

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

| | | |
|---|---|-------------------------|
| SECURITIES AND EXCHANGE COMMISSION, |) | |
| |) | |
| Plaintiff, |) | |
| |) | |
| v. |) | Case No. 3:05-CV-1328-L |
| |) | |
| MEGAFUND CORPORATION, |) | |
| STANLEY A. LEITNER, |) | |
| SARDAUKAR HOLDINGS, IBC., |) | |
| BRADLEY C. STARK, |) | |
| CIG, LTD., and JAMES A. RUMPF, individually |) | |
| and d/b/a CILAK INTERNATIONAL, |) | |
| |) | |
| Defendants, |) | |
| |) | |
| PAMELA C. STARK, |) | |
| |) | |
| Relief Defendant. |) | |
| |) | |

ANSWER

Defendants Sardaukar Holdings, IBC. (“Sardaukar”) and Bradley C. Stark (“Stark”) (hereinafter Sardaukar and Stark are referred to collectively as the “California Defendants”), by their attorney Robert B. Christie, as and for their Answer and Affirmative Defense to the Amended Complaint, state as follows:

1. The Defendants have been engaged in an unregistered and fraudulent securities offering that lures investors with false promises of annual investment returns of 120 percent. Since June 2004, Defendants have fraudulently raised approximately \$13.8 million from at least 70 investors.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 1 as to the Texas Defendants, and otherwise deny the allegations made in Paragraph 1.

2. The scheme was orchestrated by Defendants Leitner, Rumpf and Stark, and

perpetrated through their companies, Megafund, CIG and Sardaukar, respectively. The Defendant are targeting Christian ministries and other non-profit organizations with claims that a portion of the profits generated will benefit charitable causes.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 2 concerning defendants Megafund Corporation, Stanley A. Leitner, CIG, Ltd., James A. Rumpf, and CILAK International (collectively, the “Texas Defendants”), and otherwise deny the allegations made in Paragraph 2.

3. Virtually every representation made to investors about the nature and terms of the investments is a fabrication. The Defendants are operating what is commonly known as a High Yield Investment Program scheme, and the Defendants are using investors’ funds in a manner other than represented. In particular, Leitner transferred nearly \$11 million of investor funds to Rumpf’s offshore company, CIG. Subsequently, Stark, a convicted felon, through his company Sardaukar, received 9.5 million of those funds. Stark quickly began squandering investor funds on luxury cars, jewelry and travel.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 3 concerning the Texas Defendants. Sardaukar admits that it received approximately 9.5 million dollars from CIG in four separate payments. Stark denies that he was convicted of a felony, and states in the affirmative that he plea guilty to a felon charge in 2003. The California Defendants deny the remaining allegations made in Paragraph 3.

4. The Commission, in the interest of protecting the public from further fraudulent activities, brings this action seeking an order permanently enjoining the Defendants from further violations of Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933 [15 U.S.C. §§ 77e(a), 77e(c) and 77q(a)] (“Securities Act”) and Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. § 78j(b)] (“Exchange Act”), and Rule 10b-5 thereunder [17 C.F.R. § 240.10B-5]. The Commission also seeks orders requiring the Defendants to pay civil monetary penalties and requiring the Defendants and Relief Defendants to disgorge all ill-gotten gains, plus prejudgment interest thereon.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 4 concerning “fraudulent

activities” and “ill-gotten gains,” and admits the remaining allegations made in Paragraph 4.

5. This Court has jurisdiction over this action pursuant to 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]. Defendants have, directly and indirectly, made use of the means or instrumentalities of interstate commerce and/or the mails in connection with the transactions described in this Complaint.

ANSWER: The California Defendants admit the first sentence of Paragraph 5, lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 5 concerning and fraudulent activities, and admit that they made transactions in interstate commerce.

6. Venue lies in this Court pursuant to 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 certain of the acts and transactions described herein took place in the Northern District of Texas.

ANSWER: The California Defendants deny that they engaged in acts and transactions within the Northern District of Texas, and lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 6 concerning the acts and transactions by the Texas Defendants.

7. **Stanley A. Leitner (“Leitner”)**, age 66, is the president and chief executive officer of Megafund Corp. Leitner asserted his Fifth Amendment privilege against self-incrimination and refused to answer questions concerning his activities regarding Megafund in the Commission’s investigation into this offering.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 7.

8. **Megafund Corporation (“Megafund”)**, is a Texas corporation with its principal place in Flower Mound, Texas. Megafund’s securities offerings are not registered with the Commission.

ANSWER: The California Defendants admit that Megafund is registered as a corporation with the State of Texas, and lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations made in Paragraph 8.

9. **Sardaukar Holdings, IBC (“Sardaukar”)**, is a British Virgin Island corporation formed in October 2004 by Bradley C. Stark. Sardaukar is the apparent “Trader” in the scheme described herein and maintains a bank account at JP Morgan Chase Bank (“Chase”), as well as a commodities brokerage accounts at Man Financial Corp. (“Man Financial”) and RefcoFX Associates (“Refco”).

ANSWER: The California Defendants deny the first sentence of Paragraph 9, and admits that Sardaukar has maintained an account at JP Morgan Chase Bank, Man Financial Corp. and RefcoFX Associates. The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations made in Paragraph 9.

10. **Bradley C. Stark (“Stark”)**, age 30 and a resident of Riverside, California, is the secretary of Sardaukar and the sole signatory on Sardaukar’s bank and brokerage accounts. In May of 2003 Stark was convicted of possession of counterfeit government securities in the United States District Court, Eastern District of New York, and was sentenced to 18 months imprisonment. During the course of this scheme, Stark has been on supervised release, pursuant to his criminal sentence.

ANSWER: The California Defendants admit that Stark, age 30, resides in Riverside California, is the secretary of Sardaukar, and is the sole signatory of Sardaukar’s bank and brokerage accounts located in the United States. The California Defendants also admit that Stark plead guilty to a felony offense to which he was sentence to 18 months imprisonment, and was not required to service that time, and that he has been on supervised release pursuant to that sentence. The California Defendants deny the remaining allegations contained in Paragraph 10.

11. **James A. Rumpf (“Rumpf”)**, age 67, is a resident of Addison Texas and the general manager and control person of CIG. A self-described “portfolio manager”, Rumpf also maintains a bank account under the assumed name, Cilak International, which received at least \$300,000 of investor funds from Megafund. Rumpf also appears to be a member pf an anti-government group, the Republic of Texas, which claims the State of Texas was never legally annexed to the United States and, therefore, residents of Texas are not subject to federal laws or statutes.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 11.

12. **CIG, Ltd. (“CIG”)**, an entity controlled by Rumpf, purports to be an Anguillian corporation domiciled in St. Maarten, N.W.I. CIG received, in an offshore bank account, over \$11 million of investor funds from Megafund, of which CIG transferred approximately \$9.5 million to defendant Sardaukar Holdings (an entity controlled by Defendant Stark).

ANSWER: The California Defendants admit that CIG wired approximately \$9.5 million, in four separate transactions, to Sardaukar’s bank account, denies that defendant Stark controls Sardaukar, and lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations made in Paragraph 12.

13. **Pamela C. Stark** is the wife of Bradley Stark. She received over \$1 million in investor funds from Sardaukar’s bank account.

ANSWER: The California Defendants admit the first sentence of Paragraph 13, and admit that Sardaukar transferred over one million dollars to accounts controlled by Pamela Stark, and deny the remaining allegations made in Paragraph 13.

14. Under the direction of Leitner, Megafund has raised approximately \$13.8 million since June 2004 from over 70 investors throughout the nation, including Texas.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 14.

15. Megafund’s investment offering is a classic High Yield Investment Program scheme,

wherein investors are led to believe that a “Trader” with either special abilities or access to restricted markets can produce phenomenal investment returns. The Defendants stopped paying purported “returns” to investors shortly after receiving an inquiry from the SEC in April 2005.

ANSWER: The California Defendants deny that they paid or stopped paying any returns to the alleged “investors,” and lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations made in Paragraph 15.

16. In June 2004, Leitner opened a Megafund bank account and began accepting investor funds. At the time, Megafund’s offices were located in Addison. Megafund now operates from an office located in a Flower Mound office park.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 16.

17. Leitner solicits investments through personal contact with prospective investors and through written promotional materials. Many of the defrauded victims have affiliations with religious institutions.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 17.

18. Megafund’s written promotional materials represent that: 1) investors’ funds will be pooled and placed into “an account at a major U.S. Brokerage firm” where an unnamed “Trader” will engage in “arbitrage” transactions involving the purchase and sale of “stocks, bonds, securities and derivatives of such on margin or otherwise” and “Tri-Party Repurchase Agreement transactions;” 2) investors will receive a “ten percent profit” per month and that their principal investment “is never a risk;” 3) investors must not discuss the investment with anyone without receiving permission from Megafund; and, 4) a portion of trading profits will be used for humanitarian purposes.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 18.

19. Investors who invest with Megafund are required to execute a “joint venture” agreement, which is signed by Leitner on behalf of Megafund. The agreement states that Megafund “has as association and a relationship with a Trader to facilitate Client’s funds into Tri-Party Repurchase Agreement transactions (“Tri-Party Repo”) as well as other types of investments.” Megafund investors are also required to sign a “Non-Disclosure, Non-Circumvention and Non-Solicitation Agreement” which references “the standard Non-Circumvention and Non-Disclosure rules” and states that any communication, written or verbal, received from Megafund or Leitner “will not be released by [the investor] to any third party.” The joint venture agreement further provides that the “penalty for any breach of this covenant of confidentiality will be the loss of any and all profits that [the investor] has received.” Finally, the agreement further requires the investor to execute a “Limited Power of Attorney” naming Leitner as “Attorney in Fact” for all purposes related to the investor’s investments in Megafund.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 19.

20. Pursuant to instructions from Leitner, investors wire-transferred their investment funds to a Megafund accounts Wells Fargo Bank in Addison and South Trust Bank Waxahachie.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 20.

21. Leitner caused the bulk of investor funds to be provided to Rumpf’s companies. Cilak received approximately \$300,000; CIG received approximately \$11 million in its offshore bank account in St. Maarten. These transfers were apparently made pursuant to a Joint Venture Agreement between Leitner and Rumpf, through their respective companies, Megafund and CIG. By the terms of the agreement, Rumpf promised to pay Megafund monthly returns of 30 percent on the invested money, claiming (as did Megafund to its investors) that CIG had an association with a Trader who was to generate these astronomical returns. The agreement also falsely stated that the investment principal was insured against loss.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 21.

22. For many months, Megafund paid purported returns to investors, not from and any type of generated earnings, but rather from funds of other investors and from funds it borrowed from another company. This practice was not disclosed to investors. Rather, they were led to falsely conclude that the Megafund program was operating successfully.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 22.

23. Of the \$11 million of investor funds transferred to CIG Ltd., approximately \$9.5 million was subsequently transferred to a Sardaukar account controlled by Stark at Chase Bank. Stark then transferred a total of \$2.6 million from Sardaukar's Chase account to Megafund. Further, Stark also transferred a total of \$2.9 million from the Chase account to commodity brokerage accounts at Man Financial and Refco Financial Services. Stark used approximately \$2 million of investor funds to purchase stock in Moondoggie, Inc., a Las Vegas-based high tech company.

ANSWER: The California Defendants admit that CIG Ltd. wired approximately \$9.5 million to Sardaukar's Chase Bank account in four separate transactions, and the California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations concerning CIG Ltd.'s source for those funds. The California Defendants also admit that Sardaukar's Chase Bank account statements reflect that approximately \$2.7 million was wired to an account held in the name of Megafund. The California Defendants deny the remaining allegations made in Paragraph 23.

24. Leitner has used investor funds for personal purposes and for other purposes that were not disclosed to investors. In particular, Leitner transferred approximately \$1 million to a California entertainment company to finance the production of a movie, and approximately \$650,000 to a Texas cable television company.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 24.

25. From the Sardaukar Chase account, Stark has spent approximately \$350,000 on luxury automobiles, \$117,000 on travel and entertainment, \$41,000 on jewelry and has transferred \$1 million to his wife, Pamela C. Stark.

ANSWER: The California Defendants denies the allegation made in Paragraph 25.

26. The disposition of the \$1.8 million of investor funds that was received by Rumpf through his companies Cilak and CIG, and not provided to Sardaukar, is not known. Rumpf however, has used approximately \$10,000 of Cilak funds to pay apartment rental fees.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 26.

27. The Megafund investment program is completely bogus. The offer and sale of the Megafund program is rife with false and misleading statements and failure to disclose material facts.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 26.

28. Leitner and the Megafund's promotional literature entice investors with the promise of astronomical investment returns of up to 120% annually. This representation is coupled with the promise that investors' funds are "never at risk." These representations are completely false. The Defendants do not have a trading program that generates the risk free returns promised to investors.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 28.

29. Leitner and Megafund falsely represent that investors funds will be placed in an account at a "major U.S. Brokerage firm" registered with the SEC or the NASD. In reality, the majority of investor funds, approximately \$11 million, were transferred offshore to an account styled "CIG Ltd." at Rbbt Bank in St. Maarten. CIG is not a "major U.S. Brokerage firm" and is not registered with the SEC or the NASD.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 29.

30. The Defendants promise returns between 5% and 10% per month for up to 12

months, realized through the activities of the “Trader”. The Defendants have no reasonable basis for making these projections.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 30 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 30.

31. The Defendants use fraudulent and falsified written materials in connection with their scheme. In February 2005, the Defendants provided an Oregon investor identified below, with a letter purported to be written by an attorney, Megafund’s “Compliance Counsel.” The letter asserts that investor funds are insured and secured in account at various domestic institutions. The letter is a complete fabrication.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 31 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 31.

32. Defendant Leitner falsely represented to an investor that for two years he had investigated the type of trading program being utilized. Also, he falsely represented that he had known the Trader (Stark) for over a year.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 32.

33. Further, in support of their assertion to investors that their investment funds are protected by an insurance policy, Defendants have produced a purported certificate of insurance. In truth, there is no insurance policy; the purported certificate is bogus.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 33 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 33.

34. The Defendants further failed to disclose to investors that investor funds are being used to pay for extravagant personal expenses and luxury items, and that \$650,000 has been diverted to pay a Hollywood studio to produce a movie and approximately \$350,000 has been spent on luxury

automobiles.

ANSWER: The California Defendants deny any obligation to make any disclosure to Megafund's investors, and lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations made in Paragraph 34.

35. Leitner, individually or in concert, in an effort to lull disgruntled investors and prevent them from taking legal or other action, recently has provided investors with false information including the following:

- a. an e-mail representing to an investor that his entire investment (nearly \$10 million) would be "released incrementally over the next week to two weeks";
- b. a representation that the all investment funds will be returned as soon as they are converted to U.S. currency.
- c. a representation that the investment funds are being held up by the Department of Homeland Security; and
- d. a representation that investor funds in a New York account were frozen by the terms of a temporary restraining order.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 35.

36. Defendants have defrauded approximately 70 investors through this scheme.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 36 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 36.

37. From February through May 2005, Gary Lancaster, through Lancorp Financial Group, LLC, invested over \$9.3 million in the Megafund program by wiring investment funds from Oregon to a Megafund bank account in Addison.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 37.

38. The Relief Defendant received investor funds for no apparent consideration. From December 13, 2004 through April 15, 2005, Relief Defendant Pamela C. Stark received

approximately \$1 million from Defendants Sardaukar and Bradley C. Stark, to which she was not entitled, and for which she did not provide adequate consideration.

ANSWER: The California Defendants deny the allegations made in Paragraph 38.

COUNT I

39. Plaintiff Commission repeats and incorporates paragraphs 1 through 38 of this Complaint by reference as it set forth verbatim.

ANSWER: The California Defendants incorporate and reallege their answers to Paragraphs 1 through 38 above, as their answer to this Paragraph 39.

40. The Defendants, directly or indirectly, singly, or indirectly, singly or in concert with others, in connection with the offer or sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 40 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 40.

41. As a part of and in furtherance of their scheme, the Defendants, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations which contained untrue statements of material facts and misrepresentations of material facts, and which omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, including, but not limited to, those set forth in Paragraphs 1 through 38 above.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 41 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 41.

42. With respect to violations of Sections 17(a)(2) and (3) of the Securities Act, the

Defendants were negligent in their actions regarding the representations and omissions alleged herein. With respect to violations of Section (a)(1) of the Securities Act, the Defendants made the above-referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth.

ANSWER: .The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 42 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 42.

43. By reason of the foregoing, the Defendants have violated and, unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 43 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 43.

COUNT II

44. Plaintiff Commission repeats and incorporates paragraphs 1 through 38 of this Complaint by reference as if set forth above.

ANSWER: The California Defendants incorporate and reallege their answers to Paragraphs 1 through 38 above, as their answer to this Paragraph 44.

45. The Defendants, directly or indirectly, singly or in concert with others, in connection with the purchase or sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 45 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 45.

46. As a part of and in furtherance of their scheme, the Defendants, directly and

indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material facts and misrepresentations of material facts, and which omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, including, but not limited to, those set forth in Paragraphs 1 through 38 above.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 46 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 46.

47. The Defendants made the above-referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 47 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 47.

48. By reason of the foregoing, the Defendants 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].

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 48 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 48.

COUNT III

49. Plaintiff Commission repeats and incorporates paragraphs 1 through 38 of this Complaint by reference as if set forth above.

ANSWER: The California Defendants incorporate and reallege their answers to Paragraphs 1 through 38 above, as their answer to this Paragraph 49.

50. Defendants, directly or indirectly, singly and in concert with others, have been offering to sell, selling and delivering after sale, certain securities, and have been, directly and indirectly; (a) making use of the means and instruments of transportation and communication in interstate commerce and of the mails to sell securities, through the use of written contracts, offering documents and otherwise; (b) carrying and causing to be carried through the mails and in interstate commerce by the means and instruments of transportation, such securities for the purpose of sale and for delivery after sale; and (c) making use of the means or instruments of transportation and communication in interstate commerce and of the mails to offer to sell such securities.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 50 concerning the Texas Defendants, and otherwise deny the allegations made in Paragraph 50.

51. As described in paragraphs 1 through 38, the investments described in detail herein, have been offered and sold to the public through a general solicitation of investors. No registration statements were ever filed with the Commission or otherwise in effect with respect to these securities.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 51 concerning the Texas Defendants, and deny the allegations made in the first sentence of Paragraph 51, and lack knowledge or information sufficient to form a belief as to the truth of the allegations made in the second sentence of Paragraph 51.

52. By reason of the foregoing, the Defendants have 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)].

ANSWER: The California Defendants deny the allegations made in Paragraph 52.

COUNT IV

53. Plaintiff Commission repeats and incorporates paragraphs 1 through 38 of this Complaint by reference as if set forth above.

ANSWER: The California Defendants incorporate and reallege their answers to Paragraphs 1 through 38 above, as their answer to this Paragraph 53.

54. The Relief Defendant received funds and property from one or more of the Defendants, which are the proceeds, or are traceable to the proceeds, of the unlawful activities of Defendants, as alleged in paragraphs 1 through 38 above.

ANSWER: The California Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations made in Paragraph 32.

55. The Relief Defendant obtained the funds and property alleged above as part of and in furtherance of the securities violations alleged in paragraphs 1 through 38 and under circumstances in which it is not just, equitable or conscionable for her to retain the funds and property. As a consequence, the Relief Defendant has been unjustly enriched.

ANSWER: The California Defendants deny the allegations made in Paragraph 55.

AFFIRMATIVE DEFENSES

1. Plaintiff fails to state a cause of action to which relief can be granted.
2. Payment and offset.
3. The California Defendants were holders in due course.

