

MAY 31 2003

CLERK, U.S. DISTRICT COURT
EASTERN DISTRICT OF CALIFORNIA

DEPUTY CLERK

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10 **UNITED STATES DISTRICT COURT**
11 **EASTERN DISTRICT OF CALIFORNIA**
12 **(SACRAMENTO DIVISION)**

13 _____)
14 **SECURITIES AND EXCHANGE COMMISSION,**) **CASE NO.**
15)
16 **Plaintiff,**) **CIV. S-00-1198 WBS GGH**
17)
18 **v.**) **COMPLAINT FOR**
19) **INJUNCTIVE AND**
20 **CLAUDE COSSU,**) **OTHER RELIEF**
21)
22 **Defendant,**)
23 _____)

24
25 Plaintiff, Securities and Exchange Commission ("SEC") alleges as follows:

26 **INTRODUCTION**

27 1. The SEC brings this action to enjoin Defendant Claude Cossu, an insurance salesman
28 and former securities broker residing in Vacaville, California, from violating the federal
29 securities laws in connection with his fraudulent sale of unregistered securities issued by
30 Sebastian International Enterprises, Inc. ("SIE"). The unregistered securities issued by SIE
31 purported to be high-interest bearing promissory notes (the "notes"). From 1998 to August,
32 1999, Defendant Cossu used material misrepresentations and omissions to sell the unregistered
33 SIE notes to dozens of unsophisticated investors. Among other things, Cossu knew, or was

1 reckless in not knowing, that SIE was engaged in a massive Ponzi-like scheme. Cossu sold at
2 least \$2.5 million of the unregistered SIE securities.

3 **DEFENDANT**

4 2. **Claude Cossu**, age 63, resides in Vacaville, Solano County, California. From
5 October 1, 1997 to November 23, 1999, Cossu was a registered representative of a broker-dealer
6 registered with the Commission pursuant to Section 15(b) of the Exchange Act. Cossu holds
7 Series 6 and Series 7 licenses from the National Association of Securities Dealers (“NASD”).
8 Between May 1998 and August 19, 1999, Cossu sold 30 SIE notes totaling \$2,515,774, and
9 earned approximately \$397,000 in commissions.

10 **RELATED PARTY**

11 3. **Sebastian International Enterprises, Inc.** was incorporated in the State of Nevada in
12 1978. From at least July, 1997 to August 19, 1999, SIE sold approximately \$17.7 million worth
13 of SIE notes to over 400 investors nationwide. SIE told the investors that it would use the
14 proceeds from the note sales to create, produce and distribute a children’s television program
15 called Real Life 101.

16 **PROCEDURAL BACKGROUND**

17 4. On August 19, 1999, the SEC filed a Complaint in the U.S. District Court for the
18 Middle District of Florida against, among others, SIE and its two owners, Ferdinand Ben
19 Sebastian, III and Jan Sebastian. **Securities and Exchange Commission v. Sebastian International**
20 **Enterprises, Inc., et al., No. 99-1053-CIV-ORL-18A** (hereinafter, “**SEC v. Sebastian**”). In **SEC**
21 **v. Sebastian**, the SEC requested, and the Court granted, temporary and preliminary injunctive

1 relief against all of the defendants in that case, froze their assets, and appointed a Receiver over
2 SIE and several of its related companies. The litigation in SEC v. Sebastian is pending.

3 **JURISDICTION**

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

8 6. Defendants, directly and indirectly, have made use of the means and instrumentalities
9 of interstate commerce, the means and instruments of transportation and communication in
10 interstate commerce, and the mails, in connection with the acts, practices, and courses of
11 business complained of herein.

12 **THE SIE NOTE OFFERING**

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

20 8. The offering materials created by SIE in connection with the note offering stated,
21 among other things, that the company was selling "high interest promissory notes" in order to

1 "fund the company's business." The notes purported to pay interest on the principal amount of
2 the note of 11.25% over a nine-month term, and could be renewed an unlimited number of times.

3 9. The offering materials promised that "100% of [the investor's] money goes to
4 work for [the investor]" on the day it is received by SIE, and that SIE will use the revenue
5 generated by Real Life 101 to pay the interest and principal on the notes. The materials further
6 stated that investors were not charged any "front or back end loads or management fees" when
7 they purchased or sold a note. SIE also claimed that the notes were fully bonded and insured by
8 an off-shore insurance company, New England International Surety Co. ("New England").

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

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

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

17 13. No registration statements were ever filed with the SEC or were otherwise in
18 effect with respect to the notes sold by SIE and Cossu.

19 **COSSU'S SELLING ACTIVITIES**

20 14. Between May 1998 and August 19, 1999, Cossu sold 30 SIE notes totaling
21 \$2,515,774, and earned approximately \$397,000 in commissions.

1 15. Cossu sold the SIE notes to individuals that also purchased insurance products
2 from him. Many of these individuals were retirees who invested retirement funds in the SIE
3 notes.

4 16. In the course of selling the SIE notes to investors, Cossu made several
5 misrepresentations or omissions, which are described below.

6 **Misrepresentations Concerning SIE's Ability to Pay Noteholders**

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

12 18. At the time that he was offering and selling the notes to investors, Cossu received
13 information showing that SIE could not pay interest on the notes. In addition, Cossu sold notes
14 issued by other companies that defaulted or failed to pay investors. Cossu never informed SIE's
15 investors that these other, nearly identical note programs had defaulted.

16 **Misrepresentations Regarding the Surety Bond Underlying the Notes**

17 19. Cossu knew, or recklessly disregarded, that SIE did not obtain surety bonds for
18 each note it sold. At the time he began selling the notes, Cossu knew, or disregarded evidence,
19 that New England had not issued insurance for all of the notes sold by SIE. Despite this
20 knowledge, Cossu continued to advise investors that the SIE notes were safe and fully insured
21 against loss.

1 **Undisclosed Commissions Received by Cossu**

2 20. Cossu provided their investors with SIE offering materials that stated, in part, that
3 "100% of [the investor's] money goes to work for [the investor]" on the day it is received by
4 SIE, and that the investment imposed no "front or back end loads or management fees." Despite
5 these representations in the offering materials, the sales agents that sold the notes, including
6 Cossu, received commissions from SIE that amounted to 7% to 15% for each note he sold.
7 Cossu and the other sales agents also received an additional commission when investors renewed
8 their notes at the end of each nine month term. However, Cossu failed to tell his clients that SIE
9 paid these commissions, and that, in fact, far less than "100%" of the investors' funds were
10 devoted to SIE's business.

11 **COUNT I**

12 **SALE OF UNREGISTERED SECURITIES IN**

13 **VIOLATION OF SECTIONS 5(a) AND 5(c) OF THE SECURITIES ACT**

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

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

17 23. Since a date unknown but since at least 1998 through August 19, 1999, Defendant
18 Cossu, directly or indirectly:

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

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

4 (c) made use of the means or instruments of transportation or communication in
5 interstate commerce or of the mails to offer to sell or offer to buy through the use or
6 medium of any prospectus or otherwise, as described herein,
7 without a registration statement having been filed or being in effect with the Commission as to
8 such securities.

9 24. By reason of the foregoing, Defendant Cossu violated, and unless enjoined, will
10 continue to violate Sections 5(a) and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c).

11 **COUNT II**

12 **FRAUD IN VIOLATION OF**

13 **SECTION 17(a)(1) OF THE SECURITIES ACT**

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

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

1 27. By reason of the foregoing, Defendant Cossu, directly and indirectly, violated, and
2 unless enjoined, will continue to violate Section 17(a)(1) of the Securities Act, 15 U.S.C. §
3 77q(a)(1).

4 **COUNT III**
5 **FRAUD IN VIOLATION OF**
6 **SECTIONS 17(a)(2) AND 17(a)(3) OF THE SECURITIES ACT**

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

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

16 30. By reason of the foregoing, Defendant Cossu, directly and indirectly, violated and,
17 unless enjoined, will continue to violate Sections 17(a)(2) and 17(a)(3) of the Securities Act, 15
18 U.S.C. §§ 77(q)(a)(2) and 77(q)(a)(3).

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COUNT IV

FRAUD IN VIOLATION OF

SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5

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

32. Since a date unknown but since at least 1998 through August 19, 1999, Defendant Cossu, 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.

33. By reason of the foregoing, Defendant Cossu, 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

OPERATING AS AN UNREGISTERED BROKER-DEALER

IN VIOLATION OF SECTION 15(a)(1) OF THE EXCHANGE ACT

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

1 35. Since a date unknown but since at least 1998 through August 19, 1999, Defendant
2 Cossu, directly and indirectly, by use of the means and instrumentality of interstate commerce,
3 and of the mails, engaged in the business of effecting transactions in securities for the accounts
4 of others and induced and effected the purchase and sale of securities while not associated with a
5 broker-dealer that was registered with the SEC in accordance with the provisions of Section
6 15(b) of the Exchange Act.

7 36. By reason of the foregoing, Defendant Cossu, directly or indirectly, violated and,
8 unless enjoined, will continue to violate Section 15(a)(1) of the Exchange Act, 15 U.S.C. §
9 78o(a)(1).

10 **RELIEF REQUESTED**

11 **WHEREFORE**, the SEC respectfully requests that the Court:

12 **I.**

13 **Declaratory Relief**

14 Declare, determine and find that Defendant Cossu committed the violations of the federal
15 securities laws alleged against him herein.

16 **II.**

17 **Permanent Injunctive Relief**

18 Issue a Permanent Injunction, restraining and enjoining Defendant Cossu, his agents,
19 servants, employees, attorneys, and all persons in active concert or participation with him, from
20 violating: (1) Sections 5(a) and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c); (2)
21 Section 17(a)(1) of the Securities Act, 15 U.S.C. § 77q(a); (3) Sections 17(a)(2) and 17(a)(3) of

1 the Securities Act, 15 U.S.C. §§ 77(q)(a)(2) and 77(q)(a)(3); (4) Section 10(b) of the Exchange
2 Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, thereunder; and (5) Section
3 15(a)(1) of the Exchange Act, 15 U.S.C. §§ 78o(a)(1).

4 **III.**

5 **Disgorgement**

6 Issue an Order requiring Cossu to disgorge all profits or proceeds that he has received as
7 a result of the acts and/or courses of conduct complained of herein, with prejudgment interest.

8 **IV.**

9 **Penalties**

10 Issue an Order directing Defendant Cossu to pay civil fines and/or penalties pursuant to
11 Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d) and Section 21(d) of the Exchange Act, 15
12 U.S.C. § 78(d)(3).

13 **V.**

14 **Further Relief**

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

16 **VI.**

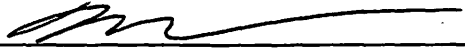
17 **Retention of Jurisdiction**

18 Further, the SEC respectfully requests that the Court retain jurisdiction over this action in
19 order to implement and carry out the terms of all orders and decrees that may hereby be entered,
20

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

3 Respectfully submitted,

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6 May 31, 2000


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8 Regional Trial Counsel
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10
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12 Branch Chief
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