

**UNITED STATES DISTRICT COURT
DISTRICT OF MARYLAND**

**SECURITIES AND EXCHANGE
COMMISSION,**

**Philadelphia Regional Office
1617 JFK Blvd., Suite 520
Philadelphia, PA 19103,**

Plaintiff,

v.

**DAWN J. BENNETT,
1323 Paseo de Peralta
Santa Fe, NM 87501,**

**BRADLEY C. MASCHO
9351 Barrington Court
Frederick, MD 21701,**

and

**DJB HOLDINGS, LLC,
d/b/a DJBennett and DJBennett.com
5335 Wisconsin Avenue, NW
Suite 501
Washington, DC 20015,**

Defendants.

Civil Action No. 17-cv-02453-PX

Jury Demand

AMENDED COMPLAINT

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

SUMMARY OF THE ACTION

1. This matter involves an offering fraud orchestrated by Defendant Dawn J. Bennett (“Bennett”), founder and owner of Defendant DJB Holdings, LLC (“DJBennett”), a Washington D.C.-based retail sports apparel business, and aided and abetted by Defendant Bradley C. Mascho

(“Mascho”), Chief Financial Officer of DJBennett, and Bennett’s long-time confidante (collectively, “Defendants”).

2. From December 2014 through at least July 2017, Defendants raised more than \$20 million from at least 46 investors through the unregistered offering of DJBennett convertible and promissory notes (collectively, the “Notes”) by fraudulently misrepresenting and omitting material facts to investors regarding DJBennett’s financial condition and operating performance, the risks associated with the investment, and the intended use of investor proceeds.

3. Bennett, a former registered representative associated with Broker Dealer 1, and the former radio host of “Financial Myth Busting with Dawn Bennett,” for years operated a financial advisory business. By the outset of the fraud, however, Bennett had lost a significant portion of her financial advisory clientele, and DJBennett had incurred millions of dollars in losses. As her financial condition rapidly deteriorated, Bennett began accumulating a variety of personal financial obligations, but nonetheless continued to spend considerable sums to fund her extravagant lifestyle.

4. In an effort to sustain DJBennett and tap a new income stream, Bennett, assisted by Mascho, turned to the fraudulent sale of the Notes. Defendants frequently targeted elderly and financially unsophisticated investors by materially misrepresenting the company’s profitability and by claiming the company had the resources to pay an annual rate of return of 15%. Defendants also lied about DJBennett’s extensive liabilities and the risks associated with the investment. Although Defendants represented that investor funds would be used for corporate purposes, much of the proceeds were diverted for a variety of improper purposes, including payments to earlier investors in the nature of a Ponzi scheme, to service debt, and to finance a variety of luxuries on behalf of Bennett, such as

jewelry, high-end clothing, mystics, and a \$500,000 annual lease for a luxury suite at AT&T Stadium in Dallas.

5. Bennett and Mascho also employed a variety of other fraudulent devices to further the scheme and avoid detection. For example, Bennett and Mascho took steps to circumvent Broker Dealer 1's surveillance system to prevent the firm from learning of their unauthorized Note sales to Broker Dealer 1 customers. They also fraudulently obtained several loans through the submission of fabricated brokerage statements that inflated Bennett's assets; these loans afforded Defendants the funds necessary to meet investor demands for interest and redemption payments.

6. Additionally, upon learning that a regulator was investigating their sale of long-term convertible notes, and as part of a misguided effort to place their activities outside the jurisdiction of the antifraud provisions of the federal securities laws, Bennett and Mascho directed investors to execute new short-term promissory notes. Defendants then, in effect, backdated the new short-term promissory notes to the date of the investors' original convertible note investment. This fraudulent "backdating" scheme allowed Bennett and Mascho to corroborate the lies they told to the investigating regulator and Broker Dealer 1 about their involvement in the sale of the convertible notes.

7. As a result of the conduct described in this Amended Complaint, all Defendants violated, and unless restrained and enjoined will continue to violate, Sections 5(a) and 5(c) of the Securities Act of 1933 ("Securities Act") [15 U.S.C §§ 77e(a) and 77e(c)]. Defendants Bennett and DJBennett violated, and unless restrained and enjoined, will continue to violate and 17(a) of the Securities Act [15 U.S.C § 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R §240.10b-5]. Pursuant to Section 15(b) of the Securities

Act and Section 20(e) of the Exchange Act, Defendant Mascho aided and abetted Bennett and DJBennett's violations, and unless restrained and enjoined, will continue to do so.

JURISDICTION AND VENUE

8. The Commission brings this action pursuant to Sections 20(b) and 20(d) of the Securities Act [15 U.S.C. §§ 77t(b) and 77t(d)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], to enjoin such acts, practices, and courses of business, and to obtain disgorgement, prejudgment interest, civil money penalties and such other and further relief as the Court may deem just and appropriate.

9. 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) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d) and 78aa].

10. Venue is proper in this judicial district pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Among other things, certain of the acts, transactions, practices, and courses of business constituting the violations of the federal securities laws alleged herein occurred within the District of Maryland, including that Defendants sold Notes to investors in this District. Mascho also resides within the District of Maryland.

DEFENDANTS

11. **Dawn J. Bennett**, age 55, is a long-time resident of Chevy Chase, Maryland and, as of May 2017, maintains a residence in Santa Fe, New Mexico. Bennett was a registered representative affiliated with various brokerage firms from 1987 until November 24, 2015, when she was permitted to resign from Broker Dealer 1 after the firm discovered she had been selling the instant notes to firm customers without the firm's knowledge or approval. Beginning in approximately 2009, until her resignation from Broker Dealer 1, Bennett serviced Broker Dealer 1 customers through her firm,

Bennett Group Financial Services, LLC (“BGFS”). Bennett founded and is the 100% owner of DJBennett, as described more fully below.

12. **Bradley C. Mascho**, age 51, resides in Frederick, Maryland. Mascho holds Series 7, 63, and 65 licenses and has been associated with several broker-dealers since 1996. Between approximately 2006 and 2016, Mascho was an employee of BGFS and a registered representative and an investment adviser representative associated with Broker Dealer 1. In approximately June 2016, Mascho formed Mascho Associates, LLC, through which he continues to be associated with, and to service customers of, Broker Dealer 1. Mascho also has served as DJBennett’s Chief Financial Officer (“CFO”).

13. **DJB Holdings, LLC (“DJBennett”)**, is a private limited liability company founded by Bennett in approximately 2010 and incorporated in Delaware. DJBennett is wholly owned by Bennett, who also acts as the company’s CEO. DJBennett operates a brick-and-mortar retail sporting goods and luxury sports apparel business in Washington, D.C., as well as an online store located at the web address www.DJBennett.com. The company also has two subsidiaries, DJBennett Singapore Trading Pte. Ltd. (“DJB-Singapore”) and DJBennett Trade (Shanghai) Ltd. (“DJB-Shanghai”).

14. At all times relevant to the facts alleged in this Complaint, DJBennett acted by and through Bennett, who exercised complete control over the operations of the company and the disposition of investor funds, and Bennett acted on behalf of DJBennett.

FACTS

I. BACKGROUND

A. Bennett’s Business Failures and Extravagant Lifestyle Leads to Financial Distress and the Desperate Need for Cash

15. This offering fraud, which began in December 2014, was precipitated by the rapid decline of BGFS and the near exhaustion of Bennett's personal wealth, which she had for years relied upon to fund her extravagant lifestyle and to subsidize her struggling and unprofitable retail business, DJBennett.

16. For many years, Bennett earned millions of dollars annually in commissions from her financial advisory business, BGFS, where she managed as much as \$350 million in customer assets.

17. Beginning in approximately 2012, however, and continuing through 2015, large numbers of Bennett's BGFS customers began terminating her as their registered representative. By year-end 2014, she managed only approximately \$42 million in assets, with her total commissions dropping to less than \$1.6 million; by 2015, Bennett earned only approximately \$100,000 in commissions.

18. At the same time, DJBennett was struggling financially. In December 2014, DJBennett recorded annual revenue of approximately \$800,000, but incurred expenses of approximately \$1.8 million while owing at least \$2.6 million in outstanding liabilities. By December 2016, DJBennett's revenue declined to approximately \$550,000, and its liabilities ballooned to at least \$15.6 million.

19. Both Bennett and Mascho knew about DJBennett's financial issues, including that DJBennett had never realized a profit and had recorded millions of dollars in losses year over year since its inception in approximately 2010. Both held senior positions in the company: Bennett was DJBennett's founder, sole owner and CEO, while Mascho served as its CFO. They had access to and monitored the balance of DJBennett's corporate bank accounts, which were often overdrawn. They reviewed and made revisions to the company's general ledger, which consistently reflected losses. To address the company's cash flow difficulties, Bennett and Mascho also sought loans and cash advances from numerous banks and private lenders before and during the period of the fraud.

20. As Bennett's personal financial condition continued its rapid deterioration, she continued to spend lavishly and beyond her means.

21. By late 2014, Bennett lacked sufficient income from BGFS or DJBennett to defray her mounting debt and maintain her personal lifestyle. To create a new source of income, Bennett, assisted by Mascho, engaged in a fraudulent scheme that raised more than \$20 million through the fraudulent sale of DJBennett convertible and promissory notes.

B. Securities Used in the Offering Fraud

1. The Convertible Notes

22. In approximately January 2015, Bennett and Mascho began preparing offering documents for the general solicitation of investors through the purchase of three-year convertible notes (the "Convertible Note").

23. These offering documents included, among other materials, a Convertible Promissory Note Term Sheet ("Term Sheet"), an Investor Questionnaire, and a DJBennett Business Plan ("Business Plan"), the latter of which was revised several times between January 2015 and August 2016 to reflect updated financial information.

24. The Term Sheet set forth the details of the prospective investment, which included a 15% interest rate, a 36-month term, and an option to convert the note principal into shares of DJBennett common stock. The Term Sheet also represented to investors that their funds would be used for "prototype and product development, patent filings, engineering services and other operating expenses."

25. The Business Plan provided an overview of the company's retail business and products and set forth the company's goal of raising \$15 million in capital. It advised prospective investors that funds raised in the offering would be divided between "inventory/product build out" and "marketing,

technical support and development of the DJBennett Private Label,” while also representing that funds may be used for “systems upgrades.” Significantly, the Business Plan also incorporated financial statements that materially overstated DJBennett’s annual sales and net income, made fraudulent revenue projections, and omitted substantial expenses and corporate liabilities.

26. The offering documents clearly stated that the Convertible Note was an investment. Among other things, the Business Plan set forth certain considerations purchasers should take into account when “...Investing in this Investment”; certain purchasers were required to fill out an “Investor Questionnaire”; and the Term Sheet identified purchasers of the Convertible Notes as “the Investors.” Bennett also described the Convertible Notes as investments to Broker Dealer 1 when first disclosing her intent to market them, and investors referred to the Convertible Note as an investment in their communications with Bennett, which she shared with Mascho.

27. In late February 2015, Bennett submitted the Convertible Note offering documents to Broker Dealer 1 for review and approval. Bennett shared with Mascho that she expressly acknowledged to Broker Dealer 1 that she was forbidden from selling the Convertible Notes without prior written approval from Broker Dealer 1.

28. Bennett failed to mention in her communication with Broker Dealer 1, however, that Defendants had already sold Convertible Notes to at least two investors, one of whom was a customer of Broker Dealer 1.

29. While Broker Dealer 1 reviewed the offering materials, Bennett, assisted by Mascho, continued to broadly solicit investors for the Convertible Notes. To prevent Broker Dealer 1 from learning that the proposed offering and sales were actually occurring, Bennett and Mascho took various steps to impede Broker Dealer 1’s surveillance system, as described below in Section III.A.

30. Between February 2015 and November 2015, Bennett, with Mascho's assistance, marketed the Convertible Notes to a large number of individuals, ultimately raising more than \$6.4 million from the sale of Convertible Notes to at least 31 individuals. Most of the purchasers were Broker Dealer 1 customers, some of whom lived in Maryland. Most prospective investors received their offering documents from Bennett, and Convertible Notes and related investment paperwork from Bennett or Mascho, via email or mail. They returned their executed forms and Notes through similar means, and wired their investment funds to DJBennett bank accounts. None of the sales was disclosed to or approved by Broker Dealer 1.

31. Many of the purchasers of the Convertible Notes were elderly and financially unsophisticated individuals, many of whom invested all or a substantial portion of their life savings into DJBennett Convertible Notes.

32. Mascho assisted purchasers in preparing the paperwork necessary to complete their DJB investment, often liquidating their securities holdings at Broker Dealer 1 to free up the funds required to finance the purchase of one or more Convertible Notes, and providing them with the wire instructions necessary to fund their purchase. Later, he also provided direction to Bennett and to investors regarding interest payments due on the Convertible Notes, and caused those interest payments to be made.

33. No registration statement was ever filed or in effect with respect to the Convertible Note offering.

2. The Promissory Notes

34. In November 2015, facing regulatory scrutiny, Defendants abruptly ceased their sale of the Convertible Notes in favor of short-term promissory notes carrying an annual interest rate of 15%, a

nine-month term of maturity, and no express provision for conversion of the note principal into shares of DJBennett common stock (the “Promissory Note”).

35. At that time, Bennett and Mascho reviewed a blog posting entitled “Is Our Promissory Note A Security?,” which opined that short-term notes, under certain circumstances, may not constitute securities subject to regulatory oversight. Immediately after reviewing the blog posting, Bennett and Mascho sought to re-characterize the Convertible Note investments as nine-month Promissory Notes in an apparent attempt to remove the fraudulent scheme from such regulatory oversight.

36. Bennett and Mascho thereafter began efforts to create the false impression that the Convertible Notes previously sold to investors did not exist, and that DJBennett had instead sold short-term Promissory Notes to those investors. In November 2015, Bennett and Mascho began to replace the previously issued Convertible Notes with Promissory Notes that were, in effect, backdated to the day that the Convertible Note holders made their original investments in DJBennett. As set forth below in Section III.C., Bennett and Mascho subsequently bolstered this “backdating” scheme by preparing fraudulent affidavits for investors which falsely asserted that investors had purchased Promissory Notes rather than Convertible Notes. These fraudulent affidavits served to legitimize Defendants’ false statements to a regulator that Promissory Notes—not Convertible Notes—had been sold between February and November 2015.

37. Despite Defendants’ efforts to distinguish the Promissory Notes from the Convertible Notes, the two instruments, in all material respects, were essentially the same. Both reflected an interest rate of 15 percent. Both were, in effect, long-term investments, as the purported short-term nature of the Promissory Notes was a sham. Bennett routinely encouraged investors to treat their Promissory Notes as long-term investments, and to refrain from redeeming their notes after nine months. Indeed, she

expressly admitted to at least one investor that the Promissory Notes' stated nine-month term was a pretext and that the actual term of the Promissory Note was intended to extend beyond nine months. And both instruments provided for an equity position in DJBennett: Bennett routinely promised her investors that they retained the option to convert their Promissory Notes into equity interests in DJBennett, in much the same manner as the Convertible Notes.

38. Beginning in December 2015, Bennett, assisted by Mascho, began broadly marketing the Promissory Notes to new investors as well as to previous purchasers of the Convertible Notes.

39. Bennett, assisted by Mascho, provided prospective Promissory Note investors with offering documents that contained many or all of the same misrepresentations made in connection with the Convertible Note sales. For example, the Mascho-created Business Plans provided to Promissory Note investors similarly represented that investors' funds would be directed to expanding the business—i.e., among other things, to “grow sales,” “build a private label,” “expand DJBennett’s photography business,” and develop a side business related to the support of “other global businesses.” Defendants knew, or were reckless in not knowing, that these statements were false.

40. Purchasers of the Promissory Notes believed that they were investing in DJBennett, and expected to earn a profit from their investments.

41. Between about December 2015 through at least July 2017, Bennett, with Mascho’s assistance, marketed the Promissory Notes to a large number of individuals, ultimately raising approximately \$14 million from the sale of Promissory Notes to at least 27 individuals, approximately half of whom were new investors. As with the Convertible Notes, many of the purchasers were Broker Dealer 1 customers, some of whom resided in Maryland. Most prospective investors received their offering documents and Promissory Notes from Bennett, and related investment paperwork from

Bennett or Mascho, via email or mail. They returned their executed forms and Notes through similar means, and wired their investment funds to DJBennett bank accounts. None of the sales was disclosed to or approved by Broker Dealer 1.

42. As with the Convertible Note sales, many of the purchasers of the Promissory Notes were elderly and financially unsophisticated individuals, many of whom invested all or a substantial portion of their life savings into the Promissory Notes.

43. As with the Convertible Notes sales, Mascho assisted investors with their investment paperwork, liquidated their brokerage account holdings to free up the funds necessary to finance a DJBennett investment, and provided investors with the wire instructions necessary to make their DJBennett investments. Later, he also provided direction to Bennett and to investors regarding interest payments due on the Promissory Notes, and caused those interest payments to be made.

44. No registration statement was ever filed or in effect with respect to the Promissory Note offering.

II. Misrepresentations in the Offer and Sale of the Notes

A. Defendants Misrepresented DJBennett's Financial Condition and Operating Performance

45. Beginning in at least December 2014, Defendants materially misrepresented to investors the financial condition and operating performance of DJBennett (and its ability to repay investors), the risk of the Notes, and the intended use of investor proceeds.

46. Defendants knowingly or recklessly misrepresented DJBennett's profitability by inflating, among other things, the company's annual sales, gross profit, and net income in the profit and loss statements that they incorporated into the company's Business Plans or provided independently to investors. As described above, DJBennett never realized a profit.

47. Mascho drafted the false financial statements, and he relied on Bennett to provide final approval and to send the statements along with the Business Plan to prospective investors.

48. According to DJBennett's own internal accounting records—of which Defendants were intimately aware—the November 30, 2014 profit and loss statements, which Defendants incorporated into the 2015 Business Plan, materially overstated total sales, gross profit, and net income, and understated expenses, as set forth below:

- Overstated sales by over \$1 million, or 174%;
- Overstated gross profit by over \$800,000, or 376%;
- Understated expenses by \$354,000, or 29%; and
- Overstated net income by \$1.2 million, or 122%, and inaccurately reflected a profit rather than the actual loss of almost \$1 million.

49. In 2016, certain investors were provided with a standalone profit and loss statement that accompanied a revised Business Plan. Some investors received a profit and loss statement for the eight-month period ending August 31, 2015, while others received statements reflecting financial information for the entire year. Each version provided to investors materially overstated sales, gross profit, and net income, and materially understated expenses. The year-end 2015 financial information was misrepresented as set forth below:

- Overstated sales by over \$3.8 million, or 424%;
- Overstated gross profit by nearly \$2.5 million, or 3,382%;
- Understated expenses by over \$3.6 million, or 73%; and
- Overstated net income by over \$6.1 million, or 124%, and again inaccurately reflected a profit of \$1.1 million rather than the actual loss of nearly \$5 million.

50. In oral and email communications with investors, Bennett also misrepresented the operating performance of DJBennett. During in-person meetings, telephone calls and in emails with current and prospective investors, Bennett falsely touted, among other things, DJBennett's financial condition and operating performance. In emails to two investors in Maryland in 2016, Bennett repeated

certain misrepresentations from the Business Plan, claiming that DJBennett had recorded revenue of \$1.1 million for 2013, \$2.2 million for 2014 and \$5.7 million for 2015, and projecting that revenue would reach \$8-\$9 million for 2016. In one email concerning 2016 projections, Bennett stated, “Even without our private brand out in the market place...our revenue will be close to approx \$9 to \$10 million worldwide!”

51. The balance sheets that Defendants incorporated into the various versions of DJBennett’s Business Plan also materially misrepresented the financial condition of DJBennett in at least two other respects.

52. First, beginning no later than 2014, Defendants made substantial use of factoring arrangements to enable DJBennett to meet its regular expenses. As part of these arrangements, Bennett sold the future revenue of DJBennett to more than 10 non-bank lenders in exchange for upfront cash advances. Mascho was instrumental in establishing these factoring arrangements, obtaining additional funds when DJBennett subsequently exhausted its cash reserves, and also tracking the receipt and use of the factoring proceeds received by DJBennett.

53. These lenders had direct access to the DJBennett bank accounts, and at times withdrew more than \$2,000 a day from the company accounts in repayment of their advances. Defendants failed to disclose these factoring arrangements or that these lenders had a right of priority to DJBennett’s future revenue; accordingly, at the time the first Business Plan was provided to investors, investors were unaware that a substantial portion of DJBennett’s future revenue was already pledged to a variety of lenders.

54. Second, none of the balance sheets incorporated by Defendants into later versions of the Business Plan disclosed as liabilities any of the Notes issued between 2014 and 2016. For example, by

September 2015, the company had issued over \$5 million in Convertible Notes; however, the balance sheet provided to prospective investors in the 2015 version of the Business Plan omitted any reference to that liability. Had such information been included, investors would have learned that in 2015 the company's liabilities exceeded its assets by nearly \$1 million.

55. In each of the Business Plans provided to investors, Defendants materially misrepresented the company's success in the form of unreasonable and unsubstantiated predictions of future revenues and profit. For example, certain versions of the Business Plan provided to investors in 2015 projected that revenue would increase from \$5 million in 2015 to \$100 million in 2020. Gross margin percentage was projected to jump to 88% in 2015 (from a reported 67% in 2014), and thereafter grow to an implausible 99% by 2019, largely on the strength of an absurd premise: that DJBennett's product and other costs would remain flat at \$1 million per year between 2017 and 2019 despite sales more than tripling over the same timeframe.

56. Bennett was intimately aware of the true state of DJBennett's finances, but nonetheless knowingly and recklessly materially misrepresented DJBennett's financial condition by falsifying the company's balance sheets through the concealment of a significant portion of the DJBennett's extensive short- and long-term liabilities, and by making inflated and wholly unsubstantiated revenue projections when she knew, and deliberately failed to disclose, that the company lacked the means to achieve the projected revenue.

57. Mascho also was intimately aware of the true state of DJBennett's finances. Nonetheless, he drafted the false financial statements provided to investors that materially misrepresented the company's financial condition, as set forth above.

B. Bennett Misrepresented the Risk of Investing

58. In other oral and email communications, Bennett falsely claimed that the Notes were a safe and liquid investment while soliciting investors, a critical misrepresentation given that many of the investors were elderly and financially unsophisticated. For example, in a June 16, 2015 email on which Mascho was copied, Bennett wrote to an investor residing in Georgia: “this is fully liquid in the first year of the bond so if you...[need] liquidity, since the company, the inventory and I are backing it, you will receive your principal back plus accrued 15% interest to the date you pull it out.” In another e-mail dated October 22, 2015, Bennett wrote to an investor residing in Nevada: “The investment is a 15% convertible debt obligation that is highly liquid the first year and backed/guaranteed by the company which is 100% owned by me, the inventory, key man insurance and intellectual property.”

59. Bennett’s statements concerning the safety and liquidity of the Notes were materially false and misleading since the investments were not liquid and were extremely risky. Moreover, Bennett’s claims that the company’s inventory would guarantee the DJBennett investment were likewise false and misleading since the value of the inventory was a fraction of the liability DJBennett owed on the Notes; moreover, the inventory was previously pledged as collateral with respect to other liabilities, a fact that was undisclosed to investors.

60. Mascho knew or was reckless in not knowing that Bennett’s representations to Broker Dealer 1 customers and other investors regarding the safety and liquidity of the DJBennett investments were materially false and misleading.

C. Defendants Misrepresented the Use of Investor Proceeds

61. Defendant Bennett, assisted by Mascho, diverted at least \$10.3 million of the approximately \$20 million raised from the sale of Notes for improper and undisclosed purposes.

62. The Convertible Note Term Sheet stated that investor proceeds were to be used for “prototype and product development, patent filings, engineering services and other operating expenses.” The Business Plan likewise stated variously that the proceeds would be divided among “product development” and “installation of ecommerce technology in Asian operations” as well as “marketing, technical support and development of the DJBennett Private Label,” or would be used to “grow sales,” “build a private label,” “expand DJBennett’s photography business,” and develop a side business related to the support of “other global businesses.”

63. However, contrary to what was represented to investors, Bennett, assisted by Mascho, improperly used Note proceeds for, among other things, approximately \$3.3 million in interest and redemption payments to earlier investors in the nature of a Ponzi scheme; approximately \$2.1 million to various law firms for legal expenses unrelated to DJBennett’s business; and at least \$1.45 million to the Dallas Cowboys for back rent due on a luxury suite leased by Bennett personally at AT&T Stadium.

64. Bennett also spent more than \$500,000 during the period of the fraud on high-end, luxury clothing, jewelry, and other personal items, far in excess of the legitimate income she earned over that time frame. Mascho knew or was reckless in not knowing that Bennett improperly used investor proceeds for a variety of improper purposes, including payments to earlier investors in the nature of a Ponzi scheme, to service personal and other debt unrelated to DJBennett, and to finance Bennett’s extravagant lifestyle.

65. Bennett, assisted by Mascho, made all of the above misrepresentations knowingly, with reckless disregard to the fact that they were false, or that Bennett’s statements had omitted material facts necessary to make those statements not misleading.

III. OTHER DECEPTIVE ACTS

A. Bennett and Mascho Circumvented Broker Dealer 1's Controls

66. As stated above, in early 2015, after the sale of the Convertible Notes had commenced, Bennett submitted a draft of DJBennett offering documents to Broker Dealer 1 in an effort to seek its approval of Defendants' sale of the Convertible Notes. Broker Dealer 1 commented on the offering materials but never gave its approval to move forward with the offering.

67. Because they were selling the Convertible Notes without approval and to Broker Dealer 1 customers, Bennett and Mascho took various steps to circumvent the firm's surveillance system.

68. For example, when a Broker Dealer 1 customer agreed to invest in a Convertible Note, Bennett and Mascho caused the liquidation of some or all of the customer's securities holdings at Broker Dealer 1 and the subsequent wiring of the sale proceeds to the customer's personal bank account. They then directed the customer to immediately wire the funds to a DJBennett bank account to complete the investment.

69. Defendants created this unnecessarily circuitous funding procedure in order to avoid triggering Broker Dealer 1's surveillance system, thereby enabling the offering fraud to continue. They knew that Broker Dealer 1 had yet to approve the Note sales and that large transfers of funds from Broker Dealer 1 customer accounts directly to a bank account in the name of DJBennett would greatly increase the risk of detection.

70. Defendants used this same deceptive funding procedure to sell the Convertible Notes and Promissory Notes to numerous Broker Dealer 1 customers.

71. On November 24, 2015, after a regulator's investigation brought to light the Defendants' unauthorized Convertible Note offering, Bennett was permitted to resign from Broker Dealer 1. Despite her resignation, Bennett continued to solicit her former Broker Dealer 1 customers to invest in the

Convertible Notes. Her efforts relied in large part on Mascho's continued employment by Broker Dealer 1. Unlike Bennett, Mascho was not terminated by Broker Dealer 1, as he had repeatedly and falsely denied to Broker Dealer 1 that he had assisted in the sale of the Convertible Notes. At the time Bennett resigned, Mascho also stated in writing to Broker Dealer 1 that he would provide no future services to DJBennett.

72. Notwithstanding his promise, and contrary to express instructions from Broker Dealer 1, Mascho continued to assist Bennett in her efforts to market DJBennett Promissory Notes. His support was critical because he maintained access to Broker Dealer 1 customer accounts and had the ability to control the liquidation of customers' brokerage accounts and to direct the transfer of investors' assets to DJBennett. Mascho continued to conceal his involvement with DJBennett from his firm by submitting at least one signed certification to Broker Dealer 1 falsely stating that he had not provided services to DJBennett and had not engaged in any private securities transactions outside of what was permitted by Broker Dealer 1.

B. Bennett and Mascho Fraudulently Obtained Loans to Perpetuate the Scheme

73. On at least five separate occasions between July 2014 and September 2015, Bennett and/or Mascho knowingly submitted fabricated brokerage statements to prospective lenders in support of loan applications.

74. The falsified brokerage statements overstated Bennett's personal securities holdings at Broker Dealer 1 by as much as \$4.2 million and facilitated Bennett's approval for more than \$3.5 million in loan proceeds. For example, in late April 2015, in support of a \$750,000 line of credit application with a bank, Mascho submitted to the bank a brokerage statement from Broker Dealer 1 showing that Bennett, as of March 31, 2015, possessed \$4,246,057 in securities holdings held in three

investment accounts. In reality, those three accounts contained only approximately \$250 in cumulative holdings. Most of the fabricated statements were altered versions of genuine statements issued by Broker Dealer 1 to Bennett in 2011, when Bennett's securities holdings were much larger.

75. These fraudulently obtained loans furthered Defendants' offering fraud scheme by providing DJBennett with funds necessary to satisfy investor demands for timely redemption and interest payments, which encouraged investors to purchase additional Notes, or to roll over existing investments.

76. Bennett, assisted by Mascho, fraudulently obtained loans to repay DJBennett investors also mitigated the possibility that the offering fraud would be detected. For example, the bank described above granted Bennett's application for a \$750,000 line of credit and, on May 21, 2015, permitted Bennett to draw down approximately \$240,000 from the line of credit. Later that same day, Bennett used a portion of the \$240,000 to repay an investor, who had been pressing Mascho and Bennett for repayment of his \$175,000 DJBennett investment. Defendants were able to satisfy the investor's demand only by virtue of the fraudulent procurement of the \$750,000 line of credit.

C. The "Backdating" Scheme

77. As described above, following a regulator's unannounced onsite exam on or about November 6, 2015, Defendants devised a scheme to cover up their Convertible Note sales, enabling them to continue their offering fraud.

78. Bennett and Mascho sought to evade the regulator's scrutiny by falsely characterizing the three-year Convertible Notes issued to investors up to that point as short-term loans rather than securities.

79. On November 16, 2015, Bennett provided false information to the regulator regarding her role in the Convertible Note sales, claiming, among other things, that no Convertible Notes were issued.

80. Shortly after providing the false information, Bennett emailed Mascho a template promissory note. Approximately 20 minutes later, she emailed Mascho a link to a blog posting entitled “Is Our Promissory Note A Security?,” which described certain circumstances in which a promissory note might not be deemed a “security,” and thus purportedly would not be subject to the anti-fraud provisions of federal and state securities laws.

81. Approximately one hour later, Mascho began emailing Bennett Promissory Notes he had drafted corresponding to all or most of the Convertible Note sales made to investors earlier that year. At least one Promissory Note was prepared for an investor whose investment already had been redeemed. Each draft Promissory Note reflected the same investment amount as its corresponding Convertible Note, and claimed to mature after nine months on a specified date that was, in fact, nine months from the date the corresponding Convertible Note had been purchased.

82. To support the illusion that the investments were not securities, the Promissory Notes also included a disclaimer stating that, “[t]his is not an offering or investment” and, unlike the Convertible Notes, made no express provision for a future equity interest in the company. Nonetheless, Bennett represented to Promissory Note investors, both orally and in writing, that they still could elect to receive an equity interest in the company in lieu of repayment of their investment funds. Bennett also gave investors false and grossly overstated valuations of their equity interest to dissuade them from redeeming their Promissory Notes.

83. In further support of this Promissory Note “backdating” scheme, Bennett subsequently emailed the Promissory Notes to the DJBennett Convertible Note holders and requested their signature.

She also emailed the investors draft affidavits, prepared by Mascho, which included a variety of false statements designed to bolster the “backdating” scheme. For example, the affidavits uniformly stated that investors “engaged in a short-term promissory note” on a specified date earlier in 2015 when, in fact, investors had purchased a long-term, 36-month Convertible Note on the specified date and, furthermore, could not have purchased a Promissory Note on the date provided in the affidavit because the Promissory Notes were first created by Mascho only approximately one week earlier.

84. The “backdating” scheme served as cover for Bennett and Mascho, who each had made false statements to a regulator, at times under oath, that no Convertible Notes were issued in 2015. Bennett falsely testified that the Promissory Notes were issued earlier in 2015, at the time investors actually purchased the Convertible Notes. In addition to lying about the sale of the Convertible Notes in 2015, Mascho falsely testified regarding his knowledge of and role in preparing the Promissory Notes.

IV. DEFENDANTS VIOLATED THE FEDERAL SECURITIES LAWS

85. During the relevant period, Bennett owned, operated, and controlled DJBennett.

86. During a substantial portion of the relevant period, Mascho served as DJBennett’s CFO.

87. The Convertible and Promissory Notes offered and sold to investors are securities within the meaning of both the Securities Act and the Exchange Act.

88. Defendants offered to sell and sold the Convertible and Promissory Notes when no registration statement was filed with the Commission or in effect as to the Convertible and Promissory Notes.

89. The Convertible and Promissory Notes were not exempt from the registration requirements of the Securities Act.

90. In connection with these sales or offers to sell, Defendants made use of the means and instruments of transportation or communication in interstate commerce or of the mails, including the use of the internet, interstate phone calls, and the United States mail.

91. In connection with these sales or offers to sell, Defendants carried or caused to be carried through the mails or in interstate commerce, by the means or instruments of transportation, securities for the purpose of sale or for delivery after sale when no registration statement was filed or was in effect as to the securities.

92. During the period from December 2014 through at least July 2017, Defendants continuously sold the Convertible and Promissory Notes, and there was no period of six months or more between the Convertible and Promissory Notes sales.

93. The Convertible and Promissory Notes were offered and sold to investors in multiple states, and the offering exceeded \$1 million.

94. The Convertible and Promissory Notes were sold to many unaccredited investors.

95. Many of the DJBennett investors were financially unsophisticated and did not have access to the kind of information that would have been available in a registration statement.

96. Defendants did not distribute the required financial statements to investors prior to the sale of Convertible and Promissory Notes.

97. The offering was public in that it raised approximately \$20 million from approximately 46 individuals, including Bennett's friends, family, business colleagues, and current/former brokerage customers.

98. The misrepresentations and omissions set forth herein, individually and in the aggregate, are material, and were made in connection with and in the offer, purchase, or sale of securities. There is

a substantial likelihood that a reasonable investor would consider the misrepresented facts and omitted information—including, among other items, misrepresentations and omissions regarding the nature of DJBennett’s business and business operations, DJBennett’s income, the profitability and projected revenue of DJBennett, and the intended use of investor funds—important in deciding whether or not to purchase the Convertible and Promissory Notes, and that the accurate facts would alter the “total mix” of information available to investors.

99. In connection with the conduct described herein, Bennett and DJBennett acted knowingly, recklessly, or negligently as further set forth in paragraphs 100 through 103 below. Among other things, Bennett knew, or was reckless in not knowing, that she was making material misrepresentations and omitting to state material facts necessary to make certain statements not misleading under the circumstances, in connection with the sale or offer of the Notes.

100. Bennett and DJBennett were the makers of the false and misleading statements made in writing and orally regarding the DJBennett offering. Bennett is the owner and CEO of DJBennett; she also spoke to the investors, signed the Convertible and Promissory Notes sold to investors when so requested, and directed the preparation of the offering documents, financial statements, and revenue and profit projections provided to investors on behalf of DJBennett.

101. Through their material misrepresentations and omissions, Bennett and DJBennett obtained money or property from investors. Mascho received compensation from Bennett and DJBennett for his assistance in the scheme. Bennett and DJBennett obtained over \$20 million from investors, of which Bennett misappropriated over \$10 million. Mascho knew or was reckless in not knowing that Bennett diverted a substantial portion of the investor proceeds to improper and undisclosed purposes.

102. Defendants Bennett and DJBennett used devices, schemes, and artifices to defraud investors, and engaged in acts, transactions, practices, or courses of business that operated as a fraud or deceit upon offerees, purchasers and prospective purchasers of the Convertible and Promissory Note investments.

103. Mascho knowingly or recklessly provided substantial assistance to Bennett and DJBennett in achievement of their fraudulent conduct by, among other things: creating the Notes, Term Sheets and Business Plans, and other offering materials at Bennett's direction; communicating with investors and prospective investors; liquidating brokerage customers' securities to finance their investments in DJBennett; providing wiring instructions to investors to enable them to transfer their investment funds to DJBennett bank accounts; directing interest payments on the Notes; monitoring the inflow and outflow of invested funds through corporate bank accounts; and, not least, attempting to conceal the existence of the securities offering from Broker Dealer 1, other regulators, and the SEC.

CLAIMS FOR RELIEF

FIRST CLAIM FOR RELIEF **Violations of Section 5(a) and 5(c) of the Securities Act** **(All Defendants)**

104. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 103, inclusive, as if they were fully set forth herein.

105. Defendants, by engaging in the conduct described above, directly or indirectly, with respect to a security for which no registration statement was filed or in effect, and in the absence of any applicable exemption from registration:

- a. made use of a means or instrument of transportation or communication in interstate commerce or of the mails to sell such security through the use or medium of any prospectus or otherwise;
- b. carried or caused to be carried through the mails or in interstate commerce, by any means or instruments of transportation, such security for the purpose of sale and/or for delivery after sale; and
- c. made use of a means or instrument of transportation or communication in interstate commerce or of the mails to offer to sell such security through the use or medium of a prospectus or otherwise.

106. By engaging in the foregoing conduct, Defendants violated, and unless restrained and enjoined will continue to violate, Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

SECOND CLAIM FOR RELIEF
Violations of Section 17(a) of the Securities Act
(Defendants Dawn J. Bennett and DJB Holdings)
(Aiding and Abetting Section 17(a) Violations against Bradley C. Mascho)

107. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 103, inclusive, as if they were fully set forth herein.

108. From at least December 2014 through at least July 2017, as a result of the conduct alleged herein, Defendants Bennett and DJBennett, in the offer and sale of securities, directly or indirectly, by the use of the means or instruments of transportation or communication in interstate commerce, or by use of the mails:

- a. knowingly or recklessly employed devices, schemes or artifices to defraud;

- b. knowingly, recklessly, or negligently obtained money or property by means of an untrue statement of a material fact or an omission of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- c. knowingly, recklessly, or negligently engaged in transactions, practices, or courses of business that operated as a fraud or deceit upon offerees, purchasers, and prospective purchasers of securities.

109. By engaging in the foregoing conduct, Defendants Bennett and DJBennett violated, and unless restrained and enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

110. Pursuant to Section 15(b), by engaging in the conduct alleged above, Mascho aided and abetted the securities offering fraud violations of Bennett and DJBennett, in that he knowingly or recklessly provided substantial assistance to Bennett and DJBennett in committing these violations of Section 17(a), and unless restrained and enjoined, will continue to do so.

THIRD CLAIM FOR RELIEF

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder **(Defendants Dawn J. Bennett and DJB Holdings, Inc.)**

(Aiding and Abetting Section 10(b) Violations against Defendant Bradley C. Mascho)

111. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 103, inclusive, as if they were fully set forth herein.

112. From at least December 2014 through at least July 2017, as a result of the conduct alleged herein, Defendants Bennett and DJBennett knowingly or recklessly, in connection with the purchase or sale of securities, directly or indirectly, by use of a means or instrumentality of interstate commerce or of the mails, or of a facility of a national securities exchange:

- a. employed devices, schemes, or artifices to defraud;
- b. made untrue statements of material fact, or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- c. engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person.

113. By engaging in the foregoing conduct, Bennett and DJBennett violated, and unless restrained and enjoined will continue to violate, 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].

114. Pursuant to Section 20(e), by engaging in the conduct alleged above, Mascho aided and abetted the offering fraud violations of Bennett and DJBennett, in that he knowingly or recklessly provided substantial assistance to Bennett and DJBennett in committing these violations of Section 10(b), and unless restrained and enjoined will continue to do so.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court enter a final judgment:

I.

Permanently restraining and enjoining Defendants from, directly or indirectly, violating 5(a), 5(c) and 17(a) of the Securities Act [15 U.S.C §§ 77e(a), 77e(c), and 77q(a)] and 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];

II.

Ordering Defendants to disgorge all ill-gotten gains derived from their illegal conduct, together with prejudgment interest thereon;

III.

Ordering Defendants to pay civil penalties under Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)];

IV.

Retaining jurisdiction of this action for purposes of enforcing any final judgment and orders; and

V.

Granting such other and further relief as this Court may determine to be just and necessary.

Respectfully submitted,

Dated: November __, 2017

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*Not admitted in the District of MD for the purposes of this case