

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF INDIANA
INDIANAPOLIS DIVISION**

UNITED STATES SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

GEORGE S. BLANKENBAKER, STARGROWER
COMMERCIAL BRIDGE LOAN FUND 1 LLC,
STARGROWER ASSET MANAGEMENT LLC,
AND BLANKENBAKER INVESTMENTS FUND
17 LLC,

Defendants.

Case No. 1:21-cv-790

Jury Trial Demanded

COMPLAINT

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

1. This case stems from an illegal offering fraud scheme perpetrated by George S. Blankenbaker and three companies he owns and controls. In less than three years, Blankenbaker and his companies raised more than \$11 million from at least 109 investors, many of whom were elderly. Blankenbaker and his companies falsely told investors that their money would be used to make short-term loans to food exporters in Asia, that the investors would receive interest payments from the profits generated from the loans, and that investments were secured by shipping containers holding the food products.

2. Unbeknownst to investors, Blankenbaker misused at least \$8.1 million of their money, including by directing at least \$4 million to hemp companies. He also misappropriated at least \$1.7 million in investor funds for his own personal benefit. Blankenbaker also used at least \$965,000 in new investor funds to make Ponzi-style payments to prior investors.

3. While Blankenkaker and his companies were initially able to make the promised interest payments to investors, often using the funds of new investors, by 2019 the scheme began to collapse. Blankenkaker could no longer make the promised payments, resulting in heavy losses for the defrauded investors.

4. In addition to being fraudulent, two of Blankenkaker's three securities offerings discussed herein violated the registration provisions of the federal securities laws.

5. This lawsuit seeks to hold Blankenkaker and his companies responsible for their securities laws violations, prevent them from harming future investors, and return money to Blankenkaker's victims.

JURISDICTION AND VENUE

6. The SEC brings this action under Securities Act of 1933 ("Securities Act") Section 20(b) [15 U.S.C. §77t(b)] and Securities Exchange Act of 1934 ("Exchange Act") Sections 21(d) and (e) [15 U.S.C. §§78u(d) and 78u(e)].

7. This Court has jurisdiction over this action pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

8. Venue is proper in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Many of the acts, practices, and courses of business constituting the violations alleged herein have occurred within the Southern District of Indiana.

9. Blankenkaker resides in the Southern District of Indiana, his companies are headquartered in Indianapolis, and securities described herein were offered and sold within this District.

10. Blankenkaker and his companies directly and indirectly made use of the means and instrumentalities of interstate commerce and of the mails in connection with the acts, practices, and courses of business alleged herein, and will continue to do so unless enjoined.

11. Each of the investments described herein are “securities,” as that term is defined in the Securities Act and Exchange Act.

THE DEFENDANTS

12. George S. Blankenkaker, age 55, resides in Westfield, Indiana. Blankenkaker owns, controls, and is the sole employee of Defendants StarGrower Commercial Bridge Loan Fund 1 LLC (“StarGrower Commercial”), StarGrower Asset Management LLC (“StarGrower Asset”), and Blankenkaker Investments Fund 17 LLC (“BI 17”). He is currently the President of a hemp related company that trades on OTC Link and which previously had a reporting obligation under Section 13 of the Exchange Act, but suspended its reporting obligation in January 2019. He previously held a variety of securities licenses and was associated with several broker-dealers. Between 2015 and December 2016, including during the first four months of the StarGrower Commercial offering, Blankenkaker was associated with two investment advisers registered with the state of Indiana.

13. StarGrower Commercial Bridge Loan Fund 1 LLC is a Delaware limited liability company with its principal place of business in Indianapolis. StarGrower Commercial is one of Blankenkaker’s companies that issued the securities described herein. Neither StarGrower Commercial’s securities, nor its offerings, were ever registered with the SEC.

14. StarGrower Asset Management LLC is an Indiana limited liability company with its principal place of business in Indianapolis. StarGrower Asset is one of Blankenkaker’s

companies that issued the securities described herein. Neither StarGrower Asset's securities, nor its offerings, were ever registered with the SEC.

15. Blankenbaker Investments Fund 17 LLC is an Indiana limited liability company with its principal place of business in Indianapolis. BI 17 is one of Blankenbaker's companies that issued the securities described herein.

DEFENDANTS' ILLEGAL SECURITIES OFFERINGS

16. At all relevant times, Blankenbaker solely owned and controlled StarGrower Commercial, StarGrower Asset, and BI 17 (Defendants StarGrower Commercial, StarGrower Asset, and BI 17 are collectively referred to herein as "Blankenbaker's Companies").

17. Blankenbaker decided to initiate the securities offerings discussed herein, set the terms of the investments, and determined what representations Blankenbaker's Companies and their representatives would make to investors.

18. For each of the securities offerings described herein, Blankenbaker created the offering and marketing documents provided to investors.

19. For the StarGrower Commercial and StarGrower Asset offerings, Blankenbaker recruited a network of outside sales agents to sell the securities to investors.

20. Blankenbaker provided the sales agents with the offering and marketing documents he created, described the offerings to the sales agents, and instructed them what to tell investors about the investments.

21. In turn, the sales agents gave the investors the marketing and offering materials they received from Blankenbaker and repeated to the investors Blankenbaker's representations about the offerings.

22. Beyond utilizing the sales agents, Blankenbaker also solicited several investors directly.

23. Blankenbaker targeted older investors, and most of the investors in Blankenbaker's Companies were, in fact, senior citizens.

24. The majority of investors in Blankenbaker's Companies were also unaccredited.

A. The StarGrower Commercial and StarGrower Asset Offerings

25. From at least August 2016 through May 2019, Blankenbaker raised at least \$10.4 million, from at least 108 investors in nine states, by selling securities issued by StarGrower Commercial and StarGrower Asset. Neither offering was registered with the SEC.

26. In August 2016, Blankenbaker and StarGrower Commercial began offering and selling securities called "Preferred Incentive Units" in StarGrower Commercial (the "Units").

27. Blankenbaker determined that the Units would have a 12-month term with a 7.5% annual return to be paid monthly. The offering materials stated that investors' principal would be returned after the 12 months unless the investor affirmatively requested that the investment be renewed. Blankenbaker told StarGrower Commercial investors that their money would be pooled with other StarGrower Commercial investors' money, and that they would receive a pro rata share of any profits.

28. Between August 2016 and April 2017, Blankenbaker and StarGrower Commercial raised approximately \$2.4 million by selling Units to at least 20 investors in two states.

29. In May 2017, Blankenbaker ended the StarGrower Commercial offering and began offering and selling securities issued by StarGrower Asset.

30. Blankenbaker then gave the StarGrower Commercial investors a choice to request a return of their principal and outstanding interest or to convert their investment into a

StarGrower Asset investment. At least three StarGrower Commercial investors elected to become StarGrower Asset investors by converting their StarGrower Commercial investments into StarGrower Asset securities.

31. Between May 2017 and May 2019, Blankenbaker and StarGrower Asset raised approximately \$8 million by selling StarGrower Asset securities to at least 88 investors in nine states.

32. StarGrower Asset investors obtained their securities by entering into Memoranda of Indebtedness (“MOI”) providing for monthly interest payments for a nine-month period that paid a 7% annualized return. Blankenbaker signed the MOIs on behalf of StarGrower Asset. Blankenbaker told StarGrower Asset investors that their money would be pooled with other StarGrower Asset investors’ money.

33. Blankenbaker – speaking orally to investors, through the offering and marketing documents he created, and via the instructions he gave to the sales agents – represented to investors that StarGrower Commercial and StarGrower Asset would use investor money to make loans to food exporters in Asia that had limited access to traditional bank financing and that each investor’s monthly interest payments would be paid out of the profits generated by the loans.

34. Blankenbaker – speaking orally to investors, through the offering and marketing documents he created, and via the instructions he gave to the sales agents – further represented to investors that the loans were secured by the contents of the food exporters’ shipping containers. Blankenbaker represented that StarGrower Commercial, StarGrower Asset, or their affiliates, could take possession of the shipping containers because they held the bills of lading until the exporter repaid the loan. Blankenbaker further touted the safety of the investments by

representing that if the exporter did not repay the loan on time, a StarGrower Commercial or StarGrower Asset affiliate would sell the contents of the container to recover the loan value.

35. Blankenbaker, directly and through sales agents, also represented to investors that there was virtually no way for them to lose their principal or to miss a monthly interest payment.

36. Prior to April 2018, Blankenbaker, StarGrower Commercial, and StarGrower Asset did not disclose to investors that their investment proceeds would be directed to entities in the hemp industry.

37. In April 2018, Blankenbaker revised a StarGrower Asset marketing document provided to certain new investors which represented that StarGrower Asset *might* use investor funds to provide financing to United States hemp companies. This disclosure was misleading, at best, because it presented hemp companies as an area StarGrower Asset *might* get involved in, and failed to disclose that Blankenbaker and his companies *would* use investor funds to make loans to, and invest in, hemp businesses. The disclosure also concealed that Blankenbaker's companies had secretly been diverting investor funds to hemp companies for nearly two years.

38. In fact, Blankenbaker had already sent more than \$2.7 million of prior investors' funds to domestic hemp businesses, and would ultimately divert \$4 million in investor proceeds to hemp companies. And, despite his claims to investors that their investments were secured by shipping container collateral, the payments Blankenbaker made to the hemp companies were not secured by any collateral.

39. Blankenbaker did not orally disclose to the StarGrower Commercial or StarGrower Asset investors that their money would be sent to hemp companies.

40. While the StarGrower Commercial offering materials disclosed that StarGrower Commercial could use a certain amount of investor funds to pay sales agents, the StarGrower

Asset offering and marketing materials did not disclose that Blankenbaker would use a significant portion of StarGrower Asset investor funds to pay his sales agents.

41. Blankenbaker paid the sales agents commissions ranging from 2.27% to 8% of the amount of the StarGrower Commercial and StarGrower Asset investments they successfully obtained. In total, Blankenbaker paid the sales agents at least \$564,951 in transaction-based compensation for selling StarGrower Commercial and StarGrower Asset securities.

42. The StarGrower Commercial and StarGrower Asset investors also never received disclosure – in the offering materials, orally, or otherwise – that Blankenbaker would use a significant portion of their investments for his own personal benefit.

B. The BI 17 Offering

43. In January 2017, Blankenbaker created BI 17, and solicited a long-time friend to invest.

44. Blankenbaker created and sent the BI 17 offering memorandum to the investor. The BI 17 offering memorandum stated that investors would purchase Preferred Incentive Units and would receive a 10% annual return paid in monthly installments, with the option to renew after one year.

45. Blankenbaker told the BI 17 investor, in writing and orally, that her money would be pooled with other BI 17 investor funds and used to make loans to food businesses in Asia and U.S.-based start-up companies in the hemp industry. Blankenbaker further represented that investors would be paid on a pro rata basis from the profits generated from BI 17's loans to borrowers.

46. Blankenbaker also told the investor that BI 17 was unrelated to StarGrower Commercial or StarGrower Asset, and did not disclose that her funds would be sent to either entity.

47. Based on Blankenbaker's oral and written representations, the BI 17 investor purchased BI 17 securities for \$1 million.

48. Upon receiving the BI 17 investor's money, Blankenbaker commingled it in StarGrower Asset's bank account.

49. Blankenbaker then tried to solicit other investors for BI 17, but was unsuccessful.

C. Blankenbaker's Fraudulent Misuse of Investor Funds

50. At best, Blankenbaker spent approximately \$1.2 million of investor funds on loans to Asian food companies. Contrary to his representations to investors, Blankenbaker misused their investment proceeds in various ways.

51. First, Blankenbaker commingled the money raised from the StarGrower Commercial, StarGrower Asset, and BI 17 investors, primarily into StarGrower Asset bank accounts.

52. Next, of the approximately \$11.4 million he raised by selling securities in Blankenbaker's Companies, rather than using the funds to make short-term loans to Asian food exporters, Blankenbaker invested or loaned approximately \$4 million to hemp companies in the United States.

53. Blankenbaker made approximately \$2.4 million of these hemp company loans and investments in the name of Blankenbaker's Companies, and approximately \$1.6 million of the hemp investments in his own name.

54. Blankenkaker also diverted at least \$2.8 million of investor money for other purposes he did not disclose to investors. Among other things, he sent approximately \$806,000 to customers of an unaffiliated company, \$1,343,000 to other entities unrelated to the business of Blankenkaker's Companies, and \$266,900 to fund real estate and other unrelated ventures. Blankenkaker additionally used \$87,320 of investor proceeds to pay for his own personal expenses. Blankenkaker also sent \$564,951 of investor funds to sales agents as transaction-based compensation, including \$366,571 from funds raised from StarGrower Asset investors who were not advised that their investment funds would be spent on sales agents or commissions.

55. Blankenkaker ultimately returned approximately \$3.1 million to investors. However, at least \$965,000 of this amount constituted Ponzi-style payments using new investor money that Blankenkaker quickly transferred to earlier investors.

56. Blankenkaker continually misrepresented to investors that their funds were being used to make short-term loans to food exporters in Asia and that the interest payments investors received were derived from profits Blankenkaker's Companies earned from the loan repayments.

57. Blankenkaker also falsely represented to investors that their investments were low risk because the loans to the Asian food exporters were secured by the contents of the shipping containers; and if the exporter did not repay the loan on time, an affiliate of Blankenkaker's Companies would sell the contents of the container to recover the loan value.

58. Blankenkaker did not disclose the above-described misuses of investor funds to the investors, or prospective investors, in Blankenkaker's Companies.

59. Blankenkaker also orally told the BI 17 investor that BI 17 was not related to StarGrower Commercial or StarGrower Asset, and he did not disclose that her money would be

sent to those companies. Blankenbaker also did not tell her that he would use her funds for the other purposes listed above.

60. Beginning in at least May 2019, Blankenbaker stopped making the promised interest and principal payments to the investors in Blankenbaker's Companies.

61. As a result of Blankenbaker's fraud, his investors lost at least \$8.1 million.

COUNT I

Violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 (Against All Defendants)

62. Paragraphs 1 through 61 are realleged and incorporated by reference.

63. As more fully described in paragraphs 1 through 61, Defendants Blankenbaker, StarGrower Commercial, StarGrower Asset, and BI 17 (collectively, "Defendants"), 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.

64. As described in more detail in paragraphs 1 through 61 above, Defendants each acted with scienter in that they knowingly or recklessly made the material misrepresentations and omissions and engaged in the fraudulent scheme identified above.

65. By reason of the foregoing, Defendants 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
(Against All Defendants)**

66. Paragraphs 1 through 61 are realleged and incorporated by reference as though fully set forth herein.

67. By engaging in the conduct described in paragraphs 1 through 61 above, Defendants, in the offer and sale of securities, by the use of the means and instruments of interstate commerce, directly or indirectly:

- 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.

68. Defendants intentionally, recklessly, and negligently engaged in the conduct described above.

69. By reason of the foregoing, Defendants violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

COUNT III

**Violations of Section 5(a) and 5(c) of the Securities Act
(Against Defendants Blankenbaker, StarGrower Commercial, and StarGrower Asset)**

70. Paragraphs 1 through 61 above are realleged and incorporated herein by reference.

71. By their conduct, Defendants Blankenbaker, StarGrower Commercial, and StarGrower Asset directly or indirectly: (i) made use of means or instruments of transportation or communication in interstate commerce or of the mails to sell, through the use or medium of a

prospectus or otherwise, securities as to which no registration statement was in effect; (ii) for the purpose of sale or delivery after sale, carried or caused to be carried through the mails or in interstate commerce, by any means or instruments of transportation, securities as to which no registration statement was in effect; and (iii) made use of any means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy, through the use or medium of a prospectus or otherwise, securities as to which no registration statement had been filed.

72. By reason of the foregoing, Defendants Blankenbaker, StarGrower Commercial, and StarGrower Asset have violated Sections 5(a) and (c) of the Securities Act [15 U.S.C. § 77e(a) and (c)].

RELIEF REQUESTED

WHEREFORE, the SEC respectfully requests that this Court:

I.

Issue findings of fact and conclusions of law that Defendants committed the violations charged and alleged herein.

II.

Enter an Order of Permanent Injunction restraining and enjoining Defendants Blankenbaker, StarGrower Commercial, and StarGrower Asset, their officers, agents, servants, employees, attorneys and those persons in active concert or participation with those 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 Sections 5(a), 5(c),

and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j] and Rule 10b-5 [17 CFR § 240.10b-5] thereunder.

III.

Enter an Order of Permanent Injunction restraining and enjoining Defendant BI 17, its officers, agents, servants, employees, attorneys and those persons in active concert or participation with Defendant BI 17 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)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j] and Rule 10b-5 [17 CFR § 240.10b-5] thereunder.

IV.

Issue an Order requiring Defendant Blankenbaker to disgorge, and Defendants StarGrower Commercial, StarGrower Asset, and BI 17, on a joint and several basis, to disgorge the ill-gotten gains they received with prejudgment interest thereon pursuant to 15 U.S.C. § 78u(d)(5) and Sections 6501(a)(1) and (a)(3) of the National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283 [to be codified at 15 U.S.C. §§ 78u(d)(3) and 78u(d)(7)].

V.

With regard to the Defendants' violative acts, practices and courses of business set forth herein, issue an Order imposing upon Defendants appropriate civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

VI.

Order that, pursuant to Section 20(e) of the Securities Act [15 U.S.C. § 77t(d)(4)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)], Defendant Blankenbaker is

prohibited from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78I], or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)].

VII.

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.

VIII.

Grant such other relief as this Court deems appropriate.

JURY DEMAND

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

Respectfully submitted,

DATED: March 31, 2021

/s/Robert M. Moyer
BENJAMIN J. HANAUER
(312) 353-8642 / hanauerb@sec.gov
ROBERT M. MOYE
(312) 353-1051 / moyer@sec.gov
STEVEN L. KLAWANS
(312) 886-1738 / klawanss@sec.gov
JAMES G. O'KEEFE
(312) 886-2239 / okeefej@sec.gov

Attorneys for Plaintiff
U.S. SECURITIES AND EXCHANGE
COMMISSION
Chicago Regional Office
175 West Jackson Boulevard, Suite 1450
Chicago, Illinois 60604