

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA**

CASE NO.

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

**K.L. GROUP, LLC, KL FLORIDA, LLC,
KL TRIANGULUM MANAGEMENT, LLC,
SHORELAND TRADING LLC,
KL GROUP FUND, LLC,
KL FINANCIAL GROUP FLORIDA, LLC,
KL FINANCIAL GROUP DB FUND, LLC,
KL FINANCIAL GROUP DC FUND, LLC,
KL FINANCIAL GROUP IR FUND, LLC
KL TRIANGULUM GROUP FUND, LLC,
WON SOK LEE, JOHN KIM,
and YUNG BAE KIM,**

Defendants,

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

Plaintiff, Securities and Exchange Commission (“Commission”) alleges that:

I. INTRODUCTION

1. The Commission brings this emergency action to halt a massive hedge fund fraud perpetrated by: 1) three hedge fund investment advisers, K.L. Group, LLC, KL Florida, LLC, and KL Triangulum Management, LLC; 2) the hedge funds they advise, KL Group Fund, LLC, KL Financial Group Florida, LLC, KL Financial Group DB Fund, LLC, KL Financial Group DC Fund, LLC, KL Financial Group IR Fund, LLC, KL Triangulum Group Fund, LLC; and 3) their principals, Won Sok Lee, John Kim, and Yung Bae Kim. These defendants, together with Shoreland Trading, LLC, a registered broker-dealer they control,

have conducted a fraudulent scheme resulting in investor losses of at least \$81 million related to several affiliated hedge funds the Defendants owned or controlled.

2. From as early as 1999 through February 2005, the Defendants made material misrepresentations and omissions to investors and engaged in other fraudulent conduct concerning critical aspects of their hedge fund operations. During this time period, the hedge funds advised by and affiliated with KL Group, KL Florida, and KL Triangulum Management raised at least \$81 million, primarily by boasting of consistent above-market returns through trading in aggressive growth stocks. For example, KL Group claimed its main fund has achieved “annualized returns in excess of 125%” since its inception in 1997, KL Group, KL Florida, KL Triangulum Management, and their principals also sent false account statements to investors showing consistently high returns without disclosing the tremendous trading losses they actually were suffering.

3. Within the last week, following the commencement of an examination of Defendant Shoreland by the Commission’s staff, Shoreland, KL Group, KL Florida, and KL Triangulum Management revealed what their principals have known for months, if not years: they lost substantially all of their investors’ funds during their highly aggressive trading. Since the Commission first contacted them on February 22, 2005, Lee and Yung Kim have not communicated with investors, Commission staff, or even counsel for KL Group, KL Florida, and KL Triangulum Management. These facts indicate a serious risk that whatever investor funds may remain are in jeopardy, unless the Court grants immediate emergency relief.

4. By engaging in this conduct, the Defendants directly or indirectly violated Sections 17(a)(1), (2) and (3) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. §

77q(a)(1)-(3); 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. Additionally, through this conduct KL Group, KL Florida, and KL Triangulum Management violated Sections 206(1), (2) and (3) of the Investment Advisers Act of 1940 (“Advisers Act”), 15 U.S.C. §§ 80b-6(1) and 80b-6(2); and Defendants Lee, Yung Kim, and John Kim aided and abetted the violations of these sections. Unless immediately restrained and enjoined, Defendants will continue to defraud investors and place investor funds at serious risk of diversion and theft.

II. NATURE OF THE PROCEEDINGS AND RELIEF SOUGHT

5. The Commission brings this action pursuant to Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b); Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d); and Sections 209(d) and (e) of the Advisers Act, 15 U.S.C. § 80b-9(d) and (e), to enjoin the Defendants permanently from future violations of the federal securities laws and to obtain other relief.

6. The Commission also seeks a temporary restraining order and a preliminary injunction against the Defendants, asset freezes against the Defendants, the appointment of a receiver over the Defendant entities, sworn accountings from the Defendants, expedited discovery, an order requiring Defendants to repatriate assets from outside the United States, and an order prohibiting the Defendants from destroying or altering documents.

7. The Commission ultimately seeks a final judgment ordering the Defendants to disgorge ill-gotten gains with prejudgment interest and pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d); Section 21(d) of the Exchange Act, 15 U.S.C. § 78(d)(3); and, as to Defendants KL Group, KL Florida, KL Triangulum Management, Lee, Yung Kim, and John Kim, pursuant to Section 209(e) of the Advisers Act, 15 U.S.C. §§ 80b-9.

III. JURISDICTION AND VENUE

8. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(b), 77t(d) and 77v(a); Sections 21(d), 21(e), and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d), 78u(e) and 78aa; and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14.

9. The Court has personal jurisdiction over Defendants, and venue is appropriate in the Southern District of Florida. Many of the transactions, acts, practices and courses of business constituting violations alleged in this Complaint occurred in the Southern District of Florida. Additionally, the Defendants maintain offices in the Southern District of Florida, and Defendants Lee and John Kim reside in the Southern District of Florida.

10. The Defendants, directly and indirectly, singly and in concert, have made use of the means and instrumentalities of transportation or communication in, or the instrumentalities of interstate commerce or of the mails in connection with the transactions, acts, practices and courses of business alleged in this Complaint.

IV. DEFENDANTS

A. The Hedge Fund Investment Advisers

11. **KL Group** is a California limited liability company incorporated in 2001. KL Group conducts business from offices in West Palm Beach, Florida and Irvine, California. KL Group is owned and controlled by, among others, Lee and John Kim. KL Group advises, controls, and manages the hedge fund KL Group Fund.

12. **KL Florida** is a Florida limited liability company incorporated in 2002 with its principal place of business in West Palm Beach, Florida. KL Florida is owned and controlled by, among others, Lee and John Kim. KL Florida advises, controls, and manages

the hedge fund KL Financial Group Florida.

13. **KL Triangulum Management** is a Florida limited liability company incorporated in November 2003. KL Triangulum Management is owned and controlled by, among others, Lee. KL Triangulum Management advises, controls, and manages several hedge funds including KL Financial Group DB Fund, KL Financial Group IR Fund, KL Financial Group DC Fund, and the KL Triangulum Fund.

B. The Principals

14. **Lee**, 34, resides in Singer Island, Florida. His present whereabouts are unknown.

15. **Yung Kim**, 34, resides in Irvine, California. His present whereabouts are unknown.

16. **John Kim**, age unknown, resides in Jupiter, Florida. He is the head portfolio manager of KL Group Fund, KL Financial Group DB Fund, KL Financial Group DC Fund, KL Florida Fund, and the KL Triangulum Fund.

C. The Funds

17. **KL Group Fund**, also known as the “Main Fund,” is a hedge fund structured as a Nevada limited liability corporation that was organized in 1999. KL Group Fund transacts business in California and Florida. KL Group Fund is managed and controlled by KL Group.

18. **KL Financial Group Florida** is a hedge fund structured as a Florida limited liability company that was organized in June 2002. KL Florida Fund invests primarily with the KL Triangulum Fund.

19. **KL Financial Group DB Fund** is a hedge fund structured as a Florida

limited liability company that was organized in 2003. It invests primarily with the KL Triangulum Fund.

20. **KL Financial Group DC Fund** is a hedge fund structured as a Florida limited liability company that was organized in 2003. It invests primarily with the KL Triangulum Fund.

21. **KL Financial Group IR Fund** is a hedge fund structured as a Florida limited liability company that was organized in 2003. It invests primarily with the KL Triangulum Fund.

22. **KL Triangulum Fund** is a hedge fund structured as a Florida limited liability company that was organized in 2003.

D. The Broker-Dealer

23. **Shoreland** is a Delaware limited liability corporation formed in 2001. Shoreland has been registered with the Commission as a broker-dealer pursuant to Section 15(a) of the Exchange Act since January 30, 2003, and is a member of the Pacific Stock Exchange. Shoreland conducts all of the trading in the various hedge funds and is controlled by Lee.

V. FACTS

A. The Various Funds Advised, Controlled, and Managed by KL Group, KL Financial, and KL Triangulum Management

24. KL Group, KL Florida, and KL Triangulum Management (“the Advisers”) are the hedge fund investment advisers of several hedge funds, KL Group Fund, KL Financial Group Florida, KL Financial Group Fund DB, KL Financial Group Fund DC, KL Financial Group IR Fund, and the KL Triangulum Fund (collectively the “Funds”). All of the trading for the Funds is executed through Shoreland. Lee is the principal of all the Advisers, while

John Kim is also a manager of KL Florida.

25. The Advisers, through Lee, Yung Kim, and John Kim, market all the Funds in essentially the same manner. Through investor meetings, in offering materials, and on their website, the Defendants claim to use a sophisticated, proprietary trading system developed by Defendant John Kim, a former Wall Street trader with an extensive and highly profitable trading background. The Funds execute all of their trading through Shoreland Trading.

26. The Advisers, controlled and aided and abetted by Lee, Yung Kim, and John Kim, earn a substantial management fee as well as a performance commission, which is typically 20% of the profits each fund generates.

27. The Funds target primarily high net worth investors. According to the confidential offering memoranda for the Funds, investors must have a net worth of at least \$1.5 million to qualify for participation and must also be “accredited investors” as defined in the Securities Act. Investors who do not meet such qualifications, however, have been able to invest in the Funds by pooling their money in entities that, in turn, invest in the Funds. The offering documents instruct investors to wire transfer their investments to bank accounts in the name of each fund.

28. The offering documents for the Funds state each hedge fund is owned by the individual investors in a fund. The investors share in the profits and losses of the Funds according to their allocated ownership amount of each fund.

29. Since the inception of the various funds, the Defendants have raised at least \$81 million from more than 300 investors nationwide.

B. The Defendants’ Fraud and the Loss of Investors’ Money

30. In various documents sent to investors, the Defendants have claimed

extraordinary success. Some offering documents claim various funds have achieved annualized returns of 125% since their inception. The Advisers' password-protected website, further entices investors with claims of annualized returns of 150% since 1997.

31. The Defendants have also distributed false quarterly account statements to investors showing above market returns, even as the Defendants knew the Funds were suffering huge trading losses. Defendants sent these fake account statements to investors after the outside accountant for one of the funds generated them using forged clearing firm trading reports Yung Kim sent. These phony clearing firm trading reports contained a fake account number and a forged letterhead. Defendants knew the phony account statements they were sending investors grossly overstated the value of the investors' accounts and the profitability of their trades.

32. In stark contrast to the profitable illusion created by the Funds' offering materials, periodic account statements, website, and forged clearing firm statements, the reality is the Funds have generated staggering losses. The Defendants have lost most of the investors' money, apparently through disastrous trading. Currently, out of more than \$81 million originally invested in the Funds, the Shoreland trading accounts and the Defendant entities' other accounts contain a total of only approximately \$11 million. This amount is disturbingly low considering the Defendants' representations of 125-150% annualized returns.

COUNT I
(All Defendants)

VIOLATIONS OF SECTION 17(a) OF THE SECURITIES ACT

33. The Commission repeats and re-alleges paragraphs 1 through 32 as if fully set forth herein.

34. Defendants, in the offer or sale of securities, directly or indirectly, by the use of means or instruments of transportation or communication in interstate commerce, or by the use of the mails: (a) employed devices, schemes or artifices to defraud; (b) obtained money or property by means of untrue statements of material facts or omissions to state material facts necessary in order to make the statements made not misleading; or (c) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities.

35. Defendants knew or were reckless or negligent in not knowing of the conduct described in the allegations.

36. By reason of the foregoing, Defendants directly and indirectly, have violated and, unless enjoined, will continue to violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

COUNT II
(All Defendants)

VIOLATIONS OF SECTION 10(b) AND RULE 10b-5 OF THE EXCHANGE ACT

37. The Commission repeats and re-alleges paragraphs 1 through 32 as if fully set forth herein.

38. Defendants, in connection with the purchase or sale of securities, directly or indirectly, by use of the means or instruments of interstate commerce, or of the mails, or of a facility of a national securities exchange: (a) employed devices, schemes and 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; and (c) engaged in acts, transactions, practices and courses of business which operated or would operate as a fraud or deceit upon investors.

39. Defendants knew or were reckless in not knowing of the conduct described in the allegations.

40. By reason of the foregoing, Defendants directly and indirectly, have violated and, unless enjoined, will continue to violate, Section 10(b) and Rule 10b-5 of the Exchange Act, 15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5.

COUNT III

(Defendants KL Group, KL Florida, and KL Triangulum Management)

VIOLATIONS OF SECTION 206(1) AND (2) OF THE ADVISERS ACT

41. Paragraphs 1 through 32 are repeated and re-alleged as if fully set forth herein.

42. Since a date unknown but from at least as early as January 2004 to the present, KL Group, KL Florida, and KL Triangulum Management, as the hedge fund investment advisers, directly or indirectly, by the use of the mails or any means or instrumentality of interstate commerce: (1) employed devices, schemes or artifices to defraud clients or prospective clients; and (2) engaged in transactions, practices or courses of business which operated as a fraud or deceit upon clients or prospective clients.

43. KL Group, KL Florida, and KL Triangulum Management knew or were reckless or negligent in not knowing that the alleged representations and omissions were false and misleading. By reason of the foregoing, KL Group, KL Florida, and KL Triangulum Management violated Sections 206(1) and (2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

COUNT IV

(Defendants Lee, Yung Kim, and John Kim)

44. As the principals and primary actors of KL Group, KL Florida, and KL Triangulum Management, Defendants Lee, Yung Kim, and John Kim were aware they were

participating in the violations of KL Group, KL Florida, and KL Triangulum Management, and they knowingly or recklessly and substantially assisted those violations. By reason of the foregoing, Defendants Lee, Yung Kim, and John Kim aided and abetted violations of Sections 206(1) and (2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) and 80b-6(2), by KL Group, KL Florida, and KL Triangulum Management.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court:

I.

Declaratory Relief

Declare, determine and find that Defendants have committed the violations of the federal securities laws alleged herein.

II.

**Temporary Restraining Order, Preliminary Injunction
and Permanent Injunction**

Issue a Temporary Restraining Order, a Preliminary Injunction and a Permanent Injunction, restraining and enjoining Defendants, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a); Section 10(b) and Rule 10b-5 of the Exchange Act; and Sections 206(1) and 206(2) of the Advisers Act 15 U.S.C. §§ 80b-6(1) and 80b-6(2), as indicated above.

III.

Asset Freeze and Sworn Accountings

Issue an Order freezing the assets of all Defendants, until further Order of the Court and requiring Defendants to file with this Court, within five business days, sworn written accountings.

IV.

Appointment of a Receiver

Issue an Order appointing a receiver over all assets held in the name of Defendants Shoreland, KL Group, KL Florida, KL Triangulum Management, KL Florida Fund, KL Group Fund, KL Florida Fund, KL Group DB Fund, KL Group DC Fund, KL Group IR Fund, and KL Triangulum Fund, to (1) preserve the status quo, (2) ascertain the financial condition of each of these defendant entities, (3) prevent further dissipation of the property and assets of each of these defendant entities, to prevent loss, damage and injury to investors, (4) preserve the books, records and documents of each of these defendant entities, and (5) be available to respond to investor inquiries.

V.

Surrender of Passports

Issue an Order requiring Lee, Yung Kim and John Kim to surrender their passports temporarily and prohibiting them from traveling outside the United States without further order of this Court.

VI.

Records Preservation and Expedited Discovery

Issue an Order requiring the Defendants to preserve any records related to the subject matter of this lawsuit that are in their custody or possession or subject to their control, and to respond to discovery on an expedited basis.

VII.

Disgorgement

Issue an Order directing Defendants to disgorge all profits or proceeds that they have received as a result of the acts and/or courses of conduct complained of herein, with prejudgment interest.

VIII.

Penalties

Issue an Order directing all Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d); Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d); and, as to Defendants KL Group, KL Florida, KL Triangulum Management, Lee, Yung Kim and John Kim, Section 209(e) of the Advisers Act, 15 U.S.C. §§ 80b-9(e).

IX.

Repatriation of Investor Proceeds

Issue an Order requiring the Defendants to take such steps as are necessary to repatriate to the territory of the United States all funds and assets of investors described in the Commission's Complaint in this action which are held by them or are under their direct or indirect control, and deposit such funds into the registry of the United States District Court

for the Southern District of Florida, and provide the Commission and the Court a written description of the funds and assets so repatriated.

X.

Further Relief

Grant such other and further relief as may be necessary and appropriate.

XI.

Retention of Jurisdiction

Further, the Commission respectfully requests that the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that may hereby be entered, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

March 2, 2005

Respectfully submitted,

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