untrue statements of material fact, or omitted to state  
2 material facts necessary in order to make the statements made, in light of  
3 the circumstances under which they were made, not misleading; and/or

- 4 c. Knowingly, recklessly, or negligently engaged in transactions, practices,  
5 or courses of business which operated or would operate as a fraud or  
6 deceit upon the purchases or securities.

7 29. By engaging in the foregoing conduct, Defendants Young and YCM  
8 violated, and unless restrained and enjoined will again violate, Section 17(a) of the  
9 Securities Act [15 U.S.C. § 77q(a)].

10 **SECOND CLAIM FOR RELIEF**

11 **Fraud in Connection with the Purchase and Sale of Securities**

12 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5**

13 **(Against All Defendants)**

14 30. The SEC realleges and incorporates by reference paragraphs 1 through  
15 26 above.

16 31. As a result of the conduct alleged herein, Defendants Young and YCM  
17 knowingly or recklessly, in connection with the purchase or sale of securities, directly  
18 or indirectly, by use of the means or instrumentality of interstate commerce or of the  
19 mails, or a facility of a national securities exchange:

- 20 a. employed devices, schemes, or artifices to defraud;  
21 b. made untrue statements of material fact, or omitted to state material facts  
22 necessary in order to make the statements made, in light of the  
23 circumstances under which they were made, not misleading; and/or  
24 c. engaged in acts, practices, or courses of business which operated or  
25 would operate as a fraud or deceit upon any person in connection with  
26 the purchase or sale of any security.

27 32. By engaging in the foregoing conduct, Defendants Young and YCM  
28 violated, and unless restrained and enjoined will again violate, Section 10(b) of the

1 Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-  
2 5].

3 **THIRD CLAIM FOR RELIEF**

4 **Unregistered Offer and Sale of Securities**

5 **Violations of Section 5(a) and 5(c) of the Securities Act**

6 **(Against All Defendants)**

7 33. The SEC realleges and incorporates by reference paragraphs 1 through  
8 26 above.

9 34. As a result of the conduct alleged herein, Defendants Young and YCM,  
10 directly or indirectly, through use of the means or instruments of transportation or  
11 communication in interstate commerce or the mails, offered to sell or sold securities,  
12 directly or indirectly, or carried such securities through the mails or in interstate  
13 commerce, for the purpose of sale or delivery after sale.

14 35. No registration statement has been filed with the SEC or has been in  
15 effect with respect to any of the offerings or sales alleged herein, nor did any  
16 exemption from the registration requirements exist with respect to the securities and  
17 transactions described in this Complaint.

18 36. By engaging in the foregoing, Defendants Young and YCM violated,  
19 and unless restrained and enjoined will again violate, Sections 5(a) and 5(c) of the  
20 Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

21 **PRAYER FOR RELIEF**

22 WHEREFORE, the SEC respectfully requests that the Court enter a  
23 Final Judgment:

24 **I.**

25 Finding that Defendants violated the federal securities laws as alleged  
26 herein;

27 **II.**

28 Permanently restraining and enjoining Defendants, and their officers,



1 agents, servants, employees and attorneys, and those persons in active concert or  
2 participation with any of them, who receive actual notice of the judgment by personal  
3 service or otherwise, and each of them, from, directly or indirectly, engaging in  
4 conduct in violation of Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C.  
5 §§ 77e(a), 77e(c), 77q(a)], and Section 10(b) of the Exchange Act [15 U.S.C. §  
6 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5];

7 **III.**

8 Ordering Defendants to disgorge any ill-gotten gains they received  
9 directly or indirectly, with prejudgment interest thereon, as a result of the violations  
10 alleged in this Complaint;

11 **IV.**

12 Ordering Defendants to pay civil monetary penalties pursuant to Section  
13 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange  
14 Act [15 U.S.C. § 78u(d)(3)].

15 **V.**

16 Granting such other and further relief as the Court may determine to be  
17 just, equitable, or necessary.

18  
19 Dated: September 19, 2018

20 */s/ David Mendel* \_\_\_\_\_

21 David Mendel  
22 Attorney for Plaintiff  
23 Securities and Exchange Commission  
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