

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING
5 Whether there has been a violation of the
6 Securities Act of Washington by:

7 Viet-An Hoan Ly,
8 TangleTrade Management, LLC, and
9 Inception Capital Management, LLC,

10 Respondents.

Order No.: S-18-2423-20-SC01

11 **STATEMENT OF CHARGES AND**
12 **NOTICE OF INTENT TO ENTER**
13 **ORDER TO CEASE AND DESIST,**
14 **TO DENY FUTURE REGISTRATIONS,**
15 **TO IMPOSE FINES, AND TO CHARGE COSTS**

16 THE STATE OF WASHINGTON TO:

17 Viet-An Hoan Ly (CRD #2798912)
18 TangleTrade Management, LLC (CRD #152028)
19 Inception Capital Management, LLC (CRD #282514)

20 **STATEMENT OF CHARGES**

21 Please take notice that the Securities Administrator of the state of Washington has reason to believe that
22 Respondents Viet-An Hoan Ly, TangleTrade Management, LLC, and Inception Capital Management, LLC, have each
23 violated the Securities Act of Washington. The Securities Administrator believes that their violations justify the entry
of an order against each to cease and desist from such violations, to deny future registrations, to impose fines, and to
charge costs, pursuant to RCW 21.20.110, RCW 21.20.390, and RCW 21.20.395. The Securities Administrator finds
the following:

24 **TENTATIVE FINDINGS OF FACT**

25 Respondents

- 26 1. Viet-An Hoan Ly is a Washington resident, who acts as the principal of TangleTrade Management and
27 Inception Capital Management, two investment adviser companies that he operates. Viet-An Hoan Ly also acted as the
28 principal of Inception Beast Genprex, LLC, a Washington limited liability company that he formed to invest in stock
29 of Genprex, Inc.
- 30 2. TangleTrade Management was formed as a Texas limited liability company in 2009. Viet-An Hoan Ly
31 incorporated the company in Washington in 2014 and has acted as the principal and sole member of the company since
32 at least that date. TangleTrade Management acts as an investment adviser and general partner to TangleTrade Fund, LP
33 and Inception Fund, LP. TangleTrade Management has a principal place of business in Washington.
- 34 3. Inception Capital Management is a Washington limited liability that Viet-An Hoan Ly formed in 2015. Viet-
An Hoan Ly is the principal and managing member of the company. Inception Capital Management acts as an

35 **STATEMENT OF CHARGES AND NOTICE**
36 **OF INTENT TO ENTER ORDER TO CEASE**
AND DESIST, TO DENY FUTURE REGISTRATIONS,
TO IMPOSE FINES, AND TO CHARGE COSTS

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 investment adviser and General Partner to Inception Tech Fund 7, LP and The Mars X Fund, LP. Inception Capital
2 Management has a principal place of business in Washington.

Other Parties

3 4. TangleTrade Fund, LP is a Texas limited partnership formed in approximately 2009 as an investment fund.

4 5. Inception Fund, LP is a Texas limited partnership formed in approximately 2011 as an investment fund.

5 6. Inception Tech Fund 7, LP is a Delaware limited partnership formed in approximately 2015 by Viet Ly as an
investment fund.

6 7. The Mars X Fund, LP is a Delaware limited partnership formed in approximately 2015 by Viet Ly as an
investment fund.

7 8. Inception Beast Genprex is a Washington limited liability company that Viet-An Hoan Ly formed in 2016 for
8 the purpose of investing in Genprex, Inc. The company dissolved in 2018 and had a principal place of business in
Washington.

Background

9 9. Since 2011, through TangleTrade Management and Inception Capital Management, Viet-An Hoan Ly has
10 raised approximately \$13,000,000 for four private investment funds that he manages.¹ In the course of operating these
11 four funds, Viet-An Hoan Ly violated several provisions of the Securities Act of Washington, as identified and
12 described later in this document.

13 10. For two of these funds, TangleTrade Fund and Inception Fund, Viet-An Hoan Ly helped raise approximately
14 \$3,000,000 and \$2,000,000, respectively. Viet-An Hoan Ly raised much of these funds early on, with an initial pitch to
15 investors that the two funds had the ability to purchase privately-held shares of Facebook, Inc. These investors were
16 enticed by the possibility of what Viet-An Hoan Ly represented would be large gains from Facebook's initial public
17 offering in 2012. However, when Facebook's initial public offering disappointed in early months, Viet-An Hoan Ly
18 transitioned TangleTrade Fund and Inception Fund investments into privately-held shares of Twitter. After Twitter's
19 initial public offering in 2013, Viet-An Hoan Ly then invested TangleTrade Fund and Inception Fund funds in
20 Genprex, Inc., an early-stage pharmaceutical company. Viet-An Hoan Ly represented to investors that Genprex, which
was as private company at the time, would soon have its initial public offering, providing a large return on investment
to investors. As the years passed, though, Viet-An Hoan Ly provided investors with excuses for why Genprex's initial
public offering had not happened yet, as well as rosy projections of the company's future value. Genprex finally went

21 ¹ Viet-An Hoan Ly also formed Inception Capital Group, LLC, a Washington limited liability company. Inception Capital Group is
22 the investment adviser to and general partner of Inception Incubator Limited, a private fund that Viet-An Hoan Ly formed.
23 Inception Incubator Limited is composed solely of approximately twenty international investors and primarily invested in
privately-held stock of Genprex and AirBnb, Inc.

1 public in April 2018, and the value of Genprex stock has almost never allowed investors to recover the full value of
2 their investment.

3 11. For two other funds, Inception Tech Fund 7 and The Mars X Fund, Viet-An Hoan Ly raised approximately
4 \$4,000,000 for each fund since 2015. Viet-An Hoan Ly again raised funds from friends and from his professional
5 network. Inception Tech Fund 7 invested in privately-held shares of Genprex, Airbnb, and Hyperloop Technologies.
6 And the Mars X Fund invested in privately-held shares of SpaceX.

7 12. As of this writing, Viet-An Hoan Ly is in the process of winding down TangleTrade Fund and Inception Fund
8 to losses. With the exception of Inception Tech Fund 7's investment in Genprex, both Inception Tech Fund 7 and The
9 Marx X Fund still retain their privately-held investments in their respective companies.

10 13. Through the operation of these funds, Viet-An Hoan Ly, TangleTrade Management, and Inception Capital
11 management have engaged in following misconduct.

12 Respondents Acted as Unregistered Investment Advisers

13 *Respondents' Registration History*

14 14. TangleTrade Management advises, for a fee, TangleTrade Fund and Inception Fund on the purchase and sale
15 of each fund's respective securities holdings. Similarly, Inception Capital Management advises, for a fee, Inception
16 Tech Fund 7 and The Mars X Fund on the purchase and sale of each fund's respective securities holdings.

17 15. In January 2010, TangleTrade Management registered in Texas as an investment adviser to TangleTrade Fund.

18 16. In January 2013, TangleTrade Management attempted to also register in Washington as an investment adviser.
19 Over the next eighteen months, the Securities Division worked with TangleTrade Management to properly register in
20 the state.

21 17. Before TangleTrade Management could properly register as an investment adviser in Washington, in July
22 2014, Viet-An Hoan Ly withdrew the company's registration application with the Securities Division. That same
23 month, Viet-An Hoan Ly withdrew TangleTrade Management's registration with the state of Texas.

18 18. In a subsequent filing with the Securities Division in July 2014, Viet-An Hoan Ly claimed that TangleTrade
19 Management was exempt from registration as an investment adviser in Washington. In a separate email to the
20 Securities Division, TangleTrade Management represented that it qualified for the venture capital exemption from
21 registration.

22 19. Although TangleTrade Management asserted that it was exempt from registration as an investment adviser in
23 Washington, the company was still obligated to file yearly notices with the Securities Division.²

² These yearly notices require general information about an investment adviser, such as the adviser's identifying information, control persons, outside business activities, legal judgments, and private fund management. The yearly notices also require an adviser to identify its claim for exemption from registration, if any.

1 20. In these yearly filings with the Securities Division, for 2015, 2016, 2017, and 2018, TangleTrade Management
2 asserted that it was exempt from registration with the state, but did not identify upon what basis it was exempt.

3 21. In 2019 and 2020 annual filings with the Securities Division, TangleTrade Management cited to the venture
4 capital exemption as its basis from exemption from registration. In a 2019 filing with the Securities Division,
5 TangleTrade Management also cited to the private fund exemption from registration, although it has not since asserted
6 that exemption.

7 22. Inception Capital Management also never registered as an investment adviser with the Securities Division. In
8 its yearly filings with the Securities Division, since 2015, Inception Capital Management has cited to the venture
9 capital exemption from registration. In 2018 and 2019 annual filings, Inception Capital Management also cited to the
10 private fund exemption, but the company has not further cited to that exemption.

11 23. Viet-An Hoan Ly has never been registered as an investment adviser representative with the Securities
12 Division, citing to an exemption from registration for investment adviser representatives who are employed by
13 investment advisers who qualify for the venture capital or private fund exemptions from registration.

14 *Respondents Failed to Qualify for Claimed Exemptions from Registration*

15 24. Neither TangleTrade Management, nor Inception Capital Management qualified for the venture capital
16 exemption from registration. To qualify for the venture capital exemption, for each fund that the investment adviser
17 manages, the fund, among other requirements, must represent to investors that it pursues a venture capital strategy;
18 must restrict a limited partner's ability to withdraw or redeem his or her limited partner interests, except in
19 extraordinary circumstances; must acquire at least 80% of the fund's assets directly from the portfolio company; and
20 must acquire at least 80% of the fund's assets from a portfolio company that is not a reporting company.³

21 25. TangleTrade Management and Inception Capital Management failed to meet these requirements: in the
22 offering material provided to investors, at least one of the funds that TangleTrade Management and Inception Capital
23 Management advised did not identify itself as a venture capital fund; Viet-An Hoan Ly let certain limited partners in
the funds that TangleTrade Management advised redeem their limited partner interests as a matter of course; in at least
one of the funds that TangleTrade Management advised and in both funds that Inception Capital Management advised,
the funds did not acquire 80% of their investments directly from the portfolio company; and in both funds that
TangleTrade Management advised, the funds acquired nearly all of their investments from a company that has been a
reporting company since 2017.

³ A reporting company is a company that is subject to ongoing disclosure filings with the Securities and Exchange Commission. Generally, a company is subject to these disclosure filings if it elects to list a class of securities on a national exchange, if its equity securities are held by a large number of investors or unaccredited investors and the company has a certain amount of assets, or if it elects to pursue certain public securities offering. Reporting companies can be generally contrasted with privately-held companies.

1 26. TangleTrade Management and Inception Capital Management also failed to qualify for the private fund
2 exemption from registration. To qualify for the private fund exemption, each fund that the investment adviser manages
3 must be comprised solely of qualified purchasers, that is investors who, among other requirements, own at least
4 \$5,000,000 in investments. None of the funds that TangleTrade Management and Inception Capital Management
5 advised were comprised solely of qualified purchasers.

6 27. Since TangleTrade Management and Inception Capital Management do not qualify for either the venture capital
7 or private fund exemptions, Viet-An Hoan Ly cannot claim any exemption from registration as an investment adviser
8 representative of both companies.

9 28. Viet-An Hoan Ly and TangleTrade Management have operated in Washington since approximately 2012, and
10 Inception Capital Management has operated in Washington since 2015. These three have never been registered with
11 the Securities Division, do not qualify for the exemptions that they have identified, and have not asserted any other
12 exemptions from registration.

13 29. Had Viet-An Hoan Ly, TangleTrade Management, and Inception Capital Management been properly
14 registered with the Securities Division, the Securities Division would have routinely examined the companies, possibly
15 helping prevent the conduct described below.

16 TangleTrade Management Improperly Assessed Performance Fees

17 *TangleTrade Management Collected Over \$1,000,000 in Performance Fees*

18 30. TangleTrade Management assessed TangleTrade Fund and Inception Fund investors performance fees from
19 approximately 2011 to 2015, without any legal basis for doing so.

20 31. TangleTrade Management assessed TangleTrade Fund investors a performance fee of 20% and Inception Fund
21 investors a performance fee of 10% of each fund's limited partner's allocable share of net profits for the fiscal quarter.

22 32. Between 2011 and 2013, TangleTrade Management assessed approximately \$70,000 in performance fees to
23 TangleTrade Fund and approximately \$240,000 in performance fees to Inception Fund. Viet-An Hoan Ly represented
24 that these performance fees were assessed for the funds' performance from their investments in Facebook and Twitter.

25 33. Then, in 2014, TangleTrade Fund assessed TangleTrade Fund investors approximately \$377,000 in
26 performance fees and Inception Fund investors approximately \$616,000 performance fees. Viet-An Hoan Ly
27 represented to the Securities Division that TangleTrade Management assessed these performance fees as a result of
28 higher valuation of the funds' Genprex stock.

29 *Most TangleTrade Management and Inception Fund Investors were not Qualified Clients*

30 34. In Washington, investment advisers can generally only collect performance fees from qualified clients, with
31 qualified clients generally defined as investors who either have at least \$1,000,000 under the management of the
32 investment adviser or a net worth of at least \$2,000,000. Most TangleTrade Fund and Inception Fund never met the
33

1 qualified client definition, however, TangleTrade Management assessed all of these investors performance fees
2 anyway.

TangleTrade Management Assessed Performance Fees on Client Funds that did not Appreciate in Value

3 35. Investment advisers may only assess performance fees on the capital gains or the capital appreciation of an
4 investor's share in the fund; yet in 2014, TangleTrade Management assessed TangleTrade Fund and Inception Fund
5 performance fees on Genprex stock that had no apparent capital appreciation.⁴

6 36. TangleTrade Fund and Inception Fund began purchasing Genprex stock in December 2013. Genprex was a
7 private company with no ready market for its securities at the time. Viet-An Hoan Ly had represented to investors that
8 each fund's Genprex stock would be held until Genprex's stock had an initial public stock offering.

9 37. Within a year, however, TangleTrade Management charged TangleTrade Fund and Inception Fund
10 approximately \$1,000,000 in performance fees for the year ending 2014, without documenting any capital appreciation
11 in the Genprex stock that the funds had recently purchased and still held.⁵

Respondents Failed to Disclose Viet-An Hoan Ly's Conflict of Interest

12 38. Viet-An Hoan Ly began working as a consultant for Genprex, in October 2016, yet, in an undisclosed conflict
13 of interest, he continued to solicit investments in Genprex through TangleTrade Management and Inception Capital
14 Management.

15 39. In October 2016, Viet-An Hoan Ly signed a contract with Genprex to provide consulting services to the
16 company. As part of the contract, Genprex agreed to make an initial \$10,000 payment to Viet-An Hoan Ly, then pay
17 him \$7,500 per month.

18 40. In August 2018, Viet-An Hoan Ly signed a new contract with Genprex, in which the company agreed to pay
19 Viet-An Hoan Ly \$175,000 per year for his consulting services.⁶

20 41. These consulting services broadly included assisting Genprex with its marketing materials, providing general
21 advice to the principals of Genprex, and, notably, helping Genprex raise additional funds.

22 42. To date, Genprex has paid Viet-An Hoan Ly over \$300,000 for his work for the company.

23 43. While Viet-An Hoan Ly worked as a consultant for Genprex, Viet-An Hoan Ly, through TangleTrade
Management raised approximately \$215,000 from at least five investors for TangleTrade Fund and Inception Fund for
the purpose of investing in Genprex.

⁴ Viet-An Hoan Ly did not cite to an increase in an investor's capital gains as a basis for charging these performance fees.

⁵ For these 2014 performance fees to be accurate, within twelve months the value of TangleTrade Fund's Genprex stock would
have had to have appreciated by \$1,885,000, and the value of Inception Fund's Genprex stock would have had to have appreciated
by \$6,160,000. TangleTrade Management cannot document such capital appreciation.

⁶ In order to save the company money, around approximately March 2019, Viet-An Hoan Ly instead agreed to accept a \$6,000 per
month payment for his consulting services.

1 44. Similarly, Viet-An Hoan Ly worked as a consultant for Genprex, and through Inception Capital Management,
2 he raised approximately \$290,000 for Inception Tech Fund 7 from approximately thirteen investors for the purpose of
investing in Genprex.

3 45. Neither Viet-An Hoan Ly, TangleTrade Management, nor Inception Capital Management disclosed this
4 conflict of interest to these investors, that Viet-An Hoan Ly received compensation from Genprex, while at the same
time representing that he would direct fund investments to Genprex.

5 Viet-An Hoan Ly and TangleTrade Management Falsely Represented Their Use of Investor Funds

6 46. From 2015 onwards, Viet-An Hoan Ly solicited investments in TangleTrade Fund and Inception Fund, falsely
7 telling some investors that their investments would be used for the respective fund to purchase additional Genprex
stock.

8 47. Between 2015 and 2018, Viet-An Hoan Ly raised approximately \$320,000 for TangleTrade Fund from at least
9 7 investors and approximately \$700,000 for Inception Fund from at least 12 investors.

10 48. Viet-An Hoan Ly represented to some of these investors that the respective fund would take their investment
and use it to purchase additional Genprex stock.

11 49. TangleTrade Fund and Inception Fund, though, both had depleted capital accounts from approximately 2015
12 onward. Consequently, TangleTrade Management used new investor funds in TangleTrade Fund and Inception Fund to
13 pay for recurring expenses like third-party administrator fees, accounting fees, and TangleTrade Management's
management fees. TangleTrade Management also used new investor funds to pay for redemptions for existing limited
partners who wanted to liquidate their limited partnership interests.

14 50. Viet-An Hoan Ly failed to disclose to these newer TangleTrade Fund and Inception Fund investors that their
15 investment funds would not be used to purchase Genprex stock and would instead be used to make recurring fund
payments and to redeem limited partner interests.

16 51. This further had the effect of diluting each limited partner's interest in the funds. As both TangleTrade Fund
17 and Inception Fund received investments from new or existing limited partners, the funds did not use these new
18 investments to purchase additional assets, thus reducing each limited partner's share of each fund's existing
investments.

19 Viet-An Hoan Ly Made a Number of Misleading Projections About the Value of Fund Investments

20 52. Throughout his management of Inception Fund, Viet-An Hoan Ly made a number of representations without
any basis in fact, to investors about the fund's assets:

- 21 a. In November 2012, Viet-An Hoan Ly sought to invest Inception Fund funds into Ostendo
22 Technologies, Inc., a display technology company that was founded in 2005. In emails to Inception
Fund investors, Viet-An Hoan Ly characterized Ostendo Technologies as a "high-growth" company
23 with "large potential" that could be "bought out or go public" with a five to ten billion market

1 capitalization. In December 2012, Inception Fund purchased \$300,000 worth of shares in Ostendo;
2 within the last few years, Inception Fund recorded the value of its Ostendo shares as zero.

- 3 b. In July 2013, Viet-An Hoan Ly discussed with Inception Fund investors the fund's recent investment
4 in Twitter, Inc. and claimed that Inception Fund's investment in Twitter would produce between a
5 100% to 200% return on investment for fund investors.
- 6 c. In December 2013, Viet-An Hoan Ly wrote to Inception Fund investors about the fund investing in
7 Genprex. Viet Ly represented that Genprex could provide the fund with a 200% to 500% return on
8 investment, if the company had an initial public offering of its stock, and that the investment had an
9 upside of a 1,000% to 5,000% return on investment.
- 10 d. In March 2016, Viet-An Hoan Ly represented to Inception Fund investors that there were two likely
11 outcomes for the fund's investment in Genprex: Genprex would either soon be bought out by a large
12 pharmaceutical company within two to three years or the company would independently grow into a
13 multi-billion dollar company.
- 14 e. In January 2015, Viet-An Hoan Ly told Inception Fund investors that he expected Genprex to have a
15 multi-billion dollar valuation. In August 2016, in communications with Inception Fund investors,
16 Viet-An Hoan Ly stated that Genprex would be worth between \$500 million to \$1 billion by the end of
17 the year and between \$2 billion and \$3 billion in 2017. In October 2016, Viet-An Hoan Ly told
18 Inception Fund investors that he expected Genprex's long-term value to be between \$10 billion and
19 \$50 billion. In June 2017, Viet-An Hoan Ly represented that he expected Genprex to be worth
20 between \$500 million and \$1 billion by the end of the year. And in August 2017, Viet-An Hoan Ly
21 wrote to Inception Fund investors that he expected Genprex to be valued at approximately \$2 billion.
22 As of this writing, Genprex has a market capitalization of approximately \$140 million.
- 23 f. In December 2017, Viet-An Hoan Ly represented to an Inception Fund investor that Genprex stock
will trade at between \$20 and \$40 per share by July 2018. Genprex stock has never traded higher than
\$15 per share.

53. Viet-An Hoan Ly failed to provide Inception Fund investors with any of the bases or assumptions underlying
these speculative representations.

54. Further, these speculative representations created a false sense of security for Inception Fund investors. Viet-
An Hoan Ly's claims about the profitability of Inception Fund investments lead at least two investors to be encouraged
by their investment in the fund and to think that their investments were subject to little risk. Consequently, these two
investors invested additional funds in Inception Fund, at a loss.

Viet-An Hoan Ly Misrepresented the Type of Investment Provided to Certain Fund Investors

1 55. Viet-An Hoan Ly initially told investors that TangleTrade Fund and Inception Fund would provide investors
2 with pro rata gains and losses from each fund; instead, contrary to Viet-An Hoan Ly's initial claims, each fund has
since distributed stock to investors.

3 56. Viet-An Hoan Ly first represented to investors that TangleTrade Fund and Inception Fund would invest in
4 privately-held companies that would soon have a public stock offering.⁷ Viet-An Hoan Ly and TangleTrade
5 Management represented that these funds would then distribute any gains or losses from these public offerings to
6 investors on a pro rata basis. Specifically, as discussed above, Viet-An Hoan Ly's pitch to some early TangleTrade
7 Fund and Inception Fund investors was that TangleTrade Management would be able to invest in privately-held shares
of Facebook, and after Facebook's initial public offering, the funds would distribute any gains or losses to investors on
a pro rata basis.

8 57. In approximately 2015, when TangleTrade Fund and Inception Fund were almost fully invested in Genprex,
9 Viet-An Hoan Ly began telling investors that instead of receiving pro rata shares of a fund's gains or losses, the funds
10 would distribute their shares of Genprex stock to investors on a pro rata basis, once Genprex had an initial public
offering of its stock.

11 58. Viet-An Hoan Ly represented to the Securities Division that he changed TangleTrade Fund's and Inception
12 Fund's investment distributions in order to comply with the venture capital exemption from registration that
TangleTrade Management sought to claim. Around the time that Viet-An Hoan Ly withdrew TangleTrade
13 Management's registration application from the Securities Division in July 2014, through TangleTrade Management,
he unilaterally changed the terms of the limited partnership agreements for TangleTrade Fund and Inception Fund.⁸
14 Viet-An Hoan Ly claimed that he made these changes in order to bring the funds into compliance with the venture
15 capital exemption. To qualify for the venture capital exemption, however, a fund does not have to distribute its stock to
investors; it can also choose to distribute its profits and losses.⁹ Moreover, the new limited partnership agreements and
16

17
18 ⁷ While the offering documents for Inception Fund confirmed this same investment strategy, the offering documents for
TangleTrade Fund represented that the fund would pursue a long-short arbitrage strategy in publicly-traded securities and options
19 contracts, a strategy that TangleTrade Fund did not pursue, and a strategy that Viet Ly did not advertise to investors.

20 ⁸ Amending the limited partnership agreement for each fund generally requires the written consent of at least 50% of a fund's
outstanding limited partnership interests. When it changed the TangleTrade Fund and Inception Fund limited partnership
21 agreements, TangleTrade Management did not secure the written consent of any of either of the funds limited partners. One of the
22 changes that TangleTrade Management made to both limited partnership agreements was to restrict a limited partner's ability to
liquidate his or her interest in the fund.

23 ⁹ Further, as discussed above, TangleTrade Fund and Inception Fund do not qualify for the venture capital exemption from
registration.

1 attendant fund documents that Viet-An Hoan Ly provided to investors did not specifically document that limited
2 partners would receive shares in the funds' assets as opposed to the profits or losses from with the funds' assets.

3 59. Viet-An Hoan Ly did not clearly explain to some investors why they would be receiving shares of Genprex
4 stock, as opposed to gains or losses from TangleTrade Fund's or Inception Fund's sale of Genprex stock. In an email
5 to one investor, though, Viet-An Hoan Ly stated that one of the reasons he wanted to distribute Genprex stock to
6 investors was to avoid causing a massive decline in the price of Genprex stock. He reasoned that if TangleTrade Fund
7 and Inception Fund were to sell all of their Genprex stock once it became publicly traded, these sales would put
8 downward pressure on the price of Genprex stock, whereas, if the funds instead distributed Genprex stock to investors,
9 investors would sell their shares at different times, thus providing greater stability to the price of Genprex stock.

10 60. After Genprex's initial public offering in April 2018, TangleTrade Fund and Inception Fund distributed
11 Genprex shares to some, but not all investors. As of this writing, some TangleTrade Fund and Inception Fund investors
12 still have not received their shares of Genprex stock and have not been provided a credible explanation for this failure.
13 The Securities Division is unable to determine whether any of the distributions of Genprex stock that TangleTrade
14 Fund and Inception Fund have made have been made on a pro rata basis.

15 61. Viet-An Hoan Ly's unilateral switch from distributions of a pro rata gains and losses from TangleTrade Fund
16 and Inception Fund, to actual ownership of Genprex stock has left fund investors confused and uncertain about how or
17 when to sell their stock.

18 62. By representing to investors that they would receive the gains or losses from the performance of either
19 TangleTrade Fund or Inception Fund, but instead distributing stock to fund investors, Viet-An Hoan Ly misrepresented
20 the type of investment that TangleTrade Fund and Inception Fund would provide fund investors.

21 Viet-An Hoan Ly Misrepresented Material Information as he Raised Funds for a Separate, Unregistered Investment
22 Vehicle

23 63. In addition to his management of the funds described above, Viet-An Hoan Ly formed a Washington limited
liability company named Inception Beast Genprex, LLC, in 2016, for the purpose of soliciting and facilitating
additional investments in Genprex.

64. Inception Beast Genprex acted as a holding company, purchasing Genprex stock for the limited liability
corporation, for the benefit of the limited liability company's members.

65. Viet-An Hoan Ly represented to investors that that Inception Beast Genprex would use their funds to purchase
shares of Genprex stock. Once Genprex completed its initial public offering, Inception Beast Genprex would then
distribute Genprex stock to the LLC members on a pro rata basis.

66. In 2016 and 2017, Viet-An Hoan Ly raised approximately \$640,000 from at least fifty investors. These
investors received a LLC membership interest in the company.

1 67. Viet-An Hoan Ly provided investors with a copy of the Inception Beast Genprex operating agreement and
2 some PowerPoint slides explaining Genprex's efforts to develop a drug to combat cancer. Viet-An Hoan Ly and
3 Inception Beast Genprex, however, failed to disclose to investors any risks associated with investing in Genprex
4 through Inception Beast Genprex, namely that investors could lose all of their investment in what was a speculative,
privately-held stock, whose liquidity and profitability were uncertain.

5 68. Viet-An Hoan Ly and Inception Beast Genprex further failed to disclose Viet-An Hoan Ly's conflict of
6 interest, as discussed above, that Viet-An Hoan Ly began working as a paid consultant to Genprex in October 2016.
7 Viet-An Hoan Ly and Inception Beast Genprex also failed to disclose Viet-An Hoan Ly's self-dealing: Viet-An Hoan
8 Ly arranged for Inception Beast Genprex to purchase Viet-An Hoan Ly's personal Genprex stock. Specifically, Viet-
An Hoan Ly, on behalf of Inception Beast Genprex, purchased 1,699 shares of Genprex stock from Viet-An Hoan Ly,
at \$35.33 per share, for a total of \$60,025.67.¹⁰

9 69. While Viet-An Hoan Ly represented to the Securities Division that he did not receive any payment for acting
10 as the principal of Inception Beast Genprex, the Securities Division cannot account for approximately \$25,000 of
investor funds based on the Inception Beast Genprex investment documents that Viet-An Hoan Ly provided the
11 Securities Division.

12 70. Viet-An Hoan Ly represented to the Securities Division that shortly after Genprex's initial public offering,
13 Inception Beast Genprex distributed the Genprex stock that Inception Beast Genprex had purchased to Inception Beast
Genprex investors on a pro rata basis.¹¹ Viet Ly then dissolved Inception Beast Genprex in December 2018.

14 71. Viet-An Hoan Ly falsely represented to at least one Inception Beast Genprex investor prior to his investment
15 that the value of the investor's investment would double upon Genprex's initial public offering. Viet-An Hoan Ly
16 failed to provide this investor with any reasonable basis underlying this representation. This investor's investment
never doubled, and as of this writing, the Genprex stock that Inception Beast Genprex purchased is worth
approximately only two-thirds of its original value.

17 72. Viet-An Hoan Ly and Inception Beast Genprex failed to register their offering and sale of Inception Beast
18 Genprex LLC membership interests with Securities Division, and the Securities Division has no record of their claim
of any exemption from registration.

19 CONCLUSIONS OF LAW

20 _____
21 ¹⁰ Viet Ly's purchase of his own Genprex stock on behalf of Inception Beast Genprex amounted to approximately 10% of
22 Inception Beast Genprex's purchase of Genprex stock. Inception Best Genprex's purchase of additional Genprex stock came from
other sources.

23 ¹¹ The Securities Division was unable to verify whether Inception Beast Genprex, in fact, distributed the Genprex stock that it
purchased to Inception Beast Genprex investors on a pro rata basis.

1 Based on the above Findings of Fact, the following Conclusions of Law are made:

2 1. As described above, Viet-An Hoan Ly, TangleTrade Management, and Inception Capital Management each
acted as investment advisers, as defined by RCW 21.20.005(8).

3 2. Viet-An Hoan Ly, TangleTrade Management, and Inception Capital Management each violated RCW
4 21.20.040(3), by providing unregistered investment advice to their respective funds.

5 3. Viet-An Hoan Ly and TangleTrade Management, in violation of WAC 460-24A-150 and RCW 21.20.030,
entered into an investment agreement that provided for and under which they collected performance fees, despite the
6 lack of any capital appreciation in the funds and from fund investors who were not qualified clients.

7 4. Viet-An Hoan Ly, TangleTrade Management, and Inception Capital Management each violated WAC 460-24A-
220(11) by failing to disclose to fund investors Viet-An Hoan Ly's conflict of interest of being a paid consultant of
8 Genprex, while at the same time soliciting investor funds to invest in Genprex.

9 5. Through statements about the value of fund investments, through representations to certain TangleTrade Fund
and Inception Fund investors that their investments would go toward purchasing Genprex stock, when, in fact, their
10 investments were used to pay various third parties, and through claims about the type of investment that TangleTrade
Fund and Inception Fund would provide to investors, Viet-An Hoan Ly and TangleTrade Management violated RCW
11 21.20.020, by making untrue statements of material fact or omitting to state material facts necessary to make the
12 statements made, in light of the circumstances under which they were made, not misleading.

13 6. The offer and sale of membership interests in Inception Beast Genprex, LLC as described above constitutes the
offer and sale of securities as defined in RCW 21.20.005(14) and (17).

14 7. The offer and sale of these membership interests in Inception Beast Genprex, LLC is in violation of RCW
15 21.20.140 because no registration for such an offer and sale is on file with the Securities Division.

16 8. Viet-An Hoan Ly violated RCW 21.20.040 by offering and selling securities while not registered as a securities
salesperson in Washington.

17 9. Viet-An Hoan Ly violated RCW 21.20.010 through his offer and sale of membership interests in Inception Beast
18 Genprex, LLC, by making untrue statements of material fact or omitting to state material facts necessary to make the
statements made, in light of the circumstances under which they were made, not misleading.

19 **NOTICE OF INTENT OF ORDER 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,
the Securities Administrator intends to order that Viet-An Hoan Ly shall cease and desist from violations of RCW
21 21.20.040, WAC 460-24A-150, RCW 21.20.030, WAC 460-24A-220(11), RCW 21.20.020, and RCW 21.20.010, that
TangleTrade Management shall cease and desist from violations of RCW 21.20.040(3), WAC 460-24A-150, RCW
22 21.20.030, WAC 460-24A-220(11), and RCW 21.20.020, and that Inception Capital Management shall cease and desist
23 from violations of RCW 21.20.040(3) and WAC 460-24A-220(11).

1 **NOTICE OF INTENT TO DENY FUTURE REGISTRATIONS**

2 Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and Conclusions of Law,
3 the Securities Administrator intends to deny any future broker-dealer, broker-dealer representative, investment adviser,
4 or investment adviser representative registrations that Viet-An Hoan Ly, TangleTrade Management, and Inception
Capital Management may file in the future.

5 **NOTICE OF INTENT TO CHARGE COSTS**

6 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions of Law, the
7 Securities Administrator intends to order that Viet-An Hoan Ly, TangleTrade Management, and Inception Capital
Management shall be jointly and severally liable for and pay costs, fees, and expenses incurred in the administrative
investigation and hearing of no less than \$50,000.

8 **NOTICE OF INTENT TO IMPOSE FINES**

9 Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions of Law, the
10 Securities Administrator intends to order that that Viet-An Hoan Ly, TangleTrade Management, and Inception Capital
Management shall be jointly and severally liable for and pay a fine of \$100,000.

11 **AUTHORITY AND PROCEDURE**

12 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the
13 provisions of Chapter 34.05 RCW. Viet-An Hoan Ly, TangleTrade Management, and Inception Capital Management
14 may each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
15 OPPORTUNITY FOR HEARING accompanying this order. If a respondent does not make a hearing request in the
16 time allowed, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of
17 Law as final and to enter a permanent order to cease and desist, to deny future registrations, to impose the fines
18 sought, and to charge the costs sought against that respondent.


19 Signed and Entered this 20th day of October 2020.

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21 _____
22 William M. Beatty
23 Securities Administrator

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Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Eric Palosaari
Financial Legal Examiner

Reviewed by:



Jack McClellan
Financial Legal Examiner Supervisor