

**UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
(Orlando Division)**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

**LINDA BALLOU, RONALD WACKLER, AND
BRUCE HARLAN,**

Defendants,

) **CASE NO. 6:00-cv-00692-PCF-RAB**
)
) **COMPLAINT FOR
) INJUNCTIVE AND
) OTHER RELIEF**
)
)
)

FILED
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 CLERK U.S. DISTRICT COURT
 MIDDLE DISTRICT OF FLORIDA
 ORLANDO, FLORIDA

Plaintiff, Securities and Exchange Commission ("SEC") alleges as follows:

INTRODUCTION

1. The SEC brings this action to enjoin Defendants Linda Ballou and Ronald Wackler from violating the federal securities laws in connection with the fraudulent sale of unregistered securities issued by Sebastian International Enterprises, Inc. ("SIE"). The unregistered securities issued by SIE purported to be high-interest bearing promissory notes (the "notes"). From 1998 to August, 1999, Defendants Ballou and Wackler used material misrepresentations and omissions to sell the unregistered SIE notes to dozens of unsophisticated investors. Among other things, Ballou and Wackler knew, or were reckless in not knowing, that SIE was engaged in a massive Ponzi-like scheme. In addition, the SEC seeks to enjoin Defendant Bruce Harlan from selling unregistered securities, such as the ones issued by SIE. Collectively, Ballou, Wackler and Harlan sold at least \$2.6 million of the unregistered SIE securities.

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DEFENDANTS

2. **Linda Ballou**, age 57, resides in Rancho Mirage, California. Until July 6, 1998, Ballou was a registered representative of various broker-dealers, each of which is registered with the SEC pursuant to Section 15(b) of the Securities Exchange Act of 1934 ("Exchange Act"). At the time she sold the SIE notes, Ballou owned, and was the sole employee of, Desert Financial Group ("Desert Financial") in Palm Springs, California. Desert Financial also sold insurance and annuity products. Ballou holds a Series 6 license from the National Association of Securities Dealers.

3. **Ronald Wackler**, age 45, resides in Troy, Ohio. From July 16, 1998 to at least August 19, 1999, Wackler was a registered representative of a broker-dealer registered with the SEC pursuant to Section 15(b) of the Exchange Act. Wackler holds a Series 6 license from the National Association of Securities Dealers, and also sells insurance products.

4. **Bruce Harlan**, age 57, resides in Sharon, Connecticut. From July 16, 1997 to August 31, 1998, Harlan was a registered representative of a broker-dealer registered with the SEC. At the time he sold the SIE notes, Harlan owned, and was the sole employee of, his own insurance agency. Harlan holds Series 6 and Series 7 licenses from the NASD. Between August 1998 and July 1999, Harlan sold 29 SIE notes totaling \$1,171,144 to investors and earned approximately \$114,558 in commissions.

RELATED PARTY

5. **Sebastian International Enterprises, Inc.** was incorporated in the State of Nevada in 1978. From at least July, 1997 to August 19, 1999, SIE sold approximately \$17.7 million worth

of SIE notes to over 400 investors nationwide. SIE told the investors that it would use the proceeds from the note sales to create, produce and distribute a children's television program called Real Life 101.

PROCEDURAL BACKGROUND

6. On August 19, 1999, the SEC filed a Complaint in the U.S. District Court for the Middle District of Florida against, among others, SIE and its two owners, Ferdinand Ben Sebastian, III and Jan Sebastian. Securities and Exchange Commission v. Sebastian International Enterprises, Inc., et al., No. 99-1053-CIV-ORL-18A (hereinafter, "SEC v. Sebastian"). In SEC v. Sebastian, the SEC requested, and the Court granted, temporary and preliminary injunctive relief against all of the defendants in that case, froze their assets, and appointed a Receiver over SIE and several of its related companies. The litigation in SEC v. Sebastian is pending.

JURISDICTION AND VENUE

7. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77t(b), 77t(d) and 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), 78u(e) and 78aa.

8. Certain of the acts and transactions constituting violations of the Securities Act and the Exchange Act have occurred within the Middle District of Florida. The principal offices of SIE are located within the Southern District of Florida, and Ballou, Wackler and Harlan had numerous contacts with SIE and its employees in connection with their sales of the SIE notes.

9. Defendants, directly and indirectly, have made 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, practices, and courses of business complained of herein.

THE SIE NOTE OFFERING

10. SIE purportedly sought to capitalize on a 1997 ruling by the Federal Communications Commission ("FCC") that all television networks carry three hours of educational children's television programming every week. According to a brochure sent by SIE to its investors, the company claimed that it had developed a television program, "Real Life 101," that would enable television networks to satisfy the FCC rule. Each Real Life 101 episode purportedly featured profiles of individuals performing their jobs. SIE intended to distribute Real Life 101 to stations around the country, and to sell advertising during the program.

11. The offering materials created by SIE in connection with the note offering stated, among other things, that the company was selling "high interest promissory notes" in order to "fund the company's business." The notes purported to pay interest on the principal amount of the note of 11.25% over a nine-month term, and could be renewed an unlimited number of times.

12. The offering materials promised that "100% of [the investor's] money goes to work for [the investor]" on the day it is received by SIE, and that SIE will use the revenue generated by Real Life 101 to pay the interest and principal on the notes. The materials further stated that investors were not charged any "front or back end loads or management fees" when

they purchased or sold a note. SIE also claimed that the notes were fully bonded and insured by an off-shore insurance company, New England International Surety Co. ("New England").

13. Between at least July, 1997 and August 19, 1999, SIE raised at least \$17.7 million from the sale of SIE notes to approximately 416 investors in 18 states.

14. SIE sold the notes through a network of marketing firms and insurance sales agents. The marketing firms, located throughout the country, recruited local sales agents to solicit investors in their area to purchase SIE's notes. The sales agents were typically insurance brokers, financial advisors, and registered representatives of broker-dealers.

15. For each note they sold, the sales agents received commissions from SIE that were not disclosed to investors.

16. No registration statements were ever filed with the SEC or were otherwise in effect with respect to the notes sold by SIE and the sales agents, including Ballou, Wackler and Harlan.

THE SELLING ACTIVITIES OF BALLOU AND WACKLER

17. Between June 18, 1998 and May 1999, Ballou sold 18 notes totaling \$1,153,789 to investors, and earned \$154,994 in commissions.

18. Between November 1998 and March 1999, Wackler sold 14 SIE notes totaling \$373,083.66 to investors, and earned commissions of \$23,464.35.

19. Both Ballou and Wackler sold the SIE notes to individuals that also purchased insurance products from them. Many of these individuals were retirees who invested retirement funds in the SIE notes.

20. In the course of selling the SIE notes to investors, Ballou and Wackler made several misrepresentations or omissions, which are described below.

Misrepresentations Concerning SIE's Ability to Pay Noteholders

21. Ballou and Wackler failed to tell investors that SIE lacked the ability to pay interest and principal on the notes, and that SIE was actually conducting a Ponzi-like scheme in which it used funds from new investors to pay returns to existing investors. Ballou and Wackler failed to pass this information to investors even though they claimed that the SIE notes were a safe investment, and even though they learned of information that exposed the SIE offering as a Ponzi scheme

22. At the time that they were offering and selling the notes to investors, Ballou and Wackler either received information showing that SIE could not pay interest on the notes, or failed to verify that SIE could pay interest to the note holders. In addition, Ballou and Wackler both sold notes issued by other companies that defaulted or failed to pay investors. Ballou and Wackler never informed SIE's investors that these other, nearly identical note programs had defaulted.

Misrepresentations Regarding the Surety Bond Underlying the Notes

23. Wackler and Ballou knew, or recklessly disregarded, that SIE did not obtain surety bonds for each note it sold. At the time they began selling the notes, Ballou and Wackler each knew, or disregarded evidence, that New England had not issued insurance for all of the notes sold by SIE. Despite this knowledge, Wackler and Ballou continued to advise investors that the SIE notes were safe and insured against loss.

Undisclosed Commissions Paid to Ballou and Wackler

24. Wackler and Ballou each provided their investors with SIE offering materials that stated, in part, that the investment imposed no “front or back end loads or management fees.” Despite the clear implication that “loads” refers to commissions, Wackler and Ballou did not tell any of their clients that SIE paid commissions of 7% to 15% for each note they sold. They also failed to tell their clients that SIE paid a similar commission whenever an investor renewed a promissory note.

COUNT I

(ALL DEFENDANTS)

**SALE OF UNREGISTERED SECURITIES IN
VIOLATION OF SECTIONS 5(a) AND 5(c) OF THE SECURITIES ACT**

25. The SEC repeats and realleges all of the foregoing allegations of this Complaint.

26. No registration statement was filed or in effect with the Commission pursuant to the Securities Act with respect to the securities and transactions described herein.

27. Since a date unknown but since at least 1998 through August 19, 1999, Defendants Ballou, Wackler and Harlan, directly or indirectly:

(a) made use of the means or instruments of transportation or communication in interstate commerce or of the mails to sell securities as described herein, through the use or medium of a prospectus or otherwise;

(b) carried securities or caused such securities, as described herein, to be carried through the mails or in interstate commerce, by any means or instruments of transportation, for the purpose of sale or delivery after sale; and/or

(c) made use of the 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 any prospectus or otherwise, as described herein, without a registration statement having been filed or being in effect with the Commission as to such securities.

28. By reason of the foregoing, Defendants Ballou, Wackler and Harlan 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).

COUNT II

(BALLOU AND WACKLER)

**FRAUD IN VIOLATION OF
SECTION 17(a)(1) OF THE SECURITIES ACT**

29. The SEC repeats and realleges all of the foregoing allegations of this Complaint.

30. Since a date unknown but since at least 1998 through August 19, 1999, Defendants Ballou and Wackler, directly and indirectly, by use of the means or instruments of transportation or communication in interstate commerce and by use of the mails, in the offer or sale of securities, as described herein, knowingly, willfully or recklessly employed devices, schemes or artifices to defraud.

31. By reason of the foregoing, Defendants Ballou and Wackler, directly and indirectly, violated, and unless enjoined, will continue to violate Section 17(a)(1) of the Securities Act, 15 U.S.C. § 77q(a)(1).

COUNT III

(BALLOU AND WACKLER)

**FRAUD IN VIOLATION OF
SECTIONS 17(a)(2) AND 17(a)(3) OF THE SECURITIES ACT**

32. The SEC repeats and realleges all of the foregoing allegations of this Complaint.

33. Since a date unknown but since at least 1998 through August 19, 1999, Defendants Ballou and Wackler, directly and indirectly, by use of the means or instruments of transportation or communication in interstate commerce and by the use of the mails, in the offer or sale of securities, as described herein: (i) obtained money or property by means of untrue statements of material facts and omissions to state material facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; and (ii) engaged in transactions, practices and courses of business which operated and will operate as a fraud or deceit upon purchasers and prospective purchasers of such securities.

34. By reason of the foregoing, Defendants Ballou and Wackler, directly and indirectly, violated and, unless enjoined, will continue to violate Sections 17(a)(2) and 17(a)(3) of the Securities Act, 15 U.S.C. §§ 77(q)(a)(2) and 77(q)(a)(3).

COUNT IV

(BALLOU AND WACKLER)

**FRAUD IN VIOLATION OF
SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5**

35. The SEC repeats and realleges all of the foregoing allegations of this Complaint.

36. Since a date unknown but since at least 1998 through August 19, 1999, Defendants Ballou and Wackler, directly and indirectly, by use of the means and instrumentality of interstate commerce, and of the mails, and of any facility of any national securities exchange, in connection with the purchase or sale of the securities, as described herein, knowingly, willfully or recklessly: (i) employed devices, schemes or artifices to defraud; (ii) made untrue statements of material facts 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 (iii) engaged in acts, practices and courses of business which operated and will operate as a fraud upon the purchasers of such securities.

37. By reason of the foregoing, Defendants Ballou and Wackler, directly or indirectly, 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, 17 C.F.R. § 240. 10b-5, thereunder.

COUNT V

(ALL DEFENDANTS)

OPERATING AS AN UNREGISTERED BROKER-DEALER IN VIOLATION OF SECTION 15(a)(1) OF THE EXCHANGE ACT

38. The SEC repeats and realleges all of the foregoing allegations of this Complaint.

39. Since a date unknown but since at least 1998 through August 19, 1999, Defendants Ballou, Wackler and Harlan, directly and indirectly, by use of the means and instrumentality of interstate commerce, and of the mails, engaged in the business of effecting transactions in securities for the accounts of others and induced and effected the purchase and sale of securities

while not associated with a broker-dealer that was registered with the SEC in accordance with the provisions of Section 15(b) of the Exchange Act.

40. By reason of the foregoing, Defendants Ballou, Wackler and Harlan, directly or indirectly, violated and, unless enjoined, will continue to violate Section 15(a)(1) of the Exchange Act, 15 U.S.C. § 78o(a)(1).

RELIEF REQUESTED

WHEREFORE, the SEC respectfully requests that the Court:

I.

Declaratory Relief

Declare, determine and find that Defendants Ballou, Wackler and Harlan committed the violations of the federal securities laws alleged against them herein.

II.

Permanent Injunctive Relief

Issue a Permanent Injunction, restraining and enjoining:

(a) Defendants Ballou, Wackler and Harlan, their agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating: (1) Sections 5(a) and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c); and (2) Section 15(a)(1) of the Exchange Act, 15 U.S.C. §§ 78o(a)(1).

(b) Defendants Ballou and Wackler, their agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating: (1) Section 17(a)(1) of the Securities Act, 15 U.S.C. § 77q(a); (2) Sections 17(a)(2) and 17(a)(3)

of the Securities Act, 15 U.S.C. §§ 77(q)(a)(2) and 77(q)(a)(3); and (3) Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, thereunder.

III.

Disgorgement

Issue an Order requiring Ballou and Wackler to disgorge all profits or proceeds that they have received as a result of the acts and/or courses of conduct complained of herein, with prejudgment interest.

IV.

Penalties

Issue an Order directing Defendants Ballou, Wackler and Harlan to pay civil fines and/or penalties 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. § 78(d)(3).

V.

Further Relief

Grant such other and further relief as may be necessary and appropriate.

VI.

Retention of Jurisdiction

Further, the SEC respectfully requests that the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that may hereby be entered,

or to entertain any suitable application or motion by the SEC for additional relief within the jurisdiction of this Court.

Respectfully submitted,

May 31, 2000



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