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**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
FILED
MAR 21 2008
CLERK, U.S. DISTRICT COURT
By *[Signature]*
Deputy

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

vs.

**W FINANCIAL GROUP, LLC,
ADLEY H. ABDULWAHAB a/k/a Adley Wahab,
MICHAEL K. WALLENS, SR., and
MICHAEL K. WALLENS, JR.**

Defendants,

Civil Action No.

3-08CV0499-N

COMPLAINT

Plaintiff Securities and Exchange Commission alleges the following:

SUMMARY

1. The Defendants in this case perpetrated an investment fraud through which they raised at least \$17.9 million. Attracting investors with false promises of safety and liquidity, the Defendants used a mere fraction of the funds they collected for the purposes disclosed to investors.

2. Selling securities that they called "Secured Debt Obligations" ("SDOs"), the Defendants misled their mostly elderly victims, falsely telling them that their funds would be conservatively invested and the securities they purchased were safe and insured by several layers of coverage. Defendants also impressed investors by touting W Financial Group, Inc.'s ("WFG") long history of financial responsibility.

3. In fact, Defendants secretly diverted investor funds to purchase the majority interest in an electric power company, to buy and develop residential real estate, and to buy unauthorized investment vehicles, such as a life settlement contract. Neither the SDOs nor the unauthorized investments purchased with WFG customer funds provided the safety promised by

Defendants. Moreover, WFG, contrary to Defendants' description of the company, was created immediately before Defendants launched their scheme.

4. By engaging in the conduct detailed in this Complaint, Defendants, directly or indirectly, singly or in concert, have engaged in, and unless enjoined will continue to engage in transactions, acts, practices and courses of business that constitute violations of Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77e(a), 77e(c) and 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and of Rule 10b-5 [17 C.F.R. § 240.10b-5], promulgated thereunder.

JURISDICTION AND VENUE

5. The investments offered and sold by the Defendants are "securities" under Section 2(1) of the Securities Act [15 U.S.C. § 77b] and Section 3(a)(10) of the Exchange Act [15 U.S.C. § 78c].

6. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], to preliminarily and permanently enjoin Defendants from future violations of the federal securities laws.

7. This Court has jurisdiction over this action, and venue is proper, 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].

8. Defendants, directly or indirectly, made use of the means or instruments of transportation and communication, and the means or instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged herein. Certain of the transactions, acts, practices and courses of business alleged herein took place in the Northern District of Texas.

DEFENDANTS

9. **Adley H. Abdulwahab a/k/a Adley Wahab**, age 32, of Spring, Texas, was the Managing Member of WFG from its inception until January 18, 2007, when he was replaced by Wallens, Sr. Wahab remains a member of WFG and is involved in all aspects of the company's operations. Wahab asserted his Fifth Amendment right against self incrimination when subpoenaed for testimony.

10. **Michael K. Wallens, Sr.**, age 51, of Spring, Texas, became the Managing Member of WFG on January 18, 2007 and is held out as its president in offering materials. Wallens, Sr. is involved in all aspects of the company's operations. Wallens, Sr. asserted his Fifth Amendment right against self incrimination when subpoenaed for testimony.

11. **Michael Wallens, Jr.**, age 28, of Plano, Texas, is a member of WFG and was integrally involved in most major activities. Wallens, Jr. asserted his Fifth Amendment right against self incrimination when subpoenaed for testimony.

12. **W Financial Group, LLC**, a Texas limited liability company located in Houston, Texas and formed in September 2006, was the issuer of the purported SDOs. Wahab was the original managing member until he was replaced by Wallens, Sr. in January 2007. WFG was in the business of offering the SDOs and is an issuer of these securities.

OTHER RELATED PARTIES

13. **Auto Ace Enterprises, Inc.** is a Texas corporation located in Houston, Texas, and is controlled by Michael Wallens, Jr. Auto Ace operates a used car lot under the assumed name Texas Auto Pros located in Garland, Texas. Auto Ace holds a Motor Dealer Finance License issued by the State of Texas, and is the maker of notes for car loans funded by WFG.

14. **W Custom Builders, LLC** is purportedly a Texas limited liability company, but, in fact, is not registered with the state of Texas, and records reflect that the company is a WFG

assumed name. W Custom Builders is in the business of acquiring house lots and building spec homes on them. It is controlled by Wallens, Sr. and Wahab.

THE FRAUDULENT SCHEME

The WFG SDO Offering in General

15. From at least September 2006 to February 2007, Wahab, Wallen, Sr. and Wallens, Jr., through WFG, conducted an unregistered fraudulent securities offering, raising \$17.9 million from the sale of SDOs to at least 182 investors located primarily in Texas, with a pocket of customers in Wisconsin. Most of WFG's customers were elderly or seeking to invest retirement funds. Wahab, Wallens, Sr. and Wallen, Jr. jointly controlled all aspects of WFG's operations.

16. While WFG's principals were directly responsible for offering and selling the securities, WFG also relied on a network of sales agents in Texas and Wisconsin. These sales agents were paid a commission of 5% of the amount invested. Many of the sales agents selected by WFG held themselves out as specializing in providing low-risk investments to the elderly and others seeking a safe haven for retirement funds.

17. According to offering materials, WFG, through the Auto Ace used car business, generates the notes that secured the SDOs. WFG and its agents presented the SDOs as a higher-yielding, but equally safe, alternative to bank CDs, offering rates of 7% and 7.75% and 9% APR on notes with two, three and four year terms, respectively.

18. The customers who purchased WFG investments were often lured to the offices of the sales agents by advertisements in local newspapers touting the availability of relatively high-yielding FDIC-insured certificates of deposit. When conservative prospective investors responded to the advertisements, they instead were pitched SDOs as an attractive alternative,

paying a higher rate of interest and supposedly offering safety comparable to an FDIC-insured CD.

19. WFG investors elected either to receive monthly interest payments or to compound their earnings by rolling over interest payments into the SDO. Most investors have elected to compound their returns.

**False and Misleading Statements and Omissions
In the Offer and Sale of W Financial SDOs**

20. WFG and its sales agents made numerous false and misleading statements about the investment program and failed to disclose material information. The following statements from WFG sales literature, correspondence to investors and potential investors, and the investment contracts themselves are illustrative of the Defendants' representations:

- a. "Your investment is guaranteed not only by W Financial Group, but is also reinsured by two A rated insurance companies";
- b. "Reinsurers consist of Lloyd's of London and The Republic Group..."
- c. "we hold a single interest bond issued by Lloyd's of London which insures all receivables."
- d. "Secondly, W Financial Group holds a Surety Bond through The Republic Group who insures company payables";
- e. "for the insured notes, WFG agrees to keep a fully covered single interest coverage policy on all uninsured receivables at all times by Lloyd's or an A or better rated company"; and
- f. "parent Company and management group have been conducting business for over 17 years without one customer complaint or late payment";
- g. the SDO offers "liquidity and income based on the term that is chosen";
- h. WFG will keep investor funds "separate and apart" from its property; and
- i. at all times, any funds advanced by investors shall be "held either in cash in the investor's separate account, government or corporate AAA bonds, qualified receivables or insured notes (the car notes)."

21. As set forth in detail below, none of these claims are true.

Safety and Liquidity of the Investment

22. WFG promotional materials and contracts emphasized repeatedly the complete safety and substantial liquidity of the SDOs. Defendants represented that investors were insulated from risk by several layers of insurance coverage.

23. As the name of the security implies, WFG represented that investor accounts will be protected by collateral. The Agreement state that WFG will "provide mutually agreeable collateral to secure this note within one month of the date of execution of this Note."

24. To add credibility to their claims about insurance coverage, Defendants provided investors and potential investors with copies of certificates from Lloyds and Republic that purportedly demonstrated that WFG had the insurance policies touted to investors. This insurance coverage, Defendants claimed, made the SDOs the "perfect investment vehicle for someone in a conservative financial position."

25. WFG also purported to assure the safety of investor funds through its conservative investment policy. Defendants promised that the "funds advanced by investors shall be held either in cash in the investor's separate account, government or corporate AAA bonds, qualified receivables or insured notes."

26. Defendants' contentions that investor accounts are virtually risk-free were also false and misleading. The SDOs had neither the liquidity nor the safety represented to investors. In reality, investors could only request return of up to 25% of their invested principal during the term of the SDO. Moreover, WFG did not carry any insurance that guaranteed the principle or interest promised to the purchasers of WFG notes.

27. The Lloyd's policies in effect during the offering period did not insure the investors' return or even the cash flow from financial notes generated when Defendants sold

automobiles. The Lloyd's policies insured only against losses from damage to the automobiles themselves. Moreover, the Lloyd's coverage was limited to an annual aggregate maximum of \$100,000, a fraction of the face value of SDOs sold to WFG investors.

28. Similarly, the Republic surety bond did not insure WFG receivables or provide coverage that guaranteed investor returns or protected investors against loss of principal or interest. Moreover, the total amount of the coverage provided by Republic was \$25,000, again a fraction of the funds owed to investors.

29. In addition, WFG has not even collateralized most of its debt to investors. No assets, including automobile loan receivables, were ever legally assigned to secure the SDOs purchased by WFG investors.

30. Furthermore, Defendants' claim that WFG had been in business for over 17 years was a blatant falsehood. WFG, in fact, was formed on September 5, 2006, apparently for the sole purpose of offering and selling the SDOs.

31. Finally, WFG consistently deviated from its promise to place funds in specified low-risk investments. As set forth more fully below, Defendants used millions of dollars collected from clients to purchase unauthorized and speculative investments.

Misuse of Investor Funds

32. WFG did not use investor funds as represented to investors. Contrary to their representations to investors, Defendants did not maintain separate accounts on behalf of each WFG investor. WFG commingled investor funds in accounts controlled by Defendants.

33. Defendants, moreover, placed only a fraction of funds in the investment vehicles disclosed to investors. Defendants spent \$1.7 million of WFG investor funds to purchase a 75% interest in a licensed retail energy service provider and an additional \$4.6 million to purchase electricity and operate the company. Defendants also used investor funds to purchase several

home lots for \$2.78 million and, through W Custom Builders, spent at least \$800,000 more building homes on the lots. WFG also invested at least \$350,000 with a "life-settlement" company. Between October 2006 and January 2007, WFG paid its principals approximately \$450,000 in compensation. In addition, Defendants used investor funds to provide a \$300,000 loan to Wahab personally and to make a \$2 million loan to a company associated with Wahab; these loans, although eventually repaid with interest, were never disclosed to investors.

FIRST CLAIM
Violations of Section 17(a) of the Securities Act

[As to All Defendants]

34. Plaintiff Commission repeats and incorporates paragraphs 1 through 33 of this Complaint by reference as if set forth *verbatim*.

35. The Defendants, directly or indirectly, singly or in concert with others, in connection with the offer or sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts 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 (c) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

36. As a part of and in furtherance of their scheme, the Defendants, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material facts and misrepresentations of material facts, and which 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, including, but not limited to, those set forth in Paragraphs 1 through 33 above.

37. With respect to violations of Sections 17(a)(2) and (3) of the Securities Act, the Defendants were negligent in their actions regarding the representations and omissions alleged herein. With respect to violations of Section 17(a)(1) of the Securities Act, the Defendants made the above-referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth.

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

SECOND CLAIM
Violations of Section 10(b) of the Exchange Act and Rule 10b-5

[As to All Defendants]

39. Plaintiff Commission repeats and incorporates paragraphs 1 through 33 of this Complaint by reference as if set forth *verbatim*.

40. The Defendants, directly or indirectly, singly or in concert with others, in connection with the purchase or sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts 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 (c) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

41. As a part of and in furtherance of their scheme, the Defendants, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue

statements of material facts and misrepresentations of material facts, and which 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, including, but not limited to, those set forth in Paragraphs 1 through 33 above.

42. The Defendants made the above-referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth.

43. By reason of the foregoing, the Defendants violated and, unless enjoined, will continue to violate 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].

THIRD CLAIM
Violations of Section 5(a) and 5(c) of the Securities Act

[As to All Defendants]

44. Plaintiff Commission repeats and incorporates paragraphs 1 through 33 of this Complaint by reference as if set forth *verbatim*.

45. Defendants, directly or indirectly, singly and in concert with others, have been offering to sell, selling and delivering after sale, certain securities, and have been, directly and indirectly: (a) making use of the means and instruments of transportation and communication in interstate commerce and of the mails to sell securities, through the use of written contracts, offering documents and otherwise; (b) carrying and causing to be carried through the mails and in interstate commerce by the means and instruments of transportation, such securities for the purpose of sale and for delivery after sale; and (c) making use of the means or instruments of transportation and communication in interstate commerce and of the mails to offer to sell such securities.

46. As described in paragraphs 1 through 33, the WFG investments described in detail herein, have been offered and sold to the public through a general solicitation of

investors. No registration statements were ever filed with the Commission or otherwise in effect with respect to these securities.

47. By reason of the foregoing, the Defendants have violated and, unless enjoined, will continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

RELIEF REQUESTED

WHEREFORE, Plaintiff respectfully requests that this Court:

I.

Permanently enjoin Defendants from violating Sections 5(a), 5(c), and 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

II.

Order the Defendants to disgorge an amount equal to the funds and benefits they obtained illegally as a result of the violations alleged herein, plus prejudgment interest on that amount.

III.

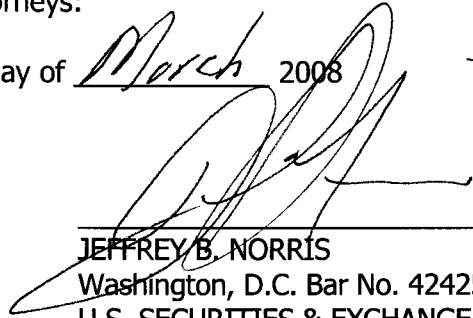
Order civil penalties against the Defendants pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], for the violations alleged herein.

IV.

Order such further relief as this Court may deem just and proper.

For the Commission, by its attorneys:

Dated and signed on the 20th day of March 2008



JEFFREY B. NORRIS

Washington, D.C. Bar No. 424258

U.S. SECURITIES & EXCHANGE 24014515

COMMISSION

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JS 44 (Rev. 11/04)

ORIGINAL

CIVIL COVER SHEET - 08CV0499-N

The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

I.(a) PLAINTIFFS

Defendants-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

W Financial Group, LLC; Adley H. Abdulwahab a/k/a Adley Wahab, Michael K. Wallens, Sr., and Michael K. Wallens, Jr.

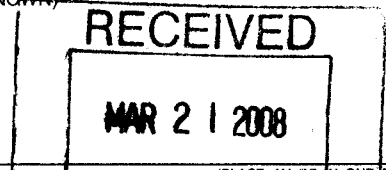
(b) COUNTY OF RESIDENCE OF FIRST LISTED PLAINTIFF (EXCEPT IN U.S. PLAINTIFF CASES)

County of Residence of First Listed Defendant: Harris County (IN U.S. PLAINTIFF CASES ONLY) NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

(c) ATTORNEY (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER)

ATTORNEYS (IF KNOWN)

Jeffrey B. Norris U.S. Securities & Exchange Commission 801 Cherry Street, Suite 1900 Fort Worth, TX 76102 (817) 978-6483



II. BASIS OF JURISDICTION (PLACE AN "X" IN ONE BOX ONLY)

III. CITIZENSHIP OF PRINCIPAL PARTIES (For Diversity Cases Only)

- 1 U.S. Government Plaintiff
2 U.S. Government Defendant
3 Federal Question (U.S. Government Not a Party)
4 Diversity (Indicate Citizenship of Parties in Item III)

- Citizen of This State
Citizen of Another State
Citizen or Subject of a Foreign Country
Incorporated or Principal Place of Business in This State
Incorporated and Principal Place of Business in Another State
Foreign Nation

IV. NATURE OF SUIT (PLACE AN "X" IN ONE BOX ONLY)

Table with 5 main columns: CONTRACT, REAL PROPERTY, TORTS, CIVIL RIGHTS, PRISONER PETITIONS, FORFEITURE/PENALTY, LABOR, SOCIAL SECURITY, FEDERAL TAX SUITS, BANKRUPTCY, PROPERTY RIGHTS, OTHER STATUTES. Each cell contains a list of legal categories with checkboxes.

V. ORIGIN (PLACE AN "X" IN ONE BOX ONLY)

- 1 Original Proceeding
2 Removed from State Court
3 Remanded from Appellate Court
4 Reinstated or Reopened
5 Transferred from another district (Specify)
6 Multidistrict Litigation
7 Appeal to District Judge from Magistrate Judge

VI. CAUSE OF ACTION CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING (DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY):

Section 5(a) & (c) of the Securities Act of 1933 [15 U.S.C. § 77e(a) & (c)], Section 17(a) of the Securities Act of 1933 [15 U.S.C. § 77q(a)], Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. § 78j(b)], and Rule 10b-5, [17 C.F.R. § 240.10b-5]

VII. REQUESTED IN COMPLAINT: CHECK IF THIS IS A CLASS ACTION UNDER F.R.C.P. 23 DEMAND \$ CHECK YES only if demanded in complaint: JURY DEMAND YES NO

VIII. RELATED CASE(S) (See Instructions): IF ANY

DATE: March 14, 2008 JUDGE: SIGNATURE OF ATTORNEY OF RECORD: DOCKET NUMBER: RECEIPT # AMOUNT APPLYING IFP JUDGE MAG. JUDGE