

ORIGINAL

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FILED
99 SEP 27 AM 9:49
CLERK, U.S. DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA
BY: *mgumery* DEPUTY

8 UNITED STATES DISTRICT COURT
9 SOUTHERN DISTRICT OF CALIFORNIA

11 SECURITIES AND EXCHANGE COMMISSION,
12 Plaintiff,
13 v.
14 CHARLES F. PARISI,
15 Defendant.

Case No. '99cv 2079B RBB
COMPLAINT FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS

18 Plaintiff Securities and Exchange Commission ("Commission"),
19 for its complaint against defendant Charles F. Parisi ("Parisi"),
20 alleges as follows:

21 JURISDICTION

22 1. This Court has jurisdiction over this action pursuant to
23 Sections 209(e)(1) and 214 of the Investment Advisers Act of 1940
24 ("Advisers Act") [15 U.S.C. §§ 80b-9(e)(1) & 80b-14] and Section 44
25 of the Investment Company Act of 1940 ("Investment Company Act") [15
26 U.S.C. § 80a-43].

27 SUMMARY

28 2. This action involves violations by Charles F. Parisi

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1 ("Parisi") of an order issued by the Commission in an administrative
2 proceeding on July 20, 1992, which Order barred Parisi from
3 associating with any investment adviser or investment company with
4 the right to reapply to become so associated after one year.

5 **THE DEFENDANT**

6 3. Charles F. Parisi resides in San Diego, California. As
7 set forth below, from approximately December 1992 through October
8 1997, Parisi associated with the Palladian Trust (the "Trust"), an
9 investment company, and Palladian Advisers, Inc. (the "Adviser"), an
10 investment adviser. During this period, Parisi also owned or
11 controlled various other entities which shared offices and had
12 business dealings with the Trust and the Adviser. Specifically,
13 Parisi was: the sole owner of Protean VIP Services, a consultant to
14 insurance companies; the chief executive officer and the largest
15 shareholder of Protean Financial Services, Inc. ("Protean"), a
16 holding company; the chief executive officer of Western Capital
17 Financial & Insurance Services, Inc. ("F&I"), an insurance agency
18 owned by Protean; and the chief executive officer of Palladian
19 Marketing Group ("PMG"), a marketing firm he created to be the
20 Trust's exclusive marketing agent.

21 **RELATED ENTITIES**

22 4. The Palladian Trust at all relevant times was registered
23 with the Commission as an investment company. At all times relevant
24 to this Complaint, the Trust's principal place of business was La
25 Jolla, California.

26 5. Palladian Advisers, Inc. at all relevant times was
27 registered with the Commission as an investment adviser. During the
28 relevant period, the Trust was the Adviser's sole client.

PARISI ASSOCIATES WITH THE ADVISER AND THE TRUST**IN VIOLATION OF THE COMMISSION'S ORDER**

6. On July 20, 1992, the Commission issued the Order Instituting Public Administrative Proceedings Pursuant To Sections 203(e), 203(f) And 203(k) Of The Investment Advisers Act Of 1940 And Sections 9(b) And 9(f) Of The Investment Company Act Of 1940, Making Findings And Imposing Remedial Sanctions ("Order"). Among other things, the Order barred Parisi from associating with any investment adviser or investment company with the right to reapply to the appropriate regulatory entity to become so associated after one year. Parisi consented to issuance of the Order and had actual notice of it. Parisi never reapplied to become associated with an investment adviser or investment company. Nevertheless, beginning in at least December 1992 and continuing through at least October 1997, Parisi associated with the Adviser and the Trust in violation of the Order by engaging in the conduct described below.

A. Parisi Provides Financing For The Adviser And The Trust

7. From at least December 1992 through at least July 1997, Parisi financed the formation and operation of the Adviser and Trust through entities he controlled: F&I, Protean, PMG, and Protean VIP Services. Specifically, during this period: (1) F&I and Protean at various times provided a total of at least \$118,000 to finance the Adviser's and Trust's start-up costs; (2) on January 29, 1997, PMG lent the Adviser \$244,000; (3) in July 1997, Protean VIP Services lent \$100,000 to PMG, which PMG in turn lent to the Adviser to pay the Trust's expense reimbursement payments.

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1 **B. Parisi Uses Others To Conceal His Association With The Entities**

2 8. In May 1990, Michael Schwartz ("Schwartz") graduated from
3 college and began working for Parisi. From May 1990 through at
4 least October 1997, Parisi employed and supervised Schwartz. During
5 this period, Schwartz incorporated the Adviser and Trust and became
6 the primary purported control person of each entity (as the
7 Adviser's president, chief financial officer, and shareholder, and
8 the Trust's president, trustee, secretary, and treasurer). In fact,
9 through Schwartz, Parisi exerted control over the Adviser and Trust
10 while concealing his association with these entities.

11 9. During 1992, Parisi's brother, Mark Parisi, began working
12 for Parisi. Prior to going to work for Parisi, Mark Parisi had
13 dropped out of music school and worked as a pizza chef, club
14 bouncer, and cab driver. In 1993, Shortly after the Adviser was
15 formed, Mark Parisi became the Adviser's largest shareholder.
16 Through Mark Parisi, Parisi exerted control over the Adviser while
17 concealing his association with the Adviser.

18 **C. Parisi Holds Himself Out As A Representative Of The Adviser And**
19 **The Trust**

20 10. From at least May 1993 through at least October 1997,
21 Parisi held himself out to various third parties as a representative
22 of the Adviser and the Trust, including the first insurance company
23 to contract with the Trust to sell investments in the Trust and one
24 of the Trust's initial independent trustees.

25 **D. Parisi Participates In Preparing Trust-Related Prospectuses**

26 11. From 1993 through 1997, Parisi participated in the
27 preparation and review of prospectuses used by insurance companies
28 to sell investments in the Trust.

1 **E. Parisi Participates In Selecting Trust Portfolio Managers**

2 12. Parisi participated in evaluating and selecting portfolio
3 managers for the Trust's five portfolios by, among other things,
4 arranging for a portfolio manager with whom he had a pre-existing
5 relationship to manage two of the Trust's portfolios, interviewing
6 potential portfolio managers, and acting as the primary contact with
7 the initial seller of investments in the Trust to answer questions
8 about the Trust's portfolio managers.

9 **F. Parisi Participates In Trust Board Meetings**

10 13. From September 1995 to October 1997, the Trust had at
11 least eight board meetings. Parisi attended and participated in
12 each of these meetings.

13 **G. Parisi Receives Compensation Based On Sales Of Investments In**
14 **The Trust**

15 14. Parisi created PMG to be the Trust's exclusive marketing
16 agent. He negotiated agreements with insurance companies that gave
17 PMG a 1.5% commission on each sale of an annuity that used the
18 Trust's portfolios as underlying investments. Parisi also
19 negotiated agreements with insurance companies that gave another
20 entity he controlled, F&I, royalties on sales of annuities that used
21 the Trust's portfolios as underlying investments. As a result,
22 Parisi had a direct pecuniary interest in the operations of the
23 Adviser and Trust.

24 **CLAIM FOR RELIEF**

25 **Violation Of The Commission's Order And**
26 **Association With An Investment Adviser While Subject To A Bar Order**
27 **In Violation Of Section 203(f) Of The Advisers Act**

28 15. Paragraphs 1 through 14 are realleged and incorporated

1 herein by reference.

2 16. The above conduct by Parisi violated the Order and
3 constituted willful association with an investment adviser and an
4 investment company without the consent of the Commission.

5 17. By reason of the foregoing, Parisi violated, and unless
6 enjoined, will continue to violate: (1) the terms of the
7 Commission's Order, which is enforceable by this Court pursuant to
8 Section 209(d) of the Advisers Act [15 U.S.C. § 80b-9(d)] and
9 Section 42(d) of the Investment Company Act [15 U.S.C. § 80a-41(d)];
10 and (2) Section 203(f) of the Advisers Act [15 U.S.C. § 80b-3(f)].

11 **PRAYER FOR RELIEF**

12 WHEREFORE, the Commission respectfully requests that this
13 Court:

14 I.

15 Issue findings of fact and conclusions of law that Parisi
16 committed the violations charged and alleged herein.

17 II.

18 Issue an order, pursuant to Section 209(d) of the Advisers Act
19 and Section 42(d) of the Investment Company Act, permanently
20 enjoining Defendant Parisi from violating the Commission's Order and
21 Section 203(f) of the Advisers Act.

22 III.

23 Enter an order that Parisi pay civil penalties pursuant to
24 Section 209(e) of the Advisers Act.

25 IV.

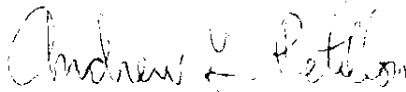
26 Retain jurisdiction over this action in accordance with the
27 principles of equity and the Federal Rules of Civil Procedure in
28 order to implement and carry out the terms of all orders and decrees

1 that may be entered, or to entertain any suitable application or
2 motion for additional relief within the jurisdiction of this Court.

3 V.

4 Grant such other and further relief as this Court may determine
5 to be just and necessary.

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7 DATED: September 27, 1999


Andrew G. Petillon
8 Andrew G. Petillon
9 Attorney for Plaintiff
10 Securities and Exchange Commission
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CIVIL COVER SHEET

ORIGINAL

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 as 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

SECURITIES AND EXCHANGE COMMISSION

DEFENDANTS

CHARLES

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99-SEP-27 AM 9:49
CLERK, U.S. DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

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

COUNTY OF RESIDENCE OF FIRST LISTED DEFENDANT SAN DIEGO
(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED

(c) ATTORNEYS (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER)
KAREN MATTESON, ESQ. (323) 965-3998
ANDREW G. PETILLON, ESQ.
SECURITIES AND EXCHANGE COMMISSION
5670 WILSHIRE BOULEVARD, 11TH FLOOR
LOS ANGELES, CALIFORNIA 90036

ATTORNEYS (IF KNOWN)

99CV 2079 (B) RBB

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

III. CITIZENSHIP OF PRINCIPAL PARTIES (PLACE AN X IN ONE BOX FOR PLAINTIFF AND ONE BOX FOR DEFENDANT)

- | | | | | | |
|---|----------------------------|----------------------------|---|----------------------------|----------------------------|
| | PTF | DEF | | PTF | DEF |
| Citizen of This State | <input type="checkbox"/> 1 | <input type="checkbox"/> 1 | Incorporated or Principal Place of Business in This State | <input type="checkbox"/> 4 | <input type="checkbox"/> 4 |
| Citizen of Another State | <input type="checkbox"/> 2 | <input type="checkbox"/> 2 | Incorporated and Principal Place of Business in Another State | <input type="checkbox"/> 5 | <input type="checkbox"/> 5 |
| Citizen or Subject of a Foreign Country | <input type="checkbox"/> 3 | <input type="checkbox"/> 3 | Foreign Nation | <input type="checkbox"/> 6 | <input type="checkbox"/> 6 |

IV. CAUSE OF ACTION (CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE A BRIEF STATEMENT OF CAUSE)

DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY)
VIOLATION OF THE COMMISSION'S ORDER AND ASSOCIATION WITH AN INVESTMENT ADVISER WHILE SUBJECT TO A BAR ORDER IN VIOLATION OF SECTIONS 203(f) & 209(d) OF THE ADVISERS ACT AND SECTION 42(d) OF THE INVESTMENT COMPANY ACT.

15:78 *jm*

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

CONTRACT	TORTS	FORFEITURE/PENALTY	BANKRUPTCY	OTHER STATUTES
<input type="checkbox"/> 110 Insurance <input type="checkbox"/> 120 Marine <input type="checkbox"/> 130 Miller Act <input type="checkbox"/> 140 Negotiable Instrument <input type="checkbox"/> 150 Recovery of Overpayment & Enforcement of Judgment <input type="checkbox"/> 151 Medicare Act <input type="checkbox"/> 152 Recovery of Defaulted Student Loans (Excl. Veterans) <input type="checkbox"/> 153 Recovery of Overpayment of Veteran's Benefits <input type="checkbox"/> 160 Stockholders' Suits <input type="checkbox"/> 180 Other Contract <input type="checkbox"/> 195 Contract Product Liability	PERSONAL INJURY <input type="checkbox"/> 310 Airplane <input type="checkbox"/> 315 Airplane Product Liability <input type="checkbox"/> 320 Assault, Libel & Slander <input type="checkbox"/> 330 Federal Employers' Liability <input type="checkbox"/> 340 Marine <input type="checkbox"/> 345 Marine Product Liability <input type="checkbox"/> 350 Motor Vehicle <input type="checkbox"/> 355 Motor Vehicle Product Liability <input type="checkbox"/> 360 Other Personal Injury PERSONAL INJURY <input type="checkbox"/> 362 Personal Injury - Med Malpractice <input type="checkbox"/> 365 Personal Injury - Product Liability <input type="checkbox"/> 368 Asbestos Personal Injury Product Liability PERSONAL PROPERTY <input type="checkbox"/> 370 Other Fraud <input type="checkbox"/> 371 Truth in Lending <input type="checkbox"/> 380 Other Personal Property Damage <input type="checkbox"/> 385 Property Damage Product Liability	<input type="checkbox"/> 610 Agriculture <input type="checkbox"/> 620 Other Food & Drug <input type="checkbox"/> 625 Drug Related Seizure of Property 21 USC 881 <input type="checkbox"/> 630 Liquor Laws <input type="checkbox"/> 640 R.R. & Truck <input type="checkbox"/> 650 Airline Regs <input type="checkbox"/> 660 Occupational Safety/Health <input type="checkbox"/> 690 Other LABOR <input type="checkbox"/> 710 Fair Labor Standards Act <input type="checkbox"/> 720 Labor/Mgmt. Relations <input type="checkbox"/> 730 Labor/Mgmt. Reporting & Disclosure Act <input type="checkbox"/> 740 Railway Labor Act <input type="checkbox"/> 790 Other Labor Litigation <input type="checkbox"/> 791 Empl. Ret. Inc. Security Act	<input type="checkbox"/> 422 Appeal 28 USC 158 <input type="checkbox"/> 423 Withdrawal 28 USC 157 PROPERTY RIGHTS <input type="checkbox"/> 820 Copyrights <input type="checkbox"/> 830 Patent <input type="checkbox"/> 840 Trademark SOCIAL SECURITY <input type="checkbox"/> 861 HIA (1395f) <input type="checkbox"/> 862 Black Lung (923) <input type="checkbox"/> 863 D/WC/D/WW (405(g)) <input type="checkbox"/> 864 SSID Title XVI <input type="checkbox"/> 865 RSI (405(g)) FEDERAL TAX SUITS <input type="checkbox"/> 870 Taxes (U.S. Plaintiff or Defendant) <input type="checkbox"/> 871 IRS - Third Party 26 USC 7609	<input type="checkbox"/> 400 State Reapportionment <input type="checkbox"/> 410 Antitrust <input type="checkbox"/> 430 Banks and Banking <input type="checkbox"/> 450 Commerce/ICC Rates/etc. <input type="checkbox"/> 460 Deportation <input type="checkbox"/> 470 Racketeer Influenced and Corrupt Organizations <input type="checkbox"/> 810 Selective Service <input checked="" type="checkbox"/> 850 Securities/Commodities/Exchange <input type="checkbox"/> 875 Customer Challenge 12 USC 3410 <input type="checkbox"/> 891 Agricultural Acts <input type="checkbox"/> 892 Economic Stabilization Act <input type="checkbox"/> 893 Environmental Matters <input type="checkbox"/> 894 Energy Allocation Act <input type="checkbox"/> 895 Freedom of Information Act <input type="checkbox"/> 900 Appeal of Fee Determination Under Equal Access to Justice <input type="checkbox"/> 950 Constitutionality of State Statutes <input type="checkbox"/> 890 Other Statutory Actions
REAL PROPERTY	CIVIL RIGHTS	PRISONER PETITIONS		
<input type="checkbox"/> 210 Land Condemnation <input type="checkbox"/> 220 Foreclosure <input type="checkbox"/> 230 Rent Lease & Ejectment <input type="checkbox"/> 240 Torts to Land <input type="checkbox"/> 245 Tort Product Liability <input type="checkbox"/> 290 All Other Real Property	<input type="checkbox"/> 441 Voting <input type="checkbox"/> 442 Employment <input type="checkbox"/> 443 Housing/Accommodations <input type="checkbox"/> 444 Welfare <input type="checkbox"/> 440 Other Civil Rights	<input type="checkbox"/> 510 Motions to Vacate Sentence Habeas Corpus <input type="checkbox"/> 530 General <input type="checkbox"/> 535 Death Penalty <input type="checkbox"/> 540 Mandamus & Other <input type="checkbox"/> 550 Other		

VI. ORIGIN (PLACE AN X IN ONE BOX ONLY)

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

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) IF ANY (See instructions):

JUDGE _____ DOCKET NUMBER _____

DATE SIGNATURE OF ATTORNEY OF RECORD

12 September 27, 1999

ANDREW G. PETILLON
Andrew G. Petillon

UNITED STATES DISTRICT COURT

23149 150 - *jm*