

**UNITED STATES DISTRICT COURT  
DISTRICT OF PUERTO RICO**

**CASE NO.:**

**SECURITIES AND EXCHANGE COMMISSION,**

**Plaintiff,**

**v.**

**EUGENIO GARCIA JIMENEZ, JR.,**

**Defendant.**

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**COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF AND  
DEMAND FOR JURY TRIAL**

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

**I. INTRODUCTION**

1. Since at least 2016 through 2018, Eugenio Garcia Jimenez, Jr. (“Garcia”), acting as an investment adviser to his advisory client, the Municipio Autónomo de Mayagüez, Puerto Rico (the “City”), engaged in a fraudulent scheme involving the misappropriation of approximately \$7.1 million of taxpayer funds. Garcia presented a plan to the City to invest approximately \$9 million in unused City funds for two years promising a return of 8-10% annually with no risk to principal.

2. Instead of executing an investment strategy designed to generate the promised returns, Garcia purchased \$9 million of U.S. Treasury notes with the City’s funds and immediately took out a margin loan using the notes as collateral. In the months that followed, Garcia misappropriated approximately \$4.1 million in client funds by transferring various sums to himself, his associates, and entities controlled by him. After the first broker-dealer terminated the investment account controlled by Garcia, Garcia opened a second account at another broker-dealer and misappropriated an additional approximately \$3 million of the City’s funds.

3. In order to carry out the scheme, Garcia made material misrepresentations to City officials and falsified brokerage account documents and correspondence. Moreover, to conceal the fraud from the City, only months into the two-year investment period, Garcia used proceeds from the margin loan to “advance” \$1.8 million to the City, representing the purported 10% annual interest Garcia promised.

4. Over the course of six months, Garcia fully leveraged the City’s \$9 million investment, resulting in a margin call, the sale of assets netting approximately \$1.7 million, and closure of the brokerage account holding the Treasury notes. Garcia’s misappropriation caused approximately \$7.1 million in losses to the City.

5. As a result of the conduct alleged in this Complaint, Garcia violated Section 17(a) of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. § 77q(a)], Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §§ 240.10b-5], and Sections 206(1) and (2) of the Investment Advisers Act of 1940 (the “Advisers Act”) [15 U.S.C. §§ 80b-6(1) and (2)].

6. Unless restrained and enjoined, Garcia is reasonably likely to continue to violate the federal securities laws.

## **II. DEFENDANT AND RELATED ENTITIES**

7. Garcia, age 47, resides in Orlando, Florida. At all relevant times, Garcia was the principal of Eugenio Garcia Jr. & Associates, LLC (“Garcia & Assoc.”), Mayaguez Economic Development Financial Strategies, Inc. (“MEDI FS”), M.A.G. Holdings, Inc. (“MAG”), and TEGA Holdings, LLC (“TEGA”).

8. Garcia & Assoc. is an active Puerto Rico limited liability company formed by Garcia in May 2016 with its principal place of business in Mayagüez, Puerto Rico.

9. MEDI FS is a “for profit” Puerto Rico Municipal Enterprise formed by Garcia in December 2014 with its principal place of business in Mayagüez, Puerto Rico. MEDI FS is now defunct and its corporate status was administratively dissolved in December 2019. At all relevant times, Garcia was the principal of MEDI FS.

10. MAG is a “for profit” Puerto Rico corporation formed by Garcia in January 2015 with its principal place of business in San Juan, Puerto Rico. MAG is now defunct and its corporate status was administratively dissolved in February 2018.

11. TEGA is an active “for profit” Delaware limited liability company formed in September 2015 with its principal place of business in Mayagüez, Puerto Rico. TEGA is co-owned by Garcia and another individual.

### **III. JURISDICTION AND VENUE**

12. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d)(1), and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d)(1), and 77v(a)], Sections 21(d) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d) and 78aa], and Sections 209(d) and 214 of the Advisers Act [15 U.S.C. §§ 80b-9(d) and 80b-14].

13. This Court has personal jurisdiction over Garcia, and venue is proper in this District because many of the acts and transactions constituting violations of the Securities Act, Exchange Act, and Advisers Act occurred in this District.

14. In connection with the conduct alleged in this Complaint, Garcia, directly and indirectly, singly or in concert with others, made use of the means or instrumentalities of interstate commerce, the means or instruments of transportation or communication in interstate commerce, or the mails.

**IV. DEFENDANT’S ACTS IN VIOLATION OF THE SECURITIES LAWS**

**A. Garcia Contracts with the City to Provide Investment Advice**

15. Since at least 2014, Garcia, through Garcia & Assoc., held himself out as an “Investment and Capital Municipal Advis[e]r” specializing in assisting municipalities in facilitating investment in public development through the establishment of business relations with potential investors. Garcia also claimed that he was a “Licensed Financial Advis[e]r in Investment and Capital (MSRB D00B1B) for municipalities.” By 2014, Garcia had performed consulting work for the city of Trujillo Alto, Puerto Rico and was giving presentations at meetings of the Asociacion de Alcaldes (Association of Mayors).

16. At a symposium in 2014, Garcia met with a City official and was later invited to submit a proposal for consulting services. In March 2014, Garcia and the City entered into a contract in which Garcia agreed to provide the City with, among other responsibilities: advice on trading platforms, risk and earnings analyses, and updates to the City’s banking and investment strategies including ways to improve yields. The contract also stated, “All [a]dvis[e] [sic] given will be governed by the . . . Investment Advis[e]r[s] Act [of] 1940.” Under the contract, Garcia was to serve as an investment adviser to the City.

17. The City renewed its contract with Garcia annually through spring 2018. Contracts for March 2014 – June 2016 were between the City and Garcia in his individual capacity. In May 2016, Garcia formed Garcia & Assoc. Contracts for July 2016 – June 2018 were between the City and Garcia & Assoc. and signed by Garcia.

18. For his purported services, the City paid Garcia between \$100-\$125/hour and covered his expenses. Over the course of the relationship, the City paid Garcia over \$300,000.

**B. Garcia Proposes an Investment Strategy to Fund Municipal Projects**

19. In 2014, Garcia advised the City to incorporate Mayaguez Economic Development, Inc. (“MEDI”), an active “for profit” Puerto Rico Municipal Enterprise, for the general purpose of generating economic investment and development for the City. The City followed Garcia’s advice and created MEDI in April 2014. MEDI’s board of directors consists of City officials.

20. One of Garcia’s responsibilities was to assist the City with its finances. Through a review of the City’s finances, Garcia identified approximately \$9 million in unused funds in City accounts.

21. The Puerto Rico government appropriated these funds over many years and earmarked them for various municipal projects. The appropriations process dictated that the funds would only be used for the purposes specified in the appropriation. However, many of the projects were not appropriated at a level required to fully fund the project associated with the appropriations. As a result, these funds sat unused.

22. In 2016, Garcia made a proposal to aggregate the \$9 million and invest it so the City could achieve sufficient returns to fully fund some of the City’s municipal projects, including construction of a new trauma center.

23. Garcia advised the City that he could invest the \$9 million, with the principal protected, and achieve an annual return of 10%. Garcia stated that the proposed investment would be for a period of two years.

24. As part of this plan, in March 2016, Garcia provided the City with a fake letter purportedly from Brokerage Firm 1, a California financial institution, stating the City’s investment had a “projected rate of return of approximately 8-10% per annum.” Although the letter was purportedly from Brokerage Firm 1, the name of the firm was spelled incorrectly.

25. The City relied on Garcia to provide investment options and proposals. Based on Garcia's advice about the proposed \$9 million investment, the projected return, and safety of the principal, the City agreed in March 2016 to allow Garcia to invest the City's \$9 million through MEDI.

**C. Garcia Gains Control Over the City's Funds at Brokerage Firm 1 Through His Material Misrepresentations, and Misappropriates the City's Funds Via Margin Loans Collateralized by the City's Investment**

26. After the City approved the plan, Garcia provided the City's Finance Director with Brokerage Firm 1 account opening forms, which the Finance Director completed and returned to Garcia. However, Garcia never submitted those forms to Brokerage Firm 1. Instead, to gain full access and control over the City's funds, Garcia – who served as the sole point of contact between Brokerage Firm 1 and MEDI – submitted to Brokerage Firm 1 a different set of account opening documents for the MEDI account, including corporate documents and authorizations. Brokerage Firm 1 then opened a brokerage account in MEDI's name. Two weeks later, at Garcia's instruction, the City wired \$9 million to fund MEDI's Brokerage Firm 1 brokerage account.

27. Garcia made several misrepresentations in the account opening documents he submitted to Brokerage Firm 1 purportedly on MEDI's behalf. For example:

- a. Garcia represented that he was MEDI's Director of Finance. MEDI, however, did not have a Director of Finance and Garcia held no official position at MEDI.
- b. Garcia represented that the source of the \$9 million was "Personal Income/Business Revenue and Savings." However, the source of the \$9 million was City funds.

- c. Garcia represented that MEDI had a physical and mailing address in Newport Beach, California. MEDI's actual address was in Puerto Rico. MEDI has never maintained an address or operations outside of Puerto Rico.
- d. Garcia represented that MEDI's primary business was "Real Estate Development." But MEDI's primary business was economic investment and development for the City.
- e. Garcia represented that MEDI's annual income was \$1 million and that it had a net worth of \$270 million. In fact, MEDI was not generating any income at the time.

28. On or about March 31, 2016, Garcia purchased \$9 million in U.S. Treasury notes in MEDI's Brokerage Firm 1 account. Garcia also completed a margin account application and requested the opening of a margin account pledging the \$9 million in assets as collateral for the margin loan.

29. Beginning on or about April 1 through 20, 2016, using margin loan funds, Garcia made the following series of wire transfers, totaling approximately \$4.1 million, to outside bank accounts he controlled:

<b>Transfers from Brokerage Firm 1</b>	<b>Date</b>	<b>Recipient</b>
\$250,000	April 1, 2016	MAG (Bank 1 Account)
\$450,000	April 1, 2016	MAG (Bank 2 Account)
\$900,000	April 4, 2016	TEGA (Bank 1 Account)
\$2.5 million	April 12-20, 2016	MEDI FS (Bank 1 Account)

30. In late April 2016, based on the MEDI account's listed investment objective and risk tolerance, Brokerage Firm 1's Anti Money Laundering Officer ("AMLO") questioned the

account's wire activity and investment strategy. The AMLO noted that MEDI was paying a higher interest rate on the margin loan than the rate it was earning on the Treasury notes. In other words, MEDI's account was losing money.

31. Brokerage Firm 1 management decided to close the account and on or about May 2, 2016, Brokerage Firm 1 sent a letter to the Newport Beach mailing address provided by Garcia stating Brokerage Firm 1's intent to close the account and providing 30 days to transfer assets elsewhere. That same month, Garcia transferred the MEDI account at Brokerage Firm 1 to Brokerage Firm 2, a registered broker-dealer.

**D. Garcia Gains Control Over the City's Funds at Brokerage Firm 2 through His Material Misrepresentations, and Further Misappropriates the City's Funds Via Margin Loans Collateralized by the City's Investment**

32. While the transfer of MEDI's account was pending, Brokerage Firm 2's due diligence team requested during the account opening process clarification on the relationship between MEDI and the City. In response to this inquiry, Garcia misrepresented to Brokerage Firm 2, via e-mail and telephone, the relationship between MEDI and the City:

- a. Garcia represented that there was no formal relationship between MEDI and the City. However, MEDI's board of directors was comprised of City officials.
- b. Garcia represented that MEDI was a private company formed to deal in real estate. MEDI actually was a municipal corporation formed to stimulate economic investment and development in the City.
- c. Garcia represented that MEDI's asset base was not derived from City funds. MEDI's asset base was in fact comprised of City funds.
- d. Garcia represented that his title was "Director of Finance." However, no such position existed at MEDI and Garcia was an investment adviser to the City.



- e. Garcia also provided Brokerage Firm 2 with a fake “Shareholder Ledger” showing Garcia as 100% owner of MEDI.

33. Brokerage Firm 2 followed up with Garcia regarding his relationship with MEDI and the source of the funds being transferred to Brokerage Firm 2. This time, Garcia responded by providing information about MEDI FS, a different entity owned by Garcia. Garcia also provided Brokerage Firm 2 with a MEDI FS shareholder ledger and amended the account opening documents to reflect MEDI FS as the account holder instead of MEDI. Brokerage Firm 2 proceeded to open a brokerage account and a margin account in the name of MEDI FS with the amended account opening documents still listing a Newport Beach, California address rather than a Mayagüez, Puerto Rico location.

34. In June 2016, the Treasury notes from the MEDI account at Brokerage Firm 1 were transferred to the MEDI FS account at Brokerage Firm 2 to fund the account. Additionally, the \$4.1 million margin liability at Brokerage Firm 1 was satisfied by leveraging the new MEDI FS margin account at Brokerage Firm 2. As a result, the MEDI FS margin account at Brokerage Firm 2 assumed a beginning margin balance of \$4.1 million. Between on or about June 21 and July 6, 2016, Garcia wired an additional \$3 million using a margin loan at Brokerage Firm 2 to MEDI FS’s bank account at Bank 1.

35. In July 2016, Brokerage Firm 2 reviewed MEDI FS’s accounts, froze wire activity and ultimately, in the months that followed, Brokerage Firm 2 liquidated the Treasury notes to satisfy the margin call and sent MEDI FS a \$1.7 million check representing the balance in the account. Garcia then caused the check to be deposited into MEDI FS’s Bank 1 bank account.

36. From MEDI FS’s Bank 1 bank account, Garcia directed over \$2.28 million in payments to entities and accounts he controlled or with which he was affiliated. Garcia directed

the remaining millions in payments to other entities unrelated to the purpose of investing the City's funds. By the end of December 2016, MEDI FS's Bank 1 bank account had a zero balance.

**E. Garcia Conceals His Scheme from the City**

37. To conceal his fraud, in June 2016, Garcia wired the City \$1.8 million using funds borrowed on margin from the Brokerage Firm 2 account. Garcia described the wire as an "advance" on the interest Garcia promised during his investment proposal. Garcia did not disclose to the City that he made the "advance" using funds secured through a margin loan and that he had already misappropriated a substantial portion of the funds the City had entrusted to him.

38. Because Garcia used false mailing addresses and his own email addresses in both the Brokerage Firm 1 and Brokerage Firm 2 account documents, the City never received any account statements for either the Brokerage Firm 1 or Brokerage Firm 2 accounts. The only time the City received an account statement was at the request of the City's Finance Director. In response to this request, Garcia furnished a fictitious August 2016 statement purporting to be from "Leyton Suisse Investment Advisors" reflecting an account value of \$8,976,297.61.

39. With the City's \$9 million investment gone, Garcia continued to conceal his scheme from the City by repeatedly attempting to convince the City to reinvest the \$9 million for an additional term of three to five years.

40. Beginning in at least March 2018, as the end of the two-year investment term approached, the City's Finance Director repeatedly asked Garcia about the procedure for the return of the \$9 million principal. Garcia misrepresented to the City that he would return the principal investment within 60 days, but he never did.

41. The Finance Director and Mayor made several other demands on Garcia for information and documentation of the investment to no avail.

V. **CLAIMS FOR RELIEF**

**Count I**

**Violation of Section 17(a)(1) of the Securities Act**

42. The Commission repeats and realleges paragraphs 1 through 41 of this Complaint as if fully restated herein.

43. Since at least 2016 through 2018, Garcia, in the offer or sale of securities by use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, knowingly or recklessly employed devices, schemes, or artifices to defraud.

44. By reason of the foregoing, Garcia violated and, unless enjoined, is reasonably likely to continue to violate, Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

**Count II**

**Violation of Section 17(a)(2) of the Securities Act**

45. The Commission repeats and realleges paragraphs 1 through 41 of this Complaint as if fully restated herein.

46. Since at least 2016 through 2018, Garcia, in the offer or sale of securities by use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, negligently obtained money or property by means of untrue statements of material facts and omissions to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

47. By reason of the foregoing, Garcia violated and, unless enjoined, is reasonably likely to continue to violate, Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

**Count III**  
**Violation of Section 17(a)(3) of the Securities Act**

48. The Commission repeats and realleges paragraphs 1 through 41 of this Complaint as if fully restated herein.

49. Since at least 2016 through 2018, Garcia, in the offer or sale of securities by use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, negligently engaged in transactions, practices, or courses of business which have operated, are now operating or will operate as a fraud or deceit upon the purchasers.

50. By reason of the foregoing, Garcia violated and, unless enjoined, is reasonably likely to continue to violate, Section 17(a)(3) of the Securities Act [15 U.S.C. § 77q(a)(3)].

**Count IV**  
**Violation of Section 10(b) and Rule 10b-5(a) of the Exchange Act**

51. The Commission repeats and realleges paragraphs 1 through 41 of this Complaint as if fully restated herein.

52. Since at least 2016 through 2018, Garcia, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails, knowingly or recklessly employed devices, schemes or artifices to defraud in connection with the purchase or sale of any security.

53. By reason of the foregoing, Garcia violated and, unless enjoined, is reasonably likely to continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5(a) [17 C.F.R. § 240.10b-5(a)].

**Count V**

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

54. The Commission repeats and realleges paragraphs 1 through 41 of this Complaint as if fully restated herein.

55. Since at least 2016 through 2018, Garcia, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails, knowingly or recklessly made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, in connection with the purchase or sale of any security.

56. By reason of the foregoing, Garcia violated and, unless enjoined, is reasonably likely to continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5(b) [17 C.F.R. § 240.10b-5(b)].

**Count VI**

**Violation of Section 10(b) and Rule 10b-5(c) of the Exchange Act**

57. The Commission repeats and realleges paragraphs 1 through 41 of this Complaint as if fully restated herein.

58. Since at least 2016 through 2018, Garcia, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails, knowingly or recklessly engaged in acts, practices, and courses of business which have operated, are now operating or will operate as a fraud upon any person in connection with the purchase or sale of any security.

59. By reason of the foregoing, Garcia violated and, unless enjoined, is reasonably likely to continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5(c) [17 C.F.R. § 240.10b-5(c)].

**Count VII**  
**Violation of Section 206(1) of the Advisers Act**

60. The Commission repeats and realleges paragraphs 1 through 41 of this Complaint as if fully restated herein.

61. Since at least 2016 through 2018, Garcia, for compensation, engaged in the business of directly advising the City as to the value of securities or as to the advisability of investing in, purchasing, or selling securities. Garcia was therefore an “investment adviser” within the meaning of Section 202(a)(11) of the Advisers Act, 15 U.S.C. § 80b-2(a)(11).

62. Garcia, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, knowingly or recklessly employed a device, scheme, or artifice to defraud one or more clients or prospective clients.

63. By reason of the foregoing, Garcia violated and, unless enjoined, is reasonably likely to continue to violate, Section 206(1) of the Advisers Act [15 U.S.C. § 80b-6(1)].

**Count VIII**  
**Violation of Section 206(2) of the Advisers Act**

64. The Commission repeats and realleges paragraphs 1 through 41 and 61 of this Complaint as if fully restated herein.

65. Since at least 2016 through 2018, Garcia, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, negligently engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon one or more clients or prospective clients.

66. By reason of the foregoing, Garcia violated and, unless enjoined, is reasonably likely to continue to violate, Section 206(2) of the Advisers Act [15 U.S.C. § 80b-6(2)].

**VI. RELIEF REQUESTED**

**WHEREFORE**, the Commission respectfully requests that the Court find Garcia committed the violations alleged in this Complaint and:

**I.**

**Permanent Injunction**

Issue a Permanent Injunction, restraining and enjoining Garcia, and his agents, servants, employees, attorneys, and representatives, and all persons in active concert or participation with him, and each of them, from violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), Exchange Act Rule 10b-5, 17 C.F.R. § 240.10b-5, and Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

**II.**

**Disgorgement**

Issue an Order directing Garcia to disgorge all ill-gotten gains received within the applicable statute of limitations, including prejudgment interest, resulting from the acts and/or courses of conduct alleged in this Complaint.

**III.**

**Civil Penalty**

Issue an Order directing Garcia to pay a civil money penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

IV.

**Further Relief**

Grant such other and further relief as the Court may deem just and proper.

V.

**Retention of Jurisdiction**

Further, the Commission respectfully requests that the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that it may enter, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

VI.

**Demand for Jury Trial**

The Commission hereby demands a trial by jury on any and all issues in this action so triable.

Dated: December 1, 2020

Respectfully submitted,

By: */s/ Stephanie N. Moot & Sean M. O'Neill*

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