

1 CHARLES J. KERSTETTER, PA Bar No. 67088
Email: kerstetterc@sec.gov
2 TIMOTHY J. STOCKWELL, D.C. Bar No. 484238
Email: stockwellt@sec.gov

3 Attorneys for Plaintiff
4 United States Securities and Exchange Commission
175 West Jackson Boulevard, Suite 1450
5 Chicago, Illinois 60604
Telephone: (312) 596-6049
6 Facsimile: (312) 353-7398

7 **UNITED STATES DISTRICT COURT**
8 **SOUTHERN DISTRICT OF CALIFORNIA**

11 UNITED STATES SECURITIES
12 AND EXCHANGE COMMISSION,

13 Plaintiff,

14 vs.

15 BUD GENIUS, INC. and AARON
16 "ANGEL" STANZ

17 Defendants.

Case No. '18CV1005 MMAKSC

COMPLAINT

18 Plaintiff, the United States Securities and Exchange Commission (the
19 "Commission"), alleges:

20 **JURISDICTION AND VENUE**

21 1. The Court has jurisdiction over this action pursuant to Sections 20(b),
22 20(d)(1) and 22(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§
23 77t(b), 77t(d)(1) & 77v(a)] and Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27(a) of the
24 Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u(d)(1),
25 78u(d)(3)(A), 78u(e) & 78aa(a)].

26 2. Defendant has, directly or indirectly, made use of the means or
27 instrumentalities of interstate commerce, of the mails, or of the facilities of a national
28

1 securities exchange in connection with the transactions, acts, practices and courses of
2 business alleged in this complaint.

3 3. Venue is proper in this district pursuant to Section 22(a) of the Securities
4 Act [15 U.S.C. § 77v(a)] and Section 27(a) of the Exchange Act [15 U.S.C. §
5 78aa(a)] because certain of the transactions, acts, practices and courses of conduct
6 constituting violations of the federal securities laws occurred within this district and
7 elsewhere, and because certain Defendants resided in this district. Venue also is
8 appropriate pursuant to 28 U.S.C. § 1391. A substantial part of the events or
9 omissions giving rise to the claims occurred within this district. 28 U.S.C. §
10 1391(b)(2).

11 SUMMARY

12 4. Throughout 2014 and 2015, Bud Genius, Inc. (“Bud Genius”), a penny-
13 stock medical marijuana testing company, and its CEO Aaron “Angel” Stanz
14 (“Stanz”), engaged in a scheme to defraud investors regarding Bud Genius’ business
15 operations and financial condition to make Bud Genius look more valuable and
16 attractive as a start-up company and potential investment. This fraudulent scheme
17 helped facilitate an unregistered offering of the securities of Bud Genius, which
18 generated approximately \$540,000 in illicit profits to Bud Genius, Stanz, and others.
19 It also coincided with the burgeoning marijuana industry as a potentially attractive
20 investment given the recent legalization of recreational marijuana in several states,
21 and subsequent commercial sales of recreational marijuana.

22 DEFENDANTS

23 5. **Bud Genius**, formerly Rightsmile, Inc. (“Rightsmile”), was a Wyoming
24 corporation headquartered in San Diego County, California. Bud Genius’ primary
25 business involved the testing and analysis of strains of medical marijuana and
26 providing a social web platform designed to assist patients in selecting cannabis
27 medicine paired to their specific needs. Bud Genius’ common stock was quoted
28 under the ticker “RIGH” on OTC Link operated by OTC Markets Group, Inc. (“OTC

1 Markets”), an electronic inter-dealer quotation system that displays quotes from
2 broker-dealers for securities of companies not registered with the Commission and
3 not listed on stock exchanges. At all relevant times, Bud Genius did not have a
4 reporting obligation under the Securities Act and its common stock qualified as a
5 penny stock under Section 3(a)(51) of the Exchange Act and Rule 3a51-1 thereunder.

6 6. **Aaron “Angel” Stanz**, age 43, resides in San Diego, California. He was
7 the CEO and sole director of Bud Genius. Stanz also co-founded and co-ran several
8 charter jet brokering companies, and occasionally consulted for another charter jet
9 company.

10 **OTHER RELEVANT INDIVIDUALS AND ENTITIES**

11 7. **Taylor Moffitt**, aka Taylor Moffitt of Halydean, age 45, is a resident of
12 Eagle Grove, Iowa. Moffitt was a venture capitalist operating through various
13 companies. Moffitt had control over several bank and brokerage accounts in the
14 name of U.S. CoProducts, LLC, and provided administrative services for U.S.
15 CoProducts, LLC as an independent contractor.

16 8. **Carlos Febles**, age 55, is a resident of Ocala, Florida. Febles was a
17 former multimedia and sales consultant. Febles was a business partner with Moffitt
18 in his venture capital firms. He also owned U.S. CoProducts, LLC.

19 9. **U.S. CoProducts, LLC** was an Iowa limited liability company owned
20 by Febles and created by him in November 2013. U.S. CoProducts was to be
21 involved in the removal and processing of deceased farm animals, although it never
22 had any active business operations.

23 **FACTUAL ALLEGATIONS**

24 **I. BACKGROUND**

25 10. Stanz and a former business partner began Bud Genius in 2010 as a
26 private company in the business of testing strains of medical marijuana and providing
27 a social web platform designed to assist patients in selecting cannabis medicine
28 paired to their specific needs. In or about November 2011, Stanz parted ways with

1 his former business partner and continued operations under BG Medical
2 Technologies, Inc., doing business as Bud Genius.

3 11. Around the same time, Stanz met a venture capitalist through another
4 business associate, who both advised Stanz to take Bud Genius public as a means of
5 raising additional capital. The venture capitalist located Rightsmile, a public
6 company then purportedly in the business of online marketing and development, and
7 installed Stanz's business associate to serve as CEO for a brief period of time. On
8 January 18, 2012, Stanz and the venture capitalist caused Bud Genius to complete a
9 reverse merger with Rightsmile. The resulting public company began doing business
10 as Bud Genius with Stanz taking over as CEO.

11 12. Bud Genius' common stock had been quoted on OTC Markets under the
12 ticker "RIGH" since the reverse merger with Rightsmile. No registration statement
13 has ever been filed with the Commission or has been in effect for the offer or sale of
14 Bud Genius stock.

15 **II. BUD GENIUS AND STANZ MAKE FALSE AND MISLEADING**
16 **STATEMENTS AND ENGAGE IN OTHER DECEPTIVE CONDUCT**

17 13. Throughout 2014 and 2015, Bud Genius and Stanz engaged in a
18 fraudulent scheme to disseminate false information about Bud Genius' business
19 operations and financial condition in an attempt to increase interest in Bud Genius'
20 stock, as well as to attract the infusion of capital from third party financiers.

21 **A. FALSE AND MISLEADING PRESS RELEASES AND OTHER**
22 **DISCLOSURES**

23 14. From July 2014 through at least April 2015, Bud Genius and Stanz
24 issued numerous false and misleading press releases and other disclosures related to a
25 new subsidiary, Genius Biotech, and the purported acquisition of celebrity
26 partnerships and endorsements. Stanz authored most of these disclosures, including
27 press releases and investor brochures, and had ultimate authority and control over the
28 content of all disclosures issued by Bud Genius.

1 later – on September 16, 2014 – when incorporation documents were filed with the
2 State of Delaware.

3 19. Further, the August 20 press release deceived investors by giving the
4 misleading impression that Genius Biotech was an operating business. In fact, Bud
5 Genius and Stanz knew, but did not disclose, that Genius Biotech never had any
6 business operations or employees; it was merely a shell entity.

7 20. On October 10, 2014, Bud Genius and Stanz issued another false press
8 release stating that “exclusive celebrity endorsement contracts are being negotiated
9 by Bud Genius’ new subsidiary, Genius Biotech Corporation. . . .” This press release
10 furthered the deception on investors by giving them the false impression that Genius
11 Biotech was engaged in active business operations, when in fact, as known by Bud
12 Genius and Stanz, it was a non-operating shell entity.

13 **2. False and Misleading Press Releases Regarding Celebrity**
14 **Partnerships and Endorsements**

15 21. Subsequent to the above October 10, 2014 press release, Bud Genius and
16 Stanz issued several false and misleading press releases and other disclosures to
17 potential investors regarding its failed attempts at becoming a licensee of celebrity-
18 endorsed products, including those endorsed by comedian Tommy Chong.

19 **a. Press Releases Regarding Bud Genius as a Licensee of**
20 **Celebrity-Endorsed Products**

21 22. In at least six press releases issued throughout March and April 2015,
22 beginning with one issued on or about March 5, 2015, Bud Genius described itself as
23 “a licensee of celebrity-endorsed marijuana and hemp related merchandise.” These
24 press releases deceived investors because Bud Genius was never, at the time of the
25 press releases or any time thereafter, a “licensee of celebrity-endorsed marijuana and
26 hemp related merchandise.” A proposed acquisition to obtain licensing rights
27 associated with Tommy Chong never materialized, and Bud Genius was never a
28 licensee of any celebrity-endorsed products.

1 **b. March 30, 2015 Tommy Chong Press Release**

2 23. On March 30, 2015, Bud Genius issued a press release entitled: “Bud
3 Genius Announces LOI to Acquire Evergreen Licensing – an Exclusive Licensor of
4 Tommy Chong Products: Company controls licensing rights in the nation’s largest
5 cannabis market, with \$1.3 billion in yearly sales.” The press release stated, in
6 pertinent part:

7 Bud Genius, Inc. . . . announced today they have signed a Letter of Intent
8 to acquire Evergreen Licensing – exclusive licensor of Tommy Chong
9 marijuana, hemp, and cannabis-related products. Under the terms of the
10 agreement, Bud Genius will manage licensing and distribution of
11 Tommy Chong brand cannabis products in California, as well as provide
12 a variety of revenue-generating services . . . The agreement for Bud
13 Genius produces revenue on the licensing of Tommy Chong THC
14 products, and on the distribution of Tommy Chong non-THC products...

15 “We are pleased to have signed the Letter of Intent to acquire Evergreen
16 Licensing – a team that we have known and respected for years,” said
17 Angel Stanz, CEO of Bud Genius . . . “We are delighted and proud to be
18 [Tommy Chong’s] partner in this quest [to building the Tommy Chong
19 brand into one of the premier brands in the industry].”

20 24. The press release was false and misleading for several reasons. First, the
21 March 30 press release gave the false and misleading impression that entering into a
22 Letter of Intent (“LOI”) was a significant step towards consummating the deal with
23 Evergreen Licensing (“Evergreen”) and acquiring Tommy Chong’s licensing rights.
24 Bud Genius and Stanz knew, but did not disclose, that the LOI held little significance.
25 In fact, in late 2014, while still negotiating its terms, Stanz stated in an email that the
26 LOI was “more of a cosmetic step than anything tangible.” Further, the press release
27 deceived investors by omitting the fact that in order to acquire Evergreen, among
28 other things, Bud Genius had to pay Evergreen \$500,000 and other unspecified stock
29 and employment-related consideration to Evergreen’s owner. Bud Genius did not
30 have \$500,000 to pay Evergreen, and had no imminent prospects for obtaining such
31 funds.

32 25. Bud Genius and Stanz further deceived investors by omitting the fact
33 that the LOI was entered into over two months earlier, on January 27, 2015, and that

1 it expired on April 1, 2015, only **two days after** the issuance of the press release.
2 Bud Genius and Stanz knew, but did not disclose, that consummating the acquisition
3 by April 1 was extremely unlikely given Bud Genius' weak financial position and the
4 lack of any imminent, credible financing options.

5 26. Despite the false and misleading statements to the contrary, Bud Genius
6 never acquired Evergreen or its associated licensing rights to Tommy Chong
7 products, and was never was a licensee of any celebrity-endorsed products.

8 **c. Stanz Personal Blog Post**

9 27. Stanz posted several articles on his personal blog, which Bud Genius
10 investors followed, which furthered the misleading nature of the above disclosures.
11 On March 27, Stanz misleadingly stated that “[w]e are moments away from a major
12 announcement” and he described a meeting and dinner “with our new brand
13 partner(s).” And on March 30, 2015, Stanz misleadingly claimed that the LOI
14 announcement was a “crowning achievement” and emphasized the “magnitude of this
15 announcement.” Stanz also characterized Evergreen as “[o]ur partners and
16 acquisition,” and stated that “We are proud to be working with Tommy Chong . . . the
17 most powerful cannabis brand in existence . . . **and Bud Genius has it.**” (Emphasis
18 in original).

19 28. Reasonable investors reading these statements, combined with the March
20 30 press release, would have been misled into believing that Bud Genius either had
21 acquired Evergreen, and along with it the licensing rights to Tommy Chong products,
22 or that such an acquisition was imminent.

23 **d. Media Reports Regarding the Tommy Chong Release**

24 29. Several news outlets, including the San Diego Union-Tribune, The
25 Business Journals, Cannabis Financial Network (“CFN”), and CannaNews,
26 erroneously reported that Bud Genius had acquired, or had agreed to acquire,
27 licensing rights for Tommy Chong cannabis-related products. These reports reflected
28 that the public was in fact misled by Bud Genius' and Stanz's misstatements and

1 demonstrate that the misstatements were material. Bud Genius and Stanz reposted
2 several of these erroneous articles on its Twitter account and Facebook page.

3 30. Stanz was also involved in reviewing and drafting one of the erroneous
4 news reports. On March 30, shortly after Bud Genius issued its press release
5 regarding the LOI, Stanz asked CFN, a cannabis-related news publication that Bud
6 Genius paid for promotions, to update an article posted on its website regarding the
7 news. Stanz suggested that the headline be changed from “Bud Genius Acquires
8 Licensor of Cannabis-related Products” to “Bud Genius Acquires Licensor of Tommy
9 Chong Products.” Stanz never informed CFN that the headline was erroneous in that
10 Bud Genius had not acquired Evergreen. Instead, he requested that the story be on
11 the front page of CFN’s website. CFN changed the headline as Stanz requested and
12 published the erroneous headline on its front page.

13 **e. Investor Brochures**

14 31. In April and May 2015, Bud Genius and Stanz prepared and distributed
15 to potential investors a brochure or “pitch deck” summarizing Bud Genius’ current
16 and projected business as part of an attempt to raise capital or financing. The pitch
17 deck falsely stated that “Bud Genius had recently acquired exclusive licensing rights
18 for Tommy Chong Products in California,” and that “Bud Genius acquired the
19 exclusive licensing rights for Tommy Chong products in California, Q1 2015.”
20 (Emphasis in original). As discussed above, these statements were false. Bud Genius
21 never acquired licensing rights for any Tommy Chong products.

22 **B. FALSE AND MISLEADING FINANCIAL INFORMATION**

23 32. Throughout 2014, Bud Genius and Stanz repeatedly provided fraudulent
24 financial information – consisting of annual reports and financial statements – to the
25 investing public. This fraudulent financial information, which gave investors and
26 potential investors an inaccurate picture of the company’s financial condition
27 throughout 2012 to 2014, was periodically published with OTC Disclosure.
28

1 33. Financial information published with OTC Disclosure must be prepared
2 according to generally accepted accounting principles (“GAAP”). All Bud Genius
3 annual reports and financial statements published with OTC Disclosure during 2014
4 were certified by Stanz as accurate and most were accompanied by an “Attorney
5 Letter” representing that the financial statements were prepared in accordance with
6 GAAP. Bud Genius’ annual reports and financial statements were prepared by third
7 party accountants based on books and records prepared and provided by Stanz,
8 although Stanz prepared the sections describing Bud Genius’ business and operations.
9 Bud Genius’ financial information was widely disseminated to potential investors
10 given that it was published on OTC Disclosure and made available on Bud Genius’
11 website.

12 **1. Fraudulent Revenue Associated with Charter Jet Business**

13 34. Throughout 2014, Bud Genius and Stanz fraudulently reported as
14 revenue significant payments received during 2012 to 2014 from Stanz’s charter jet
15 businesses.

16 35. Bud Genius reported “total revenue” in financial statements published
17 with OTC Disclosure as follows: \$161,381 in 2012, \$55,048 in 2013, and \$55,584 for
18 the first three quarters of 2014. The reported “total revenue” included both legitimate
19 revenue associated with the testing of medical marijuana, and improperly recorded
20 revenue associated with Stanz’s charter jet businesses. The fraudulent charter jet
21 revenue accounted for over 61% of total revenue for the combined periods Q4 2012
22 through Q2 2014.

23 36. The charter jet revenue had nothing to do with Bud Genius’ core
24 business – the testing and analysis of medical marijuana – and could not be properly
25 claimed by Bud Genius as revenue under GAAP. Bud Genius’ annual reports and
26 financial statements failed to disclose to investors that any portion of its reported
27 revenue came from Stanz’s charter jet businesses. In fact, Bud Genius’ financial
28 information made no mention whatsoever of any involvement or association with

1 charter jet businesses. Nor did it disclose the receipt of charter jet revenue as “related
2 party transactions” as required under GAAP.

3 37. Stanz knew that the charter jet company revenue could not be properly
4 reported in Bud Genius’s financials. In internal emails with a Bud Genius consultant,
5 Stanz described the charter jet revenue as “pass through” revenue from his charter jet
6 businesses that was “booked under Bud Genius,” and revenue that he would “stack ...
7 in [Bud Genius] by routing consulting services earnings from [the charter jet
8 businesses], which in turn pays our programmers.” And in yet another internal email,
9 Stanz stated that “[the charter jet business] was a necessary evolution to provide
10 personal cash flows since Bud Genius was not funded.”

11 38. Further, Stanz concealed from his accountants the existence of the
12 charter jet revenue. Such revenue was referred to simply as “contract revenue” in the
13 Bud Genius books and records that Stanz provided to the accountants for preparation
14 of the financial statements. Stanz never told his accountants about the source of the
15 revenue and never provided any supporting invoices or other documents that might
16 have alerted the accountants to the fact that these payments came from the charter jet
17 companies’ business.

18 **2. Inflated and Unjustified Value for Intangible Assets**

19 39. Bud Genius’ balance sheets for 2012 through Q3 2014, published
20 throughout 2014, fraudulently reported an inflated and unjustified value of
21 “intangible assets” associated with Bud Genius’ purported proprietary software.

22 40. Bud Genius’ balance sheets reported “Intangible Assets” valued at
23 between \$520,754 and \$636,143, reduced each period for amortization. The
24 intangible assets purportedly reflected Bud Genius’ main software development and
25 platform for testing and analyzing medical marijuana. The intangible assets
26 accounted for between approximately 21% and 44% of total assets from 2012 through
27 Q3 2014.
28

1 41. The reported value of the intangible assets was false and misleading.
2 Under GAAP, while some initial and preliminary development costs are expensed,
3 costs incurred to develop website and computer software during the application
4 development stage are capitalized using their historical (i.e. actual) cost. In the case
5 of Bud Genius, the software development work was primarily performed by foreign
6 subcontractors at a significant lower cost than if the work was performed in the U.S.
7 Stanz knowingly assigned an inflated and unjustifiable value to the intangible assets
8 by estimating what the cost would have been to perform the development work in the
9 U.S., even though the actual cost was much less.

10 42. Beginning in or about 2012, Bud Genius' accountant informed Stanz that
11 Bud Genius' valuation of its intangible assets was not acceptable under GAAP.
12 Regardless, Stanz insisted on going forward with the inflated valuation, stating in a
13 subsequent email that he was "aware that this would need to be adjusted in an audit to
14 best reflect its value."

15 **3. Improperly Reported Accounts Receivable**

16 43. For 2013 through 2014, Bud Genius and Stanz fraudulently reported as
17 "accounts receivable" what were essentially loan payments owed to Bud Genius by a
18 company owned by consultant Taylor Moffitt. By mischaracterizing the loan as an
19 "account receivable," Bud Genius and Stanz creating the false and misleading
20 impression that Bud Genius was generating, or had previously generated, more
21 business and operating revenue than was actually the case.

22 44. In financial statements published with OTC Disclosure in 2014, Bud
23 Genius' balance sheets reported "Accounts Receivable" of between \$188,294 and
24 \$226,659. These accounts receivable accounted for approximately 8% of total assets
25 in 2013, and between 8% and 24% of total assets for Q1 2014 to Q3 2014. Footnotes
26 in the financial statements reflected that "[a]ccounts receivables is reported as the
27 customers' outstanding balances, less any allowance for doubtful accounts."
28

1 45. The “accounts receivable” reported by Bud Genius for 2013 and 2014
2 were false and misleading. They were not associated with ordinary business
3 operations. Instead they consisted of balances owed to Bud Genius on two debts
4 incurred by Moffitt’s company. Stanz knew that the loan amounts could not be
5 characterized as “accounts receivable” under GAAP. In or about August 2014, Bud
6 Genius’ accountant informed Stanz that the debt obligations did not represent income
7 and therefore could not be recorded as accounts receivable under GAAP. Moffitt also
8 previously informed Stanz that the debt obligations represented “notes receivable,”
9 and not income. Stanz ignored this advice and insisted that Bud Genius’ accountants
10 prepare the financial statements with the improperly reported debt obligations as
11 “accounts receivable.”

12 **4. Failure to Disclose Consent Decree**

13 46. In annual reports and financial statements published with OTC
14 Disclosure during 2014, Bud Genius and Stanz falsely stated that Stanz had no legal
15 or disciplinary history, when in fact in 2009 he was enjoined by the Illinois Attorney
16 General for allegedly charging thousands of telephone consumers for services without
17 authorization.

18 47. Bud Genius’ 2012 and 2013 annual reports, and quarterly financial
19 statements published in 2014, included a “Legal/Disciplinary History” section calling
20 for officers, directors, and control persons to disclose any “order, judgment, or decree
21 . . . by a court of competent jurisdiction that permanently or temporarily enjoined,
22 barred, suspended or otherwise limited such person’s involvement in any type of
23 business, securities, commodities, or banking activities.” This disclosure language
24 was part of the OTC Markets’ basic disclosure guidelines provided to companies.
25 Bud Genius and Stanz falsely reported “N/A” in response to this Legal/Disciplinary
26 History disclosure.

27 48. In fact, Stanz was previously permanently enjoined by an Illinois state
28 court. In June 2009, Stanz and U.S. Credit Find, Inc., which purported to offer an

1 online tutorial to help consumers fix their credit, settled a lawsuit filed by the Illinois
2 Attorney General for allegedly “cramming” telephone bills of Illinois consumers with
3 unauthorized monthly charges. As part of the settlement, Stanz signed a Final
4 Judgment and Consent Decree entered by the state court that, among other things,
5 permanently enjoined him and U.S. Credit Find from submitting bills and collecting
6 payments for goods and services in Illinois, and “otherwise limited [Stanz’s]
7 involvement in any type of business” by requiring Stanz and U.S. Credit Find to
8 cancel all contracts with Illinois consumers and cease billing immediately.

9 49. These false and misleading disclosures concealed from the investing
10 public the prior negative legal and disciplinary business history of Stanz, Bud
11 Genius’ sole officer and director.

12 **III. THE SALE OF UNREGISTERED SECURITIES**

13 50. The above fraudulent scheme helped facilitate an unregistered offering
14 of the securities of Bud Genius. Between late 2013 and mid-2015, Bud Genius and
15 Stanz offered and sold billions of shares of unregistered Bud Genius stock in
16 violation of the registration provisions of the federal securities laws. This was done
17 through shareholders Taylor Moffitt, Carlos Febles, and their entity, U.S. CoProducts,
18 who were acting as statutory underwriters for Bud Genius. The unregistered offering
19 generated approximately \$540,000 in illicit profits to Bud Genius, Stanz, Moffitt,
20 Febles, and U.S. CoProducts.

21 **A. U.S. CoProducts’ Acquisition of Unregistered Securities**

22 51. A few months prior to Bud Genius’ reverse merger with Rightsmile,
23 Rightsmile’s then-CEO (“the former CEO”) was issued 300,000 restricted preferred
24 shares of Rightsmile in exchange for the former CEO’s transfer to Rightsmile of a
25 web development company he owned. The preferred shares were convertible to
26 common shares at a rate of 10,000 to 1, making the 300,000 preferred shares worth 3
27 billion common shares.

1 52. The former CEO, who was an unsophisticated investor, also agreed with
2 Stanz that he would not sell the shares without first consulting Stanz. Further, he
3 agreed that he would return the 300,000 preferred shares to Bud Genius if his web
4 development company was ever transferred out of, or “removed” from, Bud Genius.

5 53. In 2013, the former CEO shut down and dissolved his web development
6 company, and shortly thereafter Stanz reached out to the former CEO about getting
7 the 300,000 preferred shares back. Stanz relayed to the former CEO that Moffitt –
8 who was at that time a consultant for Bud Genius – would “purchase” the shares for
9 \$2,000. Stanz also convinced the former CEO that the shares were essentially
10 worthless because they could not be converted to common stock, and therefore could
11 not be sold. The former CEO agreed to transfer the restricted shares to Moffitt in
12 exchange for \$2,000, an amount that Stanz told the former CEO he would like for
13 him to receive for dealing with the hassle of transferring the purportedly worthless
14 shares.

15 54. In early August, 2013, Stanz facilitated the transfer by providing the
16 former CEO with the necessary paperwork to send to Moffitt. However, the former
17 CEO never received the \$2,000 – or any other compensation – for transferring the
18 shares to Moffitt.

19 55. In early November 2013, Moffitt and business partner Febles, with
20 Stanz’s assistance, converted the 300,000 restricted preferred shares obtained from
21 the former CEO into 3 billion common shares of Bud Genius.

22 56. Around the same time, Moffitt transferred to U.S. CoProducts – an entity
23 controlled by Moffitt and Febles – 1,499,000,000 of the common shares that Moffitt
24 obtained from the former CEO. The transfer took place after Bud Genius re-
25 domiciled in Wyoming and Stanz increased the authorized shares of common stock
26 from approximately 4.3 billion to 30 billion. This was done, in part, to allow Moffitt
27 and Febles to convert the preferred shares to common shares so they could be sold
28

1 into the market – something Stanz claimed would be impossible for the former CEO
2 to do just months earlier.

3 **B. U.S. CoProducts’ Sale of Unregistered Securities into the Market**

4 57. In January 2014, Moffitt and Febles obtained an opinion letter from an
5 attorney opining that U.S. CoProducts could resell the shares into the market. As
6 discussed below, the attorney improperly determined that U.S. CoProducts was
7 exempt from the registration requirements of Section 5 of the Securities Act, in part
8 because it held the shares for the requisite amount of time to allow it to comply with
9 the safe harbor provisions of Rule 144 of the Securities Act from being deemed an
10 underwriter.

11 58. Between approximately June 30, 2014, and July 6, 2015, Moffitt and
12 Febles, through a brokerage account opened in the name of U.S. CoProducts, sold
13 over 1 billion of these shares, which were not registered with the Commission, into
14 the public market. They received approximately \$543,333 in proceeds from the sale
15 of the stock. Moffitt and Febles transferred approximately \$141,084 of the sale
16 proceeds back to Bud Genius and Stanz.

17 59. U.S. CoProducts’ sales of Bud Genius stock were not exempt from the
18 registration requirement of Section 5 of the Securities Act. The federal securities
19 laws exempt transactions by any person other than an issuer, underwriter, or dealer
20 from the registration requirement of Section 5 of the Securities Act. Moffitt, Febles,
21 and U.S. CoProducts were underwriters because they obtained the shares from an
22 affiliate with a view to distribute them to the public market. U.S. CoProducts did not
23 hold the shares for the requisite amount of time to allow it to comply with the safe
24 harbor from being deemed an underwriter and to permit the sale of the shares without
25 registration. This was because, in part, Moffitt obtained the shares from the former
26 CEO, who was an affiliate of Bud Genius given that he (and his 300,000 preferred
27 shares) was under the control of Bud Genius and Stanz at the time of the transfer to
28 Moffitt. Further, Moffitt never paid the former CEO for the shares.

1 securities through the use or medium of a prospectus or otherwise;
2 or carried securities or caused such securities to be carried through
3 the mails or in interstate commerce, by means or instruments of
4 transportation, for the purpose of sale or delivery after sale; and

5 b. made use of the means or instruments of transportation or
6 communication in interstate commerce or of the mails to offer to
7 sell or to offer to buy, through the use or medium of any
8 prospectus or otherwise, securities without a registration statement
9 having been filed with the Commission or being in effect as to
10 such securities.

11 72. No registration statements were filed with the Commission or were in
12 effect in connection with offers or sales of securities of Bud Genius by Defendants,
13 and no exemption from the registration requirements applied to Defendants' sales.

14 73. By engaging in the conduct described above, Defendants Bud Genius
15 and Stanz violated, and unless restrained and enjoined are reasonably likely to
16 continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a)
17 and (c)].

18 **PRAYER FOR RELIEF**

19 WHEREFORE, the Commission respectfully requests that the Court:

20 **I.**

21 Enter judgment in favor of the Commission finding violations as alleged
22 herein.

23 **II.**

24 Enter an Order of Permanent Injunction restraining and enjoining Defendants,
25 their agents, servants, employees, attorneys and those persons in active concert or
26 participation with them who receive actual notice of the Order, by personal service or
27 otherwise, and each of them from, directly or indirectly, engaging in the transactions,
28 acts, practices or courses of business described above, or in conduct of similar

1 purport and object, in violation of Sections 5(a) and 5(c) of the Securities Act [15
2 U.S.C. §§ 77e(a) and (c)], Sections 17(a)(1) and (a)(2) of the Securities Act [15
3 U.S.C. §§77q(a)(1) and (a)(3)], and Section 10(b) of the Exchange Act [15 U.S.C. §§
4 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

5 **III.**

6 Enter an Order requiring Defendant Stanz to pay disgorgement of ill-gotten
7 gains, derived directly or indirectly from the misconduct alleged, together with
8 prejudgment interest thereon.

9 **IV.**

10 Enter an Order barring Defendant Stanz from the participation in offerings of
11 penny stock pursuant to Section 20(g) of the Securities Act [15 U.S.C. § 77t(g)].

12 **V.**

13 Enter an Order prohibiting Defendant Stanz, pursuant to Section 21(d)(2) of the
14 Exchange Act [15 U.S.C. § 78u(d)(2)] and Section 20(e) of the Securities Act [15
15 U.S.C. § 77t(e)], from acting as an officer or director of any issuer that has a class of
16 securities registered under Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is
17 required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. §
18 78o(d)].

19 **VI.**

20 Enter an Order requiring Defendant Stanz to pay civil money penalties
21 pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section
22 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

23 //

24 //

25 //

VII.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

Dated: May 21, 2018

/s/ Timothy J. Stockwell

CHARLES J. KERSTETTER

TIMOTHY J. STOCKWELL

Attorneys for Plaintiff

Securities and Exchange Commission