UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

In the Matter of:

BioElectronics Corp.,
IBEX, LLC,
St. John's, LLC
Andrew J. Whelan
Kelly A. Whelan, CPA, and
Robert P. Bedwell, CPA

Respondents.

ANSWER AND AFFIRMATIVE DEFENSES OF RESPONDENT St. John's , LLC

Administrative Proceeding
File No. 3-17104

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Respondent St. John's LLC ("St. John's" or "Respondent"), through the undersigned counsel, respectfully asserts the following answers and affirmative defenses to the allegations contained in the Order Instituting Administrative Proceedings ("OIP"), upon knowledge with respect to St. John's and its own acts and upon information and belief with to all other matters as follows. As to any allegation not specifically admitted, Respondent denies the allegation.

I. PRELIMINARY STATEMENT

St. John's is a Virginia LLC formed and managed by Patricia A. Whelan, the wife of Respondent Andrew Whelan. All securities St. John's sold have been done so through a registered broker-dealer in compliance with SEC Rule 144.

BioElectronics Corporation ("BioElectronics"), a medical device company founded 16 years ago in 2000 by Andrew Whelan. Kelly Whelan is the daughter of Andrew Whelan, but they do not live in the same state, let alone the same household. BioElectronics is the developer, marketer and manufacturer of patented, inexpensive, drug–free, topical, anti-inflammatory medical devices. In 2002, the United States Food & Drug Administration ("FDA") awarded BioElectronics a 510K clearance for sale and distribution of its products for a plastic surgery application.

BioElectronics' products, which have been proven effective in multiple clinical studies, are currently available in the United Sates and over-the-counter in Canada, Austria, Middle East, Africa, South America and the European Union including the United Kingdom, where the product is presently on the shelves of Walgreens/Boots, the largest pharmacy chain in the UK among many others. In total, BioElectronics has sold more than one million units representing about 57 million treatments.

BioElectronics' current Chairman of the Board of Directors, Dr. Richard Staelin, is a Chaired Professor of Business Administration at the Fuqua School of Business at Duke University. Its Board

previously included Dr. Brian M. Kinney, Chief of Plastic Surgery at Century City Hospital in California and faculty member at University of Southern California Medical School; Ashton Perry, a former Vice President at Lucent Technologies, Inc.; and Douglas Watson, a former President of Ciba/Geigy's United States' Pharmaceutical Division, and Chairman and CEO of Novartis Corporation, among others.

The transactions at issue were all approved by the board of directors at BioElectroncs that at all relevant time included at least one independent director. Some of BioElectronics' significant accomplishments include:

- On May 29, 2013, Export-Import Bank of the United States made a $500,000 working capital loan to BioElectronics. The loan was renewed in May 2014 and again in May 2015.
- United States FDA market clearance - treatment of edema following blepharoplasty.
- Canadian market approval for relief of musculoskeletal and menstrual-pain and post-operative pain and edema in both medical and over-the-counter markets.
- CE Mark (European Common Market) Certification for the medical and retail over-the-counter markets.
- ISO Certification
- More than seven published medical journal studies.
- On-going medical research at Tufts Medical and Dental School; University of Chicago Medical School; University of British Columbia; University Hospital Ghent, Belgium; University Hospital G. Martin, Messina, Italy and University Hospital, Oxford England, Valle Balbo Implant Center, Italy

- Products are included in B. Bruan's hip and knee replacement pre and post surgical kits and protocol. B. Braun has petitioned the UK's National Health System for product reimbursement.
- Chosen as "One of 9 Medical Breakthroughs That May Change Your Life" by MedicalHeadway.com.
- 2009 Wall Street Journal Technology Innovation Medical Devices Runner Up Award.
- CEO Andrew J. Whelan awarded the National Humanitarian Technology Leadership Award by the Chabad at John's Hopkins University in March 2013.
- Cited twice for "Most Innovative New OTC Product" runner up award from the OTC Bulletin, a leading UK-based Healthcare Marketing Publication.
- Wounds UK 2013 chronic wounds Pain & Trauma Category Award Winner.
- Twelve new issued patents, eight patents pending/published applications and five international trademarks.

The Division began its formal investigation of Respondent on May 22, 2012 looking for evidence that Respondent had committed securities fraud, fueled by impermissible access to attorney-client privileged information provided by a disgruntled former consultant, Drew Walker, who was hired to be a lawyer and accountant for BioElectronics. Unbeknownst to Respondent, Drew Walker was not actually a licensed attorney, but a fraud who was not a member of any bar. However, that fact did not waive BioElectronics' attorney-client privileged communications to the Division. BioElectronics reasonably believed Drew Walker was its lawyer, and, accordingly, all communications between BioElectronics' officers, directors and employees and Drew Walker were protected under the attorney-client privilege. The Division mistakenly contended and maintains that because Drew Walker was not a member of the bar, the communications that BioElectronics

believed to be attorney-client privileged communications with Drew Walker, were not in fact privileged. Because the Division's legal position is wrong, the evidence obtained is the fruit of such intentional invasion of BioElectronics' attorney-client privilege and it taints the Division's entire case and should result in the exclusion of the Division's evidence.

Fueled with unlawful access to attorney-client privileged information, the Division overconfidently tried to make a case. However, after almost four-years of rooting around in vain to develop a fraud case, the Division was compelled to abandon its fraud theory. In a desperate attempt to justify its 4-year old investigation, the Division resorted to manufacturing three novel non-scienter based claims that could not pass judicial scrutiny in a federal district court. Seeking to work around judicial scrutiny, the Division hopes that the Commission's Administrative Law Judge in this proceeding will reincarnate the Division's otherwise dead on arrival case.

The Section 5 claim alleged in the OIP is barred because all of the exchanges and issuances of securities were made in accordance with Section 4 of the 1933 Act, 15 U.S.C. § 77d, and following the extensive guidance the SEC publishes for parties and participants in exempt transactions, including Rule 144. These exemptions include: (1) transactions that do not involve an issuer, underwriter, or dealer under Section 4(1); (2) private offerings under Section 4(2); (3) certain dealer or broker transactions under Sections 4(3) and 4(4); and (4) restricted issuer transactions to accredited investors under Section 4(6). The market participants have a right to rely on what the SEC says about the way the law is to be applied, and the SEC violates due process and sound policy when it attempts to regulate by surprise and announce a new view of the law through an enforcement action that could not have been anticipated from, and is instead contrary to, its past statements about what the law means. Here, all the securities at issue were exempt from registration.

St. John's, which is an affiliate of BioElectronics because St. John's is 99% owned by Andrew Whelan's wife, Patricia, was entitled to sell and did sell her shares into the public market through a SEC registered broker at the rate and at the times permitted by the federal securities laws. Under the so-called "leakage" provisions of Rule 144, St. John's was entitled to sell certain minimal portions of its stock, and did so. There was nothing untoward.

Separately, the Division pursues books and records violations based on two 2009 transactions that call into question the timing of recordation of income as to certain "bill and hold" transactions. Specifically, the Commission Staff argues that the revenue reported in 2009 regarding two bill and hold transactions among seller, BioElectronics, and buyers, YesDTC and Emarkets, were material to BioElectronics' investors and made with sufficient scienter. The allegations fail scrutiny as to BioElectronics for three reasons: (1) the transactions were fairly reported; (2) Respondent relied on the expertise of consulting accountants who specialized in SEC reporting and an independent auditor to fairly and accurately book and report such transactions; and (3) the timing of the reporting of earnings on such transactions, and the transactions themselves, were immaterial to BioElectronics' investors, as an event study has shown.

BioElectronics recorded transactions in accordance with what it believes to be generally accepted accounting principles. Electing to treat the transactions as "bill & hold" was assumed the preferred accounting treatment. Alternatively, no restatement was necessary since both sales were absolute. Shipment was not required. eMarkets acquired discontinued inventory and YesDTC made its initial purchase of inventory as a condition precedent to acquiring the territorial rights to the Japanese market. Purchasing an initial inventory is a condition precedent in all of BioElectronics distribution agreements.

In its 10Q filed in May 2010, BioElectronics disclosed to investors that "[a]t March 31, 2010, the Company has not yet delivered 43,160 units, totaling approximately $366,000 bill and hold sales recognized for the year ended December 31, 2009. The units will be shipped during 2010 to help meet the distribution 2010 purchase obligation." Similar statements were made in the next two quarterly SEC Form 10-Q's. At the end of 2010, BioElectronics voluntarily and without prodding by the SEC Staff, took remedial action to restate the revenue and disclose the restatement to investors in its annual report. At no time did BioElectronics ever return any of the $366,000 emarkets had actually paid to BioElectronics. Based on the circumstances of these transactions in mid first quarter of 2010, BioElectronics engaged accountant, Esther Ko, a former PriceWaterhouse Coopers accountant, and outside auditor agreed that the so-called "bill and hold" sales should be booked to fairly and accurately reflect the financial condition of the company to its investors as of December 31, 2009.

The Division understands that the accounting treatment of such transactions is a matter of some uncertainty among accounting professionals, and that BioElectronics' qualified accounting personnel and outside auditor approved BioElectronics' recordation and reporting of such transactions. Indeed, the Division has brought this proceeding against the independent auditor, Robert P. Bedwell, CPA, for doing so. Thus, the Division concedes, as it must, that there is no scienter based claim that can be made against Respondent.

The evidentiary record related to the audit and accounting issues presented, including internal and external communications, documents, and analyses, is lengthy and complex, and the Division's allegations present an incomplete and misleading version of the true facts.

Even if the Division could prove that the so-called "bill and hold" transactions were not properly recorded and reported by BioElectronics, and even if the Division could establish that

BioElectronics' reliance on its outside expert Ester Ko, CPA, as an internal accountant, and independent auditor was not reasonable, neither of which it can do, the Division would still lose because the timing and, indeed, the fact of such transactions, were not material. An event study of BioElectronics stock reflects that the reporting of these transactions did not materially affect the trading in BioElectronics' stock.

Event studies are used commonly to assess the statistical significance of stock price movements as a result of the introduction of new information into the marketplace regarding a company. *See, e.g. SEC v. Leslie*, 2010 U.S. Dist. LEXIS 76826, at *31-32 (N.D. Cal. July 29, 2010). Statistically significant stock price movements that occur as a result of new information have long been recognized as an indicia of materiality. *See, e.g., U.S. v. Bilzerian*, 926 F.2d 1285, 1298 (2d Cir. 1991). Conversely, where, as here, there are no significant stock price movements after the facts are publicly disclosed, such facts are a strong indicia of the absence of materiality. Neither the disclosure of the $366,000 in revenue nor the subsequent disclosures of the events associated with the two bill and hold transactions had any material impact on BioElectronics' stock price in the public market place, as evidenced by an event study conducted at Duke University for BioElectronics. That event study determined that there were no market price responses associated with the disclosures of BioElectronics' three 10-Q's or the one 10-K in 2010 (the "Relevant Period").

BioElectronics' Duke University Event Study, conducted by Yue Qin ("Qin"), reports a series of event studies to determine if there were any abnormal movements in BioElectronics' stock price associated with the SEC quarterly and annual statements in question. Qin is a fourth-year Duke University PHD candidate who has conducted more than 200 event studies aimed at determining if new information resulted in abnormal stock price movements. A copy of a report of Qin's event

study is attached hereto at **Exhibit 1**. As thoroughly explained in her expert report, Yue Qin employed a rigid methodology based upon proven methods of statistical analysis based on BioElectronics' stock prices between 2009 and 2013 to reach her opinion that BioElectronics' stock price was not impacted in a statistically significant manner by the announcements regarding the bill and hold sales during the relevant period.

Qin analyzed data pertaining to: 1) March 31, 2010, the release of the financial statement for the year 2009 that first listed the two bill and hold transactions; 2) May 12, 2010, the date of the release of the first quarter 10-Q; 3) August 20, 2010, the date of the release of the second quarter 10-Q; 4) November 15, 2010, the date of the release of the third quarter 10-Q, all of which provided new information on the status of the bill and hold transactions; and 5) April 12, 2011, the date BioElectronics released its 2010 annual report that restated the 2009 earnings to reflect the actual events associated with the bill and hold transactions.

Qin's study methodology employs a regression statistical analysis, which is consistent with other event studies that have been used in similar cases, and thus consistent with what constitutes an admissible expert opinion under *Daubert*. *See, e.g. In re Imperial Credit Indus. Sec. Litig.*, 252 F. Supp. 2d, 1005, 1014 (C.D. Cal. 2003).

As a last ditch effort, the Division desperately attempts to cobble together an amorphous novel unregistered broker-dealer claim. The term dealer does not encompass a person who buys or sells securities "not as a part of a regular business." 15 U.S.C. § 78c(a)(5)(B). This exception recognizes the distinction between a dealer and a trader. 67 Fed. Reg. at 67499. Dealers are required to register with the Commission but traders are not. *Id.* The totality of one's activities determines which side of the dealer/trader line one falls. *Id.*

II. RESPONSE TO SUMMARY ALLEGATIONS:

Part I of the OIP contains legal conclusions to which no answer is required. To the extent an answer is necessary, Respondent denies having sufficient information to address what the Securities and Exchange Commission ("SEC" or "Commission") deemed "appropriate" and in the "public interest," as set forth in Section I, except to state the OIP was not appropriate or in the public interest. By filing and serving this answer, Respondent does not intend to waive, and is not waiving, its rights to pursue a federal court action, and raises all constitutional objections here to preserve them. This Answer is filed without prejudice to and expressly preserves all claims and contentions that may be asserted in any federal court action.

III. RESPONSE TO SPECIFIC ALLEGATIONS:

Respondent Responds to the allegations as follows:

1. This matter involves inaccurate public disclosure and the unlawful distribution of securities by BioElectronics Corp. ("BIEL") and related persons and entities. On March 31, 2010, BIEL filed with the Commission a Form 10-K for the period ending December 31, 2009, falsely recognizing revenue from two "bill and hold" transactions. These transactions overstated BIEL's revenue by $366,000, or 47%. Additionally, from at least August 2009 until at least November 2014 ("the relevant period"), BIEL and respondents IBEX, LLC, St. John's, LLC, Andrew J. Whelan and Kelly A. Whelan engaged in an illegal distribution of purportedly unrestricted securities involving the sale of hundreds of millions of BIEL shares. Affiliates, IBEX, LLC and St. John's, LLC, sold purportedly unrestricted shares in unregistered transactions at a discount to then-current market prices. Andrew J. Whelan, President, CEO and the principal financial officer of BIEL, and Kelly A. Whelan, his daughter and the President of IBEX, LLC, orchestrated the illegal distribution. Approximately half of the proceeds of these sales were then "loaned" to BIEL and the other half was retained by the entities. The offerings were not registered with the Commission. Robert P. Bedwell's failures to detect BIEL's improper accounting, as the auditor responsible for auditing the financial statements included in BIEL's Form 10-K, constitutes improper professional conduct.

Response: Respondent denies that I engaged in an illegal distribution of unrestricted securities. Respondent denies it sold securities at below market price. Respondent states that it sold securities only through a registered broker-dealer in compliance with Rule 144. The remining allegations in this paragraph do not pertain to St. John's and therefore do not require a response from

Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 1.

2. Respondent BioElectronics Corp. is a Maryland corporation with a sole location employing approximately twelve people in Frederick, Maryland. The company is engaged in the business of making inexpensive, drug-free, anti-inflammatory medical devices and patches which use electromagnetic energy. In 2007, BioElectronics entered into a settlement with the State of Maryland related to selling unregistered shares, agreeing to a permanent cease and desist order and the payment of a $2,500 penalty. It has a class of equity securities, previously registered with the Commission pursuant to Exchange Act Section 12(g), with approximately 4 billion shares issued as of November 2013. On April 18, 2011, BIEL voluntarily withdrew its registration. BIEL shares currently trade on OTC Link, operated by OTC Markets Group, Inc. During the relevant period, BIEL shares were a penny stock as that term is defined in Section 3(a)(51) of the Exchange Act and Rule 3a-51-1 thereunder. 15 U.S.C. § 78c(a)(51) and 17 C.F.R. § 240.3a-51-1.

Response: The allegations in this paragraph do not pertain to St. Johns and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations.

3. Respondent IBEX, LLC ("IBEX") is a Virginia Limited Liability Company formed in 2005. It has an office in Ashburn, Virginia and is managed by Kelly A. Whelan, who is its sole employee and who has sole ownership of IBEX. IBEX made millions of dollars in loans to BIEL. During the relevant period, IBEX participated in offerings of BIEL stock.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 3.

4. Respondent St. John's, LLC ("St. John's") is a Virginia limited liability company formed in 2010. It has never had a class of securities registered with the Commission. Patricia A. Whelan, wife of Andrew J. Whelan, owns 99% of St. John's, and Kelly A. Whelan, daughter of Patricia A. Whelan and Andrew J. Whelan, owns 1%. St. John's has provided funding for BIEL. Andrew J. Whelan's salary at BIEL has been paid to St. John's. During the relevant period, St. John's participated in offerings of BIEL stock.

Response: Respondent admits that St. John's was formed in 2010 as a Virginia LLC. St John's has never registered its securities. St. Johns is 99% owned by Patricia A. Whelan and 1% owned by Kelly Whelan. St. John's loaned money to BIEL in exchange for convertible promissory notes. All sales of BIEL stock by St. John's were handled by a registered broker-dealer and pursuant to Rule 144. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 4.

5. Respondent Andrew J. Whelan ("Whelan"), age 74, is a resident of Frederick, Maryland. Whelan is now, and for all relevant periods has been, BIEL's President, CEO, principal financial officer and member of the board of directors. He is also BIEL's founder. During the relevant period, Whelan participated in offerings of BIEL stock.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 5.

6. Respondent Kelly A. Whelan, CPA ("Kelly Whelan"), age 48, is a resident of Ashburn, Virginia. Kelly Whelan is the daughter of Whelan. She is licensed as a CPA in the state of Maryland. During the relevant period, Kelly Whelan participated in offerings of BIEL stock.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 6.

7. Respondent Robert P. Bedwell, CPA ("Bedwell"), age 57, is a resident of Coral Springs, Florida. Bedwell is currently a partner at an accounting firm in Florida. He was the audit engagement partner for BIEL's 2009 10-K.

Response: Response: he allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual

allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 7.

8. eMarkets Group, LLC ("eMarkets") is a Nevada registered limited liability company owned by Whelan's sister, who is its sole employee and shareholder. It has never had a class of securities registered with the Commission. It acts as a distributor of BIEL's veterinary products and is a related entity.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 8.

9. YesDTC Holdings, Inc. ("YesDTC") is a Nevada corporation headquartered in San Francisco, California. YesDTC purports to specialize in direct-to-consumer marketing (e.g., infomercials, advertisements). YesDTC was a reporting company with the Commission pursuant to Section 12(g) of the Exchange Act. YesDTC ceased all business operations on February 23, 2012. On December 15, 2014, YesDTC's securities registration with the Commission was revoked under Section 12(j) of the Exchange Act.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 9.

10. From at least August 2009 to at least November 2014, BioElectronics, through IBEX and St. John's, and the efforts of Whelan and Kelly Whelan, distributed hundreds of millions of unrestricted shares in a series of unregistered transactions ("the offerings"). BIEL received proceeds of several million dollars from the offerings.

Response: Respondent denies each and every allegation of Paragraph 10.

11. During the relevant period, respondents BIEL, IBEX, St. John's, Whelan and Kelly Whelan effected the offerings as follows: when BIEL needed funds to continue its operations, IBEX sold hundreds of millions of unrestricted BIEL shares in dozens of unregistered transactions, at the request of Whelan, directly to third party purchasers at a discount to then current market prices. IBEX retained a percentage of the money obtained from the sales but funneled the rest to BIEL, and, in return, BIEL provided both a "convertible loan" to IBEX and a new grant of unrestricted

shares which, in effect, replaced the shares IBEX sold. When each of these "loans" came due, after one or two years' time, BIEL "renegotiated" them by providing IBEX with additional purportedly unrestricted shares in return for extending the loan's due date. BIEL never repaid any of the "loans" in cash. These transactions were not registered with the Commission.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 11.

12. Starting in mid-2010 and continuing into at least early 2012, BIEL used St. John's to provide financing using the same type of transaction. BIEL raised over a million dollars through these offerings in approximately 17 transactions. These transactions were not registered with the Commission.

Response: Respondent admits that it loaned funds to BIEL in exchange for convertible notes. Respondent admits that it converted such notes to BIEL stock and sold BIEL stock through a registered broker-dealer pursuant to the Rule 144 safe harbor. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 12.

13. During the relevant period, Whelan was the President, CEO and principal financial officer of BIEL and directed its daily operations. Whelan communicated BIEL's financing needs to IBEX and St. John's. And, as BIEL's President and CEO, he ordered the issuance of BIEL shares to IBEX and St. John's through BIEL's transfer agent. He obtained the approval of the transactions from BIEL's board of directors. Whelan also met with third party purchasers in order to induce their purchase of BIEL shares through IBEX and St. John's.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 13.

14. During the relevant period, Kelly Whelan was the sole owner, sole employee and managing member of IBEX. She offered and sold unregistered shares directly to the third party purchasers. She contacted these third parties, negotiated the terms with them and made the sale. And she, through her control of IBEX, funneled the proceeds back to BIEL.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 14.

15. During the relevant period, IBEX, and St. John's were affiliates of BIEL as each was under the common control of Whelan, or, at the least, the common control of Whelan and Kelly Whelan. Among other things, Whelan determined when IBEX and St. John's sold shares to the public. In addition, IBEX and St. John's paid BIEL's business expenses, including paying BIEL's contractors for services rendered and paying Whelan's travel expenses incurred while performing BIEL related work.

Response: Respondent admits that St. John's was an affiliate of BIEL. Defendant denies the remaining allegations in this paragraph contain the Division's mischaracterizations regarding BioElectronics and St. Johns. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 15.

16. IBEX and St. John's offered and sold shares for BIEL or, in the alternative, acquired securities from BIEL with a view to distributing the securities. Each sold BIEL shares, at Whelan's request, for that purpose and Whelan replaced shares sold by IBEX and St. John's so that the process could be repeated.

Response: Respondent denies each and every allegation of Paragraph 16. St. John's never sold shares for BIEL during the relevant period or acquired securities from BIEL for distribution. St. John's sold the securities in reliance on Section 4 exemption (for transactions by persons other than issuers, underwriters or dealers) after confirming with counsel she was not an underwriter pursuant to the safe harbor provisions of Rule 144. All sales were exempt. St. Johns has not purchased shares

in BioElectronics. St. John's purchased Convertible Notes in an arms length negotiation that pay interest and has a recorded lien on all the assets of BIEL. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 16.

17. Accurate, current information about BIEL was not available to the public during the relevant period. BIEL was delinquent for large periods of that time: it made none of the required filings under Section 12(g) of the Exchange Act prior to the March 31, 2010 filing of the 2009 Form 10-K, and while BIEL filed unaudited quarterly reports for the second and third quarters of 2010, it was again delinquent from the fourth quarter of 2010 until it withdrew its registration in April 2011. Importantly, the 2009 10-K materially overstated BIEL's revenue, as detailed below.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 17.

18. During the relevant period, BIEL did not register any securities offerings with the Commission.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 18.

19. On a Form 10-K filed with the Commission on March 31, 2010 ("2009 10-K"), BIEL improperly recorded revenue from two transactions in which BIEL retained the goods it claimed to have sold. These transactions, which totaled $366,000, represented 47% of the revenue in 2009 and were material to BIEL.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 19.

20. BIEL disclosed an accounting policy in its 10-K filed on March 31, 2010 that it "recognize[d] revenue when evidence of an arrangement exists, such as the presence of an executed sales agreement, pricing is fixed and determinable, collection is reasonably assured and shipment has occurred or title of the goods has been transferred to our buyers."

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 14.

21. BIEL further disclosed its policy for bill-and-hold revenue recognition. "We recognize revenue on bill and hold arrangements when the following 7 criteria have been met: 1) the risk of ownership has passed to the buyer; 2) the buyer has made a fixed commitment to purchase the goods, preferably in writing; 3) the buyer, and not the seller, has requested that the transaction is on a bill and hold basis; 4) there is a fixed schedule for delivery of the goods, indicating a delivery date that is reasonable and consistent with the buyer's business purpose; 5) the buyer has not retained any specific performance obligations such that the earnings process is not complete; 6) the ordered goods are segregated from the seller's inventory and is not being used to fill other orders; and 7) the product must be complete and ready for shipment. In addition, payment must be received and/or fixed payment dates be agreed with the customer pursuant to which the risk of collection is reduced to a minimal level."

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 21.

22. Contrary to its disclosures and Generally Accepted Accounting Principles ("GAAP"), BIEL improperly recognized revenue on two bill and hold transactions. As BIEL's President, CEO and principal financial officer, Whelan controlled BIEL and, specifically, its financial statements.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 22.

23. BIEL made the first of the two bill and hold transactions pursuant to a distribution agreement between BIEL and YesDTC. BIEL entered into a distribution agreement with YesDTC on December 31, 2009, the final day of BIEL's fiscal year. This transaction failed to meet the criteria for recognizing revenue for multiple reasons. First, at the time the agreement was entered into and revenue was recognized by BIEL, the sale was not final and no fixed commitment to purchase the goods existed because YesDTC had a contractual right to cancel the distribution agreement for a period of six months. Second, YesDTC never met the contractual requirement that it obtain regulatory approval to sell BIEL's products and, resultantly, BIEL would not turn over its product to YesDTC without that approval. Third, the agreement contained no fixed schedule for delivery of the goods. Specifically, YesDTC had not agreed to take delivery of any specific quantity of product at any specific date.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 23.

24. The second bill and hold transaction that failed to meet bill and hold revenue recognition criteria involved BIEL and eMarkets, a distributor of BIEL products. The agreement between BIEL and eMarkets contained no fixed schedule for delivery of the goods related to this transaction, either, i.e., eMarkets had not agreed to take delivery of any specific quantity of product at any specific time. Also, at the time BIEL recognized revenue related to this transaction, certain finishing activities called for under the agreement, such as the application of adhesive strips, had not been completed.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 24.

25. Whelan, acting in his capacity as BIEL's President, CEO and principal financial officer, oversaw the preparation of BIEL's financial statements. At the time BIEL prepared its 2009 10-K, the company did not have an internal accounting staff, and Whelan had no accounting training or expertise. Despite his lack of expertise, but in consultation with outside accountants, Whelan provided BIEL's auditors with information indicating that both the YesDTC and the eMarkets transactions satisfied the accounting guidelines for revenue recognition, despite having knowledge to the contrary.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 25.

26. Bedwell was the audit engagement partner responsible for the audit of BIEL's financial statements included in its 2009 10-K.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 26.

27. PCAOB Auditing Standards require an auditor to exercise due professional care in the performance of work. AU § 150.02, Generally Accepted Auditing Standards, states that "due professional care is to be exercised in the performance of the audit and the preparation of the report." Furthermore, "sufficient competent evidential matter is to be obtained ... to afford a reasonable basis for an opinion regarding the financial statements under audit." AU § 230.06, Due Professional Care in the Performance of Work, states:

> *"Auditors should be assigned to tasks and supervised commensurate with their level of knowledge, skill, and ability so that they can evaluate the audit evidence they are examining. The auditor with final responsibility for the engagement should know, at a minimum, the relevant professional accounting and auditing standards and should be knowledgeable about the client."*

Response: Paragraph 27 appears to state only contentions of law or legal authority and on that basis no response is required or offered. To the extent a response is required, Respondent lacks sufficient information to admit or deny the allegations contained in this paragraph and on that basis denies each and every allegation of Paragraph 27.

28. Bedwell did not make himself knowledgeable about the client through his own actions or the actions of those who worked under him. He failed to determine that BIEL was a high risk audit client as was evidenced by the lack of adequate accounting staff, the presence of related party

transactions, and the hundreds of millions of shares BIEL had issued to the public despite its size and the share price. He further failed to determine that the two bill and hold transactions themselves exhibited additional red flags over and above being bill and hold transactions: the YesDTC transaction occurred on the final day of the annual reporting period, the two transactions amounted to a significant percentage, i.e., 47%, of BIEL's revenue, and each was with either claimed as a related party in BIEL's 10-K, i.e., eMarkets, or a party that had other dealings with BIEL, i.e., YesDTC through its president, who also provided consulting services to BIEL. Further, he failed to recognize that there was no fixed delivery schedule under either the YesDTC or the eMarkets transactions, he failed to observe the segregation of inventory related to these bill and hold transactions after he became aware of them, and he failed to properly evaluate whether revenue recognition was met given that BIEL's agreement with YesDTC granted YesDTC a contractual right to cancel that agreement.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 28.

29. PCAOB Auditing Standards require an auditor to exercise professional skepticism. AU § 230.07, Due Professional Care in the Performance of Work, defines professional skepticism as "an attitude that includes a questioning mind and a critical assessment of audit evidence." AU § 230.09, Due Professional Care in the Performance of Work, states that an "auditor neither assumes that management is dishonest nor assumes unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest."

Response: Paragraph 29 appears to state only contentions of law or legal authority and on that basis no response is required or offered. To the extent a response is required, Respondent lacks sufficient information to admit or deny the allegations contained in this paragraph and on that basis denies each and every allegation of Paragraph 29.

30. Bedwell's acceptance of the statements in the bill and hold memorandum, particularly the statements concerning the fixed delivery schedules and the completed nature of the goods sold, without establishing sufficient independent audit evidence, demonstrates that Bedwell failed to exercise the required professional skepticism.

Response: Paragraph 30 appears to state only contentions of law or legal authority and on that basis, no response is required or offered. To the extent a response is required, Respondent lacks

sufficient information to admit or deny the allegations contained in this paragraph and on that basis denies each and every allegation of Paragraph 30.

31. PCAOB Auditing Standards also require that an auditor obtain sufficient knowledge of the audited company to competently plan and perform the audit. AU § 311.06, Planning and Supervision, states: "[T]he auditor should obtain a level of knowledge of the entity's business that will enable him to plan and perform his audit in accordance with generally accepted auditing standards. That level of knowledge should enable him to obtain an understanding of the events, transactions, and practices that, in his judgment, may have a significant effect on the financial statements." AU § 311.13, Planning and Supervision, states: "[T]he work performed by each assistant should be reviewed to determine whether it was adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the auditor's report."

Response: Paragraph 31 appears to state only contentions of law or legal authority and on that basis, no response is required or offered. To the extent a response is required, Respondent lacks sufficient information to admit or deny the allegations contained in this paragraph and on that basis denies each and every allegation of Paragraph 31.

32. As detailed above, Bedwell failed to obtain sufficient knowledge of BIEL, either directly or through his assistants, to recognize that it was a high risk client that entered into high risk transactions. His failure to obtain sufficient knowledge resulted in an audit that was inadequately planned and executed.

Response: Respondent lacks sufficient information to admit or deny the allegations contained in this paragraph and on that basis denies each and every allegation of Paragraph 32.

33. PCAOB Auditing Standards require that audit conclusions be supported by competent evidence. AU § 326.01, Evidential Matter, states that "[s]ufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit."

Response: Paragraph 33 appears to state only contentions of law or legal authority and on that basis no response is required or offered. To the extent a response is required, Respondent lacks sufficient information to admit or deny the allegations contained in this paragraph and on that basis denies each and every allegation of Paragraph 33.

34. Examples of Bedwell's failure to obtain sufficient competent evidence include his failure to obtain evidence of a fixed delivery schedule under either bill and hold transaction, his failure to obtain evidence that the inventory related to the two bill and hold transactions was segregated after the transactions came to light and his failure to establish evidence that the YesDTC transaction was final with a fixed commitment to purchase the goods and not cancellable.

Response: Respondent denies that the inventory related to the two bill and hold transactions was not segregated. Respondent lacks sufficient information to admit or deny the allegations contained in this paragraph and on that basis denies each and every allegation of Paragraph 34.

35. PCAOB Auditing Standards require related party transactions be treated with heightened scrutiny. AU § 334.07, Related Parties, states that an "auditor should be considered when auditing related party transactions including examining "invoices, executes copies of agreements, contracts, and other pertinent documents, such as receiving reports and shipping documents" and "Test for reasonableness the compilation of amounts to be disclosed, or considered for disclosure, in the financial statements."

Response: Paragraph 35 appears to state only contentions of law or legal authority and on that basis no response is required or offered. To the extent a response is required, Respondent lacks sufficient information to admit or deny the allegations contained in this paragraph and on that basis denies each and every allegation of Paragraph 35.

36. Bedwell failed to properly test the eMarkets transaction, a related party transaction. Instead, he relied on the representations of management, through the bill and hold memorandum, and eMarkets, the related party, through customer confirmations that a fixed delivery schedule had been established, when, in fact, none had. Bedwell also failed to consider additional procedures contained in the standards to the eMarkets transaction.

Response: Respondent lacks sufficient information to admit or deny the allegations contained in this paragraph and on that basis denies each and every allegation of Paragraph 36.

37. Section 5(a) of the Securities Act prohibits any person, directly or indirectly, to use the mails or other means of interstate commerce to sell a security unless pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act. In addition, Section 5(c) makes it unlawful for any person, directly or indirectly, to offer to sell or buy securities, through a prospectus or otherwise, unless a registration statement has been filed as to such security or pursuant to an exemption.

Response: Paragraph 37 appears to state only contentions of law or legal authority and on that basis no response is required. To the extent that any factual allegation is stated or implied, Respondent denies each and every allegation of Paragraph 37.

38. As a result of the conduct described above, BIEL, IBEX, and St. John's violated, and Whelan and Kelly Whelan willfully violated, Sections 5(a) and 5(c) of the Securities Act.

Response: Respondent denies each and every allegation of Paragraph 38.

39. By virtue of the conduct described above, BIEL violated Section 13(a) of the Exchange Act and Rule 13a-1 thereunder, which require issuers of securities registered with the Commission to file with the Commission accurate annual reports. Whelan was a cause of these violations through his actions as President, CEO and principal financial officer of BIEL.

Response: The allegations in this paragraph do not pertain to St. John's and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent denies the allegations. Except as otherwise expressly admitted in this Answer, Respondent denies each and every allegation of Paragraph 39.

40. BIEL also violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. It violated Section 13(b)(2)(A) by failing to make and keep books and records which accurately reflected the transactions of the company. It violated Section 13(b)(2)(B) by failing to design and maintain internal accounting controls sufficient to provide reasonable assurances that its revenue was not being overstated. Whelan was a cause of these violations as he knew, or should have known, his conduct or omissions would contribute to BIEL's violations.

Response: The allegations in this paragraph contain allegations regarding BioElectronics and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent lacks sufficient knowledge or information and on that basis denies the allegations.

41. Rule 13a-14 of the Exchange Act requires that each report filed on Form 10-K include certifications signed by the principal executive and principal financial officer of the issuer attesting to the accuracy of the filings and adequacy of internal controls. As BIEL's CEO, President and principal financial officer, Whelan signed certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 stating: (1) that BIEL's 2009 10-K fairly presented, in all material respects, BIEL's financial condition and results, (2) that BIEL's 2009 10-K was free of material

misstatements and omissions, and (3) that he had designed, or caused to be designed, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Whelan willfully violated Rule 13a-14 by signing these false certifications with knowledge that the 2009 10-K did not fairly present BIEL's financial condition and results of operations in all material respects. Also, Whelan had knowledge that BIEL's 2009 10-K was not free of untrue statements of a material fact, or omitted to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not materially misleading. And he knew, or should have known, that he had not designed, or caused to be designed, internal controls over financial reporting that provided reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Response: The allegations in this paragraph contain allegations regarding BioElectronics and Andrew Whelan and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent lacks sufficient knowledge or information and on that basis denies the allegations.

42. Exchange Act Rule 13b2-1 prohibits any person from directly or indirectly falsifying or or causing the falsification of any book, record, or account subject to Section 13(b)(2)(A). Exchange Act Rule 13b2-2 prohibits any director or officer of an issuer from making or causing to be made, directly or indirectly, any materially false or misleading statement to an accountant in connection with the preparation or filing of any required document or report with the Commission. Rule 13b2-2 can be violated by misrepresentations or omissions. Whelan willfully violated Rules 13b2-1 and 13b2-2 by signing the false certification, participating in the misconduct, directing the preparation of the inflated revenue statements, and/or assisting in the creation of a memorandum to BIEL's auditor that misrepresented and omitted facts relevant to the bill and hold transactions.

Response: The allegations in this paragraph contain allegations regarding BioElectronics and its affiliates and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent lacks sufficient knowledge or information and on that basis denies the allegations.

43. Section 4C of the Exchange Act and Rule 102(e)(1) of the Commission's Rules of Practice provide that the Commission may censure or deny, temporarily or permanently, any person the privilege of appearing or practicing before it if that person engaged in unethical or improper professional conduct or willfully violated Federal securities laws or the rules and regulations thereunder.

Response: The allegations in this paragraph contain allegations regarding Bedwell and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent lacks sufficient knowledge or information and on that basis denies the allegations.

44. In light of the conduct described above, Bedwell engaged in improper professional conduct in violation of Section 4C of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

Response: The allegations in this paragraph contain allegations regarding Bedwell and therefore do not require a response from Respondent. To the extent this paragraph contains factual allegations requiring a response, Respondent lacks sufficient knowledge or information and on that basis denies the allegations.

The allegations contained in paragraphs 45 through 50 reflect requests for determination of certain contentions made by the Commission, warranting no response. To the extent a response is required, Respondent lacks sufficient information to admit or deny such allegations and on that basis denies each and every allegation set forth in Article III, paragraphs 45 through 50, inclusive.

IV. AFFIRMATIVE DEFENSES

Without admitting any wrongful conduct on the part of Respondent and without conceding that it carries the burden of proof on any of the following affirmative defenses, Respondent alleges the following affirmative defenses to the claims alleged in the OIP.

First Affirmative Defense

The Division's more than five-year investigation is tainted by fruit of the poisonous tree. The entire investigation was launched when named Drew Walker, who claimed to an attorney and who BioElectronics reasonably believed to be an attorney, wrongfully engaged in discussions regarding

confidential attorney-client privileged information with the Division's counsel. The Division knowingly engaged in these conversations.

Second Affirmative Defense

The OIP fails to state a claim upon which relief may be granted against Respondent.

Third Affirmative Defense

The proceeding, as to Respondent, is not warranted by the facts and is unsupported by substantial evidence.

Fourth Affirmative Defense

The Division's claims against Respondent fail, in whole or in part, because the Respondent acted reasonably and in good faith at all relevant times.

Fifth Affirmative Defense

Respondent justifiably and reasonably relied on professionals for their unqualified opinions about the legality and propriety of the complex transactions at issue.

Sixth Affirmative Defense

The Section 5 claim alleged in the OIP is barred, in whole or part, because all of the exchanges and issuances of securities were made in accordance with Section 4 of the 1933 Act, 15 U.S.C. § 77d, and following the extensive guidance the SEC publishes for parties and participants in exempt transactions, including Rule 144. These exemptions include: (1) transactions that do not involve an issuer, underwriter, or dealer under Section 4(1); (2) private offerings under Section 4(2); (3) certain dealer or broker transactions under Sections 4(3) and 4(4); and (4) restricted issuer transactions to accredited investors under Section 4(6). The market participants have a right to rely on what the SEC says about the way the law is to be applied, and the SEC violates due process and sound policy when it attempts to regulate by surprise and announce a new view of the law through

an enforcement action that could not have been anticipated from, and is instead contrary to, its past statements about what the law means.

Seventh Affirmative Defense

The Commission and the Commission's Administrative Law Judges lack authority to conduct the proceedings herein, including, but not limited to, the fact that the presiding Administrative Law Judge is an "inferior officer" for purposes of Article II of the United States Constitution who was not appointed by the Commissioners, the President, or the courts and is impermissibly shielded from the President's removal powers.

Eighth Affirmative Defense

The claims alleged in the OIP are barred, in whole or in part, because this administrative proceeding violates Respondent's United States Constitutional rights, including, but not limited to, Respondents' rights to due process and equal protection. Among other things, (1) the Fifth Amendment Due Process Clause was violated based on the Commission's prejudgment of the charges; (2) the Commission's decision to place its claims against Respondent in an administrative proceeding violated Respondent's rights under the Equal Protection Clause by denying Respondent the fundamental right to a jury trial. The SEC chooses whether to bring cases in administrative proceedings or in federal court on a case-by-case basis, subject to no standard, thereby unilaterally deciding whether or not to deprive the Respondent of a jury trial based on its arbitrary, capricious or malicious decision; (3) the Equal Protection Clause is also violated under a "class-of-one" theory, in that the Commission had taken similarly situated persons to court, while deciding to pursue Respondent in an agency proceeding; (4) the Due Process Clause and Equal Protection Clause is violated because the Respondent had no advance notice that its actions, which appeared lawful and in compliance with the blue sky provisions of Rule 144, could expose the Respondent to devastating

liability to the Commission. The claims should be litigated in the United States District Court for the District of Maryland, where Respondent would enjoy all of its Constitutional rights of Due Process and Equal Protection under the laws.

Ninth Affirmative Defense

The claims alleged in the OIP are barred in whole or in part, because the administrative proceeding violates the doctrine of separation of powers.

Tenth Affirmative Defense

The OIP, and each alleged cause of action contained therein, is barred in whole or in part by the statute of limitations.

Eleventh Affirmative Defense

The OIP, and each alleged cause of action contained therein, is barred by the doctrine of laches because the Division of Enforcement delayed unreasonably and inexcusably in commencing this action and the Respondent suffered prejudice as a result.

Twelfth Affirmative Defense

The civil penalties sought by the Commission should be denied or substantially reduced because any such award would be unjust, arbitrary and oppressive, or confiscatory.

Thirteenth Affirmative Defense

This action should be barred because of the Division of Enforcement's failure to comply with the requirements of the Dodd-Frank Act (codified at Securities and Exchange Act Section 4E(a)) to bring an enforcement action within 180 days of the Wells notice to the Respondent. The Division of Enforcement did not file this OIP within the 180 days and has not carried its burden to show an exception from the requirement.

Fourteenth Affirmative Defense

The relief of disgorgement and other monetary relief is barred in whole or in part to the extent of applicable claims of Respondent for setoff, offset, recoupment and subsequent or concurrent new value exchanged for any moneys received by Respondent for which disgorgement or other legal or equitable monetary relief is sought. For example, in bankruptcy, a preference action (a non-scienter claim) does not lie if the transfer was a contemporaneous exchange for new value and/or if the defendant provided subsequent new value in exchange for the transfer 11 USC § 547(c)(1)(4).

Fifteenth Affirmative Defense

Respondent reserves the right to amend this Answer to assert any additional affirmative defense once discovery proceeds and more information becomes available. Respondent hereby incorporates herein all affirmative defenses asserted by the other Respondents.

WHEREFORE, Respondent prays for judgment as follows:

1. Dismissing the OIP in its entirety with prejudice on the merits;
2. Awarding judgment in Respondent's favor against the Commission;
3. Granting Respondent's costs and fees, including reasonable attorneys' fees; and
4. Granting such further and other relief as the Court deems just and proper.

Respectfully submitted, March 11, 2016

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Santa Monica, CA 90401
(310) 394-2828

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on the following on the 29th day of February 2016, in the manner indicated below.

Securities and Exchange Commission
Office of the Secretary
Attn: Secretary of the Commission Brent J. Fields
100 F Street, N.E.
Mail Stop 1090
Washington, D.C. 20549
Fax: (202) 772-9324
alj@sec.gov
(via overnight mail and electronic mail)

The Honorable Cameron Elliot
Office of the Administrative Law Judges
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549
(via overnight mail and email: alj@sec.gov)

Charles Stodghill, Esq.
Paul Kisslinger, Esq.
Division of Enforcement
Securities and Exchange Commission
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