UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. STEVEN PALLADINO and VIKING FINANCIAL GROUP, INC., Defendants.	Civil Action No. JURY TRIAL DEMANDED FILED UNDER SEAL

COMPLAINT

Plaintiff Securities and Exchange Commission (the "Commission") alleges the following against Steven Palladino ("Palladino") and Viking Financial Group, Inc. ("Viking") (collectively, "Defendants"):

SUMMARY

1. This case involves the misappropriation and misuse of investor assets by Palladino and his company Viking, a purported equity-based lender in the business of making loans to third parties. Defendants employed a fraudulent scheme, and made and used false and misleading statements, in connection with the offer and sale of Viking securities. In total, the scheme raised as much as $5.5 million from approximately 30 investors from as early as April 2011 to the present (the "Relevant Period").

2. In connection with this scheme to defraud, Defendants issued investors securities in the form of promissory notes and promised investors (1) that they would use money invested with Viking to make short-term, high interest loans to developers and small businesses unable to obtain traditional financing; (2) that loans made by Viking would be secured by first interest liens on non-primary residence properties; and (3) that investors would be paid back their principal,

plus monthly interest at rates generally ranging from 7-15%, from payments made by borrowers on the loans.

3. In truth, Defendants made very few real loans to borrowers, and instead used investors' funds largely to make payments to earlier investors and to pay for the Palladino family's substantial personal expenses, including cash withdrawals and hundreds of thousands of dollars spent on gambling excursions, vacations, luxury vehicles and tuition – conducting what is known as a Ponzi scheme.

4. Thus, Defendants misrepresented, among other things, the nature of Viking's business; the use of investor funds; the existence and secured nature of loans purportedly made to Viking borrowers; and the purportedly high demand for loans that Viking was experiencing.

5. Defendants were able to keep the scheme going as long as most of the investors rolled over the principal and accrued interest from older promissory notes into new notes. In March 2013, however, Viking, Steven Palladino and his wife Lori Palladino were indicted by the Suffolk County (Massachusetts) District Attorney's Office on numerous criminal charges related to their purported lending business. Steven Palladino was also charged as an open and notorious thief based on his lengthy criminal record, spanning almost two decades. Thereafter, investors began to demand repayment on the Viking notes and Defendants started to miss monthly "interest" payments to investors.

6. By engaging in the conduct alleged herein, Defendants violated various provisions of Section 17(a) of the Securities Act of 1933 (the "Securities Act"); and Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 thereunder.

7. Based on these violations, the Commission seeks: (1) entry of a temporary restraining order, preliminary injunction, order freezing assets, repatriation order, accounting

and order for other equitable relief in the form submitted with the Commission's motion for such relief; (2) entry of a permanent injunction prohibiting Defendants from further violations of the relevant provisions of the federal securities laws; (3) disgorgement of Defendants' ill-gotten gains, plus pre-judgment interest; and (4) the imposition of civil monetary penalties based on the egregious nature of Defendants' violations.

JURISDICTION AND VENUE

8. The Commission brings this action pursuant to the enforcement authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. §77t(b)] and Section 21(d) of the Exchange Act [15 U.S.C. §§78u(d)]. This Court has jurisdiction over this action pursuant to 28 U.S.C. §1331, Section 22(a) of the Securities Act [15 U.S.C. §77v(a)], and Sections 21(d) and (e) and 27 of the Exchange Act [15 U.S.C. §§78u(e) and 78aa].

9. Venue is proper in this district pursuant to 28 U.S.C. §1391(b)(2), 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] because a substantial part of the acts constituting the alleged violations occurred in the District of Massachusetts and because Palladino is a Massachusetts resident and Viking is headquartered and incorporated in Massachusetts.

10. In connection with the conduct alleged in this Complaint, Defendants directly or indirectly made use of the means or instruments of transportation or communication in interstate commerce, the facilities of a national securities exchange, or the mails.

11. Defendants' conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss, or significant risk of substantial loss, to other persons.

12. Unless enjoined, Defendants will continue to engage in the securities law violations alleged herein, or in similar conduct that would violate the federal securities laws.

DEFENDANTS

13. Steven Palladino, age 55, is a resident of West Roxbury, Massachusetts. During the Relevant Period, he has variously identified himself as Owner, President and Vice President of Viking. From August 17, 1992 to November 28, 1994, Palladino was a registered representative associated with a broker-dealer that was regulated by the National Association of Securities Dealers ("NASD"), now the Financial Industry Regulatory Authority ("FINRA"). On November 28, 1994, he was censured, fined $50,000 and barred from association with any NASD/FINRA member in any capacity based on charges he misappropriated and withheld customer funds for his own use while employed by a brokerage firm in Braintree, Massachusetts. Palladino was also criminally charged in connection with that matter and has an extensive criminal history of larceny-type offenses, with criminal convictions spanning from at least 1995 to March 2007.

14. Viking is a Massachusetts corporation with its principal place of business at 40 Lyall Street, West Roxbury, Massachusetts. Neither Viking nor its securities has ever been registered with the Commission. Viking was incorporated in Massachusetts in May 2007. At all relevant times, Palladino has exercised control over Viking and has run all aspects of the business, including soliciting investments, communicating with investors and distributing notes and payments to investors. Steven Palladino, Lori Palladino, and their son Gregory Palladino were the sole employees of Viking during the Relevant Period.

FACTUAL ALLEGATIONS

A. Defendants Made Repeated Misrepresentations to Investors Regarding Viking's Business and the Use of Their Investment Funds.

15. Since as early as 2007 and throughout the Relevant Period, Defendants solicited investors to invest in Viking promissory notes. In soliciting investments, Defendants repeatedly

represented to investors that their funds would be used exclusively to make loans to Viking's borrowers, that all of Viking's loans to those borrowers were secured by first interest liens on non-primary residence properties, and that Viking generated revenues by charging borrowers interest at rates higher than the rates that Viking paid to its investors. In certain instances, Defendants attempted to induce further investments by representing that Viking had more borrowers seeking loans than it had funds to loan or that specific borrowers were seeking very large loans for which Viking did not have sufficient funds.

16. Defendants typically issued securities in the form of one-year promissory notes signed by Palladino to Viking investors in return for their investments. The notes generally specified that investors would be repaid their principal, plus interest at a rate ranging from 7-15%. Investors regularly rolled over the principal and accrued interest from older promissory notes into new notes, particularly when additional funds were invested by the investor. In some instances, apparently to induce further investments, the new notes paid investors a slightly higher interest rate than the original notes and applied the new rate to the total amount invested.

17. In October 2012, Defendants provided at least one investor with a company prospectus that represented: Viking "is an asset-based private lending company" that "makes short-term loans to developers and small businesses in Massachusetts, Rhode Island, New Hampshire and New York." The prospectus further represented that: (i) loans would be "for a period of up to one-year;" (ii) loans were "secured by the underlying asset value;" (iii) Viking had "$11 million in outstanding loans backed by $25 million in assets (primarily real estate);" (iv) "[Viking] adheres to a strict loan to value ratio of 50%;" (v) "[Viking] will only lend up to 50% of the asset value and is always the first lien holder on the underlying asset;" and (vi) "loans are made at high interest rates for short durations." Finally, the prospectus represented that, since Viking's formation, there had not been a single loan in default.

18. Pursuant to the Viking notes, Defendants paid investors what they represented to be "interest" payments on a monthly basis at the beginning of each month, in either cash or check, or some combination thereof. Defendants represented that these monthly payments were generated by the repayment of loans by Viking's borrowers.

19. While Defendants appear to have made some actual loans to third party borrowers from 2007 to 2011, this business activity dropped off almost completely by April 2011. From April 2011 to March 2013, Viking made very few actual loans and most investor money was used for purposes other than making loans to Viking borrowers.

20. From April 2011 to December 2012, Defendants used the following bank accounts for Viking business:

a. Eastern Bank account ending in 4578 in the names of Viking and Lori J. Palladino, opened in April 2011 and closed in December 2012 ("Eastern Bank account 4578");

b. Eastern Bank account ending in 4594 in the names of Viking and Lori J. Palladino, opened in April 2011 and closed in December 2012 ("Eastern Bank account 4594");

c. Eastern Bank account ending in 8028 in the names of Steven and Gregory Palladino, opened in May 2011 and closed in December 2012 (Eastern Bank account 8028").

21. On or about December 6, 2012, the Boston Police Department executed a search warrant and seized approximately $613,000 from Eastern Bank accounts 4578 and 8028 as evidence of the criminal offenses that Defendants and Lori Palladino are alleged to have committed. By December 17, 2012, all the money in the three Eastern Bank accounts listed above had been spent by Defendants or seized.

22. Defendants opened the following two new accounts in the names of Viking and S&L Palladino, LLC on or about December 5, 2012 and December 15, 2012, respectively:

a. Mt. Washington Bank account ending in 1727 in the name of S&L Palladino, LLC, opened in December 2012 and closed in March 2013 ("Mt. Washington Bank account 1727"); and

b. Mount Washington Bank account ending in 4543 in the name of Viking, opened in December 2012 ("Mt. Washington Bank account 4543").

All of the funds deposited into these two accounts were spent by Defendants by March 31, 2013.

23. From April 26, 2011 to March 31, 2013, approximately $8 million total was deposited into the five Eastern Bank and Mt. Washington Bank accounts listed above. These five bank accounts were the only accounts used by Viking for its business during this period.

24. Approximately $5.5 million (or roughly 69%) of the $8 million in deposits came from Viking investors, while bank records for the five Eastern Bank and Mt. Washington accounts demonstrate that only approximately $339,000 (or roughly 4%) came from apparent loan repayments by Viking borrowers.

25. In addition, only approximately $276,000 (or roughly 3%) of the total withdrawals from the five accounts went to individuals and entities that are Viking borrowers. Thus, although investors provided 69% of the funds deposited into these accounts, Defendants used only 3% of the withdrawals to fund loans to Viking borrowers. The records for these accounts also demonstrate that Defendants diverted a substantial portion of investor funds to make Ponzi-type payments to other investors (about $1.4 million) and to pay for the Palladino family's extensive personal expenditures (over $1.9 million), including cash withdrawals and hundreds of thousands of dollars spent on gambling excursions, vacations, luxury vehicles and tuition.

26. Bank records for the Mt. Washington Bank accounts opened in December 2012 also provide clear examples of large sums of investor money coming into these accounts and then being diverted shortly thereafter by Defendants for uses other than making loans. For example:

a. On or about December 12, 2012, an investor made an investment in the form of a check for $150,000 that was deposited into the

Mt. Washington Bank account 4543 (held in the name of Viking). Prior to this deposit, the account had a balance of about $4,849.44. Thereafter, between December 12, 2012 and December 14, 2012, about $111,916 of the balance in the account was paid directly to other Viking investors.

b. On or about December 19, 2012, another investor made an investment in the form of a check for $500,000 that was deposited into the Mt. Washington Bank account 1727 (held in the name of S&L Palladino, LLC). Prior to this deposit, the account had a balance of $22,000. Thereafter, on December 21, 2012, $300,000 was withdrawn by means of a bank check made personally payable to Steven Palladino. None of the remaining funds were used to make loans to borrowers.

c. On or about December 31, 2012, another investor made an investment in the form of a check for $170,000 that was deposited into the Mt. Washington Bank account 4543 (held in the name of Viking). Prior to this deposit, the account had a balance of about $49,127. Between December 31, 2012 and January 8, 2013, the account had additional inflows totaling about $2,886 from borrowers. Thereafter, between December 31, 2012 and January 9, 2013, about $213,024 was withdrawn from the account. Approximately $128,000 went to investors, $80,000 was withdrawn in cash, and the remainder was spent on health insurance, utilities and a car payment.

Thus, Defendants used investor funds to pay other Viking investors, to provide cash to Palladino and to pay for the Palladino family's personal expenses, rather than to make loans to borrowers.

27. Finally, bank records show that Defendants engaged in several sham check transactions in two of the Eastern Bank accounts for the apparent purpose of transferring funds from a Viking business account to a joint personal account held in the names of Steven and Gregory Palladino. Specifically, $752,000 was moved from Eastern Bank account 4578 (in the names of Viking and Lori Palladino) to Eastern Bank account 8026 (in the names of Steven and Gregory Palladino). This money was transferred via five checks from Eastern Bank account 4578 written out to four different Viking investors (or individuals related to Viking investors).

28. Each of these checks appears to be endorsed by the payee named on the front of the check. On each of these checks, there is another endorsement that states, "Pay to the Order of Steven Palladino," underneath the first endorsement. In addition, each of these checks was deposited into Eastern Bank account 8026 on the same dates that they were drawn against Eastern Bank account 4578. On information and belief, investors did not actually endorse those checks. Thus, Defendants used the checks as a means to transfer funds, including investor funds, from the Viking business account to the joint personal account held in the names of Steven and Gregory Palladino.

29. In total, the scheme described herein raised as much as $5.5 million from approximately 30 investors during the Relevant Period. Viking investors were never told that their investments would be used for any purpose other than to make loans to Viking borrowers and never gave Defendants authority to use the funds in any other way.

B. Defendants' Scheme Unravels When Defendants Are Indicted.

30. Until recently, most Viking investors rolled over their principal and accrued interest into new Viking promissory notes on a regular basis. Because Viking kept recruiting new investors, in those few instances in which investors requested repayment of their principal or interest, Viking paid them using funds obtained from other investors.

31. In March 2013, the Suffolk County District Attorney's Office indicted Defendants and Lori Palladino on numerous criminal charges, including larceny offenses, uttering (based on allegations that they forged investors' names on checks apparently to move large sums of money from Viking accounts to the joint account in the name of Steven and Gregory Palladino) and tampering with evidence (based on allegations that they removed and concealed a computer that had been located at Viking's offices and a device that stored video images generated by the Palladinos' home surveillance system). Palladino was also charged as an open and notorious

thief based on his substantial history of larceny-type criminal convictions.

32. In April 2013, Viking began failing to make its monthly "interest" payments to its investors for the first time. On or about April 1, 2013, Palladino reported to investors that he would be delayed in paying on the outstanding notes purportedly because the authorities had frozen Viking's bank accounts. Since the criminal matter became known to investors, both prior to and after April 1, 2013, certain investors requested to have their principal returned to them and Viking has refused such requests. Since April 1, 2013, Defendants have attempted to liquidate assets, including real property, apparently in an effort to make some payments to investors.

33. After April 1, 2013, Defendants made monthly "interest" payments due on Viking notes to certain investors, sometimes in cash, but have refused to pay other investors. To date, a number of investors have not been paid monthly payments that were due on April 1, 2013. The next monthly interest payment to Viking investors is due on May 1, 2013.

34. Although Defendants' accounts currently contain an insignificant amount of money, Defendants continue to represent to certain Viking investors that their investments are safe, that there are sufficient loans in place to back the investors' funds and that any delayed investor payments will be made in the near future.

First Claim for Relief
(Violation of Section 10(b) Exchange Act and Rule 10b-5 Against Defendants)

35. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 34 above as if set forth fully herein.

36. Defendants, directly or indirectly, acting intentionally, knowingly or recklessly, in connection with the purchase or sale of securities, by use of the means or instrumentalities of interstate commerce or the facilities of a national securities exchange or the mail: (a) have employed or are employing devices, schemes, or artifices to defraud; (b)

have made or are making untrue statements of material fact or have omitted or are omitting to state material facts necessary to make the statements made not misleading; or (c) have engaged or are engaging in acts, practices, or courses of business which operate as a fraud or deceit upon certain persons.

37. By engaging in the conduct described above, Defendants have 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 thereunder [17 C.F.R. §240.10b-5].

Second Claim for Relief
(Aiding and Abetting Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder against Palladino)

38. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 34 above.

39. By reason of the foregoing, Viking, directly or indirectly, acting knowingly or recklessly, in connection with the purchase or sale of securities, by the use of the means and instrumentalities of interstate commerce, or the facilities of a national securities exchange or the mail: (a) employed or are employing devices, schemes or artifices to defraud; (b) made or are making untrue statements of material fact or has omitted or is omitting to state material facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged or are engaging in acts, practices or courses of business which operate as a fraud or deceit upon certain persons.

40. Palladino knew or recklessly disregarded that Viking's conduct was improper and knowingly rendered substantial assistance to Viking in this conduct.

41. The conduct of Palladino involved fraud, deceit, manipulation, or deliberate or reckless disregard of regulatory requirements and directly or indirectly resulted in substantial losses to other persons.

42. As a result, Palladino aided and abetted, and unless enjoined will continue to aid and abet, Viking's violations of 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.

Third Claim for Relief
(Violation of Section 17(a)(1) of Securities Act Against Defendants)

43. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 34 above as if set forth fully herein.

44. Defendants, directly or indirectly, acting intentionally, knowingly or recklessly, by use of the means or instrumentalities of transportation or communication in interstate commerce or by the use of the mails, in the offer or sale of securities have employed or are employing devices, schemes, or artifices to defraud.

45. By engaging in the conduct described above, Defendants have violated, and unless enjoined will continue to violate, Section 17(a)(1) of the Securities Act [15 U.S.C. §77q(a)].

Fourth Claim for Relief
(Violation of Section 17(a)(2) Against Defendants)

46. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 34 above as if set forth fully herein.

47. Defendants, by engaging in the conduct described above in the offer or sale of securities, by use of the means or instrumentalities of transportation or communication in interstate commerce or by the use of the mails obtained property by means of untrue statements of material fact or omissions to state material facts necessary to make the statements not misleading.

48. By engaging in the conduct described above, Defendants violated, and unless enjoined will continue to violate, Section 17(a)(2) of the Securities Act [15 U.S.C. §§ 77q(a)(2)].

<u>Fifth Claim for Relief</u>
(Violation of Section 17(a)(3) Against Defendants)

49. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 34 above as if set forth fully herein.

50. Defendants, by engaging in the conduct described above in the offer or sale of securities, by use of the means or instrumentalities of transportation or communication in interstate commerce or by the use of the mails engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon the purchasers of such securities.

51. By engaging in the conduct described above, Defendants violated, and unless enjoined will continue to violate, Section 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(3)].

<u>Sixth Claim for Relief</u>
(Aiding and Abetting Violation of Section 17(a) Against Palladino)

52. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 34 above as if set forth fully herein.

53. Palladino provided substantial assistance to Viking in the offer or sale of its securities, by use of the means or instrumentalities of transportation or communication in interstate commerce or by the use of the mails, by: (a) employing devices, schemes, or artifices to defraud; (b) obtaining property by means of untrue statements of material fact or omissions to state material facts necessary to make the statements not misleading; or (c) engaging in transactions, practices, or courses of business which operated as a fraud or deceit upon the purchasers of such securities.

54. By engaging in the conduct described above, Palladino aided and abetted Viking's violations, and unless enjoined will continue to aid and abet violations of, Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(1), 77q(a)(2), and 77q(a)(3)].

Seventh Claim for Relief
(Violation of Section 20(a) of Exchange Act Against Palladino)

55. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 34 above as if set forth fully herein.

56. By engaging in the conduct described above, Viking has, directly or indirectly, and singly or in concert, acting intentionally, knowingly or recklessly, in connection with the purchase or sale of securities, by use of the means or instrumentalities of transportation or communication in interstate commerce or by use of the mails: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary to make statements made not misleading in light of the circumstances under which they were made; or (c) engaged in transactions, acts, practices, or courses of business which operated or would have operated as a fraud or deceit upon purchasers of securities and upon other persons, in violation of Section10(b) of the Exchange Act and Rule 10b-5 thereunder.

57. Palladino directly or indirectly controls Viking.

58. Palladino did not act in good faith and directly or indirectly induced the acts or actions constituting Viking's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

59. By engaging in the conduct described above, Palladino is jointly and severally liable with, and to the same extent as, Viking under Section 20(a) of the Exchange Act [15 U.S.C. §78t(a)].

PRAYER FOR RELIEF

WHEREFORE, the Commission requests that this Court:

A. Enter a temporary restraining order, order freezing assets and for the repatriation of assets, an accounting, and order for other equitable relief in the form submitted with the Commission's motion for such relief, and, upon further motion, enter a comparable preliminary injunction, order freezing assets and for the repatriation of assets, an accounting and order for other equitable relief;

B. Enter a permanent injunction restraining Defendants and each of their agents, servants, employees and attorneys and those persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from directly or indirectly engaging in the conduct described above, or in conduct of similar purport and effect, in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)]; and 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].

C. Require Defendants to disgorge their ill-gotten gains and losses avoided, plus pre-judgment interest, with said monies to be distributed in accordance with a plan of distribution to be ordered by the Court;

D. Require Defendants to pay appropriate civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Securities Exchange Act [15 U.S.C. § 78u(d)(3)];

E. Retain jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered; and

F. Grant such other and further relief as the Court deems just and proper.

JURY DEMAND

The Commission hereby demands a trial by jury on all claims so triable.

Respectfully submitted,

SECURITIES AND EXCHANGE COMMISSION

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