

UNITED STATES DISTRICT COURT
FOR THE
DISTRICT OF COLUMBIA

FILED

JAN 14 1999

WALTER HAYES-WHITEHEAD, CLERK
U.S. DISTRICT COURT

SECURITIES AND EXCHANGE COMMISSION
450 Fifth Street, N.W.
Washington, D.C. 20549,

Plaintiff,

v.

DONALD WALLACE,
THE INVESTMENT GROUP,
LINDA SCHROEDER,
JOHN MCNULTY,
BERACH INTERNATIONAL, LTD., AND
GARY TEDFORD,

Defendants.

CASE NUMBER 1:99CV00120

JUDGE: Richard W. Roberts

DECK TYPE: Civil General

DATE STAMP: 01/14/99

COMPLAINT

Plaintiff Securities and Exchange Commission (Commission) alleges:

SUMMARY

1. This case involves the fraudulent offer and sale of non-existent, prime bank securities by defendants Donald Wallace; The Investment Group and its principals, Linda Schroeder and John McNulty; and Berach International, Ltd. and its principal, Gary Tedford.

2. In the spring of 1995, Donald Wallace held himself out as an investment adviser on so-called prime bank programs, promising extraordinary returns on investments with essentially no risk.

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3. In April 1995, The Investment Group obtained \$100,000 from an investor, a resident of Colorado Springs, Colorado (the "Investor"), by representing to him that his money would be invested in a prime bank securities trading program. The Investment Group guaranteed a return of 15% per week to the investor. The Investor was falsely told that the principal of the investment was guaranteed against loss by a bonding company.

4. Shortly after obtaining control of the Investor's \$100,000, The Investment Group wired the money to a bank account in New York, designated by Gary Tedford, pursuant to a contract between The Investment Group and Berach International, Ltd., an intermediary in the fraudulent transaction. Berach International, Ltd.'s contract with The Investment Group, pursuant to which Berach International, Ltd. was to invest funds obtained from The Investment Group in prime bank securities, guaranteed The Investment Group a return of 2,000% per month. Berach International, Ltd. also obtained money from other investors for its prime bank investment scheme.

5. Berach International, Ltd. subsequently sent the Investor's \$100,000 to Donald Wallace, who advised on, and was responsible for arranging, the purported prime bank trades.

6. By engaging in such conduct, the defendants violated the antifraud provisions of the federal securities laws. Moreover, Wallace violated the investment adviser registration provisions of the federal securities laws. Defendants are likely to commit such violations in the future unless the Court enjoins them from doing so.

JURISDICTION

7. The Court has jurisdiction of this action pursuant to Section 22(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77v(a)], Sections 21(d), 21(e) and 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u(d), 78u(e) and 78aa], and Section 214 of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. § 80b-14].

THE DEFENDANTS

8. Donald Wallace ("Wallace") is a resident of Little Rock, Arkansas. Wallace declined to provide testimony in response to a subpoena during the investigation of this matter, claiming his Fifth Amendment right not to incriminate himself. Wallace recently was permanently enjoined and ordered to pay disgorgement and penalties for violating the federal securities laws in connection with another prime bank scheme perpetrated in the spring of 1995. See SEC v. Kenton Capital, Ltd., et al., Case No. 95-0829 (CKK) (D.D.C.) (appeal pending).

9. The Investment Group ("TIG") is a joint venture between Linda Schroeder, John McNulty and one other individual. Linda Schroeder and John McNulty formed TIG for the purpose of placing the Investor's money into a prime bank securities trading program.

10. Linda Schroeder ("Schroeder") is a resident of Spring, Texas. Schroeder is a principal of TIG.

11. John McNulty ("McNulty") is a resident of Owensboro, Kentucky. McNulty is a principal of TIG.

12. Berach International, Ltd. ("Berach") is a private Bahamian company owned by Gary Tedford and one other individual.

13. Gary Tedford ("Tedford") is a resident of Denver, Colorado. Tedford is a principal of Berach. Tedford declined to provide testimony in response to an investigative subpoena, claiming his Fifth Amendment right not to incriminate himself.

THE FRAUDULENT SCHEME

Schroeder Solicits the Investment

14. In March 1995, Schroeder solicited a \$100,000 investment from the Investor to be placed into a so-called prime bank trading program. However, prime bank trading programs, as represented by defendants, do not exist. Schroeder had not undertaken any due diligence inquiry concerning the prime bank trading programs she was offering for sale.

15. In describing trading programs to the Investor, Schroeder told him that his return would range from 10% to 25% per week, depending on the particular program in which his moneys were placed. Schroeder claimed these returns would be achieved by using a pool of funds collected from various investors to "rent" large blocks of U.S. Treasury bonds which an offshore trader would use as collateral for a line of credit. The trader then would use the line of credit to trade securities and create the returns promised to the investors. Schroeder also stated that these programs only were available to a limited number of people who had the right contacts, and falsely stated that the people she was working with had been doing such work for decades.

16. Schroeder also told the Investor that any investment the Investor made would be protected by a guarantee bond. Therefore, Schroeder represented, in a worst-case scenario, the Investor at least would have his principal returned to him by the bonding company. However, TIG never obtained a guarantee bond to protect the Investor's principal.

17. After Schroeder solicited the Investor's money, Schroeder and McNulty formed TIG and discussed the terms of the contract which they believed TIG should enter into with the Investor.

18. On April 7, 1995, the Investor signed a contract with TIG for an "Asset Enhancement Program" whereby the Investor invested \$100,000 with TIG, and TIG warranted to pay the Investor monthly returns of 15% per week for one year. Schroeder and McNulty signed the contract on behalf of TIG.

TIG Invests the Investor's Money with Tedford

19. Tedford, acting on behalf of Berach, made false representations to Schroeder and TIG concerning prime bank securities being offered and sold by Berach. On the basis of Tedford's false representations, Schroeder directed TIG to invest the Investor's money with Berach, Tedford's company.

20. Specifically, on April 26, 1995, TIG entered into a contract with Tedford and Berach whereby TIG was to invest \$100,000 with Berach so that TIG could "participate in a high yield-investment trading in bank debentures or other instruments." The contract warranted that TIG's profits would be at least 2,000% per month. The contract also stated that Berach would obtain a financial guarantee bond for the benefit of

TIG. Berach never obtained such a financial guarantee bond. Schroeder and Tedford signed the contract on behalf of TIG and Berach, respectively.

21. Pursuant to Tedford's instructions, on April 27, 1995, Schroeder wired the investor's \$100,000 to a bank account in New York.

22. Tedford spoke with TIG's Investor and told him not to worry about his investment because a surety bond protected the Investor's principal.

The Investor's \$100,000 Goes to Wallace

23. On April 27, 1995, TIG wired the Investor's \$100,000 to a Tedford-designated bank account in New York. Once Berach received the investor's \$100,000, Tedford arranged for Berach to send the money to Wallace pursuant to a prime bank securities trading program contract between Berach and Wallace.

24. After obtaining the Investor's \$100,000, Wallace assured Schroeder that the prime bank trading program was legitimate. Wallace also told Schroeder that the Investor's money would be invested in a variety of other prime bank trading programs. Schroeder conducted no investigation or due diligence concerning Wallace or the programs that he was recommending.

25. Wallace also told the Investor's partner that the Investor would be receiving payments from the prime bank trading program, and, at the very least, the Investor's principal was protected against loss by a surety bond.

26. Wallace represented to TIG that the trading programs he offered would produce extraordinary returns. For example, Wallace described an alleged trading program in which he claimed he and his associates had "acquired \$500 Million." This

statement was false. Wallace further represented that he had a commitment from a bank in another program to provide a \$100 million letter of credit which he would use to generate trading profits of over \$2.8 million per month for ten months. Wallace conducted no significant investigation or due diligence concerning any such prime bank programs.

27. In August 1995, Wallace directed that \$20,000 be wired to Schroeder from an account in the Turks & Caicos, British West Indies, for a partial payment to TIG and the Investor, although the Investor's money had not been invested in any prime bank trading program. Schroeder then paid \$12,000 to the Investor, \$4,000 to McNulty and kept \$4,000 for herself. The Investor did not receive any further payments from the defendants.

28. None of the defendants has ever successfully completed a prime bank securities trading program, and they had no reasonable basis to believe that they would obtain the extremely high returns they were promising. Defendants did no significant due diligence on the purported prime bank programs. Defendants did not inform the Investor of these matters and did not inform the Investor of the risk involved.

FIRST CLAIM

Violations of 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]

29. Defendants, and each of them, directly and indirectly, by the use of the means and instrumentality's of interstate commerce, or of the mails, 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 the 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.

30. By reason of the foregoing, defendants, and each of them, have 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].

SECOND CLAIM

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

31. Defendants, and each of them, 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 employed, are employing, or are about to employ devices, schemes or artifices to defraud;
- b. 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 the light of the circumstances under which they were made, not misleading; and

- c. have engaged, are engaged, or are about to engage in transactions, acts, practices, and courses of business which operated or would operate as a fraud upon purchasers of securities.

32. By reason of the foregoing, defendants and each of them, have violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

THIRD CLAIM

Violation of Section 203(a) of the Advisers Act [15 U.S.C. § 80b-3(a)]

33. By engaging, for compensation, in the business of advising his clients regarding the advisability of investing in, purchasing, or selling investments in the investment and trading programs operated by him and his associates, and having made use of the mails or other means or instruments of interstate commerce in connection with such business, defendant Wallace has acted as an investment adviser.

34. Wallace is not registered with the Commission as an investment adviser.

35. Wallace has been found by the federal District Court for the District of Columbia to have held himself out as an investment adviser during the period of time when the transactions alleged herein occurred. Wallace is collaterally estopped from denying that he acted as an investment adviser without registration during the relevant time period.

36. By reason of the foregoing, Wallace has violated Section 203(a) of the Advisers Act [15 U.S.C. § 80b-3(a)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I.

Enter an order permanently enjoining Wallace, TIG, Schroeder, McNulty, Berach, and Tedford from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], 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].

II.

Enter an order permanently enjoining Wallace from violating Section 203(a) of the Advisers Act [15 U.S.C. § 80b-3(a)].

III.

Enter an order pursuant to Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)], directing Wallace, TIG, Schroeder, McNulty, Berach, and Tedford each to submit to the Court an accounting with respect to any moneys associated with or received from any investor in any purported prime bank investment.

IV.

Enter an order pursuant to Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)], directing Wallace, TIG, Schroeder, McNulty, Berach, and Tedford to disgorge the amounts by which they were unjustly enriched as a consequence of the foregoing violations, plus prejudgment interest thereon.

V.

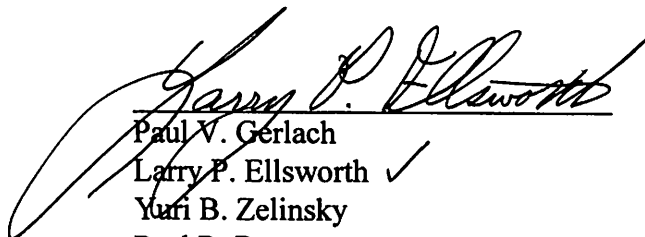
Enter an order pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], directing Wallace, TIG, Schroeder, McNulty, Berach, and Tedford each to pay a civil penalty for the foregoing violations.

VI.

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

DATED: January 14, 1999

Respectfully submitted,



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