UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934

INVESTMENT COMPANY ACT OF 1940

ADMINISTRATIVE PROCEEDING
File No. 3-17056

In the Matter of
INVENT VENTURES, INC.
AND BRYCE M. KNIGHT,
Respondents.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, AND SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.
The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against INVENT Ventures, Inc. (“INVENT”) and Bryce M. Knight (“Knight”, collectively, “Respondents”).

II.
In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 21C of the Securities Exchange Act of 1934, and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.
III.

On the basis of this Order and Respondents’ Offers, the Commission finds that:

Summary

1. From 2010 through the first quarter of 2014, INVENT, a business development company, materially overstated the value of its interests in two of the companies it owned in periodic reports filed with the Commission. These valuations were unreasonable as they were based on limited, private sales of the companies’ securities, and did not properly consider other relevant factors in determining whether the valuations reflected the prices INVENT could obtain for its interests in these companies in current market transactions with market participants.

2. INVENT also misrepresented its valuation policy in its periodic filings and failed to implement it, in that INVENT did not consult an advisory board about its valuations as represented. Therefore, INVENT violated the reporting provisions of the federal securities laws, and, INVENT’s books and records contained material misstatements with respect to asset valuations, and its deficient internal accounting controls failed to prevent or detect those misstatements in violation of the books and records and internal accounting controls provisions of the federal securities laws.

3. Knight, as INVENT’s president and chairman, had a primary role in determining valuations. Knight also had responsibility for properly implementing INVENT’s valuation policy and for preparing disclosures concerning its valuation policy in public filings. Knight failed to prevent INVENT’s books and records from reflecting the material misstatements and also signed various public filings and certifications that included the misstatements.

4. INVENT also failed to comply with various provisions of the Investment Company Act. Specifically, INVENT violated provisions of that Act relating to issuing shares for property, obtaining a fidelity bond, the composition of its board, adopting and implementing compliance policies, conducting an annual review of those policies, and designating a chief compliance officer. Knight was INVENT’s chief executive officer and chairman throughout this time, and was responsible for issuing shares and for adopting and implementing the compliance policies.

Respondents

5. INVENT Ventures, Inc. was an internally managed, non-diversified closed-end investment company that elected to be regulated as a business development company (“BDC”) under the Investment Company Act on April 12, 2010 until it filed a notice of withdrawal on July

1 The findings herein are made pursuant to Respondents’ Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

2 A BDC is a closed-end investment company authorized by Congress for the purpose of making capital more readily available to certain types of companies. Under the Investment Company Act, a closed-end company meeting certain eligibility criteria may elect to be regulated as a BDC by filing a notification with the Commission on Form N-54A. A company filing such a notification is regulated under Sections 55 through 65 of the Investment
24, 2015. Among other names, INVENT was previously named Los Angeles Syndicate of Technology, Inc. INVENT is incorporated in Nevada and is headquartered in Santa Monica, California. INVENT’s common stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act and trades on the OTCQB market under the symbol “IDEA”. INVENT is required to file reports with the Commission pursuant to Section 13 of the Exchange Act.

6. Bryce M. Knight, age 32, is a resident of Santa Monica, California. Knight has served as INVENT’s chairman, chief executive officer, president, secretary, and treasurer since 2005. As of September 4, 2015, Knight indirectly held 19% of INVENT’s common stock through his wholly-owned company, Knight Inc.

Other Relevant Entities

7. LottoPals, Inc. is a private company that Knight incorporated in Nevada on June 1, 2010.

8. Clowd, Inc. is a private company that was incorporated in Delaware on August 20, 2008 by an individual who would later become INVENT’s chief investment officer.

Facts

Material Misrepresentations Regarding Valuations in INVENT’s Public Filings

9. INVENT is a technology incubator that creates, builds, and invests in web and mobile technology companies. INVENT’s business model was to found or acquire founders’ interests in businesses in the consumer Internet, mobile and biotechnology markets. INVENT’s portfolio holdings consist of its interests in the private companies, whose common stock is not actively traded, that were incubated by INVENT. In 2010, INVENT began incubating two private companies: LottoPals and Clowd. In particular, on July 1, 2010, INVENT contributed $6,000 in cash in exchange for six million shares of LottoPals common stock, or 100% of LottoPals’ then outstanding common stock. Based on the cash paid, INVENT purchased the LottoPals common stock for par value, or $0.001 per share. On September 27, 2010, INVENT acquired 1,500 shares of Clowd common stock, or 100% of Clowd’s then outstanding common stock, in exchange for unregistered shares of INVENT’s own common stock, which INVENT valued at $65,000 based on its reported net asset value. Based on the $65,000 amount, INVENT purchased the Clowd common stock for $43.33 per share. During the relevant period, LottoPals and Clowd were early-stage companies, and neither had any revenue nor any employees on payroll.

10. As a BDC, INVENT is subject to the relevant requirements of the Investment Company Act to the same extent as a registered closed-end fund, including Section 2(a)(41)(B)(ii), which requires a registered fund’s Board of Directors to determine, in good faith, the fair value of its portfolio assets when market quotations are not readily available.
11. INVENT’s valuation policy, which was disclosed in each of its periodic filings with the Commission from 2010 through 2014, described a hierarchical approach to fair valuation based on the types of inputs available. The policy also outlined a three-step quarterly process, one of which included utilizing the input of management and INVENT’s advisory board.

12. Financial Accounting Standards Board Accounting Standards Codification Topic 820 (“ASC 820”) defines “fair value” and establishes a framework for measuring fair value in accordance with generally accepted accounting principles (“GAAP”). ASC 820-35-9A defines fair value as an exit price, which reflects the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. ASC 820-10-05-1B emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions market participants would use in pricing the asset.

13. ASC 820-10-55-3A, F, and D outline three broad approaches to measure fair value – the market approach, income approach, and cost approach – and state that valuation techniques consistent with these three approaches shall be used to measure fair value. Under the market approach, prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities are used to measure fair value. The income approach utilizes valuation techniques to obtain the present value of future cash flows. Lastly, the cost approach is based on the amount that currently would be required to replace the assets in service (i.e., current replacement cost).

14. ASC 820-10-35-37 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets for identical assets or liabilities (Level I inputs). The next highest priority is given to instances where quoted prices in active markets do not exist for the identical asset, but the asset’s fair value can be calculated directly or indirectly based on observable market inputs (Level II inputs). The lowest priority is given to instances where observable market inputs are not available, and, therefore, the fair value of those assets is calculated through the use of management estimates of the assumptions that market participants would use in pricing the asset (Level III inputs).

15. Following INVENT’s purchases of LottoPals and Clowd, both companies sold additional stock in various unregistered offerings.

   a. From November 2010 through December 2010, LottoPals purportedly sold 135,000 shares of its common stock to five individuals for $0.50 per share, in exchange for cash or illiquid stock in another company. This stock issuance totaled 2% of LottoPals’ then outstanding stock, with INVENT owning the remaining 98%.

   b. From January 2011 to March 2011, Clowd purportedly sold 25,000 shares of its common stock to five individuals, each of whom purchased 5,000 shares for $2,500, or $0.50 per share. Clowd sold those shares on the incorrect assumption that over 6 million Clowd shares had been authorized, when the company was only authorized to issue 1,500 shares, which it had
already sold to INVENT. This Clowd common stock issuance would have totaled 0.42% of Clowd’s then outstanding stock (based on the 6 million share calculation).

16. All of the individuals to whom LottoPals and Clowd sold their stock were friends or acquaintances of Knight or another INVENT officer. Further, almost none of the investors were knowledgeable about investing in private companies, did customary due diligence into the companies or otherwise negotiated the purchase price. For example, at least one investor who purchased 30,000 shares of LottoPals common stock did not make any assessment of the investment, but rather followed Knight’s advice to exchange his illiquid stock of another company Knight had sold him for stock in LottoPals.

17. In its amended 2010 Form 10-K filed on August 24, 2011, INVENT reported its interest in LottoPals to have a value of $3 million as of December 31, 2010, as compared to the $6,000 INVENT had contributed to purchase its interest in LottoPals six months earlier. Knight signed INVENT’s filings with the Commission. INVENT’s valuation of LottoPals increased INVENT’s reported net asset value 105%. At this time, in addition to the $6,000 INVENT paid to purchase its interest in LottoPals, only $5,945 in cash had been invested in further developing LottoPals’ business, and there had not been any material developments in LottoPals’ business warranting such an increase in LottoPals’ value.

18. In reaching its $3 million valuation for LottoPals, INVENT relied on the $0.50 transaction share price at which LottoPals had sold 2% of its common stock to the five investors in November and December 2010, without properly considering other factors relevant to valuing LottoPals. In particular, INVENT did not appropriately consider the information available to it regarding the nature of the private sales in order to determine what weight to give the transactions (e.g., whether the transactions reflected a price that would be received in an orderly transaction between market participants at the measurement date), and whether LottoPals had made sufficient progress in developing its business to justify that a market participant would invest at a $3 million valuation. As a result, INVENT did not adequately determine its valuation of LottoPals in conformity with ASC 820 and generally accepted accounting principles.

19. In its first quarter 2011 Form 10-Q filed on May 13, 2011, INVENT reported its interest in Clowd to also have a value of $3 million as of March 30, 2011, as compared to the $65,000 INVENT had contributed to purchase its interest in Clowd six months earlier. INVENT’s valuation of Clowd increased INVENT’s reported net asset value by an additional 34% beyond the 105% increase in net asset value resulting from the improper valuation of LottoPals. At this time, in addition to the $65,000 in INVENT stock used to purchase INVENT’s interest in Clowd, only $5,271 in cash had been invested in further developing Clowd’s business, and there had not been any material developments in Clowd’s business warranting such an increase in Clowd’s value.

20. In reaching its $3 million valuation for Clowd, INVENT relied on the $0.50 transaction share price at which Clowd had sold 25,000 shares of its common stock to the five investors from January through March 2011. In doing so, INVENT incorrectly determined that it owned 6 million shares of Clowd, when it only owned 1,500 shares, and that Clowd was authorized to issue more than 1,500 shares of common stock at that time. Even if INVENT had owned the 6 million Clowd shares it thought it did, it failed to properly consider other factors
relevant to valuing Clowd. In particular, INVENT did not appropriately consider the information available to it regarding the nature of the private sales in order to determine what weight to give them (e.g., whether the transactions reflected a price that would be received in an orderly transaction between market participants at the measure date), and whether Clowd had made progress in developing its business to justify that a market participant would invest at a $3 million valuation. As a result, INVENT did not adequately determine its valuation of Clowd in conformity with ASC 820 and generally accepted accounting principles.

21. In determining the valuations of LottoPals and Clowd, INVENT never consulted or sought the input of its advisory board, contrary to its valuation policy as disclosed to investors in periodic filings.

22. INVENT maintained its $3 million valuation for LottoPals in quarterly and annual reports filed with the Commission for three years, adjusting it downward to $81,912 in its first quarter Form 10-Q for 2014. Clowd’s valuation was maintained in INVENT’s quarterly and annual reports until it was adjusted downward to $1,486,375 starting in its second quarter Form 10-Q for 2012; to $743,187 in the 2013 Form 10-K; and to $99,742 in the second quarter Form 10-Q for 2014. The valuations for LottoPals comprised between 26% through 51% of INVENT’s net asset value during the relevant period. The valuations for Clowd comprised between 8% and 26% of INVENT’s net asset value during the relevant period. Consequently, INVENT’s net asset value during the relevant periods was materially misstated in periodic filings, resulting in material misrepresentations.

23. INVENT’s deficient internal accounting controls failed to prevent or detect the asset overvaluations. INVENT’s books and records contained materially overstated fair values of LottoPals and Clowd, and INVENT consequently overstated its net asset value. INVENT failed to properly design or implement an appropriate valuation methodology and procedures to value INVENT’s illiquid investments consistent with GAAP.

24. Pursuant to INVENT’s policies and procedures, Knight, as the company’s president and chairman, had a primary role in determining the valuations of LottoPals and Clowd that were not adequately determined in conformity with ASC 820 and generally accepted accounting principles. Knight signed and certified INVENT’s public filings.

Issuance of Shares for Property

25. Section 23(a) of the Investment Company Act, which Section 63 of the Investment Company Act makes applicable to a BDC, prohibits any closed-end company from issuing securities for services or for property other than cash or securities.

26. On July 27, 2012, INVENT issued its shares to an individual in exchange for assets belonging to a company owned by such individual. This transaction constituted an issuance of shares for property. Knight, as INVENT’s President and Chairman, entered into and approved this issuance of shares for property.
Fidelity Bond

27. Section 17(g) of the Investment Company Act and Rule 17g-1 thereunder, which Section 59 of the Investment Company Act makes applicable to a BDC, require each BDC to provide and maintain a bond issued by a reputable fidelity insurance company against larceny and embezzlement by officers and employees of the BDC. An executed fidelity bond must be filed with the Commission within ten days after receipt and the filing must include a copy of the resolution of the board of directors who are not “interested persons” approving the form and amount of the bond.

28. From April 2010 to May 2012 and then again from May 2014 to December 2014, INVENT did not maintain a fidelity bond.

29. Even when it did obtain a fidelity bond in May 2012 and December 2014, INVENT did not file the fidelity bond with the Commission within ten days of obtaining the fidelity bond.

30. Even when INVENT filed one of its fidelity bonds, it did not include all required documents. In particular, on October 18, 2013, INVENT filed a fidelity bond with the Commission, but did not include a copy of the resolution showing the board of directors who are not interested persons approved the form and amount of the fidelity bond.

31. INVENT’s fidelity bonds obtained for coverage commencing May 2012 and May 2013 were not approved by the board.

Improper Board Composition

32. Section 56(a) of the Investment Company Act provides that a majority of a BDC’s directors shall be persons who are not interested persons, as that term is defined in Section 2(a)(19) of the Investment Company Act.

33. Between July 21, 2010 and December 5, 2013 INVENT’s board of directors consisted of only two members, one of whom was Knight. Knight was an interested director because he was an officer of INVENT and, separately, owned more than 5% of INVENT shares. Consequently, during this period INVENT’s board did not consist of a majority of disinterested directors. From January 15, 2015 to July 24, 2015 when INVENT voluntarily withdrew its election as a BDC, INVENT’s board of directors consisted only of Knight, which does not comply with the requirement to maintain a majority of disinterested members.

Compliance Failures

34. Rule 38a-1 under the Investment Company Act, made applicable to BDCs pursuant to Section 59 of the Investment Company Act, requires each BDC to adopt and implement written policies and procedures reasonably designed to prevent violations of the federal securities laws. These policies and procedures must be approved by the BDC’s board of directors (including a majority of persons who are not interested persons) and reviewed annually. Furthermore, each
BDC must appoint a chief compliance officer to administer the policies and procedures, and the compliance officer has certain reporting duties to the board.

35. Since April 12, 2010, INVENT did not adopt compliance policies or procedures addressing several important aspects of its operation as a BDC, including fidelity bonding, prohibitions on issuing shares for services or property, board composition, and annual reviews of its compliance program.

36. In addition, while INVENT did adopt, as part of its compliance policies or procedures, a policy on the valuation of securities, this policy was not implemented. INVENT’s valuation policy provided that “[p]reliminary valuation conclusions are discussed with the BOD and subsequently discussed with members of the advisory board” and that “[t]he BOD considers the proposed valuations and determines the value of [the] portfolio companies in good faith based on the input of [the] management team and [ ] advisory board.” Contrary to these requirements, for all periods since April 12, 2010, neither consultation nor input of the advisory board regarding valuations occurred. In addition, as set forth above with respect to the valuations of LottoPals and Clowd, Knight, in his role as INVENT’s Chairman, did not determine the valuations of LottoPals and Clowd in conformity with INVENT’s valuation policy and Section 2(a)(41) of the Investment Company Act.

37. For the calendar years ending 2010 through 2014, INVENT did not conduct annual reviews of the adequacy of its policies and procedures.

38. Since February 12, 2011, INVENT has operated without designating a chief compliance officer.

**Violations**

39. As a result of the conduct described above, INVENT willfully violated Section 17(g) of the Investment Company Act and Rule 17g-1 thereunder.

40. As a result of the conduct described above, INVENT willfully violated, and Knight willfully aided and abetted and caused violations of, Section 23(a) of the Investment Company Act.

41. As a result of the conduct described above, INVENT willfully violated Section 56(a) of the Investment Company Act.

42. As a result of the conduct described above, INVENT willfully violated, and Knight willfully aided and abetted and caused violations of, Rule 38a-1 under the Investment Company Act.

43. As a result of the conduct described above, INVENT and Knight willfully violated Section 34(b) of the Investment Company Act, which, among other things, makes it unlawful for any person to make any untrue or misleading statement of material fact in any registration.
statement, application, report, or other document filed or transmitted pursuant to the Investment Company Act or the keeping of which is required pursuant to Section 31(a) of the Investment Company Act. Section 64(a) makes Section 31 applicable to BDCs except that the reference to financial statements required to be filed pursuant to Section 30 shall be construed to refer to the financial statements required to be filed by such BDC pursuant to Section 13 of the Exchange Act.

44. As a result of the conduct described above, INVENT willfully violated, and Knight willfully aided and abetted and caused violations of, Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file complete and accurate annual and quarterly reports with the Commission.

45. As a result of the conduct described above, Knight willfully violated Rule 13a-14 of the Exchange Act, which requires an issuer’s principal executive and principal financial officer to attest that the company’s “report does not contain any untrue statement of a material fact.”

46. As a result of the conduct described above, INVENT willfully violated and Knight willfully aided and abetted and caused violations of Section 13(b)(2)(A) of the Exchange Act, which requires issuers to “make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer.”

47. As a result of the conduct described above, INVENT willfully violated and Knight willfully aided and abetted and caused violations of Section 13(b)(2)(B) of the Exchange Act, which requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that, among other things, transactions are recorded to permit the preparation of financial statements in conformity with generally accepted accounting principles.

48. As a result of the conduct described above, Knight willfully violated Rule 13b2-1 under the Exchange Act, which prohibits a person from, directly or indirectly, falsifying or causing to be falsified any book, record, or account subject to Section 13(b)(2)(A) of the Exchange Act.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, and for the protection of investors to impose the sanctions agreed to in Respondents’ Offers.

Accordingly, pursuant to Section 21C of the Exchange Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent INVENT cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder, and Sections 17(g), 23(a), 34(b), and 56(a) of the Investment Company Act and Rules 17g-1 and 38a-1 thereunder.
B. Respondent Knight cease and desist from committing or causing any violations and any future violations of Section 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1, 13a-13, 13a-14, and 13b2-1 thereunder, and Sections 23(a) and 34(b) of the Investment Company Act and Rule 38a-1 thereunder.

C. Respondent Knight be, and hereby is:

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

D. Any reapplication for association by Respondent Knight will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

E. Respondent Knight shall pay a civil money penalty in the amount of $50,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments: (i) $10,000 due on the first of the sixth month following entry of this Order; (ii) $10,000 due on the first of the twelfth month following entry of this Order; (iii) $10,000 due on the first of the eighteenth month following entry of this Order; (iv) $10,000 due on the first of the twenty-fourth month following entry of this Order; and (iv) $10,000 due on the first of the thirtieth month following entry of this Order. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. 3717, shall be due and payable immediately, without further application. Payment must be made in one of the following ways:

1. Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

2. Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

3. Respondent may pay by certified check, bank cashier’s check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:
Payments by check or money order must be accompanied by a cover letter identifying Bryce M. Knight as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to C. Dabney O’Riordan, Division of Enforcement, Securities and Exchange Commission, 444 S. Flower Street, 9th Floor, Los Angeles, California 90071.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent Knight and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent Knight under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent Knight of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary