Securities Regulation Daily Wrap Up, FRAUD AND MANIPULATION—D. Mass.: Microcap consulting firm ordered to pay nearly $1.9 million for fraud scheme, (Apr. 18, 2017)

Securities Regulation Daily Wrap Up

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By Rebecca Kahn, J.D.

The Massachusetts district court has granted default judgment ordering microcap industry consulting firm Lionshare to pay nearly $1.9 million in disgorgement and penalties for fraud and other securities laws violations (*SEC v. Esposito*, Apr. 14, 2017, Burroughs, Allison D.).

The SEC filed this civil enforcement action in May 2016 against Lionshare Ventures LLC, Cannabiz Mobile, Inc., and four individuals for scheming to offer or sell unregistered securities in violation of federal securities laws. Although Lionshare filed an Answer *pro se* in September 2016, the Answer was struck because the firm failed to procure counsel as required by local law. Having failed to timely file an amended answer, the court granted default judgment against Lionshare, enjoining it from future violations of Securities Act Sections 5 and 17(a), Exchange Act Section 10(b) and Rule 10b-5 thereunder, and ordering payment of disgorgement and interest of $1,107,413 plus a $775,000 civil penalty.

Prior rulings and ongoing litigation. The court had previously entered final default judgments against Cannabiz and its president and officer. Litigation continues against three remaining individual defendants, including Lionshare managing director Christopher Esposito.

Illegal fundraising. Between June 2011 and July 2012, Lionshare and Esposito raised $556,452 by offering shares without first filing a registration statement, in violation of Securities Act Sections 5(a) and 5(c). They also conducted a general solicitation and failed to provide audited financial statements to investors who did not meet the "accredited investor" definition of Securities Act Reg. D Rule 501(A).

Misrepresentations and misappropriations. In its PPM, Esposito and Lionshare represented that proceeds of the Lionshare offering would be used to acquire mineral and mining company Lion Gold, after which investors would receive common stock in the company. Contrary to these representations, however, nearly $300,000 of the funds were used by Esposito for unauthorized personal and business expenses and approximately $153,000 of the funds were used to form a Brazilian mining company, Lion Mineracao Ltda., owned 99.99 percent by Esposito alone.

Cannabiz. In June 2014, Lion Gold changed its name to Cannabiz Mobile, Inc., and changed its business purpose from mineral mining to medical marijuana marketing. Lionshare and Esposito spent $75,000 of the investor funds to purchase all Cannabiz convertible debt. A few months later, Esposito caused Cannabiz to issue three additional convertible notes to Lionshare and had the notes backdated to appear as though they had been issued in 2012, thereby concealing that the securities in question had not satisfied Rule 144's one-year holding period. Esposito also paid stock promoters to pump up Cannabiz stock price and trading volume; sold Cannabiz convertible debt for nearly $304,000; and sold millions of shares of Cannabiz stock directly into the public market.

The court found that Lionshare and Esposito had conducted "a brazen scheme" to misuse investor money and to create the deceptive appearance that Cannabiz securities were not subject to trading restrictions. They fabricated corporate documents and regulatory filings, and submitted them to the transfer agent, along with false attorney opinion letters, as part of the scheme to induce the transfer agent to issue hundreds of millions of purportedly unrestricted Cannabiz shares that were ultimately sold to the investing public despite the trading prohibitions on their sale. Lionshare's actions caused investors to suffer substantial losses when those shares

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became worthless after Cannabiz debt was converted and millions of its shares were dumped into public markets.

The case is No. 1:16-cv-10960.

Attorneys: David H. London for the SEC. Christopher Esposito, pro se.

Companies: Lionshare Ventures LLC; Cannabiz Mobile, Inc.

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