

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

C. L. KING & ASSOCIATES, INC.
(BD No. 6183), AND

GREGG ALAN MILLER
(CRD No. 4163500),

Respondents.

DISCIPLINARY PROCEEDING
No. 2014040476901

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. During the period of at least January 2012 through March 2015, CL King & Associates, Inc. ("CL King" or the "Firm") assisted customer EACM and EACM's Managing Member, JL, in a scheme to profit from the deaths of vulnerable elderly and terminally ill patients.

2. EACM identified and recruited terminally ill individuals by offering to pay them between \$10,000 and \$15,000 in exchange for their agreement to open a joint brokerage account with JL. From January 2012 through October 2013, CL King opened 36 accounts for EACM in the name of JL and that of one of several terminally ill individuals. Although these accounts ostensibly were opened by JL and the terminally ill individuals as joint accounts, EACM

required the terminally ill individuals to sign side agreements relinquishing their rights over, and responsibilities for, the assets in the accounts.

3. Once opened, EACM used the joint accounts at CL King to purchase discounted corporate bonds, notes, and market-linked CDs ("MLCDs") containing a survivor's option or "death put" (collectively, the "Death Put Investments"), which allowed EACM and JL to redeem the investments for the full principal amount prior to maturity upon the death of a beneficial owner. When the terminally ill individual died, CL King redeemed the Death Put Investments on behalf of EACM. In total, CL King redeemed approximately \$60 million in Death Put Investments. CL King made at least \$1.2 million in margin interest and trading profits from EACM's death put business.

4. In connection with these redemptions, CL King made material misrepresentations and failed to provide all material information to the issuers, including the fact that the deceased account holders were not the beneficial owners of the Death Put Investments. By making material misrepresentations and failing to disclose all material facts to issuers in connection with the Death Put Investment redemptions, CL King violated FINRA Rule 2010 both independently and by virtue of violating Section 17(a) of the Securities Act of 1933 ("Securities Act").

5. During the period January 2012 through March 2015, CL King failed to establish and maintain a reasonably designed supervisory system, including written supervisory procedures, related to the redemption of the Death Put Investments, in violation of NASD Conduct Rule 3010 and FINRA Rules 3110 and 2010.

6. During the period June 2009 through April 2014, CL King, acting through the Firm's Anti-Money Laundering Compliance Officer ("AMLCO") Gregg Miller, failed to establish and implement a reasonably designed AML program to detect, investigate and report,

where appropriate, potentially suspicious activity related to the sale of low-priced penny stocks by CL King customers, including toxic-debt financier AE and Liechtenstein-based bank VPB, who collectively liquidated more than 11 billion shares of numerous penny stocks through CL King. AE's and VPB's penny stock liquidations generated proceeds of more than \$14.39 million and \$4.87 million, respectively, while CL King generated over \$620,000 in commissions from these sales. By failing to establish and implement a reasonably designed AML program, CL King and Miller violated NASD Conduct Rule 3011(a) and FINRA Rules 3310(a) and 2010.

7. During the period June 2009 through April 2014, CL King, acting through Miller, also failed to conduct adequate due diligence and respond to red flags regarding the account it opened for VPB, a foreign financial institution, in violation of NASD Conduct Rule 3011(b) and FINRA Rules 3310(b) and 2010.

RESPONDENTS AND JURISDICTION

C.L. King & Associates, Inc.

8. CL King has been registered with FINRA as a member firm since May 1, 1972. The Firm is headquartered in Albany, New York with offices in New York City and Boston. CL King provides investment research, equity and fixed income trading, corporate finance, prime brokerage and clearing services to institutional clients and other broker-dealers. During all times relevant to this Complaint, the Firm had between approximately 70 and 105 registered personnel.

9. Under Article IV of FINRA's By-Laws, FINRA possesses jurisdiction over CL King because (a) CL King currently is a FINRA member, and (b) the Complaint charges the Firm with securities-related misconduct committed while it was a FINRA member.

Gregg Alan Miller

10. Miller first became registered with FINRA through CL King as a General Securities Representative in February 2001. Since that time, Miller has maintained several registrations with FINRA through CL King, including General Securities Principal, Registered Options Principal, Equity Trader Limited Representative, Municipal Securities Principal and Research Principal. During all times relevant to this matter, Miller was CL King's Compliance Manager and AMLCO. Miller continues to function as CL King's AMLCO, and since February 1, 2015, he has been the Firm's Chief Compliance Officer ("CCO").

11. Under Article V of FINRA's By-Laws, FINRA possesses jurisdiction over Miller because (a) he currently is registered with FINRA and associated with a member firm, and (b) the Complaint charges him with misconduct committed while he was registered with FINRA and associated with a member firm.

FACTS

I. CL KING'S PRIME SERVICES DEPARTMENT

12. In or about early 2007, CL King formed the Prime Services Department ("PSD"). The goal of the PSD was to attract outside clients such as registered investment advisors, small broker-dealers, and professional investors in order to generate additional commissions, margin interest and other revenue. As more fully set forth below, in an effort to generate revenue, the PSD brought in at least three new customers – EACM, AE and VPB – who engaged in businesses that the Firm was previously unfamiliar with and ill-prepared to supervise.

II. CL KING'S IMPROPER REDEMPTION OF DEATH PUT INVESTMENTS ON BEHALF OF EACM

EACM's "Death Put" Scheme

13. JL formed EACM, a hedge fund, to take advantage of the potentially lucrative death put feature in certain bonds, notes and MLCDs. A death put is a contingent put feature that requires the issuer to repay the full principal amount of an investment prior to maturity following the death of a beneficial owner if certain requirements are met.

14. Although the particular features of the death puts differ from issuer to issuer, all require two conditions to be met for the death put to be validly exercised. First, the decedent must be a beneficial owner of the investment at the time of death. Second, the party exercising the death put must be the survivor of the decedent.

15. EACM's entire business model consisted of identifying terminally ill individuals and offering to pay them between \$10,000 and \$15,000 in exchange for their agreement to open a joint brokerage account with JL. EACM then used the joint brokerage accounts to purchase Death Put Investments. When the terminally ill individual died, EACM redeemed the Death Put Investments for a profit.

16. As more fully set forth below, in order to effect this scheme, EACM, through CL King, made material misrepresentations and failed to disclose all material information to the Death Put Investment issuers. For example, EACM could only redeem the Death Put Investments if the terminally ill individual was a beneficial owner of the Death Put Investments at the time of his or her death. However, EACM required each of the terminally ill individuals to execute a secret side agreement in which the terminally ill individuals relinquished any rights to the assets held in the joint accounts. As a result, the terminally ill individuals were not beneficial

owners of the assets in the joint accounts, and EACM and CL King could not redeem any of those assets on their behalf.

EACM Opens Joint Brokerage Accounts at CL King

17. From January 2012 through October 2013, EACM opened 36 accounts at CL King in the name of JL and that of one of several terminally ill individuals. Each of these accounts was styled as a Joint Tenancy with Rights of Survivorship ("JTWROS") account. EACM and JL used these accounts to purchase and later redeem Death Put Investments.

18. Joint tenancy is a special form of ownership by two or more individuals of the same property. The individuals, who are called joint tenants, share equal ownership of the property and have the equal, undivided right to keep or dispose of the property. In order for there to be a valid joint tenancy, no one joint tenant can ever have a larger share.

19. Joint tenancy creates a right of survivorship. This right provides that if any one of the joint tenants dies, the remainder of the property is transferred to the survivors.

20. Because JL was not married to the terminally ill individuals, and other forms of concurrent ownership do not confer a right of survivorship on unmarried co-owners, the EACM accounts at CL King were opened as putative joint tenancies. In most instances, the JTWROS accounts at issue had at least three nominal joint tenants: JL, the terminally ill individual, and DJ, JL's stepfather.

The Terminally Ill Individuals Executed "Participant Agreements" Limiting their Rights and Participation in the Accounts and Investments, Thereby Invalidating the Joint Tenancy

21. EACM provided the capital for the accounts, and required the terminally ill individuals to limit their rights in the accounts pursuant to a side agreement known as the "Participant Agreement." The Participant Agreements were executed by JL and the terminally ill individual, *i.e.*, the "participant," or, in certain cases, the participant's power of attorney.

22. During the period January 2012 through October 2013, EACM and JL utilized at least three different versions of the Participant Agreement. While the versions differed in certain respects, each Participant Agreement limited the participant's rights to the assets held in the account in several ways. Specifically, each Participant Agreement contained one or more of the following limitations:

- a. The participant could not withdraw funds from the account without JL's written permission. In contrast, JL was permitted to transfer cash and securities out of the account without the participant's prior consent;
- b. The participant could not borrow against the assets in the account without JL's written permission;
- c. The participant's profit was capped at the one-time \$10,000 or \$15,000 fee. In contrast, EACM's and JL's profit was not limited by the Participant Agreement in any way; and
- d. In the event JL predeceased the participant, the participant was limited to receiving five percent of the account proceeds after expenses. The remaining 95 percent of the proceeds would go to EACM's investors.

23. Under the terms of the Participant Agreements, the terminally ill participants also were required to execute a Limited Power of Attorney ("POA") which further limited their rights and which authorized JL, without the participant's prior consent, to take the following actions:

- a. To open, manage, handle and direct brokerage accounts in the terminally ill participant's name;
- b. To make transfers of funds and securities into any such account(s);

- c. To buy, sell, pledge and otherwise dispose of securities in the account(s);
- d. To pledge and grant a security interest in the account(s) and the terminally ill participant's interest therein;
- e. To execute agreements relating to the account(s) on behalf of the terminally ill participant; and
- f. To sign the name of the terminally ill participant to any and all written instruments of assignment in connection with the account(s).

24. In light of the restrictions and limitations on the rights of the participants imposed by the Participant Agreements and accompanying POAs, the participants were not the beneficial owners of any of the assets in the joint accounts.

25. Also, because the Participant Agreements and accompanying POAs created unequal rights among the accountholders, they invalidated any purported joint tenancy and JL's alleged right of survivorship.

26. During the course of CL King's due diligence into EACM's business, the Firm did not ask for and was not provided with copies of the Participant Agreements. By at least December 2012, however, CL King personnel were aware of the existence of the Participant Agreements and had obtained a copy.

27. The Firm did not, however, require EACM to provide copies of the Participant Agreements as part of new account paperwork prior to June 2013. And CL King did not obtain all executed Participant Agreements for EACM's accounts at the Firm until at least mid-August 2013, only two months before EACM moved its accounts out of CL King.

CL King Redeems Death Put Investments on Behalf of EACM

28. During the period of at least January 2012 through at least March 2015 (“Relevant Period I”), CL King redeemed approximately \$62 million of Death Put Investments held in 26 EACM accounts on behalf of EACM.¹

29. JL typically initiated a redemption request by forwarding a Letter of Authorization (“LOA”) on EACM letterhead to CL King accompanied by a certified death certificate for one of the participants. The LOA was signed by JL and referenced one of the 36 EACM-related CLK accounts. The LOA stated that the participant, who was described as “a joint owner” of the referenced account, had passed away and that as “the surviving joint owners on the account,” JL (and DJ in cases where he was the third joint tenant) wished to exercise the survivor’s option with respect to various Death Put Investments detailed in the body of the letter.

30. Typically, JL instructed CL King’s PSD staff regarding the documents to send to an issuer or redemption agent to support a redemption request. PSD staff collected the various documents required for the redemptions, which they then forwarded to the relevant issuers or issuers’ agents.

31. In most instances, CL King’s PSD staff forwarded a cover letter from CL King to the issuer or payment agent, stating that a “joint owner” of the referenced CL King account had passed away. CL King also provided copies of the LOA and the certified death certificate. CL King also typically provided the issuer or issuer’s payment agent with a completed election form, affidavit of domicile and CL King account statement.

32. CL King personnel did not read the prospectuses and disclosure statements for the Death Put Investments, but rather accepted EACM’s and JL’s representations regarding the

¹ JL transferred EACM’s business out of CL King in late 2013. CL King, however, continued to handle Death Put Investment redemptions that had been initiated before EACM’s Business was transferred away from the Firm. The final redemption was completed in March 2015.

various redemption requirements. CL King personnel also did not review the language contained in the various forms each issuer required to be completed as part of the redemption process.

CL King's Redemption Requests Were Invalid

33. All of the redemptions of Death Put Investments that CL King facilitated on behalf of EACM and JL were invalid because (1) the participants were not the beneficial owners of the assets in the joint accounts, and (2) JL had no legitimate right of survivorship.

34. In addition, many of these redemption requests, collectively worth millions of dollars, also were invalid because they violated the terms of the relevant prospectuses, disclosure statements and/or redemption forms. For example:

- a. In or about July 2013, CL King submitted a request to Citibank on behalf of JL to redeem \$3 million worth of the Citibank MLCD, CUSIP 172986GH8 ("the GH8 MLCD"). JL's redemption request was made after the death of CMK, whose account with JL (the "31 Account") contained the GH8 MLCD position. This request was invalid. The disclosure statement supplement for the GH8 MLCD stated that early withdrawals would be permitted only in the event of the death of a beneficial owner who "beneficially owned the Deposits . . . since the initial deposit date of the Deposits." The "deposit date" for the GH8 MLCD was May 30, 2013. CMK was not, however, a beneficial owner of the GH8 MLCD investments on that date. Accordingly, CL King's redemption request on behalf of EACM for the GH8 MLCD was invalid.
- b. Similarly, on or about October 31, 2013, CL King submitted a request to Société Générale on behalf of JL to redeem \$200,000 worth of Société Générale Medium Term Notes, CUSIP 78423EEP5 (the "SG EP5 Notes"). This request was made

after the death of FJ, whose account with JL (the "28 Account") contained the SG EP5 Notes position. This request was invalid. The Survivor's Option Election Form for the SG EP5 Notes stated that the Notes could be exercised only upon the death of a "beneficial owner" of the Notes. The SG EP5 Notes term sheet defined a "beneficial owner" as "a person who has the right, immediately prior to such person's death, to receive the proceeds from the disposition of that Note, as well as the right to receive payment of the principal of the Note." Pursuant to the terms of the Participant Agreement FJ entered into with JL, however, FJ did not have the right immediately prior to his death to receive the proceeds from the disposition of the SG EP5 Notes held within the account. As a result, FJ did not meet the definition of a beneficial owner of the SG EP5 Notes, and CL King's redemption request was invalid.

Invalid Redemptions from the 31 Account

35. CL King facilitated the redemption of over \$14.2 million in Death Put Investments on behalf of EACM from the 31 Account, including the \$3 million in GH8 MLCD investments referenced above. In fact, more redemptions were made by EACM through CL King from the 31 Account, both in dollar value and number of positions, than any other account EACM opened at the Firm. However, all of these redemptions were invalid because CMK was not a beneficial owner of any of the assets held in the 31 Account. In fact, CMK died before the 31 Account was even opened at CL King.

36. On the afternoon of May 30, 2013, EACM first requested that CL King open a joint account with CMK. In an email from EACM to CL King's PSD, EACM described the request to open this account as a "time is of the essence" situation.

37. On May 31, 2013, at approximately 6:50 a.m., CMK died. CMK died before CL King received all the necessary paperwork to open an account in her name and before Miller, on behalf of CL King, approved and signed the new account form to open the account.

38. Nevertheless, on May 31, 2013, after CMK had died, CL King permitted EACM to transfer approximately 89 Death Put Investments, collectively worth approximately \$9.4 million, into the 31 Account.

39. Beginning on or about June 28, 2013, the Firm sent letters to various issuers and redemption agents, to request that the Death Put Investments transferred into the 31 Account after CMK's death be redeemed.

40. In connection with these redemptions, CL King never disclosed to the issuers that CMK had died before the Death Put Investments had been transferred into her account.

41. All of these redemption requests were invalid because CMK could not have been a beneficial owner of any of the Death Put Investments that were transferred into her account after her death.

III. CL KING'S PENNY STOCK LIQUIDATIONS ON BEHALF OF AE AND VPB

AML Rules and Regulations Require Broker-Dealers to Monitor for, and Report, Suspicious Transactions

42. FINRA Rule 3310(a), which superseded NASD Conduct Rule 3011(a) on January 1, 2010, requires firms to "[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. §5318(g) [the Bank Secrecy Act] and the implementing regulations thereunder."

43. The implementing regulation issued by the U.S. Department of the Treasury, 31 C.F.R. § 1023.320 (recodified from 31 C.F.R. § 103.19 on March 1, 2011), requires broker-

dealers to file with FinCEN “a report of any suspicious transaction relevant to a possible violation of law or regulation.” The regulation further provides:

A transaction requires reporting under the terms of this section if it is conducted or attempted by, at, or through a broker-dealer, it involves or aggregates funds or other assets of at least \$5,000, and the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):

(i) Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any Federal law or regulation or to avoid any transaction reporting requirement under Federal law or regulation;

(ii) Is designed, whether through structuring or other means, to evade any requirements of this chapter or of any other regulations promulgated under the Bank Secrecy Act;

(iii) Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction; or

(iv) Involves use of the broker-dealer to facilitate criminal activity.

44. NASD Notice to Members 02-21 (“NTM 02-21”), issued in April 2002, provides guidance for AML compliance programs, including that: (a) firms must tailor their AML programs to fit their business model and customer base; (b) firms must monitor for red flags of suspicious activity that suggest money laundering; and (c) if firms detect “red flags,” they should perform additional due diligence and determine whether or not to file a suspicious activity report

(“SAR”). The Notice includes examples of “red flags” of potential money laundering and suspicious activity.

45. Trading penny stocks typically poses greater AML risks than trading other stocks because of lower trading volumes and less available information regarding issuers.² As noted in NTM 02-21, penny stock transactions have been used in connection with fraudulent schemes and money laundering activity. The fraudulent activity may involve a party’s manipulation of the stock price upward in order to sell shares at inflated prices or downward in order to acquire additional shares at lower prices, or trading to artificially inflate interest in a security.

CL King’s AML Procedures

46. During all periods relevant to this Complaint, the Firm’s written AML procedures listed certain red flags indicative of potentially suspicious activity.

47. The Firm’s written supervisory procedures divided the list of red flags into various categories, including “Penny Stock Company Related Transactions.” In this category, the Firm’s procedures listed the following examples of “red flags” of potentially suspicious activity:

- (a) Company has no business, no revenues and no product;
- (b) Officers or insiders of the issuer are associated with multiple penny stock issuers;
- (c) Company undergoes frequent material changes of business strategy or its line of business;
- (d) Officers or insiders of the issuer have a history of securities violations;
- (e) Company has not made disclosures in SEC or other regulatory filings; and
- (f) Company has been the subject of a prior trading suspension.

² Penny stocks include securities that trade at less than \$5 per share and are quoted over-the-counter. See SEC, Penny Stock Rules, available at <http://www.sec.gov/answers/penny.htm> (May 9, 2013).

48. In the category of "Customer Account Transactions," CL King's procedures listed the following examples of "red flags" of potentially suspicious activity:

- (a) Transaction patterns show a sudden change inconsistent with normal activities; and
- (b) Customer transactions include a pattern of receiving stock in physical form or the incoming transfer of shares, selling the position and wiring out proceeds.

49. The Firm's AML procedures required monitoring for patterns of transactions of unusual size, volume, or type and for the red flags listed in its procedures. The procedures required the Firm to use exception reports to monitor for the presence of red flags. CL King's AML Procedures also specifically required that trading in penny stocks be monitored for suspicious activity.

CL King's AML Compliance Program was not Reasonably Designed to Address the Risks Presented by its Penny Stock Liquidation Business

50. Miller was CL King's AMLCO throughout all periods relevant to this Complaint. As CL King's AMLCO, Miller was responsible for establishing and implementing an AML program that was reasonably designed to cause the detection and reporting of suspicious activity.

51. The Firm, acting through Miller, was required to tailor the Firm's AML program to the specific risks posed by the Firm's business, which included facilitating the deposit and liquidation of penny and sub-penny stocks for a toxic-debt financier and for omnibus accounts maintained on behalf of undisclosed underlying clients of foreign financial institutions.

52. The Firm, acting through Miller, did not appropriately tailor its AML program to address the increased risks associated with these customers, including the potential for market manipulation.

53. CL King and Miller did not create a process or procedures requiring investigation into deposits and liquidations of penny stocks sold by AE or VPB, nor did the Firm bolster its compliance infrastructure to adequately monitor the substantial amount of penny stock activity placed in the AE and VPB accounts.

54. Also, neither Miller nor anyone else at CL King took adequate steps to detect and investigate potentially suspicious transactions in penny stocks, and respond appropriately, including considering whether or not to report the activity as suspicious.

55. CL King and Miller failed to implement any surveillance systems or utilize surveillance reports or other tools reasonably designed to detect suspicious penny stock transactions.

56. The Firm and Miller conducted no on-going trade surveillance after penny stock shares were deposited into the clients' accounts to assess for potential suspicious activity.

57. Rather than monitor for red flags of suspicious activities associated with the deposit and liquidation of penny stocks, CL King merely reviewed daily or monthly commission runs or daily trade blotters. However, these commission runs and trade blotters were not designed to identify patterns of suspicious penny stock activity or to otherwise monitor for AML compliance.

58. The Firm and Miller also did not assess whether penny stock liquidations were occurring in combination with promotional activities by the issuer or stock promoters.

59. In addition, the Firm and Miller did not account for whether, as alleged below, the trades represented a significant percentage of the daily trading volume evidencing potential market domination.

Toxic Debt Financier AE Deposits and Liquidates Billions of Shares of Penny and Sub-Penny Stocks Through CL King

60. In late 2012, CK, the principal and owner of AE, was referred to CL King's PSD. AE's business consisted of identifying and providing loans to financially distressed companies quoted on the Over the Counter Bulletin Board ("OTCBB") or Pink Sheets. In return for these loans, AE received a promissory note from the issuer, which generally matured six months from the date of the loan.

61. The terms of the note required the borrower to repay AE the principal of the loan plus interest, which generally was set at 8 percent. If the borrower did not repay the loan by the maturity date, the loan terms permitted AE to convert the debt into common stock of the issuer, generally at a discount of approximately 45 percent to 55 percent of the three lowest end-of-day trading prices over the prior 30 trading days.

62. Based on this market-based conversion formula, the lower the stock price dropped, the more shares AE was entitled to receive when it exercised its conversion rights. When AE ultimately converted the notes into common stock, the resulting dilution of the stock typically had a depressive effect on the stock price over time, further increasing the number of shares AE was able to convert pursuant to the note terms.

63. Because of the cycle of dilution and stock price reductions that typically accompanies the issuance of convertible notes with a market-based conversion formula, and the corresponding negative effects of such a funding mechanism on the company and its shareholders, such financings are commonly called "death spirals" or "toxic."

64. The stock AE received pursuant to these conversions was not subject to a registration statement filed with the SEC.

65. During CL King's due diligence on AE and CK prior to account opening, the Firm was informed by CK about AE's business model as described above. During the due diligence process, the Firm also became aware that in or about August 2012, a forum was created on the website IH to discuss AE and CK. Certain posts on the forum explained that CK was a well-known toxic debt financier while others suggested that investors may want to avoid investing in issuers who borrowed money from AE and CK.

66. The IH forum also revealed that in November 2012, AE and CK were named as defendants, along with numerous other individuals and entities, in a lawsuit filed in Federal District Court in Florida by the CEO of Simulated Environment Concept, Inc. (SMEV). Among other things, the lawsuit alleged that AE and CK engaged in a "pump and dump" of SMEV shares.

67. A copy of the complaint was publicly available at the time CL King performed its due diligence of AE and CK. The Firm, however, did not obtain the complaint or take any other steps to investigate the circumstances of the lawsuit as part of its due diligence.

68. In or about November 2012, AE opened an account with CL King.

69. During the period December 4, 2012 through November 25, 2013 ("Relevant Period II"), AE made approximately 788 deposits of common stock in approximately 138 penny stocks into its CL King account. These 788 deposits totaled approximately 11.7 billion shares.

70. During Relevant Period II, AE sold these 11.7 billion shares in approximately 2,100 trades, all at prices of less than one dollar per share and most at prices of less than one cent per share, for gross sales proceeds of more than \$14.39 million. CLK earned over \$574,000 in commissions from AE's penny stock liquidations. During the period of February 11, 2013 through at least September 30, 2013, AE withdrew the proceeds of these penny stock sales from

its CLK account in approximately 35 wire transfers, or at a rate of more than one wire transfer per week.

71. In almost every trade, CL King sold AE's stock to a single buyer — the broker-dealer TVG — at the direction of AE.

72. In November 2013, CK and three of his companies entered into a Consent Order with the SEC which found that he and his companies violated Section 5 of the Securities Act of 1933 by selling billions of unregistered and non-exempt shares of two penny stocks to the public. CK and his companies paid a total of \$1.46 million in disgorgement, interest and penalties as part of the settlement.

Liechtenstein-Based Bank VPB Deposits and Liquidates Millions of Shares of Penny Stocks at CL King

73. Upon information and belief, during all relevant periods, SMI was a small broker-dealer based in Switzerland.

74. Between May 2007 and June 2014, SMI introduced eight foreign financial institutions to CL King, which opened a total of 13 accounts at the Firm. Each of these foreign financial institutions was headquartered in or operated from Switzerland or Liechtenstein.

75. In mid-2009, SMI introduced VPB, a bank domiciled in Liechtenstein with its primary operations in Zurich, Switzerland, to CL King. According to the U.S. Department of State, Switzerland and Liechtenstein are jurisdictions of primary money laundering concern. In or about June 2009, VPB opened an account with CL King.

76. Although CL King management were informed by JM in 2007 that the SMI-related accounts typically transacted in U.S. listed equities and options, the VPB account immediately began placing transactions in little known penny stocks quoted on the OTCBB and

pink sheets. At the time the VPB account was opened, CL King had little or no experience in trading penny stocks quoted on the OTCBB and pink sheets.

77. During the period June 2009 through at least April 2014 ("Relevant Period III"), VPB sold approximately 40 penny stocks through its CL King account. These transactions totaled approximately 41.4 million shares and generated proceeds of approximately \$4.87 million.

Red Flags Relating to Activity in AE's Account

78. As further explained below, a significant number of the issuers whose stock was deposited and sold by AE at CL King had no history of revenue, no viable product and, in many cases, no business. In many instances, these issuers were also the subject of suspicious promotional campaigns which closely coincided with the AE liquidations. In some cases, current or former officers or directors of these issuers had criminal or regulatory histories, generally involving penny stock activities. In almost all cases, AE's liquidations constituted a significant percentage of the daily total market volume ("TMV") of these penny stocks. This information was readily available in public filings made by the issuers to the SEC, on the internet and through various market information sources, but Miller and CL King, in response to the trading activity, made no effort to investigate the issuers doing business with AE.

Liquidations of FCGD

79. During the period December 21, 2012 through August 23, 2013, AE deposited a total of approximately 30,649,033 shares of First Colombia Gold Corp. (FCGD) into its CL King account.

80. At that time, FCGD was an exploration stage mining company located in Antioquia, Colombia.

81. FCGD's Form 10-Q filed with the SEC for the period ending September 30, 2012 reported that the company had incurred an accumulated deficit from inception in September 1997 through September 2012 of \$18.96 million and that there was no source of revenue associated with FCGD's business. The 10-Q also reported that the financial statements had been prepared on a going concern basis.

82. FCGD's SEC filings also indicated that its only source of revenue was from the issuance of convertible notes to AE and another entity.

83. Further, on or about April 24, 2013, FCGD was the subject of a promotional campaign by at least ten penny stock newsletters and websites. Certain newsletters and emails disseminated by these promoters made false and misleading claims about FCGD. An email sent by promoter MRG stated in part:

Why do we like FCGD? FCGD is in the Gold and Oil Business.

1.) FCGD is a gold and oil company. We all know how profitable mining is and this is why we like FCGD.

2.) No dilution Nothing kills a stock more than dilution and this is why we also like FCGD.

3.) The o/s on FCGD is also very low FCGD o/s is only 56 Million.

84. According to the FCGD Form 10-K/A for the period ending December 31, 2012 and filed with the SEC on April 23, 2013, FCGD stated that [t]he current focus of our business and operations is on the development of our mineral property interests on properties located in the western United States...." FCGD's public filings make no mention of the company being in the "Oil Business."

85. According to the December 31, 2012 Form 10K/A, FCGD had over 83 million outstanding shares of common stock as of that date, approximately double the number outstanding as of December 31, 2011 and almost 30 million shares more than stated in the MRG

promotional email. Further, according to a Schedule 13G filed with the SEC by AE on April 25, 2013 — the day after the promotional campaign — FCGD's number of outstanding common shares stood at over 117.4 million.

86. On the same day of this promotional campaign, the trading volume in FCGD soared to over 168 million shares from an average volume of just 5,735,984 shares over the preceding ten trading days.

87. Despite the presence of these red flags, during Relevant Period II, CL King facilitated the liquidation of AE's FCGD position in five trades for total proceeds of approximately \$44,204. The average price for the FCGD sales was approximately .001 per share.

88. On April 24, 2013 alone, CL King liquidated approximately 5,883,333 shares of AE's FCGD stock, generating proceeds of over \$31,000 for AE.

89. On four of the five days that CL King liquidated FCGD stock from AE's account, the sales represented over 30 percent of the TMV for the stock on that day. On three of these days, CL King's liquidation of AE's FCGD shares represented over 40 percent of the TMV.

Liquidations of AEGY

90. During the period December 28, 2012 through June 21, 2013, the AE account at CL King, through 18 separate stock deposits, received approximately 395,872,013 shares of Alternative Energy Partners, Inc. (AEGY).

91. At that time, AEGY was a development stage company purportedly engaged in the business of energy production and management.

92. AEGY's Form 10-Q filed with the SEC for the period ending October 31, 2012, reported that the company had incurred an accumulated deficit from inception on April 28, 2008

through October 2012 of \$7.286 million. AEGY reported revenues of just \$3,701 during the same 54-month period and AEGY expressed doubts about the company's ability to continue as a going concern.

93. On May 15, 2013, in a drastic departure from their prior stated business of energy production and management, AEGY announced that it had "signed a definitive agreement to acquire" both a medical marijuana payment solution and online order system from IEC.

94. Florida state incorporation documents indicate that the incorporator of IEC was RJH. In July 2009, the SEC instituted administrative proceedings against RJH for certifying false quarterly filings and for materially misleading the auditor of a company for which he was formally the CFO. In March 2010, RJH consented to an order in which he agreed to cease and desist from future violations of the securities laws, not act as an officer or director of a public company for a period five years and not appear before the SEC as an accountant.

95. Despite the presence of these red flags, during the period January 2, 2013 through June 24, 2013, CL King facilitated the liquidation of AE's AEGY position in 29 trades for total proceeds of almost \$710,000. These transactions generated approximately \$27,529 in commissions for CL King. The average price for the AEGY sales was approximately .001 per share.

96. On 27 of the 29 days that CL King liquidated AE's AEGY stock, AE's sales accounted for over 20 percent of the TMV. On six of these days, AE's sales accounted for over 40 percent of the TMV.

Liquidations of STKO

97. During the period March 19, 2013 through July 26, 2013, the AE account at CL King, through five separate deposits, received approximately 814,166,667 shares of Stakool, Inc. (STKO). All of the deposits were over 100 million shares, and two were for over 200 million.

98. According to otcmarkets.com, STKO was incorporated in 1997 as PLR, Inc. The company changed its name five times before becoming Stakool, Inc. in December 2009.

99. According to the company's Form 10-K filed with the SEC for the period ending December 12, 2012, STKO, now known as Fresh Promise Foods, Inc., was a company purportedly engaged in the development and manufacture of natural and organic food products packaged for consumer consumption.

100. In a Form 10-Q filed with the SEC for the period ending September 30, 2012, STKO reported that for the first nine months of 2012, the company generated revenues of only \$17,388, incurred a net loss of over \$3.8 million, and expressed doubts about its ability to continue as a going concern.

101. On May 21, 2010, a federal indictment was unsealed in the Eastern District of Pennsylvania, charging KG, STKO's then President, CEO and Director, and three other individuals with conspiracy to commit securities fraud, securities fraud and aiding and abetting securities fraud in connection with a scheme to manipulate the market in two separate microcap stocks. KG was the chairman and CEO of one of these companies. KG was arrested on the day the indictment was unsealed.

102. In September 2010, KG was charged by the SEC with fraud in connection with the activity leading to his indictment.

103. In March 2012, KG pleaded guilty to the criminal charges against him.

104. Despite the presence of these red flags, during the period March 25 through August 6, 2013, CL King facilitated the liquidation of AE's STKO position in 31 transactions, generating proceeds of approximately \$136,893 for AE. The average price for the STKO sales was approximately .0001 per share.

105. CL King liquidated AE's position in STKO during 28 trading days. On 19 of these days, AE's sales accounted for over 20 percent of the TMV in STKO. On three of these days, AE's sales accounted for over 40 percent of the TMV.

Liquidations of SAFC and MFTH

106. During the period June 11, 2013 through August 27, 2013, the AE account at CL King, through four separate stock deposits, received approximately 23,825,277 shares of SafeCode Drug Technologies Corp. (SAFC).

107. During the period January 10, 2013 through January 22, 2013, the AE account at CL King, through two separate stock deposits, received approximately 37,188,356 shares of Medisafe 1 Technologies Corp. (MFTH).

108. According to filings made by both companies with the SEC, SAFC and MFTH claimed that in approximately November 15, 2012, they entered into a licensing agreement granting SAFC the non-exclusive right and license to manufacture and market MFTH's purported technology for protecting against the wrongful use of medicine.

109. In SAFC's Form 10-K for the period ending December 31, 2012, the company reported no revenues and a net loss of over \$2 million since inception. The filing further stated that "as of December 31, 2012, the cash resources of the Company were insufficient to meet its current business plan. These and other factors raise substantial doubt about the Company's ability to continue as a going concern."

110. In MFTH's Form 10-K for the period ending December 31, 2012, the company reported no revenues from operations and a net loss of approximately \$918,000 since inception. The company recorded revenue of \$1.8 million for 2012 in the form of ten million shares of SAFC, which was paid to MFTH as consideration for the license agreement. According to its December 31, 2012 Form 10-K, MFTH's financial condition raised doubts about the company's ability to continue as a going concern.

111. MFTH filed its original Form S-1 with the SEC in September 2009. In November 2011, the attorney who represented the company in connection with that filing, MSK, settled SEC charges that he violated Sections 5 and 17(a) of the Securities Act of 1933 for knowingly writing a false and misleading opinion letter in connection with the issuance of millions of shares of a penny stock that was later manipulated. In January 2012, MSK pleaded guilty to federal criminal charges including conspiracy to commit securities fraud, wire fraud, and mail fraud, in connection with this activity. MSK was disbarred in New York in December 2012.

112. During the period November 2012 through February 2013, SAFC and MFTH were each the subject of promotional campaigns by at least ten penny stock promoters via emails, newsletters and websites.

113. These promotional emails, newsletters and reports contained questionable statements about SAFC's and MFTH's stock and/or company performance and growth. On January 6 and 7, 2013, the websites SLL, PSL and SRR released email newsletters regarding SAFC. These newsletters were titled with phrases like "* SAFC * could see -Triple Digit Percent Gains- Today! The Exclusive Report is Inside."

114. The three newsletters also contained similar language, such as "It is Highly Probable that SAFC will be our First Triple Digit Percent Gainer of 2013!", and "Another run up

to 33 cents would show traders over 650% in gains....” Disclaimers included with emails from all three of the websites cited a payment of \$15,000 for one-day coverage of SAFC by a third party.

115. On February 14, 2013, the stock promotion website TSP released an email newsletter entitled “MFTH Today’s Hot 1 Day Play.” The newsletter disclosed that TSP was compensated \$45,000 for the promotion and touted MFTH’s investment potential with phrases such as “The chart shows MFTH could possibly fly as high as a DOUBLE or more within a single day!”

116. Despite the presence of these red flags, during the period January 16, 2013 through January 28, 2013, CL King facilitated the liquidation of AE’s MFTH position in three transactions, generating proceeds of approximately \$83,580 for AE. These transactions generated approximately \$3,482 in commissions for CL King.

117. CL King liquidated AE’s position in MFTH during three trading days in the midst of the MFTH promotional campaign. On two of these days, AE’s sales accounted for over 20 percent of the TMV in MFTH.

118. Similarly, despite the presence of red flags, during the period June 14, 2013 through August 28, 2013, CL King facilitated the liquidation of AE’s SAFC position in at least 15 transactions, generating proceeds of approximately \$66,431 for AE. These transactions generated approximately \$2,703 in commissions for CL King.

119. CL King liquidated AE’s position in SAFC during 15 trading days. On 14 of these days, AE’s sales accounted for over 20 percent of the TMV in SAFC. On eight of these days, AE’s sales accounted for over 40 percent of the TMV.

Liquidations of FFFC

120. During the period December 12, 2012 through September 10, 2013, the AE account at CL King, through four separate stock deposits, received approximately 25,673,881 shares of FastFunds Financial Corp. (FFFC).

121. According to the company's Form 10-K for the period ending December 31, 2012, FFFC was incorporated in Nevada in 1985. According to the Form 10-K, since late 2005 the company had limited operations, no full time employees and was in the process of locating a business to acquire. The company reported revenues of \$36,518 and a net loss of \$512,444 for 2012. The company also reported an accumulated deficit of \$23,186,216 and stated that its financials were prepared on a going concern basis.

122. HF was FFFC's Director during all times relevant to this Complaint. In 1994, HF was the subject of an SEC order requiring him to cease and desist from committing or causing future violations of Sections 57(a)(1) and (4) of the Investment Company Act of 1940 and Rule 17d-1 promulgated thereunder.

123. Despite the presence of these red flags, during the period December 19, 2012 through September 11, 2013, CL King facilitated the liquidation of AE's FFFC position in approximately 21 transactions, generating proceeds of approximately \$70,773 for AE. These transactions generated approximately \$3,172 in commissions for CL King.

124. CL King liquidated AE's position in FFFC during 21 trading days. On 12 of these days, AE's sales accounted for over 40 percent of the TMV in FFFC. On February 12, 2013, AE's sales accounted for over 60 percent of the TMV.

Liquidations of PNCH

125. During the period January 22, 2013 through September 10, 2013, the AE account at CL King, through 14 separate stock deposits, received approximately 492,271,881 shares of IC Punch Media (PNCH).

126. According to the company's Form 10-K for the period ending December 31, 2012, PNCH was incorporated in Delaware in 2005 as IC Places, Inc. According to the Form 10-K, PNCH engaged in the ownership and operation of a network of city-based websites for travelers and local individuals.

127. According to the company's Form 10-K for the period ending December 31, 2012, PNCH reported revenues of under \$200,000 and a net loss of over \$6.2 million for the year. PNCH's financials were accompanied by a going concern opinion from the company's auditors.

128. According to the Form 10-K, in July 2012, IC Places, Inc. entered into an agreement to acquire Punch Television Network ("Punch TV"), a company that was in the business of delivering entertainment to multicultural audiences. The consideration for the acquisition of Punch TV was 135,000,000 shares of PNCH.

129. On May 13, 2013, however, PNCH filed a Form 8-K with the SEC disclosing that the company's agreement with Punch TV had been canceled. The Form 8-K also disclosed that the PNCH shares issued in connection with the Punch TV agreement had been canceled.

130. During all relevant periods, SS was listed as PNCH's CEO in SEC filings made by the company. In January 1998, the SEC announced that it had filed a civil action against SS and his corporation NSI. The SEC alleged that SS and his company published a magazine in which SS enthusiastically recommended the securities of certain publicly-traded companies

without disclosing that he had been paid at least \$20,000 to make these recommendations, in violation of Section 17(b) of the Securities Act of 1933. As a result of the SEC's actions, SS and NSI were fined and permanently enjoined from future violations of Section 17(b).

131. In August 2000, SS also entered into a Stipulation and Consent Order with the Florida Division of Securities and Investor Protection in which he agreed not to engage in the offer and sale of any security from offices in Florida or to individuals residing in Florida for ten years.

132. Despite the presence of these red flags, during the period January 22, 2013 through September 18, 2013, CL King facilitated the liquidation of AE's PNHC position in 43 transactions, generating proceeds of approximately \$839,136 for AE. These transactions generated approximately \$35,721 in commissions for CL King.

133. CL King liquidated AE's position in PNHC during approximately 40 trading days. On 29 of these days, AE's sales accounted for over 20 percent of the TMV in PNHC. On 16 of these days, AE's sales accounted for over 40 percent of the TMV in PNHC.

Red Flags Relating to Activity in VPB's Account

134. A significant number of the issuers whose stock was sold by VPB at CL King had no history of revenue, no viable product and, in many cases, no business. In some cases, these issuers also failed to make required disclosures in SEC filings and were the subject of prior trading suspensions. Many of these issuers also underwent frequent changes of name and business strategy. In many instances, these issuers were also the subject of suspicious promotional campaigns which closely coincided with the VPB liquidations. In almost all cases, VPB's liquidations constituted a significant percentage of the daily TMV of these penny stocks.

135. This information was readily available in public filings made by the issuers to the SEC on the internet and through various market information sources, but Miller and CL King, in

response to the red flags triggered by the trading activity, made no effort to investigate the issuers sold by VPB through its CL King account.

Liquidations of GSAE

136. On June 30, 2009, VPB placed the first transaction in its CL King account -- a sale of 7500 shares of Green Star Alternative Energy, Inc. (GSAE), a development stage company quoted on the Pink Sheets. At the time, GSAE was a newly reporting company pursuant to the Securities Exchange Act of 1934 ("Exchange Act"), purportedly engaged in the business of environmentally friendly energy generation projects.

137. In GSAE's Form 10-12G filed with the SEC on April 15, 2009, the company disclosed that it was originally engaged in the business of offering educational and travel seminars and workshops. In July 2008, the company changed its name to Green Star Alternative Energy, Inc., effected a forward 50 to 1 stock split, abandoned the travel and education seminar business, and began focusing on clean energy joint venture opportunities.

138. GSAE's Form 10-12G in April 2009 disclosed no revenues, net losses, and a going concern opinion from the company's auditors. SEC filings for GSAE throughout the next six months continued to disclose the same bleak financial picture of no revenues, net losses, and a growing deficit.

139. Further, the SEC noted in a July 29, 2009 letter to the company that the British Columbia Securities Commission had issued a cease-trade order relating to GSAE for reporting deficiencies and that the Pink Sheets had issued a "skull and cross bones" caveat emptor warning to investors.

140. In this letter, the SEC stated that GSAE failed to adequately disclose the British Columbia Securities Commission's cease-trade order and the Pink Sheets' caveat emptor warning to investors. This letter was available to CL King via the SEC's EDGAR system.

141. During the period June 2009 through December 2009, GSAE was the subject of a promotional campaign that included the dissemination of numerous newsletters, alerts and emails touting GSAE, and containing highly suspect GSAE share price targets.

142. On or about September 28, 2009, a new research report was issued on GSAE by investor relations firm GRRD with a "BUY" recommendation and a \$14.87 long term price target. At the time, GSAE shares were trading at approximately \$0.25 per share.

143. In addition to the GRRD report, during the August 2009 through October 2009 time period, GSAE was the subject of promotional email alerts and profiles disseminated by at least seven other internet stock promotion companies. In each instance, the promoter disclosed that it had been compensated for its efforts. This compensation ranged between \$8,000 and \$45,000 and between 7,500 and 150,000 free trading shares of GSAE.

144. During the period August 1, 2009 through October 12, 2009, the internet stock promotion company STMI disseminated at least six email alerts regarding GSAE. A STMI alert dated August 28, 2009 stated: "THE TIME IS NOW TO GET IN ON GSAE!!... [W]e could see .80 – 1.00 in the not too distant future!! WITH BIG NEWS COMING DOWN THE PIPELINE, GSAE IS A NO-BRAINER!!" The disclaimer on the STMI website stated that 150,000 GSAE free trading shares were paid by a third party for the promotional alerts.

145. Despite the presence of these red flags, during the period June 30, 2009 through December 14, 2009, CL King facilitated the liquidation of approximately 1,921,320 shares of

GSAE through VPB's account in approximately 50 trades. These sales generated proceeds of almost \$864,000 and commissions to CL King of approximately \$8,217.

146. CL King liquidated VPB's position in GSAE during 47 trading days. On 17 of these days, VPB's sales accounted for over 20 percent of the TMV in GSAE. On four of these days, VPB's sales accounted for over 40 percent of the TMV. In September 10, 2009, VPB's sales accounted for over 60 percent of the TMV.

147. Most of this activity occurred during the promotional campaign referenced above. Of the 47 sales of GSAE placed by VPB during the June 30, 2009 through December 14, 2009 period, 27 of the liquidations occurred in the months of August and September, during the period of most intense promotion. Further, the liquidations of GSAE in these two months represented over 68 percent of the total GSAE shares sold by VPB through CL King.

Liquidations of CLDS

148. According to its Form 10-K for the period ended February 29, 2012, CLDS's prior corporate iteration, Accend Media ("ANCM") was incorporated in Nevada on December 20, 2010. According to the Form 10-Q for the period ended November 30, 2012, ANCM changed its name and symbol to Cloud Star Corp. and CLDS, respectively, on May 24, 2012 after effecting a reverse merger with a private company named Cloud Star Corporation, which was incorporated in Nevada on October 17, 2011.

149. According to the Form 10-Q for the period ending August 31, 2012, CLDS was "an information technology services and software company that delivers immediate, easy and secure access to computer desktops and other consumer electron [sic] devices from remote locations."

150. According to the Form 10-Q for the period ending November 30, 2012, CLDS reported no revenues, cash of \$4,149, total assets of \$65,728, total liabilities of \$26,612, a net loss of \$43,059, and a "going concern" statement by management.

151. During the period March 1, 2013 through April 26, 2013, CLDS was the subject of a promotional campaign that included the dissemination of alerts and a newsletter by JK.

152. The JK newsletter contained various suspect claims about CLDS, including a 2013 price target of \$3 for the stock, which, at the time, was trading at approximately \$0.30 per share. A disclaimer at the bottom of the JK newsletter stated that an affiliate of JK was paid \$10,000 for the report. An abbreviated version of the JK newsletter was disseminated by at least three other internet stock promotion entities, all of which disclosed that they were paid for their promotion efforts.

153. CL King and Miller were presented with other red flags relating to VPB's liquidation of CLDS that should have prompted further inquiry. Specifically, on March 6, 2013, a representative from broker-dealer KCG contacted CL King's trading desk via email and expressed concern that orders the Firm placed for CLDS on behalf of VPB were not legitimate.

154. The KCG representative stated that at almost the same time that it received an order to sell 50,000 shares of CLDS from CL King, KCG also received an order to buy the same amount of CLDS at approximately the same price. Due to the size of the orders, the relative illiquidity of the security, and the similarity in pricing, KCG requested that CL King represent that it had conducted an appropriate review and, based upon that review, that CL King had determined that the order was being placed for legitimate purposes.

155. Upon receiving the KCG email, a CL King trader forwarded it to Miller, asking if he could respond to KCG that the CLDS order was legitimate. Just six minutes later, Miller responded "yes."

156. CL King and Miller did not investigate the circumstances of the CLDS trade being questioned by KCG despite KCG's stated concern that CL King's trades in CLDS might be part of manipulative activity.

157. Despite the presence of these red flags, during the period December 17, 2012 through March 12, 2013, CL King facilitated the liquidation of approximately 480,000 shares of CLDS through VPB's account in eight transactions. These sales generated proceeds of almost \$180,000.

158. The bulk of CLDS share liquidations by CLK from VPB's account took place during the promotional campaign referenced above. For example, VPB sold CLDS stock from its CL King account on six of the eight trading days during the period March 1, 2013 through March 12, 2013. On four of these days, VPB's sales accounted for more than 65 percent of the TMV for CLDS.

159. On March 6, 2013, the same day the KCG representative questioned the legitimacy of the CLDS orders placed by CL King, VPB's sales of CLDS accounted for more than 90 percent of the TMV. On the following day, VPB's sales accounted for almost 97 percent of the TMV. Further, CL King's liquidations of CLDS from the VPB account on December 17, 2012 and February 21, 2013 accounted for 100 percent of the TMV in CLDS on those days.

Liquidations of DRHC

160. According to the company's SEC filings, Dethrone Royalty Holdings, Inc. (DRHC) was incorporated in Nevada on October 8, 2010 under its original name, Exclusive

Building Services, Inc. (EXBS), in order to provide commercial cleaning services to office buildings of 10,000 to 15,000 square feet in Harris County, Texas. At the time of incorporation, EXBS had only one employee, its founder and president, and provided cleaning services to one building.

161. According to SEC filings, in January 2012, the company effected a 31.25 for one forward split of its stock, increasing the number of issued and outstanding common shares from 11,500,000 to 359,975,000. In a Form 8-K dated July 12, 2012, EXBS formally announced that the company would change its name to Dethrone Royalty Holdings, Inc.

162. According to its Form 10-Q for the period ending October 31, 2012, DRHC claimed to manufacture and distribute sports nutrition and energy beverages through its wholly-owned subsidiary Dethrone Beverage, Inc. In its Form 10-Q filed for the period ended January 31, 2013, DRHC reported total assets of \$351,142, the majority of which was classified as deferred loan costs, and a cash balance of \$2,529. The company also reported \$117,529 in total liabilities and no revenue. DRHC reported operating at a net loss of \$260,582 for the three months ended January 31, 2013.

163. In various filings made and press releases issued by DRHC in late 2012 and the first three months of 2013, the company claimed that it entered into endorsement contracts with several professional athletes. In many instances, however, the names of these professional athletes were either misspelled or were completely incorrect. For example, in its Form 10-Q for the period ending October 31, 2012, DRHC reported:

As of December 14, 2012, we have also entered into contracts with several professional sports personalities (Jonathan Quick, Aldon Smith Haloti Nagataq and Taj Gibson to represent us by endorsing our products. All contracts cover three years and require us to issue an aggregate of 3,500,000 restricted shares of common stock

over the lives of the contracts plus up to an additional 1,800,000 contingent shares based on performance criteria. The Company is also negotiating an agreement with the agent who introduced the sports figures to the Company and may issue an additional 750,000 restricted shares of common stock to that agent and has letters of intent with additional sports figures (Pablo Sandavol, Matt Mulson, Kevin Shattenberg and Mike Goldberg) for endorsement agreements. There are no assurances that agreements described in letters of intent will result in executed contracts.

The names of Haloti Ngata, Pablo Sandoval and Matt Moulson are all misspelled in DRHC's filing and the name of Kevin Shattenkirk as written is completely incorrect.

164. In or about March 2013, DRHC was the subject of at least six penny stock promotional newsletters or reports, each of which was available online and, in some instances, was disseminated via promotional emails. In all but one instance, these newsletters or reports touting DRHC disclosed that the promoter was compensated for its promotion of DRHC.

165. Each of these promotional newsletters and reports contained questionable statements about DRHC's stock and/or company performance and growth. A newsletter dated March 20, 2013, contained a link to a webcast interview with DRHC's CEO. In the webcast, DRHC's CEO made several questionable statements, such as "I think we can hit Monster's numbers within 6 years and its taken them 15 to get there."³

166. At the same time these promotional efforts were taking place, CL King facilitated the liquidation of millions of DRHC shares from the VPB account. Specifically, during the period January 7, 2013 through May 16, 2013, despite the presence of numerous red flags, CL King facilitated the liquidation of approximately 7.8 million shares of DRHC through VPB's account. These sales generated proceeds of almost \$218,000.

³ Monster Beverage Corporation (NASDAQ: MNST) recorded revenues of over \$2 billion in 2012.

167. CL King's liquidation of DRHC stock from the VPB account took place over 41 trading days. On 20 of these days, VPB's sales accounted for over 20 percent of the TMV in DRHC. On February 4, 2013, VPB's sales of DRHC accounted for over 60 percent of the TMV.

Liquidations of INNO

168. According to the company's Form 10-Q for the period ending April 30, 2013 and filed with the SEC on June 6, 2013, Innocap, Inc. ("INNO") was incorporated in Nevada on January 23, 2004. According to the company's April 30, 2013 Form 10-Q, the company was engaged in the business of locating and salvaging sunken ships.

169. INNO's SEC filings disclosed no revenues at any time during the company's existence, a history of net losses, unaudited financial reports and a going concern opinion from the company's management.

170. In or around June and July 2013, at least 23 internet stock promotion websites disseminated approximately 50 promotional emails regarding INNO. The promotional emails touted the investment merits of INNO and frequently cited a July 2013 research report from GSCR, which provided a \$2.00 price target for INNO's common stock. According to disclaimers contained in these emails, each of the stock promoters was paid between \$1,500 and \$32,500 for its promotion of INNO.

171. At the same time these promotional efforts were taking place, CL King facilitated the liquidation of millions of INNO shares from the VPB account. Specifically, during the period June 11, 2013 through August 26, 2013, despite the presence of numerous red flags, CL King facilitated the liquidation of over 2 million shares of INNO through VPB's account. These sales generated proceeds of almost \$41,000.

172. CL King's liquidation of INNO stock from the VPB account took place over 18 trading days. On 14 of these days, VPB's sales accounted for over 20 percent of the TMV, and on three of the days, VPB's sales constituted over 60 percent of the TMV in INNO. On August 14, 2013, VPB's sales of INNO accounted for over 80 percent of the TMV.

Liquidations of SRGE

173. According to the SEC's EDGAR system, Southridge Enterprises, Inc. (SRGE) last made a disclosure filing with the SEC on October 24, 2008, when the company filed a Form 8-K disclosing a change in its auditor. Effective April 11, 2011, the company stopped filing reports with the SEC.

174. According to the company's Annual Report for the fiscal year ended August 31, 2012 posted on the OTC Markets website, SRGE was incorporated in Nevada in May 2004. The company was originally organized to explore mineral properties in British Columbia. In 2006, the company changed its business to ethanol production. By late 2008, SRGE management decided to change the company's focus again to mineral exploration in Mexico.

175. According to the company's unaudited annual report posted on the OTC Markets website for the year ending August 31, 2011, SRGE reported no revenues, a net loss of over \$2 million and a going concern statement from the company's management.

176. On or about January 16, 2012, MAR, a purported independent investment research firm located in Switzerland, issued a research report on SRGE. The report included a "SPECULATIVE BUY" rating and a target price of \$0.20. At the time, SRGE was trading at approximately \$0.0003 per share.

177. During the period January 6, 2012 through January 18, 2012, despite the presence of red flags, CL King facilitated the liquidation of almost 11 million shares of SRGE through VPB's account. These sales generated proceeds of only approximately \$3,246.

178. CL King's liquidation of SRGE's stock from the VPB account took place over six trading days. On five of these days, VPB's sales accounted for over 20 percent of the TMV, and on two of the days, VPB's sales constituted over 40 percent of the TMV in SRGE. On January 12, 2012, VPB's sales of SRGE accounted for over 80 percent of the TMV.

Red Flags Related to Officers Associated with Multiple Penny Stock Issuers

179. CL King's Compliance Department did not conduct a review of the stocks deposited into the AE account, including an analysis to determine if there were common officers and directors amongst these issuers, until August 2013 after the Firm received regulatory inquiries from FINRA about AE's account.

180. The August 2013 analysis, which was done using publicly available information, found that nine individuals held officer or director positions with multiple issuers whose stock was deposited into and sold from AE's CL King account.

Red Flags Raised by Regulatory Inquiries

181. During Relevant Periods II and III, CL King received information requests from FINRA and the Depository Trust & Clearing Corporation (DTCC) concerning at least ten penny stocks that were heavily traded in the VPB or AE accounts: Petron Energy II, Inc. (PEII), Global Earth Energy, Inc. (GLER), One World Holdings, Inc. (OWOO), Victoria Internet Services, Inc. (VRIS), SRGE, CLDS, DRHC, AEGY, INNO, and GSAE.

182. Despite receiving these requests, CL King and Miller failed to investigate the activity or question why FINRA or DTCC was asking about VPB's and AE's activity in these

penny stocks. The only reaction the Firm had to these inquiries was to stop accepting physical certificates in the VPB account. However, the Firm still accepted electronic deliveries without appropriate due diligence at deposit or monitoring of the liquidations to assess for potential suspicious activity.

FIRST CAUSE OF ACTION
IMPROPER REDEMPTION OF DEATH PUT INVESTMENTS
Violation of FINRA Rule 2010
(Respondent CL King)

183. The Department realleges and incorporates by reference paragraphs 1 through 182 above.

184. Section 17(a)(2) of the Securities Act prohibits, in the offer or sale of any securities using interstate commerce, obtaining “money or property by means of any untrue statement of a material fact or any omission 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.”

185. Section 17(a)(3) of the Securities Act prohibits, in the offer or sale of any securities using interstate commerce, engaging “in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.”

186. FINRA Rule 2010 requires associated persons in the conduct of their business to “observe high standards of commercial honor and just and equitable principles of trade.”

187. The Death Put Investments that CL King redeemed, and attempted to redeem, on behalf of EACM are securities.

188. Each redemption of these Death Put Investments facilitated by CL King constituted a sale of a security back to the issuer. Accordingly, CL King was required to disclose all material facts and not make any material misrepresentations to the issuers and issuers’ agents in connection with the redemptions.

189. During Relevant Period I, in connection with the redemption of the Death Put Investments, by the means and instrumentalities of interstate commerce, CL King failed to disclose the following material facts:

- a. JL was not related to the participants;
- b. EACM paid the terminally ill participants a one-time fee to open joint accounts;
- c. EACM funded the accounts and the Participant Agreements provided that the participants bore no responsibility for funding the accounts;
- d. EACM and JL limited participants' rights in that they could not withdraw, borrow or transfer funds from the accounts. In contrast, JL was permitted to buy, sell, pledge or make transfers of the funds and securities in the accounts;
- e. In most instances, the participant's profit was capped at the one-time \$10,000 or \$15,000 fee. In contrast, EACM's and JL's profit was unlimited;
- f. Participants' heirs could not inherit any assets of the accounts upon a participant's death;
- g. In the event JL predeceased the participant, the participant was limited to receiving five percent of the account proceeds after expenses. The remaining 95 percent of the proceeds would go to the investors in EACM's hedge fund;
- h. Participants did not receive monthly account statements, transaction confirmations, payment of interest in connection with the accounts, or any other indicia of ownership;

- i. CMK died before the 31 Account was approved and before any of the Death Put Investments redeemed in her name were transferred into the 31 Account; and
- j. Pursuant to the terms of the Participant Agreements and accompanying POAs, none of the participants beneficially owned the Death Put Investments in the joint accounts.

190. During Relevant Period I, in connection with the redemption of Death Put Investments, by the means and instrumentalities of interstate commerce, CL King also misrepresented the status of the deceased participants as “joint owners” of the underlying CL King account in the Firm’s cover letters to issuers and issuers’ agents.

191. In addition, CL King did not provide any of the issuers or issuers’ agents with the Participant Agreements as part of the redemption documentation, even though CL King was aware of the existence of the Participant Agreements by at least December 2012.

192. As a result of the foregoing, CL King acted in contravention of Sections 17(a)(2) and 17(a)(3) of the Securities Act, and thereby violated FINRA Rule 2010.

193. CL King’s actions also constitute separate and distinct violations of FINRA Rule 2010.

**SECOND CAUSE OF ACTION
FAILURE TO ESTABLISH AND IMPLEMENT
A REASONABLE SUPERVISORY SYSTEM
INCLUDING WRITTEN SUPERVISORY PROCEDURES
Violation of NASD Conduct Rule 3010 and FINRA Rules 3110 and 2010
(Respondent CL King)**

194. The Department realleges and incorporates by reference paragraphs 1 through 193 above.

195. NASD Rule 3010 and FINRA Rule 3110 require each member to establish and maintain a system, including written supervisory procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA Rules.

196. During the period of at least January 2012 through March 2015, CL King did not have a reasonably designed supervisory system, including written supervisory procedures, with regard to the redemption of the Death Put Investments.

197. Specifically, although CL King assisted EACM in redeeming over \$60 million in Death Put Investments during Relevant Period I, the Firm's written supervisory procedures did not contain *any* procedures addressing this business. Given the unique nature of the business and the Firm's unfamiliarity with the various issues surrounding these investments, this lack of procedures was unreasonable.

198. CL King also failed to implement any supervisory system or processes to address any aspect of the Death Put Investment business. The Firm did not obtain and review prospectuses and disclosure statements for the Death Put Investments to make an objective determination that EACM's and JL's redemption requests were valid. The Firm did not take reasonable steps to obtain and review documentation regarding EACM, its hedge fund, or its relationship to the terminally ill individuals to determine whether the joint tenancy was valid or whether it qualified for redemption of the investments pursuant to the death put clause. When the Firm finally obtained a copy of one of the Participant Agreements in December 2012, it did not take reasonable steps to prevent JL and EACM from (1) maintaining sham JTWROS accounts at CL King and (2) making improper redemption requests. CL King also did not

contact the terminally ill participants, even on a spot-check basis, to ensure that EACM and JL's actions on their behalf were authorized, suitable and appropriate.

199. By failing to establish and maintain a reasonably designed supervisory system, including written supervisory procedures, to ensure compliance with federal securities laws, NASD and FINRA rules with regard to the redemption of Death Put Investments, CL King violated NASD Conduct Rules 3010 (for conduct occurring before December 1, 2014) and FINRA Rules 3110 (for conduct occurring on or after December 1, 2014) and 2010.

**THIRD CAUSE OF ACTION
FAILURE TO ESTABLISH AND IMPLEMENT
A REASONABLE AML PROGRAM
Violation of NASD Conduct Rule 3011(a) and FINRA Rules 3310(a) and 2010
(Respondents CL King and Miller)**

200. The Department realleges and incorporates by reference paragraphs 1 through 199 above.

201. FINRA Rule 3310(a), which superseded NASD Rule 3011(a) on January 1, 2010, requires members to "[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. §5318(g) [the Bank Secrecy Act] and the implementing regulations thereunder."

202. Throughout Relevant Periods II and III, CL King serviced customers whose primary trading activity involved the deposit and prompt liquidation of penny stocks. However, the Firm's AML program was not tailored to the risks posed by its penny stock liquidation business.

203. As previously described, customers AE and VPB, and numerous transactions at CL King in the accounts of these customers, presented red flags for suspicious activity, including potential manipulative trading.

204. As CL King's AMLCO, Miller failed to develop and implement an AML program reasonably designed to achieve compliance with the Bank Secrecy Act and its implementing regulations and to cause the reporting of suspicious transactions. Miller also failed to tailor CL King's AML Compliance Program to the risks associated with the Firm's penny stock liquidation business.

205. Miller ignored and failed to reasonably detect and investigate red flags of potentially suspicious activities as described above, and failed to respond appropriately and consider whether or not to report the activity as suspicious to FinCEN.

206. In sum, by virtue of having inadequate AML procedures, and failing to implement those procedures, CL King and Miller failed to establish and implement an AML program reasonably expected to cause the detection and reporting of suspicious transactions under the Bank Secrecy Act and its implementing regulations.

207. As a result of the foregoing, CL King and Miller violated NASD Conduct Rule 3011(a) and FINRA Rules 3310(a) and 2010.

FOURTH CAUSE OF ACTION
FAILURE TO CONDUCT ADEQUATE DUE DILIGENCE AND RESPOND TO
RED FLAGS REGARDING A FOREIGN FINANCIAL INSTITUTION
Violation of NASD Conduct Rules 3011(b) and FINRA Rules 3310(b) and 2010
(Respondents CL King and Miller)

208. The Department realleges and incorporates by reference paragraphs 1 through 207 above.

209. FINRA Rule 3310(b), which superseded NASD Conduct Rule 3011(b) on January 1, 2010, requires that firms "[e]stablish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder." Section 312 of the Patriot Act, which amended the Bank Secrecy Act,

requires all financial institutions to exercise due diligence when accepting correspondent accounts for foreign financial institutions. 31 U.S.C. § 5318(i). The due diligence must include “appropriate, specific, risk-based, and, where necessary, enhanced policies, procedures, and controls that are reasonably designed to enable the covered financial institution to detect and report, on an ongoing basis, any known or suspected money laundering activity conducted through or involving any correspondent account” 31 C.F.R. 1010.610(a).

210. According to 31 C.F.R. 1010.610(a)(2), assessing the money laundering risk presented by a correspondent account shall include, as appropriate, an examination of the following factors:

- (a) the nature of the foreign financial institution’s business and the markets it serves;
- (b) the type, purpose, and anticipated activity of such correspondent account;
- (c) the nature and duration of the covered financial institution’s relationship with the foreign financial institution (and any of its affiliates);
- (d) the anti-money laundering and supervisory regime of the jurisdiction that issued the charter or license to the foreign financial institution; and
- (e) information known or reasonably available to the covered financial institution about the foreign financial institution’s anti-money laundering record.

211. The risk-based procedures for monitoring the correspondent account must include “a periodic review of the correspondent account activity sufficient to determine consistency with information obtained about the type, purpose, and anticipated activity of the account.” 31 CFR 1010.610(a)(3).

212. CL King’s procedures stated generally that due diligence is required in connection with correspondent accounts for foreign financial institutions (“FFIs”). CL King’s procedures

also required that the Firm obtain necessary information regarding FFI correspondent accounts such as the nature of the FFI's business and the type, purpose, and anticipated activity of such correspondent accounts.

213. With respect to the VPB account opened in June 2009, CL King failed to obtain, *inter alia*, information about the type, purpose and anticipated activity of the account. Instead, CL King only obtained general information about the type of securities transactions SMI's clients typically engaged in, *i.e.*, U.S. listed equities and options. The Firm did not obtain this information on an account-by-account basis and therefore failed to conduct adequate due diligence on the SMI-referred FFI accounts, including VPB.

214. In connection with opening the account at CL King, VPB submitted to CL King an IRS Form W-8IMY, "Certificate of Foreign Intermediary, Foreign Flow-Through Entity, or Certain U.S. Branches for United States Tax Withholding," which was signed by VPB management and dated June 24, 2009. The Form W-8IMY listed VPB as a Qualified Intermediary "not acting for its own account" with respect to the correspondent account VPB opened at CL King.

215. Although the Form W-8IMY put CL King on notice that VPB was acting for others in its CL King account, Firm personnel mistakenly believed that VPB was acting for its own benefit.

216. The Firm's failure to understand the nature of the VPB account was clearly illustrated in March 2013, when a customer of VPB contacted CL King's trading desk directly to place a trade. In the email exchange that followed, CL King management indicated that they did not know the type of account (*i.e.* whether VPB was a proprietary account or omnibus account

trading assets belonging to underlying customers), which is a key fact in determining the nature of the business presented by correspondent accounts for FFIs.

217. CL King and Miller failed to obtain information about the type, purpose and anticipated activity of the VPB account, as required.

218. CL King and Miller also failed to conduct a periodic review of account activity to determine consistency with the anticipated activity in the account.

219. Throughout Relevant Period III, CL King and Miller failed to conduct and document any meaningful inquiry concerning the VPB account, VPB's clients, whether or not such clients were U.S. persons, or whether or not VPB was operating as an unauthorized broker-dealer in the United States.

220. CL King and Miller also failed to investigate or respond to the potentially suspicious penny stock activity in VPB's account, as detailed in paragraphs 134 through 178 and 181 through 182 above.

221. Based on the foregoing, CL King and Miller violated NASD Conduct Rules 3011(b) and FINRA Rules 3310(b) and 2010.

RELIEF REQUESTED

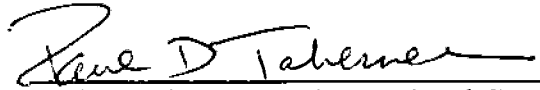
WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that the Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including that Respondents be required to disgorge fully any and all ill-gotten gains, together with interest; and

- C. order that the Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: April 18, 2016



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