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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING) Order No.: S-10-401-12-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE OF INTENT
) TO ENTER ORDER TO CEASE AND DESIST, TO
J.K. Holdings I, Inc.;) IMPOSE FINES, AND TO CHARGE COSTS
Hillstrom Cabinets, Inc.;)
Jonathan Kniss;)
Laura Kniss)

Respondents.

THE STATE OF WASHINGTON TO: **J.K. Holdings I, Inc.;**
Hillstrom Cabinets, Inc.;
Jonathan Kniss;
Laura Kniss

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, J.K. Holdings I, Inc., Hillstrom Cabinets, Inc., Jonathan Kniss, and Laura Kniss, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations and to charge costs, and under RCW 21.20.395 to impose a fine. The Securities Administrator finds as follow:

TENTATIVE FINDINGS OF FACT

Respondents

1. J.K. Holdings I, Inc. ("JKH") is an inactive Washington corporation. JKH was formed to hold the stock of Hillstrom Cabinets, Inc. During the period relevant to this Statement of Charges, JKH maintained a principal place of business in Puyallup, Washington.

2. Hillstrom Cabinets, Inc. ("HCI") is an inactive Washington corporation. HCI was a commercial cabinet maker. During the period relevant to this Statement of Charges, HCI maintained a principal place of business in Puyallup, Washington.

1 3. Jonathan Kniss is a Washington resident and the sole officer of JKH and became the sole officer of
2 HCI upon JKH's purchase of HCI.

3 4. Laura Kniss is a Washington resident and Jonathan Kniss's wife.

4 Background

5 5. In approximately October 2003, Jonathan Kniss approached HCI to initiate negotiations of the
6 purchase of HCI by Jonathan Kniss and JKH. Established in 1984, HCI constructed and sold cabinetry to customers
7 throughout the Puget Sound region and enjoyed a good reputation. HCI was not seeking a buyer.

8 6. Jonathan Kniss was not able to purchase HCI, necessitating the negotiation of financing terms. In a
9 letter dated November 13, 2003, HCI's seller informed Jonathan Kniss that any agreement to sell HCI to JKH must
10 provide for a security interest in HCI's and JKH's stock in favor of HCI's seller.

11 7. Negotiations continued until approximately April 7, 2004 when the parties executed documents
12 governing the sale of HCI to Jonathan Kniss, Laura Kniss, and JKH. Under a Stock Purchase and Redemption
13 Agreement ("SPRA"), Jonathan Kniss, Laura Kniss, and JKH purchased the 216 shares of stock held by HCI's seller
14 for a \$650,000 down payment. Further, under the SPRA, Jonathan Kniss, Laura Kniss, and JKH agreed to purchase
15 the remaining authorized stock of HCI for \$4,346,377, pursuant to a promissory note, over a period of approximately
16 ten years.

17 8. The parties signed a number of other agreements governing the sale of HCI. Several of these
18 agreements forbade the transfer of the stock of either HCI or JKH by deeming any such transfer a default and causing
19 the transferred shares to revert to HCI's seller.

20 Nature of the Offering

21 *Offer and Sale of Securities to a Tacoma Resident*

22 9. Beginning in approximately 1999, Jonathan Kniss and Laura Kniss endeared themselves to a Tacoma
23 resident and his wife as the couple struggled with the wife's breast cancer. This friendship was bolstered by the
24 physical proximity of the families' homes and by the fact that the families' children attended the same school for a
25 time.

1 10. In or around February 2004, while negotiating the purchase of HCI, Jonathan Kniss approached the
2 Tacoma resident and proposed that he contribute to Jonathan Kniss's down payment toward the purchase of HCI,
3 initially asking for a conventional loan from the Tacoma resident which the Tacoma resident refused to make.

4 11. The Tacoma resident asked Kniss for documentation concerning HCI and the purchase of HCI by
5 Jonathan Kniss. Jonathan Kniss resisted these efforts and told the Tacoma resident that he would endanger the
6 transaction by diligently investigating it.

7 12. Jonathan Kniss provided the Tacoma resident with tax returns and financial statements for HCI that
8 Jonathan Kniss received during his negotiations with HCI's seller. Jonathan Kniss also provided financial projections
9 for HCI that he had created. Jonathan Kniss advised the Tacoma resident that he had computed HCI's annual growth
10 at ten percent based on the seller's purported representation to Jonathan Kniss that fifteen percent annual growth was
11 conservative. HCI's seller made no such statement to Jonathan Kniss.

12 13. While negotiating the Tacoma resident's investment, Jonathan Kniss repeated statements he had
13 previously made to the Tacoma resident that the Knisses were in a healthy financial condition and that any funds
14 received from the Tacoma resident would be put toward the purchase of HCI.

15 14. Jonathan Kniss told the Tacoma resident that Jonathan Kniss's wealthy brother-in-law would "back"
16 the Tacoma resident's investment. Jonathan Kniss refused to commit this guarantee to writing.

17 15. Jonathan Kniss represented to the Tacoma resident that the Tacoma resident would be able to claim a
18 seat on the boards of directors of both JKH and of HCI after Jonathan Kniss's purchase of HCI.

19 16. Jonathan Kniss did not disclose that HCI's seller had insisted on a security interest in HCI's and
20 JKH's stock in the seller's November 13, 2003 letter to Jonathan Kniss.

21 17. In March 2004, the Tacoma resident purchased an investment entitled "Subordinated Convertible
22 Note Agreement" (the "Tacoma note"). Pursuant to the Tacoma note, JKH and Jonathan Kniss received \$150,000
23 from the Tacoma resident.

1 18. JKH and Jonathan Kniss promised to pay interest on this \$150,000 at fifteen percent for six months
2 and at twenty percent for the following eighteen months. This repayment obligation was “subordinated and subject in
3 right of payment” to JKH’s and Jonathan Kniss’s obligations to HCI’s seller.

4 19. The Tacoma note entitled the Tacoma resident to convert the Tacoma note into common stock of
5 JKH. The amount of such common stock was to be determined by “dividing the unpaid principal balance by
6 \$780,000...and applying the result to all Outstanding Shares at the time of conversion.”

7 20. The Tacoma resident paid via wire transfer payable to Jonathan Kniss.

8 21. The Tacoma resident last received payment on the Tacoma note in April 2008. The Tacoma resident
9 received \$5,000 of his \$150,000 investment in total.

10 *Offer and Sale of Securities to Everett Residents*

11 22. HCI began encountering severe financial difficulty under Jonathan Kniss’s leadership in 2007. In July
12 2007, Jonathan Kniss requested and received a \$100,000 loan from the Tacoma resident to make payroll.

13 23. Beginning as early as November 2007, Jonathan Kniss acquired funds from at least six family
14 members and friends worth at least \$612,500 to keep HCI open.

15 24. Beginning in or around November 2007, an Everett couple invested over \$1 million in JKH and HCI
16 over multiple transactions, ultimately refinancing their home, at Jonathan Kniss’s suggestion, to do so.

17 25. The Everett couple owned a cabinet installation business that installed HCI-made cabinets. When
18 visiting HCI’s shop, the Everett couple was solicited by Jonathan Kniss and Laura Kniss to invest in JKH and HCI
19 after showing them around the HCI shop and showing spreadsheets indicating that HCI was making \$100,000 in
20 profit each month. Jonathan and Laura Kniss did not discuss HCI’s financial struggles with the Everett couple prior to
21 their investment.

22 26. Jonathan Kniss represented to the Everett couple that all of their investment funds would be put
23 toward current and future HCI projects.

24 27. Jonathan Kniss and Laura Kniss initially offered the Everett couple equity in JKH and HCI and the
25 couple invested at least \$807,471 with that understanding. Jonathan Kniss told the Everett couple that they would own

1 51 percent of JKH and of HCI after an initial investment of \$100,000. The prospect of combining an ownership
2 interest in a cabinet manufacturer with their cabinet installation business was appealing to the Everett couple.

3 28. The Everett couple never received evidence of having purchased JKH or HCI stock. Instead, Jonathan
4 Kniss provided two promissory notes to memorialize investments the Everett couple had made until “ownership
5 papers [could be] signed.”

6 29. The first note was dated February 1, 2008 and memorialized an investment of \$176,000. The second
7 note was dated April 1, 2008 and memorialized an investment of \$631,471. HCI, JKH, Jonathan Kniss and Laura
8 Kniss issued each note. Each note paid interest of 12 percent over three years.

9 30. Jonathan Kniss walked away from the business, defaulting on the purchase and sale agreement with
10 HCI’s seller, in May 2008.

11 31. On or around July 7, 2008, the Everett couple obtained a default judgment against JKH, Jonathan
12 Kniss and Laura Kniss for \$960,000.

13 Misrepresentations and Omissions concerning the Tacoma Note

14 32. Jonathan Kniss made a misstatement of material fact concerning the use of the Tacoma resident’s
15 investment funds. Only \$100,000 of the Tacoma resident’s \$150,000 was applied to the stated purpose of purchasing
16 HCI.

17 33. Jonathan Kniss made a false statement of material fact concerning the anticipated profitability of HCI.
18 HCI’s seller did not make the income projections to Jonathan Kniss that were related to the Tacoma resident as
19 described in paragraph thirteen of the Tentative Findings of Fact.

20 34. Jonathan Kniss failed to disclose that HCI’s seller had insisted on a security interest in JKH’s stock
21 prior to Jonathan Kniss’s solicitation of the Tacoma resident. Jonathan Kniss further failed to disclose the risk that the
22 final documents governing the sale of HCI might not allow the Tacoma note’s conversion feature.

Misrepresentations and Omissions made to the Everett Couple

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35. Jonathan Kniss and Laura Kniss did not disclose to the Everett couple the restrictions on the stock of HCI and that of JK Holdings arising from the various agreements entered into between HCI's seller and Jonathan Kniss and JKH, despite telling the Everett couple that they could be shareholders in either or both of these entities.

36. Jonathan Kniss and Laura Kniss misrepresented how the Everett couple's investment funds would be used. All of the couple's money was used to pay old debts of HCI, despite Jonathan Kniss's representations that all of the Everett couple's money would be used for current and future projects.

37. Jonathan Kniss and Laura Kniss failed to disclose material information concerning HCI's financial condition to the Everett couple prior to their investments. Jonathan Kniss and Laura Kniss did not disclose approximately \$16 million in promissory notes HCI had made to suppliers and others that they had personally guaranteed. Moreover, Jonathan Kniss and Laura Kniss failed to disclose that HCI had been denied credit by suppliers prior to the Everett couple's investment.

38. Jonathan Kniss and Laura Kniss failed to disclose litigation that had been filed against Respondents prior to the Everett couple's investment. At least five businesses or individuals had initiated litigation related to HCI's business when the Everett couple made its first investment.

Registration Status

39. J.K. Holdings I, Inc. is not currently and has not previously been registered to sell its securities in the State of Washington and has not filed a claim of exemption.

40. Hillstrom Cabinets, Inc. is not currently and has not previously been registered to sell its securities in the State of Washington and has not filed a claim of exemption.

41. Jonathan Kniss is not currently and has not previously been registered to sell his securities in the State of Washington and has not filed a claim of exemption.

42. Laura Kniss is not currently and has not previously been registered to sell her securities in the State of Washington and has not filed a claim of exemption.

1 43. Jonathan Kniss is not currently registered as a securities salesperson or broker-dealer in the State of
2 Washington and has not previously been so registered.

3 44. Laura Kniss is not currently registered as a securities salesperson or broker-dealer in the State of
4 Washington and has not previously been so registered.

5
6 **CONCLUSIONS OF LAW**

7 Based upon the above Findings of Fact, the following Conclusions of Law are made:

8 1. The offer or sale of investments as described above constitute the offer and/or sale of a security as
9 defined in RCW 21.20.005(14) and (17).

10 2. The offer and/or sale of said securities is in violation of RCW 21.20.140 because no registration for
11 such an offer and/or sale is on file with the Securities Administrator.

12 3. Jonathan Kniss and Laura Kniss have violated RCW 21.20.040 by offering or selling said securities
13 while not registered as securities salespersons or broker-dealers in the State of Washington.

14 4. The offer or sale of said securities were in violation of RCW 21.20.010 because Respondents, as set
15 forth in paragraphs thirty two through thirty eight of the Tentative Findings of Fact, made misstatements of material
16 fact or omitted to state facts necessary to make the statements made, in light of the circumstances under which they
17 were made, not misleading.

18
19 **NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST**

20 Pursuant to RCW 21.20.390(1) and based upon the above Tentative Findings of Fact and Conclusions of Law,
21 the Securities Administrator intends to order that Respondents, J.K. Holdings I, Inc., Hillstrom Cabinets, Inc.,
22 Jonathan Kniss, and Laura Kniss, and their agents and employees each cease and desist from violations of RCW
23 21.20.010 and 21.20.140 and that Respondents Jonathan Kniss and Laura Kniss each cease and desist from violations
24 of RCW 21.20.040.

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NOTICE OF INTENT TO IMPOSE A FINE

Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents, J.K. Holdings I, Inc., Jonathan Kniss, and Laura Kniss, shall be jointly and severally liable for and shall pay a fine of \$20,000.

NOTICE OF INTENT TO CHARGE COSTS

Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents, J.K. Holdings I, Inc., Jonathan Kniss, and Laura Kniss, shall be jointly and severally liable for and shall pay investigative costs of not less than \$10,000.

AUTHORITY AND PROCEDURE

This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the provisions of Chapter 34.05 RCW. The respondents, J.K. Holdings I, Inc., Hillstrom Cabinets, Inc., Jonathan Kniss, and Laura Kniss, may each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order. If a respondent does not make a hearing request in the time allowed, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease and desist as to that respondent, to impose any fines sought against that respondent, and to charge any costs sought against that respondent.

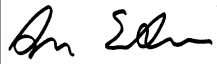
Signed and Entered this 16th day of August 2012.



William M. Beatty
Securities Administrator

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Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Edward R. Thunen
Enforcement Attorney

Reviewed by:



Jack McClellan
Financial Legal Examiner Supervisor