UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. PIXARBIO CORP., FRANCIS M. REYNOLDS, KENNETH A. STROMSLAND and M. JAY HEROD, Defendants.	)	Case No. 1:18-cv-10797 JURY TRIAL DEMANDED

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges the following against defendants PixarBio Corp. ("PixarBio"), Francis M. Reynolds, Kenneth A. Stromsland, and M. Jay Herod, and demands a jury trial.

PRELIMINARY STATEMENT

1. This case involves a fraudulent offering of unregistered securities by PixarBio (a biotechnology company with no revenue), Francis Reynolds (PixarBio's president, chief executive officer, chief financial officer, and chief science officer), Kenneth Stromsland (PixarBio's chief information officer and vice president of investor and public relations), and M. Jay Herod (a long-time friend of Reynolds). Since at least December 2015, the defendants have raised approximately $12.7 million for PixarBio from about 211 investors.

2. To lure investors, Reynolds has made many materially false and misleading statements, including that: (i) the U.S. Food & Drug Administration accelerated the regulatory approval process for the drug that PixarBio is supposedly developing; (ii) PixarBio has a

$10 million line of credit; (iii) PixarBio raised enough money in 2016 to fund its operations through 2017 and begin clinical studies in humans; and (iv) Reynolds personally invented the first medical device to treat acute spinal cord injury and personally obtained dozens of neuroscience-related patents. Stromsland and Herod have actively solicited investors in person and by distributing materials written by Reynolds.

3. Beginning in the summer of 2016, Reynolds also engineered a fraudulent scheme to merge PixarBio with a public shell company, while secretly controlling virtually all "free-trading" shares in the newly-merged PixarBio entity. Reynolds concealed his control of these shares by arranging for Herod to act as a front to sell the shares to the public, thus flouting the federal securities laws that restrict stock sales by persons who are affiliates of publicly-traded companies. Between October 2016 and January 2017, Reynolds arranged for Herod to sell PixarBio stock on the over-the-counter market for approximately $910,000 – of which Herod funneled $800,000 directly to PixarBio ($500,000) and Reynolds ($300,000).[1] To pump up the price of PixarBio stock during these illegal sales, Stromsland and Herod engaged in manipulative trading in PixarBio stock, buying and selling shares to themselves in order to create the appearance of market activity.

4. The defendants' fraudulent offering of securities is still underway. PixarBio has raised more than $440,000 from investors since November 2017. In February 2018, PixarBio announced plans to raise another $5 million from investors.

5. Through the activities alleged in this Complaint: (i) the defendants have engaged in fraud in connection with the purchase or sale of securities, in violation of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. §78j(b)] and Rule 10b-5

[1] The "over-the-counter" market includes "OTC Link" (formerly known as the "Pink Sheets"), an inter-dealer securities quotation and trade messaging system operated by OTC Markets Group ("OTC").

thereunder [17 C.F.R. §240.10(b)-5]; (ii) the defendants have engaged in fraud in the offer or sale of securities, in violation of Section 17(a) of the Securities Act of 1933 (the "Securities Act") [15 U.S.C. §77q(a)]; (iii) the defendants have offered and sold unregistered securities, in violation of Section 5 of the Securities Act [15 U.S.C. §77e]; (iv) Stromsland and Herod have engaged in manipulative stock trading, in violation of Section 9(a) of the Exchange Act [15 U.S.C. §78i(a)]; and (v) Reynolds and Stromsland have acted as unregistered brokers, in violation of Section 15(a) of the Exchange Act [15 U.S.C. §78o(a)].

6. In addition to the preliminary relief set forth in its motion for a temporary restraining order, the Commission seeks: (i) a permanent injunction prohibiting the defendants from violating the relevant provisions of the federal securities laws; (ii) disgorgement of the defendants' ill-gotten gains, plus prejudgment interest; (iii) civil penalties due to the egregious nature of the defendants' violations; (iv) an order barring Reynolds, Stromsland, and Herod from participating in an offering of a "penny stock"[2]; and (v) an order barring Reynolds and Stromsland from serving as an officer or director of a public company.

JURISDICTION AND VENUE

7. The Commission brings this action pursuant to the enforcement authority conferred by Section 20(b) of the Securities Act [15 U.S.C. §77t(b)] and Section 21(d) of the Exchange Act [15 U.S.C. §78u(d)].

8. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. §77v(a)] and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§78u(d), 78u(e) & 78(aa)].

[2] The term "penny stock" generally refers to a security issued by a small company that trades at less than $5 per share. Penny stocks are usually quoted and traded on the over-the-counter market.

9. Venue is proper in this District pursuant to Section 22(a) of the Securities Act [15 U.S.C. §77v(a)], Section 27 of the Exchange Act [15 U.S.C. §78(aa)], and 28 U.S.C. §1391(b)(2), because: (i) the acts constituting the alleged violations occurred in whole or substantial part in this District; (ii) PixarBio had its principal place of business here during most of the relevant period; (iii) Reynolds maintained a residence here during most of the relevant period; (iv) Herod lives here; and (v) more than thirty investors in PixarBio live here.[3]

10. In connection with the conduct alleged in this Complaint, the defendants have directly or indirectly made use of the means or instruments of transportation or communication in interstate commerce, the facilities of a national securities exchange, or the mails.

11. The defendants' conduct has involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and has resulted in substantial loss, or significant risk of substantial loss, to other persons.

DEFENDANTS

12. **PixarBio Corp.** ("PixarBio") is a biotechnology company that had its principal place of business in Medford, Massachusetts, until May 2017. Its current place of business is either in Salem, New Hampshire, or Fort Lee, New Jersey. (In recent filings with the Commission, PixarBio has used addresses in both locations.)

13. **Francis M. Reynolds**, age 55, lived in Salem, New Hampshire, until early March 2018, when he appears to have sold his primary residence. Until 2017, he also maintained a residence in Newton, Massachusetts. He is the president, chief executive officer, chief financial officer, and chief science officer of PixarBio, as well as the chair of its board of directors. He

[3] In addition, on April 24, 2018, a criminal complaint was filed in this District against Reynolds, Stromsland, and Herod with a claim of securities fraud arising from the same misconduct alleged in this Complaint. The docket number is *U.S. v. Reynolds et al*., Case No. 1:18-mj-06151-MPK.

makes all significant decisions for PixarBio, including business strategy, financial matters, raising capital, and drug development. He writes the substance of all the company's press releases and offering materials. He reviews and approves all the company's filings with the Commission, which he signs as the company's chief executive officer.

14. **Kenneth A. Stromsland**, age 45, lives in Plainfield, New Jersey. He met Reynolds in 2004 while they were attending business school. In December 2015, Reynolds hired him as PixarBio's chief information officer. In July 2016, Reynolds promoted him to vice president of investor and public relations.

15. **M. Jay Herod**, age 51, lives in Cambridge, Massachusetts. He is an information technology consultant. He has been friends with Reynolds since 2006 when they shared an apartment.

FACTUAL ALLEGATIONS

Unregistered Offering of PixarBio Securities since December 2015

16. From November 2005 to August 2013, Reynolds was the president, chief executive officer, and chief financial officer of InVivo Therapeutics Corp. ("InVivo"), a biotechnology company with its principal place of business in Cambridge, Massachusetts. On August 22, 2013, Reynolds abruptly resigned from his positions at InVivo. On August 29, 2013, one week after his departure from InVivo, Reynolds founded PixarBio.

17. Between August 2013 and November 2015, Reynolds funded PixarBio primarily by selling some of his shares of InVivo stock. He also raised a small amount from board members, family, and friends (including $50,000 from Herod).

18. In December 2015, PixarBio began a public offering of its common stock that has continued, essentially without interruption, to the present. Throughout the offering, Reynolds,

Stromsland, and Herod have solicited investors in person, on the phone, or by mailing, emailing, and/or posting on PixarBio's public website various materials written by Reynolds. The defendants' consistent theme has been that the investors' funds will enable PixarBio to develop "NeuroRelease," a non-opioid pain reliever that Reynolds claims will end the nation's opioid epidemic. The stated purpose of every solicitation from December 2015 to the present has been the same – to get clinical testing of NeuroRelease off the ground, which still has not happened. Every solicitation has offered the same class of PixarBio securities for the same type of consideration.

19. Throughout the offering, Reynolds and PixarBio have emailed offering materials to distribution lists with hundreds of recipients and have posted links to the offering materials in press releases and on the company's web site. They have solicited and accepted investments from at least a dozen investors who are not accredited for purposes of the applicable securities laws,[4] and they did not provide the unaccredited investors with balance sheets or financial statements certified by an independent public accountant and dated within 120 days of offering PixarBio securities to them. Indeed, despite knowledge of the prohibition against accepting investments from unaccredited investors in private offerings of the kind PixarBio conducted, and despite claiming in offering materials that only accredited investors could invest, on several occasions Reynolds directed PixarBio employees to accept money from people the company knew to be unaccredited and to falsify subscription documents to make it appear otherwise.

20. When the public offering began in December 2015, it was targeted primarily at friends and family of PixarBio personnel. The company's stated goal was to raise $3 million

[4] Rule 501(a) [17 C.F.R. §230.501(a)] defines an "accredited investor" as a person whose individual net worth (or joint net worth with a spouse) exceeds $1 million, or an individual with income in excess of $200,000 (or joint income with a spouse in excess of $300,000) in each of the two most recent years, with "a reasonable expectation of reaching the same income level in the current year."

from investors by selling 1 million shares at $3 per share. To solicit investors, the defendants used materials written by Reynolds that included: (i) a December 11, 2015 letter addressed to "Friends and Family"; (ii) a December 2015 presentation entitled "Novel Biomaterials for Neurological Delivery Systems Breakthrough Non-Opiate, Non Addictive Pain Treatment"; (iii) an April 8, 2016 presentation entitled "Biomaterials for Neuroscience: Non-Opiate, Non Addictive Pain Treatment"; (iv) a May 17, 2016 presentation entitled "Biomaterials for Neuroscience Non-Opiate; Non Addictive Pain Treatment"; and (v) various press releases.

21. Between December 2015 and July 2016, PixarBio raised approximately $5.8 million from about 89 investors.

22. On August 6, 2016, PixarBio announced plans to raise an additional $20 million from investors by selling 10 million shares of its common stock at $2 per share. For each share purchased for $2, an investor also received a warrant entitling the holder to purchase a second share for $4.50 at any time over the next seven years. To solicit investors in this phase of the offering, the defendants used materials written by Reynolds that included: (i) an August 6, 2016 Private Placement Memorandum ("PPM"); (ii) an August 2016 presentation entitled "Morphine Strength, Non-Opiate/Non-Opioid Non Addictive Pain Treatment … Novel Neurological Drug Delivery Systems"; (iii) an August 10, 2016 document entitled "Investor Update"; (iv) an October 17, 2016 presentation entitled "PPM Offer Talking Points"; and (v) various press releases. The company posted a link to the offering materials in press releases and on the company web site.

23. Between August 6 and October 31, 2016, PixarBio raised approximately $5.4 million from about 117 investors.

24. On November 25, 2016, PixarBio filed a Form S-1 registration statement with the Commission to register the approximately 82.5 million shares of stock and warrants that PixarBio had sold to investors as of that date. At the time it filed the Form S-1, PixarBio had already raised more than $11.2 million from investors in its unregistered offering. After the Commission's Division of Corporation Finance gave several comments and raised several questions about the Form S-1, the company never responded and never completed the registration process.

25. Since November 2016, the defendants have continued the offering of PixarBio securities. To solicit investors in the latest phase of the offering, the defendants have used materials written by Reynolds that include: (i) a February 23, 2017 presentation entitled "NeuroRelease: Pre-Clinical Progress"; (ii) a March 20, 2017 letter to investors; (iii) an October 1, 2017 Private Placement Memorandum ("PPM"); (iv) a December 1, 2017 supplement to the PPM; (v) a December 13, 2017 email to investors; and (vi) various press releases.

26. Since November 2016, PixarBio has raised approximately $1.5 million from about 38 investors. That figure includes more than $440,000 raised since mid-November 2017. On February 12, 2018, PixarBio announced plans to raise another $5 million from investors.

27. In total, from December 2015 to the present, PixarBio has raised approximately $12.7 million from about 211 investors.

28. Throughout the offering, Reynolds has directed the marketing efforts and solicited investors individually and in group meetings. As PixarBio's head of investor relations, Stromsland appears to have raised as much as $2.75 million from investors and, with authorization from Reynolds, he has received commissions for the investments he brought in.

Herod has also solicited investors, although it is not clear if he received any compensation for doing so.

29. PixarBio did not file a registration statement with the Commission for its securities offering until the Form S-1 dated November 25, 2016, which was abandoned and never declared effective.

30. In some promotional materials and filings with the Commission, PixarBio and Reynolds have claimed that the offering is exempt from the registration requirements under Rule 506(b) of Regulation D.[5] In reality, PixarBio's offering does not qualify for the Rule 506(b) exemption because, among other reasons, the defendants have distributed promotional materials in a general solicitation, have sold PixarBio stock to investors who were not accredited for purposes of Rule 506(b), and have failed to provide the unaccredited investors with all the information required by Rule 506(b).

31. In other promotional materials and filings with the Commission, PixarBio and Reynolds have claimed that the offering is exempt from the registration requirements under Rule 506(c) of Regulation D.[6] In reality, PixarBio's offering does not qualify for the Rule 506(c) exemption because, among other reasons, the defendants have sold PixarBio stock to many investors who are not accredited, and the defendants have failed to take reasonable steps to verify the accredited status of the investors they recruited. In fact, at Reynolds's direction, PixarBio

[5] Rule 506(b) [17 C.F.R. §230.506(b)] provides an exemption from registration if: (i) the issuer does not distribute materials in a general solicitation; (ii) there are no more than 35 investors who are not "accredited investors"; (iii) any unaccredited investor "has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment"; and (iv) the issuer provides each unaccredited investor with certain specific information, including audited financial statements dated within 120 days of the start of the offering.

[6] Rule 506(c) [17 C.F.R. §230.506(c)] provides an exemption from registration for a general solicitation, but only if: (i) the issuer does not accept money from any investors who are not accredited; and (ii) the issuer takes "reasonable steps to verify that … purchasers are accredited investors."

personnel turned a blind eye to whether or not a particular investor was accredited and, on several occasions, even told investors to falsify their subscription documents to reflect that those investors were accredited when, in fact, the investors had informed the company that they were not accredited.

Materially False and Misleading Statements

32. Since PixarBio's unregistered securities offering began in December 2015, Reynolds has made materially false and misleading statements in face-to-face meetings with investors and in press releases, internet postings, emails, promotional materials, offering documents, and PixarBio's filings with the Commission. In their personal efforts to solicit investors for PixarBio, Stromsland and Herod have distributed copies of materials written by Reynolds and have repeated his false statements when speaking in person or by phone with prospective investors.

Misrepresentations about Progress in Obtaining FDA Approval of "NeuroRelease"

33. Reynolds claims that PixarBio is in the business of developing "NeuroRelease," a supposedly new and improved method of delivering carbamazepine (a non-opioid analgesic) through an injection rather than oral administration. Before PixarBio could be allowed to start marketing NeuroRelease in the United States, it would first have to obtain approval from the Food and Drug Administration ("FDA") for the use of NeuroRelease to treat one or more specific medical conditions.

34. The FDA approval process for a new drug has two principal stages. First, the manufacturer submits an "Investigational New Drug" ("IND") application designed to show that the drug is reasonably safe and that the company's manufacturing process and clinical protocols are adequate. Collecting the data needed for an IND application can often take up to three years.

If the FDA approves the IND application, the manufacturer may begin clinical testing of the drug in humans, a process that often takes as much as five years. Second, after clinical testing in humans is complete, the manufacturer submits a "New Drug Application" ("NDA") designed to show that the drug is safe and effective for its intended use and that the benefits outweigh any risks. If the FDA approves the NDA, the manufacturer may start marketing the drug in the United States for its intended use.

35. On September 30, 2015, Reynolds and other PixarBio personnel attended a "Pre-IND" (or "PIND") meeting with FDA personnel to discuss what steps PixarBio would need to take before it could submit an IND application for permission to begin clinical testing NeuroRelease in humans for the treatment of post-operative pain. On October 29, 2015, the FDA sent Reynolds its official minutes of the PIND meeting. According to the FDA minutes, Reynolds argued at the meeting that, when PixarBio submitted an IND application, the company: (i) should be allowed to submit only six months of stability data;[7] (ii) should not have to submit safety data concerning any anesthetic effect of NeuroRelease; and (iii) should be permitted to reduce its costs by submitting data from another company's nonclinical studies of carbamazepine.[8] In its response, the FDA: (i) insisted that PixarBio submit twelve months of stability data, not six months; (ii) insisted that the company submit safety data concerning the anesthetic effect of NeuroRelease; and (iii) stated that PixarBio could use the other company's nonclinical data only if it demonstrated that the other company's method for oral delivery of carbamazepine was sufficiently similar to PixarBio's proposal for injecting carbamazepine at the site of the surgery. The FDA also told Reynolds that PixarBio must conduct toxicology studies

[7] Stability data is designed to show that a drug remains safe and effective during long-term storage.

[8] Section 505(b)(2) of the Pure Food and Drug Act provides that, in certain circumstances, a drug manufacturer may submit non-clinical data compiled by another company that previously obtained FDA approval for a similar version of the same compound.

in two non-human species before initiating clinical studies on humans. On February 2, 2016, Reynolds sent a letter to the FDA agreeing with the agency's comments as reflected in the meeting minutes.

36. On October 23, 2015 (after attending the PIND meeting), PixarBio applied to the FDA for "orphan drug" designation for the use of NeuroRelease to treat trigeminal neuralgia (a condition affecting a nerve in the face).[9] On October 26, 2015, PixarBio issued a press release announcing the application. However, on February 4, 2016, the FDA sent a deficiency letter to PixarBio, stating, "You have not provided an adequate hypothesis of why your carbamazepine product is expected to be clinically superior by a measure of efficacy, safety or a major contribution to patient care over all carbamazepine products that are approved for use in the treatment of trigeminal neuralgia." On February 22, 2016, PixarBio submitted an amended orphan-drug application for the use of NeuroRelease to treat trigeminal neuralgia. On May 31, 2016, the FDA sent a second deficiency letter to PixarBio reiterating its position.

37. On February 2, 2016, PixarBio applied to the FDA for orphan-drug designation for the use of NeuroRelease to treat a specific form of spinal cord injury. On March 18, 2016, PixarBio issued a press release announcing the application. However, on May 24, 2016, the FDA sent a deficiency letter to PixarBio, stating, "You have not provided adequate scientific rationale to support orphan drug designation as you do not include a discussion of the scientific rationale to establish a medically plausible basis for the use of your proposed drug for the rare disease or condition."

[9] "Orphan drug" designation entitles a manufacturer to certain financial incentives (such as a period of market exclusivity) for developing a drug that could treat a rare disease. Orphan drug designation does not shorten the regulatory approval process or lower the FDA's requirements for granting marketing approval.

38. Since February 2, 2016 (when Reynolds sent his letter agreeing with the FDA's minutes of the September 30, 2015 PIND meeting), PixarBio has not made any written submissions to the FDA concerning a possible IND application for the use of NeuroRelease to treat post-operative pain. (In February 2017, Reynolds asked the FDA for another meeting to discuss a possible IND application, but the agency denied his request.) Since May 2016 (when the FDA sent deficiency letters concerning both orphan-drug applications), PixarBio has filed nothing further with the FDA concerning either application.

39. Nevertheless, Reynolds has repeatedly made public statements claiming that, at the "PIND" meeting on September 30, 2015, the FDA made it easier for PixarBio to obtain approval for the use of NeuroRelease to treat post-operative pain. For example, he made such statements in: (i) the December 2015 presentation (the FDA "lowered our hurdles for FDA approval" and "confirmed our IND package"); (ii) the April 8, 2016 presentation ("FDA: PIND Meeting Sept 30, 2015 … Reduces hurdles for approval"); and (iii) the August 6, 2016 Private Placement Memorandum ("FDA PIND meeting on September 30, 2015 confirmed our IND package"). Reynolds knew or was reckless in not knowing that the statements were materially false and misleading. As reflected in its minutes of the September 30, 2015 PIND meeting, the FDA did not "lower" any regulatory hurdles for approval of NeuroRelease or "confirm" PixarBio's IND package. On the contrary, the FDA rejected each and every one of Reynolds's many attempts to shorten the regulatory approval process for NeuroRelease.

40. Reynolds has repeatedly made public statements about the anticipated timing for PixarBio to begin clinical testing of NeuroRelease in humans to treat post-operative pain. For example, he made such statements in: (i) the December 2015 presentation ("2016: Receive IND approval, initiate clinical studies"); (ii) the August 6, 2016 Private Placement Memorandum

("2016-2017: Submit & Receive IND approval, initiate clinical studies"); (iii) the November 25, 2016 Form S-1 ("we expect that clinical trials will begin in late 2017"); (iv) the October 1, 2017 Private Placement Memorandum ("We intend to file" an IND application and "initiate clinical studies in 2018 for nerve block pain treatments"); and (v) the December 13, 2017 email to investors (NeuroRelease "is on schedule for human studies in late 2018"). Reynolds knew or was reckless in not knowing that the statements were materially false and misleading. Among other reasons, as reflected in its minutes of the September 30, 2015 PIND meeting, the FDA told Reynolds that PixarBio must compile one year of stability testing before it submitted an IND application. When Reynolds made each of the statements quoted above, PixarBio had not begun to collect the stability data. As a result, PixarBio could not have stored the compound for the several months required to begin stability testing, compiled the one year's worth of stability data, submitted an IND application, and received FDA approval to begin clinical testing in humans within any of the timetables that Reynolds announced.

41. Reynolds has also made public statements about the two orphan-drug applications. For example, he referred to one or both of the orphan-drug applications in the December 2015 presentation, the April 8, 2016 presentation, and the August 2016 presentation. In addition, the October 26, 2015 press release announcing the first orphan-drug application was on PixarBio's public website as recently as mid-January 2018, and the March 18, 2016 press release announcing the second application as still on the company's website when this Complaint was filed. Reynolds knew or was reckless in not knowing that the statements were materially false and misleading. Reynolds and PixarBio failed to disclose that: (i) on February 4, 2016, the FDA sent a deficiency letter explaining why the use of NeuroRelease to treat trigeminal neuralgia was not entitled to orphan-drug designation; (ii) on May 24, 2016, the FDA sent a

deficiency letter explaining why the use of NeuroRelease to treat the specific form of spinal cord injury was not entitled to orphan-drug designation; (iii) on May 31, 2016, the FDA sent a second deficiency letter reiterating its position concerning the use of NeuroRelease to treat trigeminal neuralgia; and (iv) after May 2016, PixarBio filed nothing further with the FDA concerning either orphan-drug application.

Misrepresentations about Proceeds of Securities Offering and Line of Credit

42. On August 22, 2016, PixarBio issued a press release claiming that the $20 million securities offering announced on August 6, 2016 was oversubscribed, and that the company now planned to raise up to $30 million from investors. On October 20, 2016, PixarBio issued a press release claiming that, due to further oversubscription, the company now planned to raise up to $40 million from investors. Reynolds knew or was reckless in not knowing that the statements were materially false and misleading. The post-August 6, 2016 phase of PixarBio's offering was not oversubscribed. As of October 20, 2016, PixarBio had only raised approximately $2.5 million in cash since August 6, 2016.

43. On November 7, 2016, PixarBio issued a press release entitled "PixarBio Corporation Closed Placement Offering Totaling $23.4MM Plus a $10MM Line of Credit to Fund the Advancement of NeuroRelease." The press release quoted Reynolds as saying, "Our PPM [the August 6, 2016 Private Placement Memorandum] closed $7.2MM cash, $16.2MM in warrants, and we closed a $10MM line of credit to provide our runway with enough fuel through 2017." The total amount of financing mentioned in the November 7, 2016 press release was $33.4 million – which was very close to the projection in the August 6, 2016 Private Placement Memorandum that PixarBio would need to spend $34 million in 2017. Reynolds knew or was reckless in not knowing that the statements in the November 7, 2016 press release were

materially false and misleading. First, PixarBio raised approximately $5.4 million in cash, not $7.2 million, from investors between August 6 and October 31, 2016. Second, PixarBio had not yet received any money from the warrants (which entitled the holders to purchase additional shares of PixarBio stock at $4.50 per share). The company could anticipate receiving $16.2 million from the warrants only if it registered all the shares covered by the warrants (which it had not done), and only if all the investors holding the warrants chose to exercise every single one. Third, the $10 million "line of credit" was not bank financing but merely a purported oral promise from Reynolds himself, a promise that he had neither the intention nor the financial resources to honor. On several occasions after November 7, 2016, a PixarBio employee asked Reynolds if PixarBio could draw money from the line of credit, and he refused. Fourth, as of November 7, 2016, PixarBio had already spent more than $4.3 million of the $5.4 million in cash that it raised between August 6 and October 31, 2016, leaving barely $1 million for 2017.

Misrepresentations about Reynolds's Personal Qualifications and InVivo

44. When soliciting investors, Reynolds has repeatedly claimed that he personally invented InVivo's primary product, the "NeuroScaffold." For example, he made such statements in: (i) the December 11, 2015 letter to investors (Reynolds was the "lead inventor on InVivo Therapeutics NeuroScaffold"); (ii) the August 6, 2016 Private Placement Memorandum ("As the only employee of lnVivo Therapeutics until 2008, Mr. Reynolds invented the first NeuroScaffolds ever conceived to treat or neuro-protect an acute spinal cord injury."); (iii) the January 3, 2017 press release (Reynolds was the "primary NeuroScaffold inventor and patent holder"); and (iv) the October 1, 2017 Private Placement Memorandum (Reynolds was the "lead inventor on InVivo Therapeutics NeuroScaffold"). Reynolds knew or was reckless in not knowing that the statements were materially false and misleading. He did not invent InVivo's

NeuroScaffold. On the contrary, InVivo's filings with the Commission prior to Reynolds's departure in August 2013 – which Reynolds himself signed as InVivo's chief executive officer – stated that InVivo's proprietary technology was developed by a professor at Massachusetts Institute of Technology and a physician affiliated with Massachusetts General Hospital. Reynolds did not start claiming to be the inventor of NeuroScaffold until after he left InVivo and began trying to attract investors for PixarBio.

45. When soliciting investors, Reynolds has claimed that he is a "co-inventor" on more than fifty patents. For example, in the October 17, 2016 "PPM Offer Talking Points," Reynolds claimed to have "co-invented on over 50 neurological patents since 2005" and claimed that PixarBio's "patent portfolio" covers "pain, spinal cord injury, epilepsy and Parkinson's disease." Reynolds knew or was reckless in not knowing that the statements were materially false and misleading. According to the U.S. Patent and Trademark Office, Reynolds is not identified as a co-inventor on any issued patents, and no patents have been issued to PixarBio.

46. In addition, Reynolds has misled potential investors about the circumstances of his departure from InVivo. In the August 6, 2016 Private Placement Memorandum, a November 4, 2016 Form 8-K that PixarBio filed with the Commission, and the November 25, 2016 Form S-1, Reynolds claimed that he "retired" from InVivo in August 2013 "due to a fractured foot that took 30 months to heal." He gave no other reasons for his departure. Reynolds knew or was reckless in not knowing that the statements were materially false and misleading. He abruptly resigned on August 22, 2013 after InVivo's board of directors: (i) retained a major Boston law firm to conduct an internal investigation; (ii) received the law firm's report; and (iii) scheduled a meeting to discuss whether to terminate Reynolds's relationship with the company. In addition, Reynolds's sudden departure from InVivo came shortly after InVivo

personnel warned him that his statements to InVivo investors about the projected timeline for FDA approval of the NeuroScaffold were unrealistic. A few months later, InVivo sued Reynolds to recover more than $475,000 of "personal and/or exorbitant expenses" (including nearly $200,000 for limousine services) that Reynolds had allegedly charged to the company.

47. On January 3, 2017, PixarBio issued a press release in which Reynolds announced a "takeover bid" to acquire InVivo that was "expected to close" by March 31, 2017. (PixarBio also filed a Form 8-K with the Commission attaching the press release.) Reynolds knew or was reckless in not knowing that the statements were materially false and misleading. InVivo's lawsuit against him was still pending, he had not discussed the supposed bid with InVivo's management, and there was no deal with InVivo, let alone a deal that could be "expected to close" by March 31, 2017. On January 4, 2017, InVivo publicly rejected the takeover bid. Later that day, Reynolds issued a press release reaffirming the takeover bid. He did not cause PixarBio to issue a press release "retracting" the takeover bid until January 23, 2017.

Scheme to Profit from Improper Public Sales of PixarBio Stock

48. In the summer of 2016, Reynolds engineered a scheme to initiate – and profit from – public trading in PixarBio stock while evading the registration requirements of the federal securities laws. The scheme rested on PixarBio's acquisition of BMP Holdings, LLC ("BMP"), which was essentially a shell company. (BMP's only business activity was a small yoga studio that consistently lost money.)

49. BMP had been created in 2015 by the in-house lawyer at a Connecticut financial services firm. The Connecticut lawyer had recruited thirty-two people (family members, employees of his firm, friends, and business contacts) to buy 168,000 shares of BMP common stock for 1¢ per share. He had then caused BMP to file with the Commission a Form S-1

registration statement seeking to register the sale of the 168,000 shares held by the thirty-two shareholders. In doing so, the lawyer concealed his relationship with the nominally "outside" BMP shareholders, all of whom were prepared to act at his direction regarding when and how to dispose of their BMP stock. On August 12, 2015, BMP's Form S-1 registration statement was declared effective by the Commission, which meant that the 168,000 shares of BMP stock were available to be bought and sold on the over-the-counter market. However, because the registration was fraudulently obtained, and because the thirty-two BMP shareholders were effectively controlled by the Connecticut lawyer, who was an affiliate of BMP,[10] the 168,000 ostensibly registered shares of BMP stock actually remained restricted shares that could not legally be sold to the public without a valid registration.

50. Reynolds arranged for PixarBio to acquire the Connecticut lawyer's controlling interest in BMP. To further his scheme for another unregistered offering, Reynolds also proposed that the Connecticut lawyer arrange for the thirty-two BMP shareholders to transfer their 168,000 purportedly unrestricted shares of BMP stock to people whom Reynolds or the lawyer could control.

51. On August 18, 2016, Reynolds caused PixarBio to pay $325,000 for the Connecticut lawyer's controlling interest in BMP (which consisted of 5 million restricted shares that had not been registered). On August 23, 2016, at Reynolds's direction, Herod bought 130,000 shares of BMP stock from twenty-five of the shareholders for $2,600 (or 2¢ per share) in a single transaction arranged by the Connecticut lawyer. The lawyer and a consultant hired by PixarBio bought the other 38,000 BMP shares.

[10] Rule 405 [17 C.F.R. §230.405] defines an "affiliate" of a specified person as "a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified."

52. On October 11, 2016, Reynolds caused BMP (now a subsidiary of PixarBio) to announce a stock dividend of nine shares for each share outstanding. As a result of the stock dividend, the 168,000 purportedly unrestricted shares of BMP stock became 1,680,000 shares, of which Herod owned 1.3 million shares.

53. On October 11, 2016 (the same day that BMP announced the stock dividend), Reynolds directed Herod to deposit his shares of BMP stock at a brokerage firm that Reynolds had previously used to unload over-the-counter securities. When Herod opened the account and deposited his BMP shares, he told the brokerage firm that he had no relationship with BMP and was not an affiliate of PixarBio. Herod provided the brokerage firm with a letter from Reynolds stating that Herod's BMP shares were freely tradeable. Herod also submitted an opinion letter, which Reynolds had obtained from PixarBio's outside law firm, stating that his BMP shares were freely tradeable. Reynolds and Herod knew or were reckless in not knowing that the representations to the brokerage firm were materially false and misleading. Although apparently registered, Herod's shares of BMP stock were restricted when he bought them, because the twenty-five people who sold the shares to Herod acted at the direction of Connecticut lawyer and were thus affiliates of the lawyer himself and affiliates of BMP. The shares remained restricted after Herod bought them. By acting as directed by Reynolds, Herod was an affiliate of Reynolds, which made Herod an affiliate of PixarBio (BMP's parent corporation), which in turn made Herod an affiliate of BMP.

54. On October 30, 2016, Reynolds caused PixarBio to effect a reverse merger into BMP, which changed its name to "PixarBio." As a result of the reverse merger and name change, the outstanding shares of BMP stock became shares of PixarBio stock, of which Herod owned 1.3 million shares. Although nominally registered, Herod's shares of PixarBio stock were

not legally tradeable, because Herod was an affiliate of Reynolds and thus an affiliate of PixarBio.

55. As of October 31, 2016, the common stock of the new PixarBio entity was quoted and traded on the over-the-counter market under the symbol "PXRB." PixarBio stock opened for public trading at $3 per share.

56. On October 31 and November 1, 2016, Herod sold approximately 70,000 shares of PixarBio stock for approximately $320,000. However, the stock price rose so fast over the next few days (reaching $30 per share on November 2) that his brokerage firm suspended his trading. To find a different firm that would let Herod sell his PixarBio shares, Reynolds and Herod made materially false and misleading statements to two other brokerage firms. Herod told one firm, "I am not affiliated in any way, shape or form" with PixarBio. Reynolds wrote to another firm, "M. Jay Herod has never been an officer or an affiliate of PixarBio Corporation in our history." On November 21, 2016, one of the firms allowed Herod to deposit his shares and resume his trading in PixarBio stock.

57. Between October 31, 2016 and January 20, 2017, Herod sold a total of 211,901 shares of PixarBio stock to the public for approximately $910,000, of which Herod paid $500,000 to PixarBio and $300,000 to Reynolds. Herod kept the remaining net sale proceeds for himself. Because Herod was an affiliate of PixarBio, his sales of shares of PixarBio stock to the public should have been registered.

Scheme to Manipulate the Public Market for PixarBio Stock

58. When public trading on the over-the-counter market began on October 31, 2016, Reynolds, Stromsland, and Herod carefully monitored public trading in PixarBio stock. Stromsland's standard practice was to open the OTC website on one of his office computers,

monitor trading activity throughout the day, and provide Reynolds with regular updates about the trading price and volume.

59. Between November 2016 and January 2017, Stromsland and Herod made manipulative trades in PixarBio stock for the purpose of creating a false or misleading appearance of active trading in the public market for PixarBio stock. Their manipulative trading included overlapping orders to buy and sell PixarBio stock at the same price ("wash trades"), purchases shortly before trading closed at 4:00 p.m. ("marking the close"), and purchases above the current asking price. Their manipulative trading was designed to simulate market interest, push up the stock price, and increase the amount that the defendants gained from Herod's ongoing and improper sales of PixarBio stock. The following paragraphs detail some examples of manipulative trading by Stromsland and Herod.

60. On November 11, 2016, the trading price of PixarBio stock on OTC Link fell from $14.50 to $10 per share. At 3:05 p.m., Stromsland called his broker and bought 100 shares at $14.25 per share. While still on the phone with the broker, Stromsland checked the OTC website and did not see any record of his purchase at $14.25 per share. He asked the broker, "How come . . . the last price still says $10." The broker explained that Stromsland's purchase had been marked out of sequence on OTC. Stromsland said, "Yeah, but I need it to be in sequence" and "yeah, but that's not what I wanted . . . So anybody looking to buy this now just sees $10 and doesn't know that it's $14.25 is the last trade." He asked "Is there any way to fix it?" He then called OTC Markets, but his purchase at $14.25 per share still did not appear on the public OTC website. At 3:42 p.m., Stromsland called his broker again and said, "I need to buy 100 shares at $14.25 of PXRB . . . real quick . . . right now." Stromsland's second purchase at $14.25 per share was executed at 3:55 p.m. – five minutes before the close of trading.

Stromsland and Reynolds exchanged at least eight phone calls on November 11, 2016, including calls just minutes before and minutes after Stromsland's calls to his broker and to OTC Markets. Stromsland called Reynolds one minute after trading ended at 4:00 p.m., and they exchanged three calls before 4:30 p.m. At 4:40 p.m., Reynolds emailed PixarBio's controller, telling her that Stromsland was entitled to a $27,500 "bonus".

61. On November 17, 2016, with the trading price of PixarBio stock once again down to $10 per share, Stromsland bought 100 shares at $12.50 per share at 3:56 p.m. – four minutes before the close of trading.

62. On November 25, 2016, PixarBio stock closed at $8.00 per share. On November 28, 2016 (the next trading day), the price began to fall. At 2:25 p.m., Herod placed an order to sell 300 shares at $6.80 per share. The sell order was immediately filled for 147 shares, leaving 153 shares unsold. At 3:49 p.m., Stromsland called his broker and placed an order to buy Herod's remaining 153 shares at the $6.80 asking price. The transaction between Herod and Stromsland was executed at 3:53 p.m. – seven minutes before the close of trading.

63. Between November 22 and December 2, 2016, the closing price of PixarBio stock dropped from $10.05 to $5.50 per share. On December 5, 2016 (the next trading day), the opening offer to sell was at $5.44 per share. Herod made the first three purchases of the day and pushed the price up to $5.60 per share. In the second and third trades, Herod bought 100 shares from himself, filling orders to sell that he had placed less than six minutes earlier. After these transactions, Herod was able to sell over 4,500 shares at $5.60, including 3,568 to one retail investor for almost $20,000. Soon after, Herod bought 100 shares from himself once again, this time at $5.70 per share.

64. On December 6, 2016, Herod engaged in one wash trade and placed two 100-share orders to buy that caused the current bid price reported on OTC Link to rise nearly 20% (from $4.75 to $5.60 per share, and later from $4.75 to $5.65 per share).

65. On December 19, 2016, Herod submitted two orders to buy PixarBio stock at prices higher than his own pending orders to sell. His second order to buy (at $5.14 per share) was 39¢ more than the price he received from a sale just two minutes earlier.

66. On December 20, 2016, PixarBio stock opened trading above $5 per share, but within three hours, the stock was trading at $4 per share, its lowest level since public trading began on October 31, 2016. Herod and Stromsland both stepped in and placed buy orders that moved the price of PixarBio stock above $4 per share. At one point, Herod submitted orders to buy 100 shares at $5 per share and sell 100 shares at $5 per share only one minute apart. Less than an hour later, after the price had fallen below $4 per share, Herod placed an order to buy 100 shares at $4.50 per share. The stock price rebounded within minutes of Herod's purchase and ultimately ended the day's trading at $5.25 per share.

67. Between October 31, 2016 and January 20, 2017, the period in which Herod sold a total of 211,901 shares of PixarBio stock to the public, he also bought a total of 6,618 shares, often in wash trades and often at higher prices than his own pending orders to sell. There was no bona fide reason for Herod's purchases. Instead, Herod was trying to fend off the decline of PixarBio's stock price by using small purchases to manipulate the reported price and volume of PixarBio stock trading.

68. On January 23, 2017, the Commission suspended public trading in PixarBio stock pursuant to its authority under Section 12(k) of the Exchange Act [15 U.S.C. §78l(k)]. Among other things, the Commission's order stated:

> The Commission temporarily suspended trading in the securities of PixarBio because the market for the security appears to reflect manipulative or deceptive activities and because of questions regarding the accuracy of assertions by PixarBio in press releases and its [November 25, 2016] Form S-1 concerning, among other things: (1) the company's business combinations and current shareholders; (2) the identity and qualifications of key shareholders and employees; and (3) the company's current and prospective development efforts.

69. Since January 23, 2017, sporadic trading in PixarBio stock has taken place on what is called the "grey market," which refers to trades in securities that are not publicly quoted on the over-the-counter market or listed on an exchange.

Attempts by Reynolds and Herod to Obstruct the Commission's Investigation

70. On January 26, 2017, Reynolds testified under oath as part of the Commission's investigation. When the Commission staff asked about the $300,000 check that Reynolds's wife had received from Herod, Reynolds testified that the money was a loan from Herod so that Reynolds could pay outstanding legal bills for his ongoing lawsuit against InVivo. Reynolds testified that there was no documentation for the loan, nor any agreement about repayment terms.

71. On February 8, 2017, Herod testified under oath as part of the Commission's investigation. Herod produced a document that purported to be a letter from Reynolds and his wife dated December 29, 2016 stating that Herod was paying $300,000 to Reynolds in exchange for a 10% interest in any amount that Reynolds received through a settlement of his counterclaims in the InVivo litigation.

72. On September 19, 2017, at a second day of investigative testimony, Reynolds testified that the letter which Herod had produced was genuine, and that Reynolds, Reynolds's wife, and Herod had signed the letter on December 29, 2016. Reynolds could not explain why he testified that no such documentation existed when he was questioned on January 26, 2017 (less than one month after the date of the purported letter).

73. The purported December 29, 2016 letter was not genuine. It was a fabrication that Reynolds arranged to prepare after his first day of testimony in order to mislead the Commission's investigators.

74. Reynolds and Herod also testified falsely about the supposed reason why Herod had made the $300,000 check payable to Reynolds's wife, rather than payable to Reynolds personally. They each claimed that Reynolds was out of town on the day Herod wrote the check. That was not true. In reality, Herod and Reynolds met in person on December 29, 2016, and they arranged for Herod to write the check to Reynolds's wife in an effort to cover up the transaction.

FIRST CLAIM FOR RELIEF
Fraud in Connection with the Purchase or Sale of Securities
(Violation of Section 10(b) of the Exchange Act and Rule 10b-5 by All Defendants)

75. The Commission repeats and incorporates by reference the allegations in paragraphs 1-74 above.

76. Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5] make it unlawful for any person, directly or indirectly, acting intentionally, knowingly or recklessly, by the use of means or instrumentalities of interstate commerce or of the mails, in connection with the purchase or sale of securities: (a) to employ devices, schemes or artifices to defraud; (b) to make untrue statements of material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) to engage in acts, practices or courses of business which operate as a fraud or deceit upon certain persons.

77. The shares of common stock of PixarBio and BMP constitute "securities" for purposes of Section 3(a)(10) of the Exchange Act [15 U.S.C. §78c(a)(10)].

78. As set forth above, the defendants have violated and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act and Rule 10b-5.

SECOND CLAIM FOR RELIEF
Fraud in the Offer or Sale of Securities
(Violation of Section 17(a) of the Securities Act by All Defendants)

79. The Commission repeats and incorporates by reference the allegations in paragraphs 1-78 above.

80. Section 17(a) of the Securities Act [15 U.S.C. §77q(a)] makes it unlawful for any person, directly or indirectly, acting intentionally, knowingly or recklessly, by the use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails, in the offer or sale of securities: (a) to employ devices, schemes or artifices to defraud; (b) to obtain money or property by means of untrue statements of material fact or omissions to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) to engage in transactions, practices or courses of business which operate as a fraud or deceit upon purchasers of the securities.

81. The shares of common stock of PixarBio constitute "securities" for purposes of Section 2(a)(1) of the Securities Act [15 U.S.C. §77b(a)(1)].

82. As set forth above, the defendants have violated and, unless enjoined, will continue to violate Section 17(a) of the Securities Act.

THIRD CLAIM FOR RELIEF
Unregistered Offer and Sale of Securities
(Violation of Sections 5(a) & 5(c) of the Securities Act by All Defendants)

83. The Commission repeats and incorporates by reference the allegations in paragraphs 1-82 above.

84. Sections 5(a) and (c) of the Securities Act [15 U.S.C. §§77e(a), (c)] make it unlawful for any person, directly or indirectly: (a) to make use of the means or instruments of transportation or communication in interstate commerce or of the mails to sell, through the use or medium of a prospectus or otherwise, securities as to which no registration statement has been in effect and for which no exemption from registration has been available; and/or (b) to make use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell, through the use or medium of a prospectus or otherwise, securities as to which no registration statement has been filed and for which no exemption from registration bas been available.

85. As set forth above, the defendants violated and, unless enjoined, will continue to violate Sections 5(a) and (c) of the Securities Act.

FOURTH CLAIM FOR RELIEF
Manipulative Trading
(Violation of Section 9(a) of the Exchange Act by Stromsland and Herod)

86. The Commission repeats and incorporates by reference the allegations in paragraphs 1-85 above.

87. Section 9(a) of the Exchange Act [15 U.S.C. §78i(a)] makes it unlawful for any person, directly or indirectly, by the use of the mails or any means or instrumentality of interstate commerce, or of any facility of any national securities exchange, (1) to effect a transaction in a security which involves no change in the beneficial ownership for the purpose of creating a false

or misleading appearance of active trading in the security; or (2) to effect a series of transactions in a security creating actual or apparent active trading in such security, or raising or depressing the price of such security, for the purpose of inducing the purchase or sale of such security by others.

88. As set forth above, Stromsland and Herod have violated and, unless enjoined, will continue to violate Section 9(a) of the Exchange Act.

FIFTH CLAIM FOR RELIEF

Inducing the Purchase of Securities Without Registering as Broker or Dealer (Violation of Section 15(a) of the Exchange Act by Reynolds and Stromsland)

89. The Commission repeats and incorporates by reference the allegations in paragraphs 1-88 above.

90. Section 15(a) of the Exchange Act [15 U.S.C. §78o(a)] makes it unlawful for any person not associated with a broker or dealer to make use of the mails or any means or instrumentality of interstate commerce to effect any transactions in, or to induce or attempt to induce the purchase or sale of, any security (with certain exemptions not applicable here), unless such broker or dealer is registered in accordance with Section 15(b) of the Exchange Act [15 U.S.C. §78o(b)].

91. Section 3(a)(4)(A) of the Exchange Act [15 U.S.C. §78c(a)(4)(A)] defines a "broker" as a person engaged in the business of effecting transactions in securities for the account of others. A "broker" includes a person who, for compensation, makes use of the means or instruments of interstate commerce to induce or attempt to induce the purchase or sale of a security.

92. As set forth above, Reynolds and Stromsland have violated and, unless enjoined, will continue to violate Section 15(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, the Commission requests that this Court:

A. Enter a temporary restraining order, preliminary injunction, and order for other equitable relief in the forms submitted with the Commission's motions for such relief;

B. Enter a permanent injunction restraining the defendants, as well as their officers, agents, servants, employees, attorneys, and other persons in active concert or participation with them, from directly or indirectly engaging in the conduct described above, or in conduct of similar purport and effect, in violation of:

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

2. Section 17(a) of the Securities Act [15 U.S.C. §77q(a)];

3. Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§77e(a), (c)];

4. Section 9(a) of the Exchange Act [15 U.S.C. §78i(a)] as to defendants Stromsland and Herod only; and

5. Section 15(a) of the Exchange Act [15 U.S.C. §78o(a)] as to defendants Reynolds and Stromsland only;

C. Require the defendants to disgorge their ill-gotten gains, plus prejudgment interest, with said monies to be distributed in accordance with a plan of distribution to be ordered by the Court;

D. Order the defendants to pay appropriate civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)];

E. Enter an order, pursuant to Section 20(g) of the Securities Act [15 U.S.C. §77t(g)] and Section 21(d)(6)(B) of the Exchange Act [15 U.S.C. §78u(d)(6)(B)], barring Reynolds,

Stromsland, and Herod from participating in an offering of a penny stock, as defined in Section 3(a)(51) of the Exchange Act [15 U.S.C. §78c(a)(51)];

F. Enter an order, pursuant to Section 21(d)(2) of the Exchange Act [15 U.S.C. §78u(d)(2)], barring Reynolds and Stromsland from serving as an officer or director of any issuer required to file reports with the Commission pursuant to Sections 12(b), 12(g) or 15(d) of the Exchange Act [15 U.S.C. §§78l(b), 78l(g), 78o(d)];

G. Retain jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered; and

H. Award such other and further relief as the Court deems just and proper.

Respectfully submitted,

/s/ Frank C. Huntington

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