

**UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF WISCONSIN**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

Civil File No. 2:13-cv-01151

MICHAEL R. ENEA,

Defendant.

COMPLAINT

Plaintiff Securities and Exchange Commission (“Commission”) alleges the following against Defendant Michael R. Enea (“Enea” or “Defendant”).

1. From at least July 2006 through May 2013, Enea operated a Ponzi scheme through the fraudulent and unregistered offer and sale of securities totaling approximately \$2.1 million to 18 investors.

2. Enea offered the investors the opportunity to invest in “credit card portfolios.” According to Enea, credit card portfolios consist of a group of retail merchants who pay fees to a third party credit card processor each time one of the merchants’ customers makes a credit card transaction.

3. Enea told investors that by purchasing a credit card portfolio from a credit card processor, the investor would receive monthly or quarterly payments, known as “residuals.” The

residuals would be generated by the payment of the transaction fees by the merchants to the credit card processors.

4. Enea's representations to investors were false. In reality, Enea never purchased any credit card portfolios and so there were no residuals. Enea's investment offering was a sham.

5. Enea used approximately \$1.35 million of the investors' funds to make Ponzi payments to earlier investors. By doing so, Enea was able to keep his scheme going – he attracted new investors as well as multiple investments from some of the same investors.

6. Enea used the remaining \$763,803 of the investors' funds to pay his personal and business expenses.

7. Virtually all of the investors' funds are gone.

DEFENDANT

8. **Michael R. Enea**, age 58, is a resident of Menomonee Falls, Wisconsin. He is the sole owner and president of Credit Card Equipment Plus, Inc. ("CC Equipment). He used CC Equipment to offer and sell securities to investors. CC Equipment was administratively dissolved by the State of Wisconsin in August 2011, apparently because it did not pay the annual renewal fees. At the time of Enea's securities sales, he was not registered as a broker or dealer with the Commission and was not associated with a registered broker or dealer.

JURISDICTION

9. This Court has jurisdiction over this action pursuant to Sections 20(b) and 22(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77t(b), 77v(a)], and Sections 21(d), 21(e) and 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u(d)-(e), 78aa].

10. This is an appropriate venue under 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]. The acts, transactions, practices, and courses of business constituting the violations alleged herein occurred within the jurisdiction of the United States District Court for the Eastern District of Wisconsin and elsewhere.

11. Defendants, directly and indirectly, have made, and are making, use of the means and instrumentalities of interstate commerce, the means and instruments of transportation and communication in interstate commerce, and the mails, in connection with the acts, transactions, practices, and courses of business alleged herein.

FACTS

Background

12. Since the 1990s, Enea has operated a business providing local retail merchants with services related to the credit card machines they use to conduct customer transactions. As Enea explained to investors, when retail merchants accept credit card payments from customers, those payments are processed for a small fee by intermediate companies generally known as credit card processors. Processors often sell their services to merchants through independent sales agents. Enea was one such sales agent.

13. Enea further explained to investors that the credit card processing company shared, with the sales agents, the fees earned from the merchants' credit card transactions. These fees are known as "residuals." The group of merchants enrolled with a particular processor or sales agent is referred to as a "credit card portfolio."

14. In approximately 2006, Enea decided that he wanted to increase his income by purchasing credit card portfolios. However, as Enea told some of the investors, he did not have

enough of his own money to buy portfolios. So Enea began to raise funds by offering investors the opportunity to partner with him in the purchase credit card portfolios. Enea told investors that purchasing a portfolio would entitle the investor to a share of the residuals.

15. Enea solicited investments from friends or business associates, many of them small business owners. Many of the prospective investors lived and worked near Enea.

Enea's Investment Offering

16. From at least July 2006 through May 2013, Enea raised \$2.1 million through the offer and sale of securities – in the form of limited partnership interests – to 18 investors residing in Wisconsin, Illinois, Pennsylvania, and other locations.

17. None of the investors were accredited investors. Enea did not provide these unaccredited investors with any financial information for his investment offering or for the purported credit card portfolios.

18. Enea entered into a separate partnership with each investor for the purpose of purchasing a credit card portfolio. Enea told investors that they would be pooling their funds with Enea's funds and that they would receive a share of the residuals generated from the credit card portfolio.

19. The investors relied on Enea to choose which credit card portfolio in which to invest, to purchase the portfolio, to monitor the payment of residuals, and to pay each investor his or her share of residuals. The investors' role in the partnership was to contribute money – and nothing more. They were to act as limited partners.

20. In a few instances, Enea showed the investor a document that listed numerous purported credit card portfolios that were available for investment.

21. Enea made several representations to prospective investors to entice them to invest in credit card portfolios, including the following:

A. Enea explained to investors that credit card portfolios become available for purchase because some credit card processors want to raise immediate cash;

B. Enea told at least one investor that a license is required to purchase credit card portfolios, and that Enea had such a license;

C. Enea told investors that credit card portfolios generate a fixed monthly or quarterly income stream in the form of the residuals paid by merchants to the credit card processors;

D. Enea represented that he was purchasing the portfolios for a set term, usually 24, 36, or 48 months, similar to a lease arrangement. Enea further represented to investors that every month or quarter the credit card processor would pay the residuals to the partnership of Enea and the investor;

E. Enea told investors that they could earn a better return with the portfolios than with other investment vehicles, and that there was very little risk of losses by investing in credit card portfolios; and

F. Enea told the investors that the annual returns that Enea promised to pay to the partnerships ranged from 20 to 50 percent. Enea told investors that he would pay them their share of the residuals, which was in proportion to the percentage of their original investment.

22. When an individual decided to invest in a credit card portfolio, Enea prepared a partnership agreement which named the investor and Enea as partners. Both Enea and the investor signed the agreement.

23. The partnership agreement also listed the specific credit card portfolio to be purchased, the amount of the residuals to be paid out to Enea and to the investor on a monthly or quarterly basis, and the length of the partnership.

24. After investors executed the partnership agreement and gave Enea their investment principal, Enea began paying them their purported monthly or quarterly residuals from Enea.

25. Enea sent periodic reports to each investor purportedly showing the amount of each credit card portfolio investment and the amount of each monthly or quarterly residual paid to the investor.

26. Neither Enea nor his investment offering was registered with the Commission.

Enea's Misrepresentations to Investors

27. Enea never purchased any credit card portfolios and instead ran a Ponzi scheme.

28. Enea used investor funds to pay previous investors and to pay his personal and business expenses. Enea falsely represented to at least one investor that he possessed a license that permitted him to trade in credit card portfolios, and that the investor would not be permitted to purchase a portfolio without Enea.

29. Enea's list of purported credit card portfolios he showed to some investors was fake because there were no such portfolios. Enea concocted this list himself. To make the fake list look real, Enea copied the logos of VISA and MasterCard on the list.

30. The periodic reports that Enea gave to investors were also fabricated because he never purchased any credit card portfolios and, therefore, did not receive any residuals.

31. Enea did not tell investors any of these facts.

Enea's Misuse of Funds

32. Enea pooled all the funds he received from investors in bank accounts that he alone controlled.

33. Through the fraudulent sale of investments in credit card portfolios, Enea received approximately \$2.1 million from investors. Enea used \$1.35 million to pay purported residuals to previous investors. By doing so, Enea was able to keep his scheme going. He attracted new investors as well as multiple investments from some of the same investors.

34. Enea used the remaining funds for personal and business expenses. Some of those expenses included: \$66,390 for the purchase of a hunting lodge and hunting expenses; \$64,142 for mortgage payments on his personal residence and for utilities, furniture, and other household expenses; \$55,029 for the purchase of automobiles and automobile expenses; \$26,146 for entertainment expenses, including a social club membership and dance lessons; \$28,772 to pay personal credit card bills; \$22,045 for legal and accounting services; and \$21,407 for office rent.

35. Virtually all of the investor funds have been dissipated.

COUNT I

Violations of Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and (c)]

36. Paragraphs 1 through 35 above are re-alleged and incorporated herein by reference.

37. By his conduct as alleged above, Enea 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 in the form of limited partnership interests 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.

38. No valid registration statement was filed or was in effect with the Commission in connection with Enea's offer and sale of securities.

39. By reason of the foregoing, Enea violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. § 77e(a) and (c)].

COUNT II

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

40. Paragraphs 1 through 35 above are re-alleged and incorporated herein by reference.

41. By his conduct as alleged above, Enea, in the offer or sale of securities in the form of limited partnership interests, by the use of any means or instruments of transportation or communication in interstate commerce and by the use of the mails, directly or indirectly, has employed devices, schemes or artifices to defraud.

42. Enea acted with scienter.

43. By reason of the foregoing, Enea violated Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT III

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)]

44. Paragraphs 1 through 35 above are re-alleged and incorporated herein by reference.

45. By his conduct as alleged above, Enea, in the offer or sale of securities in the form of limited partnership interests, by the use of the means or instruments of transportation and communication in interstate commerce and by the use of the mails, directly or indirectly, has obtained money or property by means of untrue statements of material fact or 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; or have engaged in transactions, practices or courses of business which have operated as a fraud or deceit upon purchasers of these securities.

46. By reason of the foregoing, Enea violated Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)].

COUNT IV

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]

47. Paragraphs 1 through 35 above are re-alleged and incorporated herein by reference.

48. By his conduct as alleged above, Enea, in connection with the purchase or sale of securities in the form of limited partnership interests, by the use of the means or instrumentalities of interstate commerce or by the use of the mails, directly or indirectly: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material fact and omitted 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) engaged in acts, practices, or courses of business which operated as a fraud or deceit upon other persons, including purchasers and sellers of such securities.

49. Enea acted with scienter.

50. By reason of the foregoing, Enea 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 V

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

51. Paragraphs 1 through 35 are re-alleged and incorporated by reference as though fully set forth herein.

52. By his conduct as alleged above, Enea was in the business of effecting transactions in securities, in the form of limited partnership interests, for the accounts of others.

53. Enea was making use of the mails and the means and instrumentalities of interstate commerce to effect transactions in and to induce or attempt to induce the purchase of securities in the form of limited partnership interests.

54. By his conduct alleged as above, Enea acted as a broker but was not registered with the Commission as a broker, as required by Section 15(b) of the Exchange Act [15 U.S.C. §78o(b)].

55. By reason of the foregoing, Enea violated Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)].

RELIEF REQUESTED

THEREFORE, the Commission respectfully requests that the Court enter a judgment:

- A. Making findings of fact and conclusions of law that Enea committed the alleged violations.
- B. Permanently enjoining Enea, his agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from further violations of Sections 5(a), 5(c), 17(a)(1), 17(a) (2) and 17(a) (3) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)(1), (2) and (3)]; and Sections 10(b) and 15(a) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78o(a)] and Rule 10b-5 promulgated thereunder [17 C.F.R. § 240.10b-5];
- C. Ordering Enea to disgorge his ill-gotten gains, derived directly or indirectly from the conduct complained of herein, together with prejudgment interest thereon;
- D. Ordering Enea to pay an appropriate civil monetary penalty 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)];
- E. Retaining jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and to 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 the Court; and

F. Granting such further relief as the Court may deem appropriate.

Respectfully Submitted,

DATED: October 10, 2013

s/ Jerrold H. Kohn
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