

UNITED STATES DISTRICT COURT FOR THE  
SOUTHERN DISTRICT OF OHIO

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SECURITIES AND EXCHANGE	:	
COMMISSION,	:	
	:	
Plaintiff,	:	
	:	Case No.
v.	:	
	:	
SCOTT ALLEN FRIES	:	Jury Trial Demanded
	:	
Defendant.	:	

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**COMPLAINT**

Plaintiff, U. S. Securities and Exchange Commission (“SEC”) alleges as follows:

**SUMMARY**

1. Between January 2016 and March 2019, Defendant Scott Allen Fries raised at least \$178,000 from at least seven investors and spent that money on personal expenses, including payments towards his mortgage, credit card bills, and payday loans.

2. Fries was a registered representative and investment adviser representative with a large, SEC-registered broker-dealer and investment adviser (“Broker A”). Fries sold primarily life insurance and annuity products.

3. In 2016, Fries began to recommend that certain individuals, including some of his brokerage customers, and their relatives, provide him with money to be used for investment purposes outside of his relationship with Broker A. Between January 2016 and March 2019, at least seven people gave Fries at least \$178,000 for investment purposes.

4. Fries betrayed the trust of these investors and spent their money for his own personal benefit. To hide his fraudulent activities, Fries created false account statements purporting to show profitable investments in mutual funds, paid off a couple who had

discovered that their account statements were fake, and lied to his employer about the funds he had received from this couple.

5. Through his misconduct, Fries has violated the federal securities laws, including 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, Section 17(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. § 77q(a), and Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 (“Advisers Act”), 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

### **JURISDICTION AND VENUE**

6. The SEC brings this action under Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), Sections 21(d) and (e) of the Exchange Act, 15 U.S.C. §§ 78u(d) and 78u(e), and Section 209 of the Advisers Act, 15 U.S.C. § 80b-9.

7. This Court has jurisdiction over this action pursuant to Section 22 of the Securities Act, 15 U.S.C. § 77v, Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14.

8. Venue is proper in this District pursuant to Section 22 of the Securities Act, 15 U.S.C. § 77v, Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14. Defendant Fries is a resident of Piqua, Ohio. The individuals who gave Fries money for investment also reside within the Southern District of Ohio. In addition, many of the acts, practices, and courses of business underlying the alleged violations occurred within the Southern District of Ohio.

### **DEFENDANT**

9. Scott Allen Fries is 54 years old and is a resident of Piqua, Ohio. He was a registered representative with various firms from 1992 until 2019, and was an investment

adviser representative from 2014 until 2019. Fries was employed by Broker A between October 2014 to July 2019 as both a registered representative and investment adviser representative. During the relevant period, Fries held several licenses from the Financial Industry Regulatory Authority (“FINRA”), including: Series 6, 26, and 63. In July 2019, Broker A terminated its relationship with Fries. In November 2019, FINRA permanently barred Fries from association with any FINRA member.

### ALLEGATIONS OF FACT

10. After beginning his career in the securities industry, Fries worked for several brokerage firms before joining Broker A in October 2014. From October 2014 to July 2019, Fries served approximately forty customers, most of whom were located in southern Ohio, and sold primarily life insurance and annuity products.

11. In January 2016, Fries began soliciting and personally receiving funds from some of his brokerage customers, both individuals and couples, and other individuals. By March 2019, Fries obtained at least \$178,000 from three individuals and two couples which was intended for investments in securities.

<b>Individuals</b>	<b>Date(s) of Payment</b>	<b>Amounts Paid</b>	<b>Relationship to Broker A</b>
Couple A	1/29/2016 1/27/2017	\$ 5,000 5,000	Customers
Couple B	11/14/2016	\$ 40,000	Customers
Individual C	5/24/2017 9/13/2017	\$ 25,000 30,000	Relative is a customer
Individual D	7/3/2018	\$ 18,000	Customer
Individual E	3/18/2019	\$ 55,000	Customer
	<b>Total:</b>	<b>\$ 178,000</b>	

12. Fries promised his investors that he would use their money to invest in securities on their behalf. Instead, Fries misappropriated the investors' funds and spent their money on himself. All of the checks Fries received were deposited into his own bank accounts. Within days of receiving money, Fries began using the investors' funds to pay his own personal expenses -- such as mortgage payments, payday loans and credit card bills.

13. For example, Couple A sent Fries a check for \$5,000 in January 2016 and another check for \$5,000 in January 2017. A note on each check indicated that the funds were intended for investment in a mutual fund. However, Fries did not invest any of Couple A's money. He spent all of their money on personal expenses within two months of receiving the funds.

14. In addition, Couple B sent Fries a check for \$40,000 in November 2016. Fries stated that he would invest their money in a mutual fund. Shortly thereafter, Fries began sending them fake "account statements" purporting to show that their money was invested in a mutual fund through an account at another large, SEC-registered broker-dealer ("Broker B"). Every few months, Fries sent similar statements purporting to show this investment had increased in value until early 2019.

15. However, Fries spent all of Couple B's money on personal expenses within two months of receiving those funds. Fries fabricated the account statements that he sent them. None of Couple B's money was deposited at Broker B or used to purchase any investment.

16. In early 2019, Couple B contacted Broker B in order to transfer funds to another broker. Broker B informed Couple B that the account number on the statements sent by Fries was not legitimate. Couple B questioned Fries about this issue, and Fries

stated that he had invested their funds through his own brokerage account in order to save them money on taxes. Couple B then demanded that Fries return their money.

17. Fries' statement to Couple B. was a lie. Although Fries did own an account at Broker B, he did not put Couple B's money into that account, nor did he put any additional money into that account until 2018 -- two years after Couple B gave him their money to invest.

18. In March 2019, Fries paid Couple B \$47,301.62, which supposedly consisted of their original investment plus gains of more than \$7,000. However, Fries used some of the money he received from another investor (Individual E) to repay Couple B.

19. Individual C sent Fries a check for \$25,000 in May 2017 and another check for \$30,000 in September 2017. A note on each check stated that the funds were intended for an "Investment Purchase." However, Fries did not invest any of Individual C's funds. Instead, Fries used all of Individual C's money to pay personal expenses within a few months of receiving the funds.

20. Individual D sent a check for \$18,000 to Fries in July 2018. Fries told Individual E that he would invest the money in "tax free accounts." Fries sent Individual D at least one fake "account statement" purporting to show that his money was invested in a municipal bond fund.

21. In reality, Fries spent all of Individual D's money for his own purposes within one month of receiving those funds. Fries fabricated the account statement he sent to Individual D. None of Individual D's money was used to purchase an investment.

22. Individual E sent Fries a check for \$55,000 in March 2019 with the understanding that Fries would invest the money on his behalf. Instead, Fries immediately

used the majority of Individual E's contribution to satisfy Couple B's demand for repayment. Fries used the remainder of Individual E's money for personal expenses and did not invest any of Individual E's money.

23. In June 2019, Fries employer, Broker A began reviewing the firm's relationship with Couple B. Broker A contacted Fries and learned that Fries had taken money from Couple B for an investment outside of the firm.

24. Fries told Broker A that he had used Couple B's money to purchase mutual fund shares through his own brokerage account because he didn't want to receive a commission on an investment from a friend. He also claimed that Couple B was the only customer from whom he received any funds for outside investing. In July 2019, Broker A terminated Fries' employment with the firm.

25. In November 2019, FINRA barred Fries from association with any FINRA member for failing to respond to FINRA's request for information.

26. Fries acted intentionally and was reckless in misappropriating the funds, and making the misrepresentations, as described in ¶¶ 11 - 24. More specifically, Fries solicited money from his brokerage customers and other individuals and promised to invest those funds on their behalf. He failed to invest any of those funds for the benefit of his investors. Instead, he deliberately used those funds for his own personal benefit.

27. Further, in an attempt to hide his fraudulent activities, Fries created and sent fake account statements to certain investors, used funds from later investors to make a Ponzi scheme payment to the investors who discovered that Fries had been sending them false phony account statements. Finally, Fries lied to his employer about his activities with investors and failed to disclose the full scope of his fraud.

28. Fries acted as an investment adviser because the investors from whom he solicited funds gave Fries their funds to invest in mutual funds or other securities relied on him to select their investments. Fries received compensation as an investment adviser when he diverted the investors' funds for his own purposes.

29. All of Fries' misappropriations and misrepresentations, described in ¶¶ 11 – 24, were material. Fries lied to his victims about his use of their money and used all of their investment funds for his own personal benefit. A reasonable investor would have considered Fries' improper actions and false statements important in making decisions regarding their investments with Fries.

**COUNT I**  
**Violations of Section 10(b) of the Exchange Act,  
and Exchange Act Rule 10b-5**

30. Paragraphs 1 through 29 are realleged and incorporated by reference as if fully set forth herein.

31. As described in paragraphs 10 through 29 above, Defendant Scott Fries, in connection with the purchase and sale of securities, by the use of the means and instrumentalities of interstate commerce and by the use of the mails, directly and indirectly: used and employed devices, schemes and artifices to defraud; made untrue statements of material fact and 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; and engaged in acts, practices and courses of business which operated or would have operated as a fraud and deceit upon purchasers and prospective purchasers of securities.

32. Fries intentionally or recklessly engaged in the fraudulent conduct described above.

33. By reason of the foregoing, Fries violated 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.

**COUNT II**  
**Violations of Section 17(a) of the Securities Act**

34. Paragraphs 1 through 29 are realleged and incorporated by reference as though fully set forth herein.

35. By engaging in the conduct described in paragraphs 10 through 29 above, Defendant Scott Fries, in the offer and sale of securities, by the use of the means and instruments of interstate commerce, directly or indirectly has:

- (a) employed devices, schemes and artifices to defraud;
- (b) obtained money or property by means of untrue statements of material fact or by omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and
- (c) engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchasers of such securities.

36. Fries intentionally, recklessly or negligently engaged in the fraudulent conduct described above.

37. By reason of the foregoing, Fries violated Section 17(a)(1)-(3) of the Securities Act, 15 U.S.C. § 77q(a)(1)-(3).

**COUNT III**  
**Violations of Section 206(1) of the Advisers Act**

38. Paragraphs 1 through 29 are realleged and incorporated by reference as though fully set forth herein.

39. By engaging in the conduct described in paragraphs 10 through 29 above, Defendant Scott Fries, while acting as an investment adviser, by use of the mails or the



means and instrumentalities of interstate commerce, directly or indirectly employed devices, schemes or artifices to defraud his clients or prospective clients.

40. Fries intentionally or recklessly engaged in the fraudulent conduct described above.

41. By reason of the foregoing, Fries violated Section 206(1) of the Advisers Act, 15 U.S.C. § 80b-6(1).

**COUNT IV**  
**Violations of Section 206(2) of the Advisers Act**

42. Paragraphs 1 through 29 are realleged and incorporated by reference as though fully set forth herein.

43. By engaging in the conduct described in paragraphs 10 through 29 above, Defendant Scott Fries, while acting as an investment adviser, by use of the mails or the means and instrumentalities of interstate commerce, directly or indirectly engaged in transactions, practices, or courses of business that operated as a fraud or deceit upon clients or prospective clients.

44. Fries acted intentionally, recklessly or negligently in engaging in the fraudulent conduct described above.

45. By reason of the foregoing, Fries violated Section 206(2) of the Advisers Act, 15 U.S.C. § 80b-6(2).

**RELIEF REQUESTED**

**WHEREFORE**, the SEC respectfully requests that this Court:

**I.**

Issue findings of fact and conclusions of law that Defendant Scott Fries committed the violations charged and alleged herein.

**II.**

Issue a permanent injunction restraining and enjoining Fries, his officers, agents, servants, employees, attorneys and those persons in active concert or participation with defendants who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Section 17(a) of the Securities Act, 15 U.S.C. §§ 77q(a), Section 10(b) of the Exchange Act, 15 U.S.C. § 78j, and Rule 10b-5 thereunder, 17 CFR § 240.10b-5, and Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) and 80-b6(2).

**III.**

Order Fries to disgorge his ill-gotten gains received as a result of the violations alleged in this Complaint, including prejudgment interest.

**IV.**

Order Fries to pay civil penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3), and Section 209(e) of the Advisers Act, 15 U.S.C. § 80b-9(e).

**V.**

Retain jurisdiction of this action in accordance with the principals 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.

**VI.**

Grant such other relief as this Court deems appropriate.

**JURY DEMAND**

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, the SEC hereby requests a trial by jury.

**UNITED STATES SECURITIES  
AND EXCHANGE COMMISSION**

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