

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

KNIGHT NGUYEN INVESTMENTS,
CHRISTOPHER KNIGHT LOPEZ,
FORREST ANDREW JONES, and
JAYSON LOPEZ,

Defendants.

C.A. No.: 4:21-cv-01586

Jury Trial Demanded

COMPLAINT

Plaintiff Securities and Exchange Commission (“SEC”) files this Complaint against Defendants Knight Nguyen Investments (“KNI”), Christopher Knight Lopez (“Chris Lopez”), and Forrest Andrew Jones (“Forrest Jones”) (collectively, “KNI Defendants”), and also Jayson Lopez (“Jayson Lopez”), and alleges as follows:

SUMMARY OF THE ACTION

1. From approximately March 2016 to September 2018 (“Relevant Period”), KNI, a registered investment adviser, its majority owner, Chris Lopez, and its investment adviser representative, Forrest Jones, raised at least approximately \$3.7 million in a scheme to invest funds from advisory clients and retail investors in at least five fraudulent securities offerings. The KNI Defendants lured advisory clients and retail investors, most of whom were relatively unsophisticated, with promises of high returns from secure investments, but then recommended

and sold extremely risky investments that did not meet KNI's stated investment criteria and that related to high risk or fraudulent companies that, in most cases, were owned, controlled, or associated with Chris Lopez and/or his older brother, Jayson Lopez.

2. Chris Lopez and Forrest Jones made numerous materially false and misleading statements and omissions in connection with the scheme, including misstatements and omissions about the safety and security of the recommended investments, the returns that clients and investors could expect to receive, and the assets and financial condition of the companies issuing the investments.

3. Chris Lopez also misappropriated and misapplied the funds of some of KNI's advisory clients, and he created false financial statements and other false financial documents relating to certain of the investment issuers to inflate their assets. Jayson Lopez aided and abetted his brother Chris Lopez in these deceptive acts, including by misusing investment funds for his and his brother's benefit and helping his brother to pass off the false financial documents.

4. In addition, KNI, aided and abetted by Chris Lopez:
- Filed an application to register as an investment advisor and Forms ADV with the SEC that misrepresented KNI's assets under management;
 - Filed Forms ADV with the SEC that failed to make adequate required disclosures of conflicts of interests;
 - Failed to comply with the statute and SEC rule governing the custody of client assets; and
 - Failed to comply with statutes and SEC rules requiring KNI to adopt and implement policies and procedures and to make and keep books and records.

5. As a result of their misconduct, Defendants violated several provisions of the federal securities laws, including the antifraud provisions, as alleged below. The SEC brings this action seeking permanent injunctive relief, disgorgement of ill-gotten gains plus prejudgment interest, civil penalties, and all other equitable and ancillary relief the Court deems necessary.

JURISDICTION AND VENUE

6. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d), and 22(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77t(b), 77t(d), and 77v(a)], Sections 21(d), 21(e), and 27(a) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d), 78u(e), and 78aa(a)], and Sections 209(d) and 214 of the Investment Advisers Act of 1940 (“Advisers Act”) [15 U.S.C. §§ 80b-9(d) & 80b-14]. Defendants directly or indirectly made use of the means or instrumentalities of interstate commerce or the mails in connection with the transactions, acts, practices, and courses of business alleged herein.

7. Venue is proper in this district pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27(a) of the Exchange Act [15 U.S.C. § 78aa(a)], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14]. Certain of the transactions, acts, practices, and courses of business constituting violations of the federal securities laws occurred within this district. Further, KNI’s principal place of business is in this district, Chris Lopez and Forrest Jones reside in this district, and all of the Defendants transact business within this district.

DEFENDANTS

8. KNI is a Texas general partnership with its principal place of business located in Katy, Texas.

9. Chris Lopez is an individual residing in Katy, Texas.

10. Forrest Jones is an individual residing in Montgomery, Texas.

11. Jayson Lopez is an individual residing in Orlando, Florida. Jayson Lopez is Chris Lopez's older brother (collectively, "Lopez Brothers").

FACTUAL ALLEGATIONS

A. Background

12. Chris Lopez, with no experience as a securities professional, formed KNI as an investment adviser in approximately early 2015. KNI was registered with the State of Texas as an investment adviser from approximately May 28, 2015 to April 4, 2016. KNI [CRD #198517] was registered with the SEC as an investment adviser from approximately March 25, 2016 to August 21, 2018, at which time its registration was terminated.

13. During the Relevant Period, Chris Lopez [CRD #6475110] controlled KNI and was the signatory on its bank accounts. Chris Lopez was a general partner, majority owner, and control person of KNI, and he served as the firm's Chief Compliance Officer and Chief Investment Officer.

14. In 2017, Chris Lopez hired Forrest Jones as a KNI investment adviser representative. From approximately February 13, 2017 to August 21, 2018, Forrest Jones [CRD# 4880765] was an investment adviser representative associated with KNI, and also a general partner and minority owner of the firm.¹

15. During the Relevant Period, KNI and Chris Lopez were investment advisers, and Forrest Jones was an investment adviser representative, and they each engaged in the business of

¹ Allegations pertaining to the "Relevant Period" as applied to Forrest Jones are limited to the time period February 13, 2017 to August 21, 2018.

advising KNI clients as to the advisability of investing in, purchasing, or selling securities, including the securities alleged in detail below, in exchange for advisory fees and other compensation.

16. KNI's advisory clients signed advisory agreements that provided for advisory fees to be paid to KNI, typically based on a percentage of the client's assets or an hourly fee. According to KNI's Form ADV Part 2A filed on or about August 10, 2017, KNI provided "investment advice and portfolio management services, on a continuing basis, including the appropriate allocation of managed assets among cash, bonds, stocks, exchange-traded funds, and mutual funds with the selection of specific securities." In addition to advisory clients, the KNI Defendants also recommended and sold investments to non-advisory retail investors.

17. During the Relevant Period, the KNI Defendants also acted as unregistered brokers as they each engaged in the business of soliciting and effectuating the sale of securities for transaction-based compensation, including sales commissions. Neither KNI nor Chris Lopez was registered, or an associated person of a broker-dealer registered, with the SEC. Forrest Jones was also not registered, or an associated person of broker-dealer registered, with the SEC for the transactions at issue.²

B. The KNI Defendants Defrauded Advisory Clients and Retail Investors.

18. The KNI Defendants recommended and sold to KNI clients and retail investors securities related to at least five high-risk issuers ("Issuers"), including the Gold Company, Consulting Company, Biosciences Company, Graphic Tools Company, and Vacation Company,

² Forrest Jones was associated with a registered broker-dealer not affiliated with KNI for a portion of the Relevant Period. However, the transactions at issue did not go through that broker-dealer.

which are each defined at Section B.2-6 below.

19. Chris Lopez and KNI violated Sections 206(1) and (2) of the Advisers Act by, while acting as investment advisers: (a) engaging in a scheme to lure KNI advisory clients with the false promise of safe and secure investments, but instead investing the clients in securities of the high-risk Issuers; (b) making material misrepresentations and omissions to KNI advisory clients in connection with their recommendation of the Gold Company, Consulting Company, Graphic Tools Company, and Vacation Company investments; (c) misappropriating and/or misapplying KNI advisory client funds relating to the Gold Company, Graphic Tools Company, and Vacation Company investments; (d) creating and using false financial statements and other false financial documents relating to the Consulting Company and the Biosciences Company; and (e) failing to disclose, or inadequately disclosing, conflicts of interest in KNI's Forms ADV.

20. Forrest Jones aided and abetted Chris Lopez's and KNI's violations of Sections 206(1) and (2) of the Advisers Act by: (a) luring KNI advisory clients in the scheme by falsely promising clients they would only be invested in secure investments, but instead recommending and investing the clients in securities of the high-risk Issuers; and (b) making material misrepresentations and omissions to KNI advisory clients in connection with his recommendation of the Gold Company and Vacation Company investments.

21. Chris Lopez and KNI violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by: (a) making material misrepresentations and omissions to advisory clients and/or retail investors in connection with the offer, purchase, and sale of the Gold Company, Consulting Company, Biosciences Company, Graphic Tools Company, and Vacation Company investments; (b) misappropriating and misapplying

investment funds relating to the Gold Company, Graphic Tools Company, and Vacation Company investments; (c) created and used false financial statements and other false financial documents relating to the Consulting Company and Biosciences Company; and (d) making material misrepresentations and omissions regarding litigation and conflicts of interest in KNI's Forms ADV.

22. Forrest Jones violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by making material misrepresentations and omissions to advisory clients and/or retail investors in connection with the offer, purchase, and sale of the Gold Company, Biosciences Company, and Vacation Company investments.

1. The scheme to lure KNI advisory clients.

23. Chris Lopez and Forrest Jones held KNI out as a firm with purported expertise in low-risk alternative investments. However, Chris Lopez had no experience as a securities professional before forming KNI. And the closest Chris Lopez came to experience with alternative investments was serving as a financial analyst at a currency trading firm. Forrest Jones had been in the securities industry since 2004, but had little or no experience recommending or selling alternative investments before joining KNI.

24. Acting through Chris Lopez and Forrest Jones, KNI largely targeted older and unsophisticated individuals who were trying to preserve or grow their retirement savings. To lure these individuals to become clients, Chris Lopez and Forrest Jones falsely portrayed KNI as an established firm with a proven track record, telling prospective clients that KNI would only recommend or place clients in investments in companies with a proven history of financial earnings that were secured by real assets.

25. In KNI's 2016 Annual Report, which was issued in January 2017 under Chris Lopez's name, KNI claimed that: (a) the firm's assets under management exceeded \$286 million, (b) Chris Lopez had over 10 years of experience in portfolio management, and (c) KNI's "approach allows historic gains in excess of +10% p.a. annual without the risk normally associated with them." These representations were false and misleading. As alleged in more detail below, KNI misrepresented its assets under management.

26. Further, Chris Lopez had no experience managing securities portfolios, and KNI's historic experience was largely comprised of a series of failed investments. Most notably, in 2015, KNI, acting through Chris Lopez, was involved in selling one or more promissory notes issued by a purported gold mining company ("Prior Gold Scheme") that claimed it would import gold and diamonds, but instead stole the investors' money. In 2016, an investor filed a lawsuit against KNI and Chris Lopez alleging they committed fraud in connection with the Prior Gold Scheme

27. When soliciting individuals to become KNI advisory clients, Chris Lopez and Forrest Jones typically provided the prospective client with a written case study that included representations about the types of investments KNI would recommend. Chris Lopez, and later Chris Lopez and Forrest Jones together, prepared and had ultimate authority over the statements in the case studies, including their contents and whether and how to communicate them.

28. The case studies set forth KNI's investment criteria ("Investment Criteria"), which stated, among other things, that KNI would (a) always allocate "secured" capital to attract at least 10% returns, and would select entities: (b) with taxable income to support returns and

that often do over \$10 million of revenue; (c) that are already making money and not dependent on investor funds; and (d) that have financials that have been audited by KNI.

29. In reality, Chris Lopez and Forrest Jones recommended and sold to KNI clients and retail investors securities related to the five high-risk Issuers that did not meet the Investment Criteria and that had little or no ability to pay back the clients' principal, much less the promised returns. The investments in the Issuers generally were unsecured, or secured only by issuer guarantees. Several of the issuers had little or no revenues or earnings, and most were associated with, owned by, or controlled by the Lopez Brothers. Instead of KNI auditing the financial statements as represented, Chris Lopez created false and fraudulent financial statements for the Biosciences Company and the Consulting Company.

30. During the Relevant Period, KNI, acting through Chris Lopez and later Forrest Jones, raised approximately \$3.7 million from approximately 70 advisory clients and retail investors in multiple states relating to the five Issuers in connection with the scheme. The clients and retail investors lost substantially all of the money they invested.

2. The Gold Company investment.

31. Between approximately January 2017 and March 2018, Chris Lopez and later Forrest Jones recommended and sold promissory notes to advisory clients and retail investors issued by a Seychelles-based company associated with the Lopez Brothers that was purportedly involved in the purchase, delivery, and sale of gold to a Lebanon refinery ("Gold Company"). The investment was speculative and did not meet the Investment Criteria, because, among other reasons, the Gold Company was not actually offering secured investments and its financials were

not audited by KNI or anyone else.

32. In total, KNI, acting through Chris Lopez and Forrest Jones, raised approximately \$1.2 million by recommending and selling the Gold Company's promissory notes to approximately 15 advisory clients and retail investors. The Gold Company ultimately defaulted on the notes, and the investors lost their principal investments.

33. Forrest Jones recommended and sold the Gold Company's promissory notes to approximately seven KNI advisory clients. For example, in approximately June 2017, during an in-person meeting in the Houston, Texas area, Forrest Jones orally recommended the notes to a Texas widow who rolled over her entire retirement account from her employment with the State of Texas to purchase an approximately \$30,000 note. As another example, in approximately August 2017, during an in-person meeting in Las Vegas, Nevada, Forrest Jones orally recommended the notes to a Nevada retiree who rolled his retirement funds over to purchase an approximately \$92,000 note. To induce the advisory clients to invest, Forrest Jones orally told the KNI advisory clients that the Gold Company promissory notes were safe and backed by gold.

34. Chris Lopez recommended and sold the Gold Company's promissory notes to approximately two KNI advisory clients, including orally recommending the notes in approximately March 2017 to a Texas client who purchased two notes for a total of \$280,000, and in approximately April 2017 to an Alabama retiree client who purchased a \$105,000 note. To induce the advisory clients to invest, Chris Lopez, during in-person meetings in Texas and Alabama, orally told these clients that the investment was safe, the notes were backed by gold, and (as to at least the Texas client) that investor funds were being used to obtain gold. In addition, Chris Lopez drafted the notes, and he added language to the two notes he sold stating

that the notes were secured by gold. The other notes expressly state on their face that they are unsecured.

35. Forrest Jones's and Chris Lopez's representations in Paragraphs 33 and 34 about the Gold Company investment were false and misleading. All but two of the notes state on their face that they are unsecured. The notes were not backed by gold or by a mechanism for requesting gold. No security, in gold or otherwise, was ever obtained for the notes. Further, a significant portion of the funds that the KNI advisory clients invested were used to pay commissions to the KNI Defendants and to pay personal expenses incurred by the Lopez Brothers.

36. The KNI Defendants also did not disclose to the advisory clients that: (a) the investment did not meet the Investment Criteria, (b) they had not verified the claims that the notes were backed by gold, or (c) investor funds would be used to pay commissions or personal expenses. The KNI Defendants further failed to disclose KNI's involvement in the Prior Gold Scheme or the related lawsuit, or that the person directing the Gold Company's investment terms was a Russian national and fugitive that faced U.S. criminal charges. They also failed to disclose that, during the time they were recommending the investment, the Gold Company had failed to make payments on purported gold shipments. These omissions made the KNI Defendants' claims about the safety and security of the investment highly misleading.

37. The misrepresentations and omissions about the Gold Company investment were material. A reasonable investor would consider the fact that the notes were not secured in the manner promised to be important in deciding whether to invest. A reasonable investor would similarly consider to be important the facts that the investment was a high-risk investment that

did not meet the Investment Criteria, that Chris Lopez and KNI had been involved in an earlier gold investment that turned out to be a fraud, and that investor funds would be used for undisclosed commissions and personal expenses.

3. The Consulting Company investment.

38. Between approximately March 2016 and June 2018, Chris Lopez recommended and sold bonds, equity shares, and promissory notes issued by a Florida-based holding company that Jason Lopez controlled and the Lopez Brothers owned that purportedly provided consulting services (“Consulting Company”). The investments were speculative and did not meet the Investment Criteria, because, among other reasons, the Consulting Company had no or de minimis income or revenues, its financials were not audited by KNI or anyone else, and it was not actually offering secured investments.

39. In total, KNI, acting through Chris Lopez, raised approximately \$422,795 by recommending and selling the Consulting Company’s securities to approximately nine advisory clients and retail investors. The Consulting Company defaulted on the bonds and notes.

a. The fake \$2.5 million security account.

40. Chris Lopez created and used false financial statements and a fabricated \$2.5 million bank account to solicit investments in purportedly secured bonds issued by the Consulting Company to at least two KNI advisory clients. For example, in approximately June 2016, Chris Lopez advised a KNI advisory client to invest in the Consulting Company’s Class A Secured Bonds. Based on Chris Lopez’s advice, in June 2016, the client purchased approximately \$30,000 of the bonds using funds in a self-directed individual retirement account (“IRA”).

41. In connection with the investment, Chris Lopez provided the client a written direction of investment document, over which he had ultimate authority and control, that falsely represented the bonds were secured by an issuer-controlled account at a well-known financial institution. When the IRA firm requested support for releasing the client's funds for the investment, Chris Lopez, on June 17, 2016, emailed the firm the: (a) direction of investment document containing the misrepresentation; and (b) the Consulting Company's May 2016 financial statements, which he had participated in preparing and that misrepresented that the Consulting Company had \$2.5 million in cash in an account at the financial institution. As a result, the IRA firm released the client funds to the Consulting Company. This account was the only asset purportedly securing the bonds.

42. Chris Lopez's representations in Paragraph 41 about the security for the bonds were false and misleading. The bank account did not actually hold \$2.5 million as security for the bonds: the bank account held no assets or securities. It was also not an issuer-controlled account: the bank account was owned by a longtime friend and business associate of the Lopez Brothers ("Lopez Associate") who had criminal charges pending against him at the time and, upon information and belief, was essentially insolvent.

43. Chris Lopez also failed to disclose to the KNI advisory client and the IRA firm that he had done nothing to verify that the bank account held any funds – much less sufficient funds to secure the notes – or that the account was owned by the Lopez Associate. This was misleading in light of statements he made about the secured nature of the investment and in light of the firm's stated Investment Criteria, which the bonds did not meet.

44. The misrepresentations and omissions about the investment's security and the bank account were material, because a reasonable investor would consider the fact that the bonds were not secured in the manner promised to be important in deciding whether to invest.

45. Chris Lopez also misused the purported \$2.5 million bank account to enable the Consulting Company to purchase a \$2.5 million debenture from an unaffiliated mortgage company ("Mortgage Company"). On or about August 15, 2016, the Mortgage Company provided the debenture to the Consulting Company in exchange for title to the same purported \$2.5 million – but actually empty – bank account. In exchange for its use of the purported \$2.5 million account as collateral, the Mortgage Company agreed to make monthly payments of approximately \$16,666 that Chris Lopez, Jayson Lopez, and the Lopez Associate split.

46. On September 28, 2016, Chris Lopez emailed the Mortgage Company a fake letter showing a \$2.5 million account balance. Then, on November 17, 2016, he falsely claimed in an email to the mortgage company's CEO that he had logged into the bank account and verified it was a Consulting Company account which had been changed to have the Mortgage Company as the beneficiary on the account, when in fact the account was owned by the Lopez Associate. After the Mortgage Company requested that the bank account be placed in its name, Chris Lopez falsely told the Mortgage Company in a January 16, 2017 email that the account name had been changed to Mortgage Company, and on April 17, 2017 emailed the Mortgage Company a false account statement showing the Mortgage Company's purported ownership of the \$2.5 million bank account.

b. Sale of high-risk promissory notes and equity shares.

47. KNI, acting through Chris Lopez, recommended and sold promissory notes and

equity shares issued by the Consulting Company to approximately seven KNI clients and retail investors. The securities did not meet KNI's purported Investment Criteria, which Chris Lopez did not disclose, and he further failed to disclose that the Consulting Company did not have sufficient resources to pay back the note holders and instead was using some or all of the investor funds to make interest payments to earlier investors. Ultimately, the Consulting Company made only a small number of interest payments and never repaid the principal on the promissory notes. It also failed to pay the promised 10% annual dividends on the equity shares, which now are worthless.

4. The Biosciences Company investment.

48. From approximately November 2016 to September 2018, Chris Lopez and later Forrest Jones recommended and sold Class A Secured Bonds of a Florida corporation associated with the Lopez Brothers that purportedly held patents for peptides that have potential applications ranging from cancer and burn treatments to crop solutions ("Biosciences Company"). The investment was speculative and did not meet the Investment Criteria, because, among other reasons, the Biosciences Company had no or de minimis income or revenues, its financials were not audited, and it was not actually offering secured investments.

49. In total, KNI, acting through Chris Lopez and Forrest Jones, raised approximately \$1,277,593 by recommending and selling the bonds to approximately 40 retail investors. The Biosciences Company was involuntarily dissolved in September 2019.

a. The fake €50 million and \$2.5 million security accounts.

50. In approximately March 2017, Chris Lopez created and signed a company profile for the Biosciences Company identifying himself as Chief Investment Officer and representing

that the company had cash and cash equivalents of over €50 million in an account at a well-known financial institution in the United Kingdom (“UK Account”). The Biosciences Company’s financial statements for the period ended March 10, 2017, which Chris Lopez also prepared, listed the €50 million UK Account as an investment account under current assets.

51. The €50 million was based on a purported November 2016 agreement between the Biosciences Company and a London-based subsidiary of a publicly-traded Indian pharmaceuticals company (“London Pharmaceutical Company”). The purported agreement provided that the London Pharmaceutical Company would deposit €50 million into a UK bank account for the Biosciences Company to use as collateral.

52. KNI, acting through Chris Lopez and Forrest Jones, disseminated the company profile and financial statements to KNI clients and retail investors with a private placement memorandum (“PPM”) for the offer and sale of the Biosciences Company’s bonds.

53. The company profile and financial statements were false and misleading. There was no UK Account holding funds for the Biosciences Company. And the Lopez Associate -- who, upon information and belief resided in North Dakota and had no relationship with the Indian pharmaceuticals company -- is the person who signed the purported agreement on behalf of the London Pharmaceutical Company and is identified as its CFO. In addition, even if the agreement had been legitimate, the funds would not be in an investment account and the Biosciences Company would have had no control over or access to the funds.

54. In the fall of 2017, the Biosciences Company stopped claiming that it had the €50 million investment account. Then, in a new PPM, that Chris Lopez prepared and disseminated to

one or more KNI clients during 2018, including by email on September 18, 2018, the Biosciences Company instead represented that it had \$2.5 million in a bank account.

55. The \$2.5 million purportedly came from the sale of the Biosciences Company's stock to a Los Angeles-based investor, and the PPM represented that the funds were on deposit in an account at a well-known financial institution to help guarantee the repayment of the Biosciences Company's bonds. This was also false and misleading. The stock sale was never consummated, and the Biosciences Company did not possess \$2.5 million.

56. The misrepresentations and omissions about the purported bank accounts were material, because a reasonable investor would consider the facts that the Biosciences Company was substantially overstating its assets, liquidity, and security important in deciding whether to invest in bonds purportedly secured by the company's assets.

b. Sale of high-risk bonds.

57. The Biosciences Company had no ability to generate revenue during the Relevant Period, and its bonds were a high-risk investment that Chris Lopez and Forrest Jones falsely recommended and sold as a safe, income-generating investment.

58. For example, in late 2017, during an in-person meeting in the Houston, Texas area, Forrest Jones orally recommended the bonds to a Texas woman who was a KNI advisory client. During the meeting, the client told Forrest Jones that she needed safety and income, because she had been seriously injured and might not be able to work. Forrest Jones had the client sign a document purporting to disclaim her advisory relationship with KNI for purposes of the investment, and in March 2018 he invested her retirement assets in the Biosciences Company's bonds for safety and income, claiming that her \$75,000 investment could grow to

\$300,000. The Biosciences Company was not a safe investment and never paid her any returns. As a result, she lost her entire investment.

59. As another example, in mid-2018, Chris Lopez met with a Texas client in the Houston, Texas area, and convinced her to invest \$146,000 in the Biosciences Company's bonds. He orally told the client, who was an unsophisticated investor, that the investment was a "cash cow" and the bonds were a safe, not risky, investment. She likewise lost her entire investment.

60. The representations in Paragraphs 58 and 59 about the Biosciences Company bonds were false and misleading, because the investment was high risk and not safe. In fact, Forrest Jones has admitted in sworn testimony that the Biosciences Company's bonds were a speculative investment that was not expected to generate revenue, earnings, or income for investors for the foreseeable future.

61. After touting the safety and security of the investment, Chris Lopez and Forrest Jones also failed to disclose that: (a) they were receiving commissions for selling the bonds, (b) the bonds did not meet the Investment Criteria, (c) the bonds were not expected to generate income, and (d) the Biosciences Company had no ability to generate revenues or income for the foreseeable future. These omissions were misleading to investors who believed they were purchasing a low-risk, income-generating security from a revenue-generating company.

62. The misrepresentations and omissions were material: a reasonable investor would consider the investment's actual risk profile important in deciding whether to invest.

5. The Graphic Tools Company investment.

63. From approximately May 2017 to June 2018, Chris Lopez recommended and sold promissory notes and participation units in a Florida-based company affiliated with the Lopez

Brothers that was formed to purportedly sell graphic tools (“Graphic Tools Company”). The investments were speculative and did not meet the Investment Criteria, because, among other reasons, the Graphic Tools Company had minimal income or revenues, its financials were not audited by KNI or anyone else, and it was not actually offering secured investments.

64. In total, KNI, acting through Chris Lopez, raised approximately \$345,000 by recommending and selling the Graphic Tool Company’s securities to approximately three KNI clients. The Graphic Tools Company ultimately defaulted and all except one client lost their investments.

65. Chris Lopez, who was also the Graphic Tools Company’s Chief Investment Officer, misrepresented and omitted information about the use of investor funds, and misappropriated and misused investor funds, in connection with these investments.

66. In approximately May 2017, Chris Lopez invested \$50,000 of an Alabama advisory client’s money in the Graphic Tools Company without the client’s prior approval, which was required by her advisory agreement with KNI. The client had sent the funds to KNI for a different purpose. Then, when the Graphic Tools Company paid back the client’s \$50,000 investment in May 31, 2017, Chris Lopez did not return the client’s funds, and the client lost her entire investment.

67. In approximately May 2018, Chris Lopez met with a Texas advisory client in person in the Houston, Texas area and recommended that she invest \$150,000 of her retirement account in the Graphic Tools Company’s participation units using a written PPM he drafted that represented that 95% of the offering proceeds would be used for working capital. At the

meeting, Chris Lopez also orally told the KNI client that the Graphic Tools Company was already making money selling its products.

68. Chris Lopez's representations in Paragraph 67 about the Graphic Tools Company investment were false, because when the client invested the funds, Chris Lopez immediately, and without the client's knowledge or consent, diverted \$120,000 of the \$150,000 investment to the Vacation Company (described below), which the Lopez Brothers controlled. The Graphic Tools Company had also not been making money selling products. Further, the investment was funded at the end of June 2018, at which time the Graphic Tools Company had already failed to pay on a similar note due earlier that month, a fact that Chris Lopez knew and failed to disclose. This was misleading, because it further obscured the high-risk nature of the investment. The client ultimately lost her investment funds, including the \$120,000 that was diverted to the Vacation Company.

69. The misrepresentations and omissions were material, because a reasonable investor would consider the facts that Chris Lopez intended to use their funds in unauthorized ways and for personal expenses and other improper purposes important in deciding whether to invest. A reasonable investor would likewise consider the facts that the investment was high risk and did not meet the Investment Criteria and that the issuer had recently failed to pay on a similar note important in deciding whether to invest.

6. The Vacation Company investment.

70. In approximately June 2018, Chris Lopez and Forrest Jones recommended and sold Class A Preferred Corporate Shares in a newly-formed Florida-based company controlled and beneficially owned by the Lopez Brothers that purportedly promoted a travel software

program (“Vacation Company”). The investment was speculative and did not meet the Investment Criteria, because, among other reasons, the Vacation Company was a new company with little revenue and income, its financials were not audited by KNI or anyone else, and it was not actually offering secured investments.

71. KNI, acting through Chris Lopez and Forrest Jones, raised approximately \$478,000 selling the Vacation Company’s shares to approximately three advisory clients and retail investors.

72. In approximately May 2018, a veteran and military professor in Kansas who was months away from retirement talked to Chris Lopez and Forrest Jones about investing his 401(k) funds. On a telephone call, Chris Lopez and Forrest Jones jointly recommended that he invest the funds in his 401(k) account in the Vacation Company’s Class A Preferred Corporate Shares. Chris Lopez and Forrest Jones together told the military professor that an investment in the Vacation Company’s stock was safe, the company was financially sound, and the investment would produce a monthly return of 11.25%. They also promised him guaranteed monthly dividends of \$3,000, and that his principal would be backed by matching funds held in a segregated account. The retired military professor invested approximately \$320,000 -- approximately 95% of his retirement account -- in the Vacation Company’s shares. The Vacation Company failed, and he ultimately lost almost all of his investment.

73. Chris Lopez’s and Forrest Jones’s representations in Paragraph 72 about the Vacation Company were false and misleading. The Vacation Company was not a safe investment, was not financially sound, and could not generate the promised return. KNI also did not place funds in a matching segregated account. Chris Lopez and Forrest Jones also failed to

disclose that the Vacation Company did not meet the Investment Criteria and had no assets or income to pay returns or secure the investment, which rendered their description about the safety and security of the investment highly misleading.

74. The misrepresentations and omissions were material, because a reasonable investor would consider the true facts illustrating that the investment was a high-risk, non-guaranteed investment important in deciding whether to invest.

7. KNI and Chris Lopez Failed to Disclose Conflicts of Interest.

75. As a fiduciary, an investment adviser has a duty to disclose to clients all material information which might incline an investment adviser consciously or unconsciously to render advice which is not disinterested. As a registered investment adviser, KNI was also required to file and timely update a Form ADV with the SEC. The Form ADV requires registered investment advisers to provide new, prospective, and existing clients with clearly written, meaningful current disclosure of conflicts of interest. Chris Lopes filed, signed, and had ultimate authority over the statements in KNI's Forms ADV.

a. Failure to disclose transaction-based compensation.

76. In addition to charging advisory fees, the KNI Defendants also received undisclosed transaction-based compensation for recommending and selling investments to advisory clients.

77. Beginning in approximately January 2017, for some or all of the sales of the Gold Company's promissory notes to KNI clients, Chris Lopez, KNI, and/or Forrest Jones received approximately 10% of the principal amount of each note sold as a sales commission.

78. Beginning in approximately May 2017, Forrest Jones also received commissions for selling the Consulting Company's promissory notes.

79. In September 2016, KNI and Chris Lopez also received a 10% sales commission of approximately \$50,000 for recommending and selling \$500,000 in Class B Membership Interest units of the Mortgage Company to a KNI client.

80. The disclosures that Chris Lopez made in KNI's Forms ADV about transaction-based compensation were false and misleading. Until May 2018, KNI did not disclose in its Forms ADV that the KNI Defendants received transaction-based compensation for selling investments. Not only did KNI's Forms ADV fail to disclose the transaction-based compensation, KNI affirmatively and falsely represented in Item 5 of KNI's Forms ADV Part 2A filed from May 2015 to March 2018 that KNI and Chris Lopez did not receive compensation for the sale of securities. The KNI Conflict Policy (described below) also failed to disclose that KNI and Chris Lopez were receiving this transaction-based compensation.

b. Failure to disclose issuer relationships.

81. The disclosures that Chris Lopez made in KNI's Forms ADV also failed to disclose, or inadequately disclosed, the conflicts created by the Lopez Brothers' roles with the Issuers. Chris Lopez was actively involved in four of the five Issuers -- he was part owner of the Consulting Company and the Vacation Company and Chief Investment Officer of the Biosciences Company and Graphic Tools Company. Jayson Lopez was the majority owner of the Consulting Company, held a minority interest in the domestic subsidiary of the Gold Company, and was an officer and/or director of the Graphic Tools Company, Biosciences Company, and Vacation Company.

82. From 2016 through March 2018, KNI's Forms ADV Part 2 did not disclose the Lopez Brothers' roles with the Issuers, much less explain the associated conflicts. Nor did the Forms ADV otherwise adequately disclose the conflicts created by the roles Chris Lopez and his brother served with the Issuers.

83. On or about August 9, 2017, the SEC's Division of Examinations (f/k/a the Office of Compliance Inspections and Examinations) conducted an onsite examination at KNI ("SEC Examination"). Beginning in January 2018, after the SEC Examination, KNI required clients to sign a "Conflict Policy" ("KNI Conflict Policy"). The KNI Conflict Policy, however, entirely omitted Jayson Lopez's ownership and involvement with the various issuers. To the extent it disclosed Chris Lopez's roles with the various issuers, the KNI Conflict Policy did not adequately explain the conflicts or the steps, if any, KNI took to mitigate the conflicts.

84. Beginning in late March 2018, KNI's Forms ADV Part 2 disclosed Chris Lopez's roles at three issuers and stated that a conflict existed. The Form ADV, however, did not adequately identify or explain the conflicts posed by Chris Lopez's dual roles and any mitigating steps taken, nor did it disclose Jayson Lopez's ownership and involvement with various issuers. Thus, the 2018 disclosures in the KNI Conflict Policy and KNI's Forms ADV Part 2A concerning the conflicts created by the Lopez brothers' associations with or ownership and control of five issuers were not adequate to apprise clients of the nature of the conflict and to secure their informed consent.

85. The misstatements and omissions in KNI's Forms ADV about the transaction-based compensation and Issuer relationships violated KNI's and Chris Lopez's fiduciary duties

and were misleading. They were also material, because a reasonable investor would consider the fact that his or her adviser had conflicts of interest important in deciding whether to invest.

8. KNI and Chris Lopez misrepresented litigation.

86. KNI and Chris Lopez also made false statements and omitted material facts necessary to make the statements it made regarding litigation not misleading in KNI's Forms ADV Part 2. KNI's Forms ADV Part 2 filed on or about January 26, 2017, February 15, 2017, August 10, 2017, and February 26, 2018, stated that "KNI has not had any legal or disciplinary events, currently or in the past." In truth, in June 2016, an investor filed a lawsuit against both KNI and Chris Lopez alleging that they made misrepresentations and committed fraud in connection with the Prior Gold Scheme. In its March 26, 2018 Form ADV Part 2, KNI finally disclosed the lawsuit against Chris Lopez, but it did not disclose that KNI also was a defendant. Instead, KNI again falsely represented that KNI had not had any legal or disciplinary events.

C. Jayson Lopez Aided and Abetted KNI's and Chris Lopez's Fraud.

87. Jayson Lopez provided substantial assistance to KNI's and Chris Lopez's violations of Sections 17(a)(1) and (3) of the Securities Act and Section 10(b) of the Exchange Act and Rules 10b-5(a) and (c) thereunder.

88. Jayson Lopez is involved in what he calls "consulting," and claims he obtained ownership interests through purported "sweat equity" and/or assumed management roles in several of the Issuers. Jayson Lopez was the majority owner of the Consulting Company, held a minority interest in the domestic subsidiary of the Gold Company, and was an officer and/or director of the Graphic Tools Company, Biosciences Company, and Vacation Company.

89. In approximately May 2016, Jayson Lopez reviewed, and as the majority owner authorized, the issuance of the Consulting Company's May 2016 financial statements under his name, which, as alleged above, falsely represented that the Consulting Company had \$2.5 million in a bank account. Chris Lopez and KNI used the false financial statements in connection with the scheme to raise investor funds selling the Consulting Company's bonds and in connection with purchasing the \$2.5 million debenture from the Mortgage Company.

90. From approximately March 2016 through June 2018, Jayson Lopez accepted approximately \$422,795 of investor funds that Chris Lopez raised from selling the Consulting Company's bonds in the scheme, despite the fact that the Consulting Company had no ability to repay the bonds. Jayson Lopez used at least approximately \$36,000 of those investor funds to make interest payments to earlier investors. Jayson Lopez also accepted his share of the monthly debenture payments from the Mortgage Company obtained through the fraud.

91. On or about March 28, 2017, Jayson Lopez told the Biosciences Company's CEO in an email that he had set up the UK Account, and that he had sent Chris Lopez an account statement showing €50 million in that account. This is the purported UK Account that the Biosciences Company's financial statements listed as an investment account under current assets, and that Biosciences Company was purportedly using as collateral to secure its bonds. As alleged above, Chris Lopez and KNI used the UK Account in connection with the scheme to solicit investors to purchase the Biosciences Company's bonds.

92. On two separate occasions in July 2017 and September 2017, Jayson Lopez, as the signatory on the Gold Company's domestic bank accounts, used approximately \$60,000 and \$80,000 of investor funds to pay expenses incurred on the Gold Company's credit cards,

including high-end “lifestyle” cards issued in the names of Chris Lopez and Jayson Lopez. Substantially all of these expenses were for personal and other non-business items, and, upon information and belief, were used for the Lopez Brothers’ personal benefit.

93. Jayson Lopez’s conduct substantially assisted Chris Lopez’s and KNI’s fraudulent conduct in furtherance of the scheme. Jayson Lopez enabled Chris Lopez to use the Consulting Company’s false financial statements to raise investor funds, and he accepted those funds into the Consulting Company’s account. Jayson Lopez’s actions to substantiate the Biosciences Company’s UK Account facilitated Chris Lopez’s ability to use the false €50 million account to sell the company’s bonds. Jayson’s Lopez’s use of investor funds from the Consulting Company and the Gold Company investors to pay earlier investors and personal expenses, respectively, assisted Chris Lopez in accomplishing an ultimate purpose of the scheme -- namely, to misuse investor funds for the Lopez Brothers’ benefit.

D. KNI Misrepresented Assets Under Management.

94. Section 203A of the Advisers Act prohibits an investment adviser from registering with the SEC unless it meets certain requirements for regulatory assets under management (“RAUM”). Advisers Act Rule 203A-1(a) sets the threshold requirement for SEC registration for most advisers at \$100 million RAUM. Thus, KNI was not eligible for SEC registration unless it met the \$100 million threshold. RAUM includes securities portfolios with respect to which an adviser provides continuous and regular supervisory or management services.

95. In its initial February 24, 2016, registration application filing with the SEC, KNI claimed it had \$154 million of RAUM. In addition, KNI’s Forms ADV, Part 1A dated February

15, 2017 and August 10, 2017, disclosed total RAUM of over \$286 million. In truth, KNI had significantly less RAUM than the disclosed amounts and in fact significantly less RAUM than the applicable \$100 million in RAUM required for SEC registration. KNI has never had RAUM of \$100 million or more.

96. During the SEC Examination, KNI submitted two client lists, one effective December 31, 2016, and the other effective August 17, 2017. The majority of client assets identified on the client lists, however, did not qualify as RAUM because they included the values of real estate, intellectual property, or businesses that were not securities. KNI also did not provide continuous and regular supervisory or management services of the assets to several accounts which may have included securities. After the SEC examination staff questioned the firm's RAUM calculation, KNI disclosed in its March 2018 Form ADV that it actually had only approximately \$27 million in RAUM.

97. Thus, KNI was improperly registered with the SEC, and its representations about its RAUM in its SEC filings were false and misleading. KNI used inflated RAUM to support its improper registration. Chris Lopez filed, signed, and had ultimate authority over KNI's registration application and Forms ADV.

E. KNI Violated the Custody Rule.

98. Rule 206(4)-2 ("Custody Rule") under Section 206(4) of the Advisers Act makes it a fraudulent, deceptive, or manipulative act, practice, or course of business for an adviser that is registered with the SEC (or required to be registered with the SEC) to have custody of client funds or securities unless the adviser complies with the Custody Rule.

99. The Custody Rule defines custody to mean holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them. Additionally, a firm has custody if a related person holds, directly or indirectly, client funds or securities, or has any authority to obtain possession of them, in connection with advisory services the firm provides to clients. Custody includes, among other things, possession of client funds or securities (but not of checks drawn by clients and made payable to third parties) unless the firm receives them inadvertently and the firm returns them to the sender promptly, but in any case within three business days of receiving them.

100. KNI, acting through Chris Lopez, had custody of client assets, because the KNI Defendants sold promissory notes and other securities for which KNI took possession of funds and assets during the transaction process. In addition, most of the funds that KNI raised relating to the Gold Company went through a bank account over which Chris Lopez had signatory authority. Further, on occasion, clients and investors sent funds directly to KNI, which Chris Lopez deposited in KNI's accounts. KNI, acting through Chris Lopez, then deducted transaction-based compensation before wiring the investor's or client's funds to the issuer. KNI also had custody of client funds because it received and deposited in its own accounts interest or dividend payments from issuers and then paid clients and investors from its accounts.

101. In January 2017, KNI began disclosing in its Form ADV Part 2A that it had custody of client funds and that it hired a CPA firm to perform an annual surprise exam. KNI, however, failed to comply with the Independent Verification and Surprise Exam requirements of Advisers Act Rule 206(4)-2(a)(4). KNI also failed to maintain client assets in separate accounts

or in accounts containing only client assets and titled appropriately, and it failed to give clients notice of the custodial accounts and to verify that account statements were sent to clients.

F. KNI Violated Compliance Rules.

102. Rule 206(4)-7 under Section 206(4) of the Advisers Act requires that registered investment advisers, among other things: (1) adopt and implement written policies and procedures reasonably designed to prevent violations of the federal securities laws; and (2) review those policies and procedures at least annually for the adequacy and effectiveness of their implementation. In designing its policies and procedures, the adviser should first identify conflicts and other compliance factors creating risk exposure for the adviser and its clients in light of the adviser's particular operations, and then design policies and procedures that address those risks.

103. KNI failed to adopt and implement policies and procedures tailored to the risks associated with the alternative investments it primarily sold and the conflicts associated with those investments. Further, while KNI had policies and procedures that required it to segregate and place funds with a qualified custodian, to notify clients of the custodial arrangement, and to provide account statements, the firm failed to implement those policies and procedures. Similarly, as alleged below, KNI failed to make and keep certain books and records as specified in its policies and procedures. Finally, KNI failed to review its policies and procedures at least annually for the adequacy and effectiveness of their implementation. Chris Lopez was KNI's Chief Compliance Officer and the person responsible for KNI's policies and procedures.

G. KNI Failed to Maintain Required Books and Records.

104. Section 204 of the Advisers Act requires registered investment advisers to “make and keep” certain records and to furnish copies thereof and make and disseminate such reports as the SEC, by rule, may prescribe as necessary or appropriate in the public interest or for the protection of investors. Section 204 specifies that such records are subject to examination by SEC’s staff. Rule 204-2(a) thereunder provides that registered investment advisers “shall make and keep” various specific types of books and records.

105. KNI failed to maintain required books and records. In particular, although its policies and procedures required it to do so, KNI failed to keep a journal or journals, including cash receipts and disbursements, records, and any other records of original entry forming the basis of entries in any ledger and a general and auxiliary ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income, and expense accounts prior to January 2017. KNI did not maintain any financial accounting records prior to January 2017, despite being registered as an investment adviser for eight months at that time. Chris Lopez was KNI’s Chief Compliance Officer and the person responsible for KNI’s books and records.

H. Defendants Acted With Scienter.

1. Chris Lopez acted with scienter.

106. Chris Lopez had motive and opportunity to commit the fraud. By means of his material misstatements and omissions, and as a result of the scheme, he was able to obtain for his benefit at least approximately several hundred thousand dollars of client and retail investor funds. Chris Lopez was only able to obtain these funds, because he fraudulently recommended and sold the high-risk investments to KNI advisory clients and retail investors.

107. Chris Lopez engaged in the alleged misconduct knowingly, or was at least severely reckless. Chris Lopez was actively involved in the Issuers and prepared financial statements for several of them. Thus, he knew that the Issuers did not fit the Investment Criteria he touted for KNI, including that the investments were not secure, that the Issuers had little or no income or revenues, that their financial statements were not audited by KNI or anyone else, and that the issuers were not making money and depended on client and retail investments for their survival.

108. Chris Lopez drafted the Gold Company's promissory notes, and he therefore knew that all but two of them were unsecured notes on their face. Chris Lopez likewise knew that the investment was not secured by gold based on his communications with the Gold Company, and that the investment was high risk based on its inflated interest rate and his involvement with the Prior Gold Scheme. Chris Lopez also knew that investor funds were being used to pay commissions to him and Forrest Jones and for personal expenses that he and his brother incurred on Gold Company credit cards. In addition, Chris Lopez knew, or at a minimum was severely reckless in not determining from basic internet searches, that the person he was communicating with at the Gold Company, and who was directing some or all of its decision making, was not credible and was a fugitive.

109. Chris Lopez knew there was not \$2.5 million in the bank account purportedly used to secure the Consulting Company's bonds, or at a minimum he was severely reckless in taking no action to verify whether the bank account held any funds. Chris Lopez also knew the Lopez Associate owned the account, and he knew, or was at a minimum severely reckless in not determining, that the Lopez Associate did not have access to millions of dollars. The Lopez

brothers had a long-standing relationship with the Lopez Associate, who told Jayson Lopez he was dependent on charity from a church for his housing, and has been subject to criminal and civil actions, which a basic internet search would reveal.

110. Chris Lopez knew that he was the one who prepared and provided the misleading financial statement to the IRA firm so it would release the clients' funds to the Consulting Company. He likewise knew that he had not logged into the account and verified the purported collateral account for the Mortgage Company, and he knew the bank statement he provided the Mortgage Company showing its ownership of the bank account was falsified, or at a minimum he was severely reckless in not recognizing that the statement -- which on its face had misprints and other irregularities -- was falsified. Chris Lopez also drafted the Consulting Company's financial statements, and he therefore knew, or was severely reckless in not knowing, that Jayson Lopez was using new investor funds to pay existing investors.

111. Chris Lopez was the Biosciences Company's Chief Investment Officer, and he therefore knew the company had no or de minimis revenues or income, and that its prospective products had not even undergone clinical trials. Yet, he prepared the profile and financial statements showing the company had access to cash of approximately €50 million. He further knew that the Biosciences Company did not actually have access to those funds but listed the funds as "cash and cash equivalent," and he knew, or at a minimum was severely reckless in taking no steps to verify, that the purported UK Account was a sham and again tied to the Lopez Associate and not a legitimate pharmaceuticals company. Chris Lopez likewise knew that the Biosciences Company did not obtain \$2.5 million from a stock sale to a Los Angeles-based Consulting Company.

112. Chris Lopez knew that he invested a client's funds in the Graphic Tools Company without her consent, and that he spent returns on the investment on personal and KNI expenses instead of returning them to the client. He similarly knew that instead of investing another client's funds in the Graphic Tools Company as requested, he diverted those funds from the Graphic Tools Company and invested them in the Vacation Company without the client's consent. As an owner and director of the Vacation Company, Chris Lopez knew that the newly-formed company had little earnings and no track record and that it was neither safe nor able to produce the promised returns.

113. Chris Lopez controlled and maintained KNI's books, records, and bank accounts, and he therefore knew that he was receiving transaction-based compensation from certain of the Issuers for the sale of securities, that KNI had taken custody of client funds, and that KNI had not maintained any financial accounting records. Chris Lopez, who made KNI's SEC filings, similarly knew that his compensation arrangements and other conflicts of interest were not disclosed or, in some cases, not properly disclosed, and that he had grossly inflated KNI's RAUM and misrepresented prior litigation in those filings.

2. Forrest Jones acted with scienter.

114. Forrest Jones had motive and opportunity to commit the fraud. By means of his material misstatements and omissions, and as a result of the scheme, he was able to obtain for his benefit at least approximately more than a hundred thousand dollars of client and retail investor funds. Forrest Jones was only able to obtain these funds, because he fraudulently recommended and sold the high-risk investments to KNI advisory clients and retail investors.

115. Forrest Jones engaged in the alleged misconduct knowingly, or was at least severely reckless. Forrest Jones had access to financial information relating to the Issuers, but did not conduct any due diligence on the Issuers and purportedly relied completely on Chris Lopez, even though he knew that: (a) Chris Lopez and Jayson Lopez were associated with most of the Issuers, (b) he and Chris Lopez were receiving transaction-based compensation to sell investments for several of the Issuers, and (c) he had little or no experience with alternative investments before joining KNI. Forrest Jones also continued to recommend investments even though he had seen numerous red flags about KNI, including finding out that: (a) KNI had been inflating its assets under management, and (b) Chris Lopez and KNI had been sued and settled at least one earlier lawsuit.

116. Forrest Jones received copies of the Gold Mining Company's promissory notes and therefore knew that they stated that they were unsecured, contrary to the representations he made to KNI advisory clients. At a minimum, he was severely reckless in ignoring the express terms of the notes he was recommending and selling to KNI advisory clients. Forrest Jones also knew that he had not obtained any information from the Gold Company confirming that the investments were backed by gold or that investor funds were used to purchase gold. Jayson Lopez also told Forrest Jones that the Gold Company had failed to pay on earlier purported shipments of gold, and Forrest Jones knew, or was severely reckless in ignoring, that Chris Lopez had been sued in connection with the Prior Gold Scheme, which involved similar securities and some of the same individuals and entities. He further knew that a substantial amount of investor funds was being used for commissions and other improper purposes and not

to buy gold, or he was at a minimum severely reckless in not taking any steps to vet the use of investor funds.

117. Forrest Jones admitted in sworn testimony that he knew the Biosciences Company investment was a speculative investment that would not generate income. He further knew, or was severely reckless in not knowing, that during the 13-month period he recommended its bonds to advisory clients and retail investors the Biosciences Company had no revenues or income. He therefore knew the Biosciences Company investment was not a safe, income-producing investment when he recommended and sold it to a retiree. Forrest Jones also knew that the Vacation Company was controlled by the Lopez Brothers and had little earnings and no track record and was therefore neither safe nor in a position to provide guaranteed returns.

3. KNI acted with scienter.

118. The state of mind of Chris Lopez (KNI's partner, control person, and majority owner) and Forrest Jones (KNI's registered representative, partner, and minority owner) are imputed to KNI.

4. Jayson Lopez acted knowingly or recklessly.

119. Jayson Lopez engaged in the alleged misconduct knowingly or at least recklessly. He owned the Consulting Company and controlled its bank accounts, and he therefore knew it did not own or have access to a bank account holding \$2.5 million. He further knew, or was reckless in not knowing, that Chris Lopez was using the Consulting Company's financials, which listed a \$2.5 million asset that did not exist, to solicit investors in the Consulting Company, including because he knew the investment was being represented as secured, he received investor funds from the investment, and signed documentation relating to the investment.

120. Further, the \$2.5 million asset supposedly came from the Lopez Associate. Jayson Lopez had a long-term relationship with the Lopez Associate, who told him he had fallen on hard times financially and was receiving housing assistance from his church. Jayson Lopez therefore knew that the Lopez Associate did not have \$2.5 million in a bank account, or at a minimum he was reckless in taking no steps to verify the asset's existence. Further, Jayson Lopez also knew, or was reckless in not knowing, that the Lopez Associate was subject to criminal and civil actions, which a basic internet search would reveal.

121. Jayson Lopez controlled the Consulting Company's bank accounts, and therefore knew he was using new investor funds to pay interest to earlier investors in the Consulting Company. He also knew he was using investor funds to pay personal expenses incurred on the Gold Company's "lifestyle" credit cards.

122. In addition, Jayson Lopez represented to the Biosciences Company's CEO in writing that he had opened the purported €50 million UK Account, which he knew was untrue. He also knew the Biosciences Company did not have access to any such account, or at a minimum he was reckless in taking no steps to verify the asset's existence, which was again tied to the Lopez Associate.

I. The Investments Were Securities.

123. Section 2(a)(1) of the Securities Act and Section 3(a)(10) of the Exchange Act define "security" to include, among other instruments, "any" "note," "stock," "bond," "transferable share," or "investment contract." The definitions encompass all of the investments solicited and sold as alleged herein.

124. With respect to the promissory notes alleged above, the KNI advisory clients and retail investors were motivated to purchase the notes, because they were promised an investment that earned higher rates of return and expected a profit. KNI sold approximately 17 or more promissory notes to approximately 17 or more individuals as investments, without regard to the financial sophistication, wealth, age, or goals of the prospective investors. Most of the KNI advisory clients and retail investors were unsophisticated or retired individuals who were in need of the protection provided by the federal securities laws.

125. A reasonable investor would also believe that the promissory notes were investments, because the KNI Defendants represented that the promissory notes were a way to earn a substantial profit. KNI advisory clients and retail investors trusted Chris Lopez and Forrest Jones to recommend and make secure investments. Several of the KNI advisory clients used their qualified retirement funds and transferred them to a self-directed IRA to earn a better return. There are also no risk-reducing factors that would make application of the securities laws to these notes unnecessary. The notes were unsecured or investors were falsely told they were secured, and the notes are not covered by another regulatory scheme that would reduce the risk of the instrument.

FIRST CLAIM FOR RELIEF

Violations of Sections 206(1) and (2) of the Advisers Act (against Defendants Chris Lopez and KNI)

126. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

127. By engaging in the conduct alleged above, KNI and Chris Lopez, directly or indirectly, singly or in concert with others, through the use of the mails or any means or

instrumentality of interstate commerce, while acting as an investment adviser within the meaning of Section 202(11) of the Advisers Act [15 U.S.C. § 80b-2(11)] have: (a) employed devices, schemes, or artifices to defraud any client or prospective client; and/or (b) engaged in transactions, practices, or courses of business which operate as a fraud or deceit upon any client or prospective client.

128. With regard to the violations of Section 206(1) of the Advisers Act, KNI and Chris Lopez engaged in the conduct knowingly or with severe recklessness. With regard to the violations of Section 206(2), KNI and Chris Lopez engaged in the conduct at least negligently.

129. By reason of the foregoing, KNI and Chris Lopez have violated, and unless enjoined will continue to violate, Sections 206(1) and (2) of the Advisers Act [15 U.S.C. §§ 80b-6(1)-(2)].

SECOND CLAIM FOR RELIEF

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder (against Defendants KNI, Chris Lopez, and Forrest Jones)

130. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

131. By engaging in the conduct alleged above, KNI, Chris Lopez, and Forrest Jones, directly or indirectly, singly or in concert with others, by the use of the means or instrumentalities of interstate commerce and/or or by use of the mails, in connection with the purchase or sale of securities: (a) employed devices, schemes, or artifices to defraud; and/or (b) made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not

misleading; and/or (c) engaged in acts, practices, or courses of business which operate or would operate as a fraud or deceit upon any person.

132. KNI, Chris Lopez, and Forrest Jones engaged in this conduct knowingly or with severe recklessness.

133. By reason of the foregoing, KNI, Chris Lopez, and Forrest Jones have violated, and unless enjoined will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

THIRD CLAIM FOR RELIEF

Violations of Section 17(a) of the Securities Act (against Defendants KNI, Chris Lopez, and Forrest Jones)

134. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

135. By engaging in the conduct alleged above, KNI, Chris Lopez, and Forrest Jones, directly or indirectly, singly or in concert with others, in the offer or sale of securities, by use of the means and instrumentalities of interstate commerce and/or by use of the mails have: (a) employed devices, schemes, or artifices to defraud; and/or (b) obtained money or property by means of untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in transactions, practices, or courses of business which operate or would operate as a fraud and deceit upon the purchaser.

136. With regard to the violations of Section 17(a)(1) of the Securities Act, KNI, Chris Lopez, and Forrest Jones engaged in the conduct knowingly or with severe recklessness. With

regard to the violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act, KNI, Chris Lopez, and Forrest Jones acted at least negligently.

137. By reason of the foregoing, KNI, Chris Lopez, and Forrest Jones have violated, and unless enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q].

FOURTH CLAIM FOR RELIEF

Violations of Section 15(a) of the Exchange Act (against Defendants KNI, Chris Lopez, and Forrest Jones)

138. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

139. By engaging in the conduct alleged above, KNI, Chris Lopez, and Forrest Jones each acted as brokers within the meaning of Section 3(a)(4) of the Exchange Act [15 U.S.C. § 78c(4)], and made use of the mails or the means or instrumentality of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase or sale of, the securities alleged above.

140. KNI and Chris Lopez were not registered with, or an associated person of, a firm registered with the SEC in accordance with Section 15(b) of the Exchange Act [15 U.S.C. § 78o(b)]. Forrest Jones's association with a registered firm did not exempt him from registration for the transactions at issue, as such transactions were not made in the scope or course of his employment with that registered firm.

141. Neither KNI, Chris Lopez, nor Forrest Jones qualified for an exemption from the registration requirements.

142. By reason of the foregoing, KNI, Chris Lopez, and Forrest Jones violated, and unless enjoined will continue to violate, Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)].

FIFTH CLAIM FOR RELIEF

**Violations of Section 203A of the Advisers Act
(against Defendant KNI)**

143. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

144. Section 203A of the Advisers Act [15 U.S.C. §80b-3a] provides that no investment adviser subject to state regulation and with assets under management of less than \$25 million may register with the SEC as an investment adviser.

145. Advisers Act Rule 203A-3(d) [17 C.F.R. § 275.203A-3] provides that “assets under management” means securities portfolios over which an investment adviser provides “continuous and regular supervisory or management services . . .”

146. KNI was subject to state regulation and registered with the SEC without having at least \$100 million in assets under management.

147. By reason of the foregoing, KNI violated, and unless enjoined will continue to violate, Section 203A of the Advisers Act [15 U.S.C. § 80b-3a].

SIXTH CLAIM FOR RELIEF

**Violations of Section 206(4) of the Advisers Act
and Rules 206(4)-2 and 206(4)-7 thereunder
(against Defendant KNI)**

148. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

149. By engaging in the conduct alleged above, KNI, an investment adviser, used means or instrumentality of interstate commerce, or of the mails, to have custody of client funds without: (a) ensuring that a qualified custodian maintains the client assets in separate accounts or in accounts containing only client assets and titled with the adviser as agent or trustee for the clients; (b) notifying the client in writing of accounts opened by the adviser at a qualified custodian on the client's behalf; (c) having a reasonable basis for believing that the qualified custodian sends account statements at least quarterly to clients; or (d) ensuring that client funds and securities are verified by actual examination each year by an independent public accountant at a time chosen by the accountant without prior notice or announcement to the adviser.

150. By engaging in the conduct alleged above, KNI, an investment adviser, also provided investment advice without: (a) adopting and implementing written policies and procedures reasonably designed to prevent violation, by it and its supervised persons, of the Advisers Act and the rules that the SEC has adopted under the Advisers Act; (b) or reviewing, no less frequently than annually, the adequacy of the policies and procedures established pursuant to Section 206(4) of the Advisers Act and the effectiveness of their implementation.

151. By reason of the foregoing, KNI violated, and unless enjoined will continue to violate, Section 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(4)] and Rules 206(4)-2 and 206(4)-7 [17 CFR §§ 275.206(4)-2; 275.206(4)-7] thereunder.

SEVENTH CLAIM FOR RELIEF

Violations of Section 204 of the Advisers Act and Rule 204-2(a) thereunder (against Defendant KNI)

152. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

153. By engaging in the conduct alleged above, KNI, by use of the mails or of any means or instrumentality of interstate commerce in connection with its business as an investment adviser, failed to make and/or maintain on such investment adviser's premises, or keep accurate, books and records required by law, including, but not limited to, ledgers and journals.

154. By reason of the foregoing, KNI violated, and unless enjoined will continue to violate, Section 204 of the Advisers Act of 1940 [15 U.S.C § 80b-4] and Rule 204-2(a) [17 C.F.R. § 275.204-2] thereunder.

EIGHTH CLAIM FOR RELIEF

Aiding and Abetting KNI's and Chris Lopez's Violations of Section 17(a)(1) and (3) of the Securities Act and Section 10(b) of the Exchange Act and Rules 10b-5(a) and (c) thereunder (against Defendant Jayson Lopez)

155. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

156. By engaging in the conduct alleged above, Jayson Lopez knowingly or recklessly provided substantial assistance to KNI's and Chris Lopez's violations of Sections 17(a)(1) and (3) of the Securities Act [15 U.S.C. §§ 77q(a)(1) and (3)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rules 10b-5(a) and (c) [17 C.F.R. §§ 240.10b-5(a) and (c)] thereunder.

157. By reason of the foregoing, pursuant to Section 15(b) of the Securities Act and Section 20(e) of the Exchange Act, Jayson Lopez aided and abetted KNI's and Chris Lopez's violations of, and unless restrained and enjoined will continue to aid and abet violations of, Sections 17(a)(1) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(1) and (3)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rules 10b-5(a) and 10b-5(c) [17 C.F.R. §§ 240.10b-5(a) and (c)] thereunder.

NINTH CLAIM FOR RELIEF

Aiding and Abetting KNI's and Chris Lopez's Violations of Sections 206(1) and 206(2) of the Adviser's Act (against Defendant Forrest Jones)

158. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

159. By engaging in the conduct alleged above, Forrest Jones knowingly or recklessly provided substantial assistance to KNI's and Chris Lopez's violations of Sections 206(1) and (2) of the Advisers Act [15 U.S.C. §§ 80b-6(1)-(2)].

160. By reason of the foregoing, pursuant to Section 15(b) of the Securities Act and Section 20(e) of the Exchange Act, Forrest Jones aided and abetted KNI's and Chris Lopez's violations of, and unless restrained and enjoined will continue to aid and abet violations of, Sections 206(1) and (2) of the Advisers Act [15 U.S.C. §§ 80b-6(1)-(2)].

TENTH CLAIM FOR RELIEF

Aiding and Abetting KNI's Violations of Sections 203A, 204, and 206(4) of the Advisers Act and Rules 204-2, 206(4)-2, and 206(4)-7 thereunder (against Defendant Chris Lopez)

161. The SEC incorporates by reference each and every allegation contained in the paragraphs above.

162. By engaging in the conduct described above, Chris Lopez knowingly or recklessly provided substantial assistance to KNI's violations of Sections 203A, 204, and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-3a, 80b-4, 80b-6(4)] and Rules 204-2, 206(4)-2, and 206(4)-7 [17 C.F.R. §§ 275.204-2, 275.206(4)-2, 275.206(4)-7] thereunder.

163. By reason of the foregoing, pursuant to Sections 209(d) and 209(f) of the Advisers Act, Chris Lopez aided and abetted KNI's violations of, and unless restrained and enjoined will continue to aid and abet violations of, Sections 203A, 204, and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-3a, 80b-4, 80b-6(4)] and Rules 204-2, 206(4)-2, and 206(4)-7 [17 C.F.R. §§ 275.204-2, 275.206(4)-2, 275.206(4)-7] thereunder.

JURY TRIAL DEMAND

The SEC demands a trial by jury on all issues that may be so tried.

RELIEF REQUESTED

Therefore, the SEC respectfully requests that this Court:

(a) Permanently enjoin Defendants KNI, Chris Lopez, and Forrest Jones from violating Sections 206(1) and (2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and (2)], Section 17(a) of the Securities Act [15 U.S.C. § 77q], and Sections 10(b) and 15(a) of the Exchange Act [15 U.S.C. §§ 78j(b), 78o(a)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder;

(b) Permanently enjoin Defendant Jayson Lopez from violating Section 17(a) of the Securities Act [15 U.S.C. §§ 77q(a)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. §§ 240.10b-5] thereunder;

(c) Permanently enjoin Defendants KNI and Chris Lopez from violating Sections 203A, 204, and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-3a, 80b-4, 80b-6(4)] and Rules 204-2, 206(4)-2, and 206(4)-7 [17 C.F.R. §§ 275.204-2, 275.206(4)-2, 275.206(4)-7] thereunder.

(d) Permanently enjoin Chris Lopez from directly or indirectly, including, but not limited to, through any entity he owns or controls, participating in the issuance, purchase, offer,

or sale of any security, provided, however, that such injunction shall not prevent him from purchasing or selling securities for his own account.

(e) Order all Defendants to disgorge all ill-gotten gains obtained as a result of the conduct described herein, plus prejudgment interest thereon;

(f) Order Defendants KNI, Chris Lopez, and Forrest Jones to pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)];

(g) Order Defendant Jayson Lopez to pay a civil penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)]; and

(h) Grant such further relief as this Court may deem just and proper.

Dated: May 13, 2021

Respectfully submitted,

/s/ Keefe M. Bernstein

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