

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

SECURITIES AND EXCHANGE COMMISSION,	:	
	:	
Plaintiff,	:	CIVIL ACTION NO.
	:	
v.	:	
	:	
ROBERT L. BENTLEY,	:	
BENTLEY FINANCIAL SERVICES, INC.,	:	
ENTRUST GROUP,	:	
	:	
Defendants.	:	

COMPLAINT FOR INJUNCTION AND OTHER RELIEF

Plaintiff Securities and Exchange Commission (Commission) alleges the following facts in support of its complaint:

I. SUMMARY

- 1) The defendants are engaged in a fraudulent scheme to offer and sell privately issued notes which they falsely claim are bank issued certificates of deposit ("CDs") or interests in such CDs which are insured by the Federal Deposit Insurance Corp. ("FDIC"). Defendants' investors include numerous small banks, credit unions, and individual investors. Defendants' records show that they have, as of mid-September 2001, at least \$318 million of such notes outstanding which have issued to more than 3,000 investors. Defendants claim to have "invested" more than \$4 billion of investor funds since their scheme began in approximately 1986.

- 2) Defendants are conducting a fraudulent scheme because investors can obtain a return of their principal investment at the promised maturity date only if defendants are able to find additional investors.
- 3) As a result of these practices defendants are fraudulently offering for sale securities in the form of notes or investment contracts. They are also operating as unregistered broker-dealers in violation of law.
- 4) Defendants, directly or indirectly, have engaged, are engaged and are about to engage in fraudulent transactions, acts, practices and courses of business which constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. 77q(a)], and Sections 10(b), and 15(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. 78j(b), 78o(a)] and Rule 10b-5 [17 C.F.R. 240.10b-5].
- 5) Defendants will, unless restrained and enjoined, continue to engage in the acts, practices, and courses of business alleged herein, and in acts, practices and courses of business of similar object and purpose.
- 6) The Commission brings this action pursuant to the authority conferred upon it by Section 20(a) of the Securities Act [15 U.S.C. § 77t] and Section 21(d) of the Exchange Act [15 U.S.C. §§ 78u(d)] to restrain and enjoin the defendants from violating Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5, and granting other relief including the appointment of a receiver, an asset freeze, the equitable remedy of disgorgement of ill-gotten gains, and statutory penalties.
- 7) The defendants, committed the violations described above by means of conduct which involved fraud and deceit and which created a significant risk of substantial losses to other persons.

II. JURISDICTION AND VENUE

- 8) This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v] and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§78u(e) and 78aa].
- 9) Venue properly lies in this Court pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], and Section 27 of the Exchange Act [15 U.S.C. § 78aa].
- 10) The defendants, and each of them, directly and indirectly, have made use of the means and instrumentalities of interstate commerce, or of the mails in connection with the acts, practices and courses of business alleged in this Complaint.

III. DEFENDANTS

- 11) Robert L. Bentley, ("Bentley") age 43, resides in Paoli, Pennsylvania. Bentley is the president of Bentley Financial Services, Inc. Bentley is currently associated with a registered broker-dealer, TDI Securities, Inc. of Denver, Colorado, as a registered representative. However, Bentley's fraudulent note sales are not conducted through the facilities of TDI. Bentley controls the day-to-day business activities of the scheme described in this complaint.
- 12) Bentley Financial Services, Inc. ("Bentley Financial") is a Pennsylvania corporation with its primary place of business in Paoli, Pennsylvania. Its activities are directed and controlled by Bentley. Bentley Financial in promotional brochures claims it has been operating since 1986 and has "invested" over \$4 billion for clients. Bentley Financial has at least 7 persons working for it as sales agents.
- 13) Entrust Group ("Entrust") is a sole proprietorship, registered in Pennsylvania. Entrust is a d/b/a of Bentley's and is located in Paoli, Pennsylvania. Bentley represents to investors that Entrust acts as a custodian for purported CDs he sells them.

IV. THE FRAUDULENT SCHEME

Defendants Sell Private Notes - Not Bank Issued CDs

- 14) Defendants records indicate that they have outstanding \$318,760,400 of notes held by at least 3,200 customers.
- 15) Defendants claim that on behalf of investors they will buy bank issued CDs that are FDIC insured for their customers. As a result they purport to sell CDs that have a face amount of \$100,000 or less.
- 16) Bentley Financial represents to customers that Entrust will act as custodian for the bank issued CDs that customers purchase.
- 17) In many instances, at or about the time that defendants receive money from investors to buy a CD, defendants buy a CD from a bank with a longer term and higher interest rate than the note it has sold its investors. Those long term CDs are held in the name of Entrust. Generally, defendants do not buy actual bank CDs with the same maturity date and interest rate that they purport to sell to their customers.
- 18) In some instances, defendants sell notes which have a higher interest rate than the underlying long term CD that they have purchased. In other instances defendants use investor funds to purchase a CD which matures before the customers' notes.
- 19) Because the maturity date and interest rate of the notes that defendants issue to their customers is different than the maturity date and interest rate of any underlying CDs purchased by defendants with investor money, defendants are offering private notes or investment contracts rather than CDs.

Defendants Fraudulently Purport To Sell Insured Bank Issued CDs

- 20) Defendants go to great lengths to disguise the fact that they are offering private notes with all the risks that accompany the purchase of such instruments. Their entire course of

conduct evidences their repeated deceptive practices of falsely claiming, among other things, 1) that the instruments they sell are actual bank-issued, FDIC insured CDs; 2) that defendants are conducting their business through a broker-dealer registered with the SEC which has SIPC insurance coverage; 3) that Bentley is registered with the SEC as an investment advisor; and 4) in case of bankruptcy by defendants the SEC and FDIC will step in to protect investors.

- 21) When a customer buys a note from defendants, Entrust Group issues a "confirmation" to the investor which fraudulently states that the client has bought a CD issued by a particular bank, with a particular maturity date and interest rate. The confirmation purports to list a "FDIC Insurance #" for the note sold by defendants to the investor and falsely states "THIS IS TO CONFIRM THAT ENTRUST GROUP AS CUSTODIAN, IS HOLDING A FEDERALLY INSURED CERTIFICATE OF DEPOSIT OR AN INTEREST THEREIN ON YOUR BEHALF."
- 22) Defendants use a fraudulent brochure to describe their business, which is distributed to potential purchasers of their notes.
- 23) That brochure makes numerous false representations to the effect that defendants look after their customer's best interests. For example the brochure proclaims: "BFS committed to your interest."
- 24) The brochure states that Bentley Financial is a registered investment advisor when in fact Bentley, while registered with the state of Pennsylvania as an investment advisor is not, registered with the SEC as one.
- 25) The brochure claims that the securities it sells are offered through TDI, a member of SIPC. The brochure also claims that "[e]very investment advisor at [Bentley Financial] is

a registered representative with TDI, Inc and has Series 7 and Series 63 financial licenses. These licenses are held under NASD and SEC regulations." In fact, none of defendants' note selling business is done through TDI and hence there is no SIPC coverage for its notes.

- 26) The brochure claims that defendants specialize "in the purchase of Federally Insured Jumbo Certificates of Deposit" and "For more than 12 years [Bentley Financial] has provided our clients with high quality, FDIC insured Jumbo Certificates of Deposit" when it is in fact selling privately issued notes, not federally insured CDs issued by banks.
- 27) The brochure claims that customers "will enjoy top returns."
- 28) In a September 18, 2001 letter to a potential customer, Bentley represented that "one call to us locates the BEST INSURED rates."
- 29) In that same letter Bentley claimed "Our financial services network concentrates on jumbo certificates of deposit at federally insured commercial banks and savings and loan institutions nationwide. Our goal is to maximize your portfolio's return by locating the most attractive insured interest rates available."
- 30) Defendants pay customers an interest rate substantially below the interest rate on the long term CD they buy with investor money and hold in the name of Entrust.
- 31) In that letter Bentley falsely represented that "at maturity the institution is directed to handle your funds exactly as you have instructed." This statement is false because when the private note issued by defendants matures, it is entirely the responsibility of defendants to pay back the investor's principal. Indeed the bank has no obligation to pay

principal until the long term CD it has issued to defendants matures. Further, the bank at that time will make the principal payment directly to defendants and not the investor.

- 32) In that letter Bentley falsely claims "[e]very jumbo certificate trader at [Bentley Financial] has passed the Series 7 and Series 63 exams and is registered with the SEC. This claim is entirely false as the SEC does not "register" individuals associated with broker dealers, such persons are "registered" with the NASD.
- 33) Defendants send to potential buyers of their notes a fraudulent offering sheet which represents that they are selling CDs issued by particular banks named in the sheet with particular interest rates for specific terms. This offering sheet falsely claims the CDs are "offered through" TDI and that the products being sold are bank issued CDs that are "FDIC insured."

Defendants Post-Sale False Statements Are Additional Proof Of Their Scienter

- 34) In August 2001 a customer of defendants questioned Bentley about the nature of the purported CDs which it thought it had bought. This customer was a FDIC regulated bank. On August 29, 2001, Bentley sent an e-mail to the president of the bank.
- 35) In e-mail, Bentley claimed that in case of the bankruptcy of a brokerage firm, the Pennsylvania Securities Commission, NASD, and SEC would "step in" and that such agencies have been established to "protect investors." The clear import of his representation was to falsely claim that the bank was not at risk because those agencies would act to protect the investor's investment. Bentley further stated that in case of bankruptcy of his firm, customers would be completely protected and that "on maturity date the institution then wires the funds directly back to each investor." This is completely false, as defendant's investors in fact do not own bank issued CDs.

- 36) On August 30, 2001, Bentley sent another e-mail to the president of the bank claiming his firm had \$2 million of insurance "for each occurrence."
- 37) Bentley sent a facsimile to the president of that bank on August 29, 2001, enclosing what he claimed was his registration form as an investment advisor with the SEC, his "Form ADV." This registration form was a 1996 form that Bentley had filed with the Commission when he was registered with the SEC as an investment advisor. Bentley ceased to be registered with the SEC as an investment advisor in 1997. Thus, by sending the old form to the bank president, Bentley was falsely representing that he was currently registered with the SEC, when in fact he was not.
- 38) Rather than admit to the bank that it had actually bought private notes, rather than actual bank issued CDs, Bentley refunded the bank's principal to it, claiming that in doing so he was incurring a substantial interest penalty.

Defendants' Customers Are Exposed To Enormous Undisclosed Risk

- 39) The banks that issue the long term CDs that defendants have purchased with investor funds make interest payments to defendants, who keep such funds in bank accounts in their name. Defendants in turn pay interest to investors on the private notes they have issued. The customer's ability to receive those interest payments depends on the continued financial viability of defendants. This risk is undisclosed to investors.
- 40) When an investor's note matures, it is defendants who must pay the principal back to the customer, because any CDs bought by defendants with investor money have a much longer maturity date than the notes issued to the customers. To make good on their promise to pay back principal to customers on the specified maturity date, defendants

must find a new customer to buy another note, the proceeds of which are used by defendants to repay principal to the original investor.

- 41) Of the approximately \$318 million of bank CDs purchased by defendants with investor money, a substantial number are CDs that are callable by the issuing bank. Investors are exposed to an undisclosed risk that the issuing bank will call its CD, giving the principal back to defendants, but not the investor in defendants' notes.
- 42) The risks inherent in this scheme are not disclosed to investors, who are fraudulently led to believe that defendants are merely brokering on their behalf the purchase of actual bank issued CDs. There is no disclosure of the fact that customers must rely on defendants to repay their principal, not a bank.

FIRST CLAIM - FRAUD

Violations of Section 10(b) of the Exchange Act and Rule 10b-5
[15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5]

- 43) Paragraphs 1 through 41 are hereby realleged and incorporated by reference.
- 44) Defendants, directly and indirectly, by the use of the means and instrumentalities of interstate commerce, or of the mails, with scienter, in connection with the purchase and sale of securities: (a) have employed, are employing, and are about to employ devices, schemes, or artifices to defraud; (b) have made, are making and are about to make untrue statements of material fact, or have omitted, are omitting and are about to omit 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) have engaged in acts, practices or courses of business which have operated, are operating and will operate as a fraud or deceit upon other persons, including purchasers and sellers of such securities.

- 45) Defendants, have violated, are violating, and will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] unless restrained and enjoined.

SECOND CLAIM - FRAUD

Violations of Section 17(a)(1) of the Securities Act
[15 U.S.C. § 77q(a)]

- 46) Paragraphs 1 through 41 are hereby realleged and incorporated by reference.
- 47) Defendants, directly or indirectly, in the offer or sale of securities, by the use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails, with scienter, have employed, are employing, or are about to employ devices, schemes or artifices to defraud.
- 48) Defendants have violated, are violating, and will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. 77q(a)(1)] unless restrained and enjoined.

THIRD CLAIM - FRAUD

Violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act
[15 U.S.C. 77q(a)(2) and 77q(a)(3)]

- 49) Paragraphs 1 through 41 are hereby realleged and incorporated by reference.
- 50) Defendants, directly or indirectly, in the offer or sale of securities, by the use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails, (a) have obtained, are obtaining or are about to obtain money or property by means of untrue statements of material fact and omissions 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 (b) have engaged, are engaged, or are about to engage in transactions, acts, practices and courses of business that operated or would operate as a fraud upon purchasers of securities.

- 51) Defendants have violated, are violating, and will continue to violate Section 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. 77q(a)(2) and 77q(a)(3)] unless restrained and enjoined.

FOURTH CLAIM - OPERATING AS AN UNREGISTERED BROKER OR DEALER

Section 15(a) of the Exchange Act
[15 U.S.C. § 78o(a)]

- 52) Paragraphs 1 through 41 are hereby realleged and incorporated by reference.
- 53) Defendant Bentley Financial Services, Inc., and Bentley, while engaged in the business of effecting transactions in securities for the account of others or for their own accounts, have made use of the mails or the means or instrumentalities of interstate commerce to effect transactions in, or to induce the purchase of, securities, without being registered as brokers or dealers with the Commission.
- 54) Defendants have violated, are violating and, unless restrained and enjoined, will continue to violate Section 15(a) of the Exchange Act [15 U.S.C. 78o(a)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court:

A.

Enter Findings that each defendant committed the violations alleged in this complaint.

B.

Enter a Temporary Restraining Order, Preliminary Injunction, and a Permanent Injunction, restraining and enjoining defendants and their officers, agents, servants, employees, attorneys, and those persons in active concert or participation with them who receive actual notice by personal service or otherwise, from violating or any of the violations alleged.

C.

Enter an Order freezing the assets of defendants, ordering expedited discovery, setting forth alternative methods of service, ordering the appointment of a receiver to take possession and control of their premises and assets, and other relief as described in Plaintiff's Motion For Temporary Restraining Order and Preliminary Injunction.

D.

Order that each defendant disgorge all illegal gains, together with prejudgment and post judgment interest.

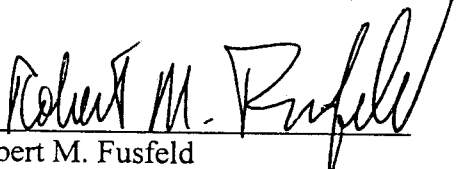
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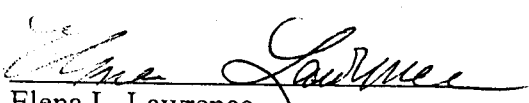
Order that each defendant pay civil money penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

F.

Grant such other relief as this Court may deem just or appropriate.

Dated this 23rd day of October, 2001.


Robert M. Fusfeld


Elena L. Lawrence

Securities and Exchange Commission
1801 California Street, Suite 4800
Denver, Colorado 80202
Telephone: 303/844-1000
Facsimile: 303/844-1010